Travis Perkins and Wickes

In early 2005, Travis Perkins made a major acquisition of the Wickes DIY retail business. Wickes was the third largest DIY retailer in the UK, with a 4% DIY market share from 172 stores. The sector leader was B&Q with 26% market share, and Homebase was the number two with 10% market share. Together, Travis Perkins and Wickes would have 10% of the combined builders' merchants and DIY market, with B&Q at 15% and St Gobain and Wolseley at 7%.

Wickes had been through difficult times at the end of the 1990s. After many years of high growth, new management found that the previous management had been manipulating profits. As the market recovered in 2003, 2004 and 2005, Wickes' had achieved one of the highest growth in sales and profits in the sector. Overall profit ratios were above better than Homebase, but less than B&Q.

Despite the high purchase price, £1,010 million, including £939 million of goodwill, senior managers at Travis Perkins were hopeful that they would be able to improve performance at Wickes through the same sort of approach they had brought to bear on previous acquisitions. They were looking for substantial purchasing synergies and some overhead cost savings.

The challenge of integrating Wickes into Travis Perkins fell to Geoff Cooper, who took over from Frank McKay as CEO just before the acquisition was completed. Cooper's background was in finance and consulting, and his previous position was as deputy CEO of Alliance Unichem.

Although Wickes's product range had a substantial overlap with Travis Perkins, it was clear that Wickes was a different sort of business from traditional builders' merchanting, a split of customers that was 70% retail and 30% jobbing builders and a well defined retail format with top down retail disciplines. Furthermore, the company had been run in a very different way from Travis Perkins. Wickes branch managers had much less autonomy than Travis Perkins branch managers. Wickes managers were closely controlled by corporate buying and merchandising directors. These directors specified the whole product range, as well as the pricing and merchandising of the range. The product range was less extensive than Travis Perkins and little service was offered in store. The emphasis was on a low cost operating model and low prices to attract customers. Another difference in management style was that Wickes researched issues carefully, arriving at decisions slowly but then implementing them in a disciplined way across the whole branch network. This contrasted with the Travis Perkins style, in which branch managers were encouraged to get on and make their own decisions in a more entrepreneurial way, but in which it was therefore more difficult to roll out corporate initiatives in a disciplined and standardised fashion.

After the acquisition, Geoff Cooper decided that the integration would proceed best with the managing director of Wickes reporting to the chief operating officer of Travis Perkins, and the Travis Perkins buying director taking over responsibility for Wickes buying. This would ensure responsibility for achieving the gains available from the combination of Travis Perkins and Wickes purchasing power:

"This structure allows us to meet our current priorities, since:

- achievement of the critically important synergy targets mainly depends on buying gains, which in turn;
- depends on the direction, negotiating experience and drive of our COO, and on;
- seamless exercise of the joint buying power of both the merchanting and retailing activities, which requires that;
- the buying and operational functions inside both businesses must act together in harmony, which means;
- the COO must exercise control over both divisions."

The exhibit shows the new structure.

A difficult issue, however, was whether the Wickes commercial people should be made aware of the rebates being achieved at the centre. The Wickes commercial managers argued that this was essential in order for them to be able to make product line and pricing decisions, which would maximise the return on their retail space. But for them to receive this information would have been at odds with the traditional Travis Perkins approach. Moreover, there was a danger that they would use the information to lower prices in an attempt to gain advantage in the market place, whereas Cooper needed to retain the profit to justify the acquisition premium.

Cooper integrated of the finance, IT and property functions of Wickes with the Travis Perkins central functions. But he was unsure what to do about marketing. He felt that there was an opportunity to bring some of the marketing skills of Wickes to the benefit of Travis Perkins. He felt that marketing at the branch level was limited and marketing materials were often amateurish. Also, many of the product range, pricing and merchandising decisions at the branch level were more intuitive than professional. Cooper did not think that it would be a good idea to put the Wickes Marketing Director in charge of Travis Perkins marketing, which currently was a junior post reporting into the Sales Director. This might distract the Marketing Director from Wickes issues, and he might upset Travis Perkins branch managers. He needed some other solution.