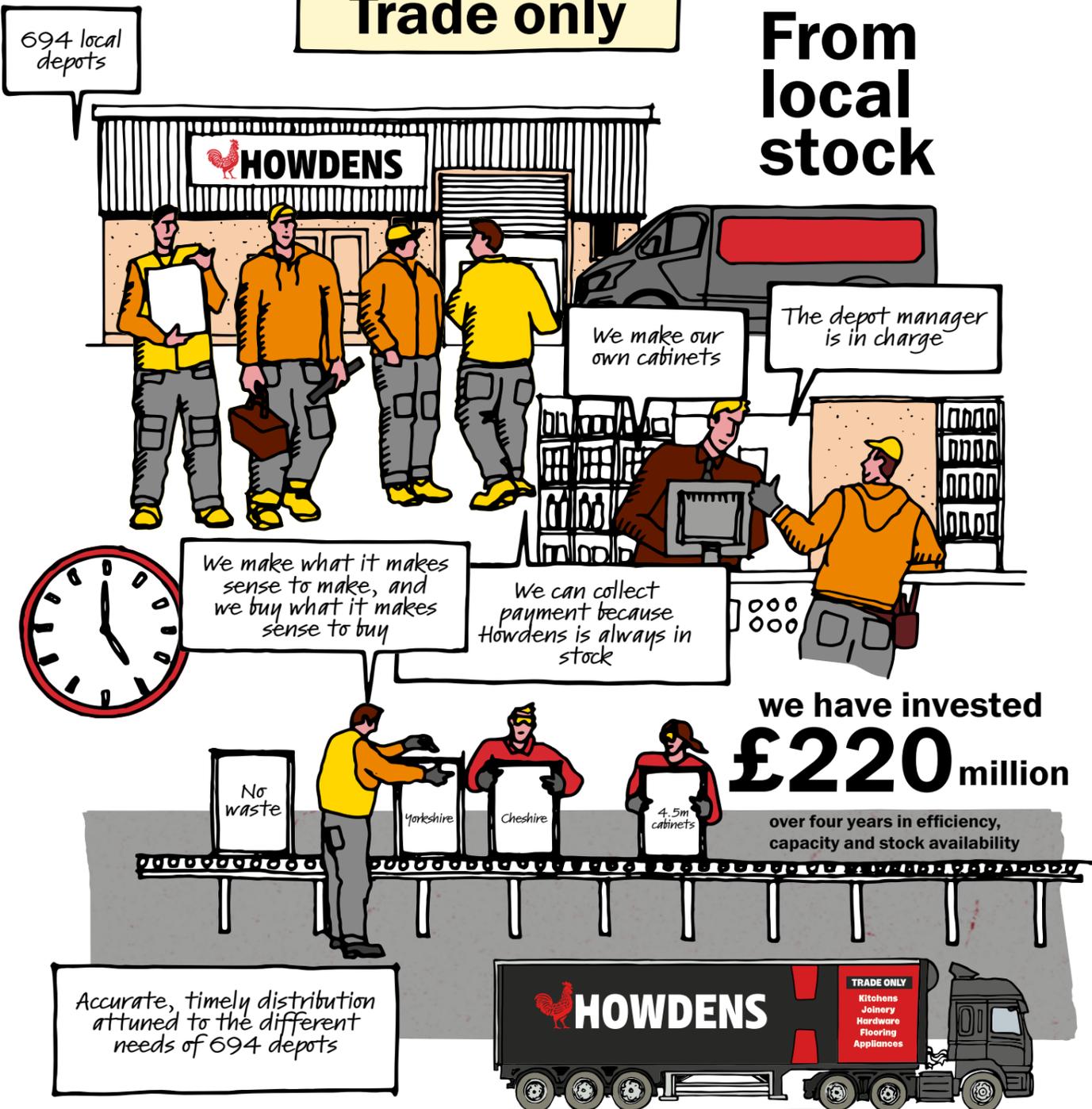


# Our Business Model

**Trade only**



## OUR BUSINESS MODEL

Howdens is a trade-only business, selling kitchens and joinery to local builders and trade professionals from our 694 local depots in the UK. We also have depots in Continental Europe and we discuss our plans for Europe on page 23. Each local depot operates on an in-stock basis and is normally only a short drive away, allowing the builder to plan and start a job without delays.

A typical depot currently occupies around 10,000 square feet, is located on an industrial estate and costs a fraction of high street retail properties. Our current depot design costs on average £450,000 to fit out, including £150,000 of inventory, and typically breaks even by year two at +700,000 sales.

We have been looking at using new storage methods in our depots which will allow us to look to redesign them, including the possibility of opening new, smaller, depots that are roughly half the size of our traditional offering. This is discussed by our CEO in more detail on pages 20 to 22.

### Manufacturing capabilities

We design and manufacture all our own cabinets (approximately 4.4 million per year) in our own factories in Yorkshire and Cheshire. Other products, including some cabinet doors and our own-brand appliances, are made to our specifications and bought in from suppliers with whom we have built long-standing relationships. We make what it makes sense to make, and we buy what it makes sense to buy.

Both of our factories serve only one customer – Howdens – and so their working practices and scheduling exactly match the requirements of our depots. The result is an efficient system with no unnecessary waste, whether of time, space, or product. We believe that our cabinets cost much less than we could source externally, providing Howdens with a significant cost advantage.

### Local depots

At local level, a Howdens depot opens with a manager and a small number of staff. The manager and staff are responsible for growing their account base and their sales, and for managing their own depot margin. Profit-sharing is calculated locally, not centrally. Everyone is strongly incentivised to grow a profitable, local business.

The depot manager's autonomy is a key element of Howdens' business model. Depot managers hire their own staff, do their own local marketing, set local pricing, manage the level of discount applicable to their account holders and manage their own stock levels to suit their own local customers. This means our distribution operation has to be attuned to the different needs of around 700 depots. No two deliveries are alike, and each one must be correct, complete and on time.

### Trade accounts

When a builder comes into one of our depots for the first time, they can open a trade account which gives them up to eight weeks before they need to pay us. This, and the fact that we are in stock locally, means that builders can complete the job and get payment from their customer before they need to pay us. In turn, this means that we can collect our debts. The total cost of our credit control operations, including bad debts and write-offs, is less than 1% of sales.

Once the builder has had an enquiry about installing a new kitchen, they can ask one of our highly-trained designers to go to the prospective customer's property. The designer will create an expert, accurate plan, ensuring that everything will look good and fit properly. This saves the builder time, which helps their profitability. Both builder and their customer can come into the local depot and see the kitchen displayed on a large screen via our bespoke computer aided display software, enabling any final changes to be made before signing off on the job.

### A flexible model

The Howdens model is efficient, flexible, scalable and recoverable – which means that when something goes wrong on a project, as it occasionally may, our local depots are empowered to fix it. Our model allows us to manage complexity effectively by combining efficient processes with an understanding of the factors that make our world chaotic rather than orderly.

...and to provide the builder's customer with enough choice...