HI NEWS

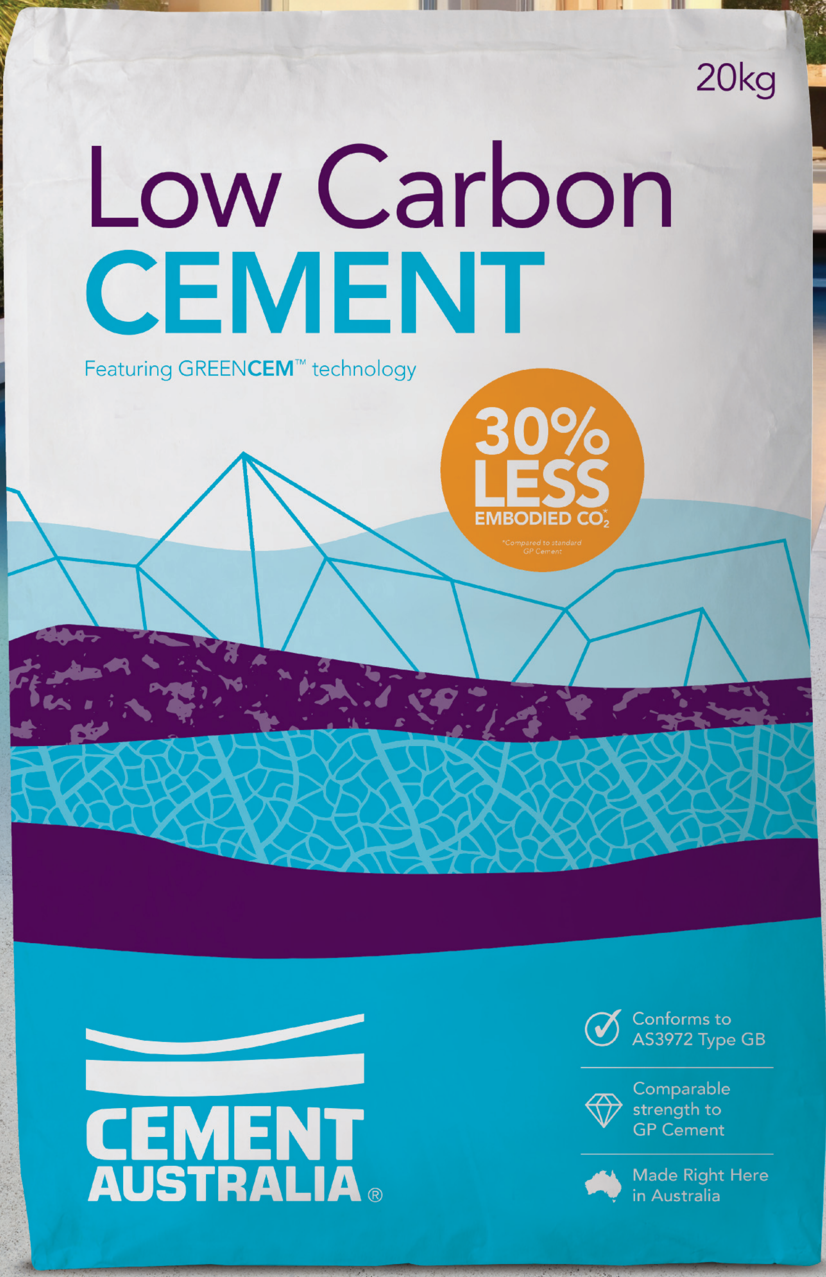
Vol. 9 No. 1

HBT NATIONAL BUYING GROUP CONFERENCE REVIEW

BUNNINGS RESETS ITS FUTURE

AUSTRALIA'S HOUSING CRISIS

WHERE DID THE DREAM GO WRONG?



30% LESS EMBODIED CO_2*

Without impacting strength performance

*Compared to standard GP Cement

Complies with Type GB requirements specified in Australian Standard AS3972 General purpose and blended cements.

HOW MUCH EMBODIED CO_2 CAN BE SAVED ACROSS AN AVERAGE NEW HOME BUILD?

by using **Cement Australia Low Carbon Cement** instead of GP Cement

3.8 TONNES#

3,300kg# SAVED from CONCRETE

500kg# SAVED from MORTAR

*That's the same amount of CO_2 sequestered by **4.2 acres of forest in a single year**§ (a little smaller than the playing field at the MCG!)*

Based on an average new single storey residential build requiring 53m³ of concrete (Source: CBP_Infographic.pdf located at *https://www.ccaa.com.au/CCAA/CCAA/Public_Content/INDUSTRY/Concrete/Concrete_Overview.aspx* accessed March 2024) equalling a saving of 3.8T CO2 when using Low Carbon Cement instead of General Purpose Cement with 250kg/m³ cementious material for concrete, and with sufficient M4 Mortar ratio required for 10,000 standard house bricks.

§ Source: *https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator* accessed March 2024

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publisher's note

Long before Bunnings' expanded move into automotive that received a lot of mainstream press coverage, there was Greg and Kerry Collier from Gin Gin Hardware from a small rural town in the Bundaberg region of Queensland. They have been plugging away successfully in the automotive category for several years. At the 2024 HBT conference, this how Greg told the story of how he got into automotive:

> The journey started through necessity. We had a small hire fleet, and we couldn't get oil for our hire fleet, not the type of oil we wanted or the brand we wanted. So after ringing numerous hire companies or hire supply companies, we found that there was a particular Valvoline oil, which was really good for small engines. So we rang Valvoline and said, we need to buy this oil. And it was a fairly complicated process ... and I thought, there's got to be a better way than that. We need to buy it from you guys and in the volumes we want when we need it. So the rep came and loaded me up of course, because that's what reps do. He said, 'I'm going to put a stand up in your store beside the front door. The stand's going to be 1.8 metres high, 900cm wide and loaded with oil.' I said, I suppose if this doesn't sell, I'm going to ring you to come back and get it, right? He said, 'No worries. Give it three months'.

I said to Kerry, I don't know what I'm going to do with this. Anyway, two weeks later I rang him and I said, Tony, you better come back and fit your stand up because it sold. So I wasn't the only one that needed oil for my business. No one else could buy it either. They were travelling 40 or 50km to the local servo that had just a few things they wanted. Our oil display is now six metres long and two metres high and we have a separate store room just for it. So it works. That now has become department in itself, and 6% of our business overall. And automotive as a whole is now 12-13% of our business. We add oil in it, it's the biggest department.

We weren't experts in it. We were talking the other day about who runs it. How do you get the knowledge? Well, first of all you ask the reps. I didn't know there was a formula that tells you how many litres of oil every person in Australia uses on average, and how many times a year. The rep told me that. So I started to understand that everyone buys oil and it's a consumable. We sell bolts or grinding discs. The grind wears out, we have to get another one. Right? Well, oil wears out too, so you've got to replace it. Everyone in this room has probably got a car or a truck or a lawn mower or a forklift. So why are you buying oil from your opposition? It just made sense to me.

And it didn't just end with oil. Now we supply more oil, more filters, filter kits, more brakes, more spare parts in general than anyone else in town. Everyone said, 'What do you know about it?' Well, I don't know much. I don't need to know much, as long as I've got someone in the store that does. So I went to the top of the tree and picked a 17-year-old girl straight out of school. She is now 24, she doesn't have a car, she's

> never had a licence, never driven a car. Well she once went for a lesson with my son and pranged the car. So she's not had another lesson. But she knows more about supply in automotive than other than anyone else in the store. She's the go-to, if someone comes into parts they ask, 'Where's Rach?' She looks it up on the computer, she tells them what they need and what she says is gospel.

The foray into automotive is also a result of Greg's belief that diversification is a strategy for stability. With each move, their confidence grew a little more to try other different categories such as camping and garden supplies. As Greg tells it:

> We are in a town that's about an hour or so from the beach and in rural towns, everyone goes on holidays to the beach or they go camping. Kerry had the wonderful idea that we should start stocking camping. So we put in a few things like some backpacks, a few sleeping bags and chairs. Now I think camping is in our top five or six departments. It's probably constantly seven to 10% of our business. Now we probably carry 30 chairs, camping chairs in variety, tents, swags, washing machines, caravan equipment, just about anything you can think of. And it just ticks along. And the same thing, we've got a guy there who is an ex builder looking for some work. Just so happens he's hell bent on four wheel driving and touring so he does a lot of camping. Once again, I don't have to know much about it.

As a result of their location and population migration to the north and south, Gin Gin Hardware has become a destination for campers and caravans. It has attracted regular customers because they have








developed a high quality range over the years. In terms of growing the garden range, Greg explains:

> Once again, probably credit to Kerry for developing this. She's ex-nursery. My mum is ex-nursery, so I think we started with some basics like potting mix and then I think she put some weed killer in and a bit of this and that. Now it's in the top three departments in our store.
>
> It's funny, we've got sign out the front that says Gin Gin Hardware, but I think hardware's like sixth or seventh in our departments. So it's worth having a crack at stuff and learn by asking your reps or your customers. We get ladies come in or blokes who tell us these wonderful stories about how to do what in their garden and they're really telling me what I should be stocking. So let that happen.

And the diversification doesn't stop there. Greg and Kerry have been fixtures of every HBT conference going back many years and they take advantage of all the learning opportunities from suppliers with their products as well as the networking events. By being active store owners and always being curious and willing to try new things, they are genuine contributors to the community they live in, and the one HBT has created.

Other independent hardware retailers could do well to reach out to them to feel less alone in the knowledge there are other people facing similar situations who manage to keep things going in the best possible way.

[LINK to report from 2024 event]

FIND TRUE INDEPENDENCE WITH THE POWER OF HBT

NATIONAL BUYING GROUP

At HBT, **we bring together over 900 independently owned stores** across Australia to create a powerful buying force.

For independent businesses, this means access to group **purchasing power, exclusive supplier deals, and tailored support** that puts them on equal footing with larger competitors. Through HBT, Members gain the benefits of a large network while **maintaining the flexibility and autonomy of an independent.**

- **Rebates from Every HBT Supplier:** Every HBT supplier contributes a rebate to purchasing members, ensuring you earn financial rewards on every order. Payments are made to members at the end of each quarter.

- **Enhanced Supplier Support:** Gain access to accredited Supplier Partners who provide field support specifically tailored to your businesses, ensuring your unique needs are met.

- **Access to Exclusive Deals:** Tap into a range of deals that are exclusive to HBT members, giving you a competitive edge in the market.

- **Business Support:** Benefit from HBT's expert business platform, MyHBT Portal, making it easier to manage supplier relationships, shop promotions and access a range of features to assist you in running your business.

comment

The ABC investigative journalism program 4 Corners is set to broadcast an expose on Bunnings just as we publish this issue.

We don't know what this report is about, specifically, but we've seen some indications it will deal with, in part, the Wesfarmers' subsidiary's relationship with its suppliers.

Most of us in the hardware retail industry will have heard rumours about how Bunnings treats some suppliers. It's very hard to tell, however, what qualifies as tough negotiation and what is actually unfair practice. I'm sure 4 Corners will do a great job and we look forward to watching it.

As pressing as these issues regarding monopoly really are, I confess I most often find myself thinking about a different aspect of the Bunnings effect on the hardware/home improvement market. In my opinion, one of the most negative effects of its DIY/consumer domination is that it has really stifled innovation.

With the constant pressure on margins, it is very, very hard for smaller retailers to innovate in the retail space. Innovation always means that some investments don't work out — and most independent retailers can't afford that kind of a miss.

This has locked them into a repetitive cycle: the only way to compete with Bunnings is through new innovations, and they can't afford to innovate. Productivity stalls, market access stalls, and there's just very little they can do about it.

Take, for example, an emerging category such as smarthome. While this has been around in various forms for a number of years, the industry is just now reaching a new point of maturity. That's largely because the standard known as "Matter" is at last beginning to show up in products.

Matter is a communications protocol that works in association with Thread, which is a network protocol. Basically Thread (which replaces protocols such as Zigbee) networks smart devices together, and Matter provides a shared protocol for communicating with the devices over Thread.

The endpoint of all this is that devices from different manufacturers can work together on a single network and be controlled by a single app. That means more opportunities to integrate multiple devices together.

In many ways this is an ideal chance to develop an additional revenue source for independent retailers, with their strong focus on individual customer service. It's a complex area, but it's also easy to develop solutions through experience.

But no one in the independent hardware retail space is really likely to experiment in this area. There are just so many "ifs", "buts" and "maybes" you have to engage with.

There are probably another dozen such opportunities developing at the moment. But when the customer traffic and margins on consumer/DIY are already so low, it's just not possible to experiment.

There are two ideas that have dominated much of the discussion about the survival of independents. The one chiefly propagated by Mark Laidlaw when he was CEO of Mitre 10 and then the Independent Hardware Group at Metcash was that small retailers could fight back against Bunnings by getting together in a tightly focused group with shared aspirations.

The alternative to that is the idea most successfully put forward by the HBT National Buying Group, which is to get the best prices from suppliers by facilitating relations through a central buying group, with a looser affiliation with its members.

Both of these ideas have worked to some extent, with retailers able to choose the kind of relationship they want. There are retailers still in business today that might not have made out so well without this kind of assist.

But it hasn't really been enough to turn the tide for many businesses. Independents really need something that helps them move beyond survival to the real development of their businesses.

The most likely source of that additional advantage is better leveraging services to help sell the underlying products. That's not only a good way to develop markets for retailers, it's also Bunnings' real Achilles heel.

The example we often go back to is paint. Paint is definitely a product sold in a can. For many customers, that's all they want, because the house/livingroom needs repainted. Beyond that, however, are customers who are actually buying "colour", the aesthetic re-imagining of their living spaces.

Is it possible to apply some of the lessons of the buying groups to enhancing service delivery in these areas for individual retailers? Can they, in a sense, not only share product acquisition, but also service delivery?

BUNNINGS KEEPS IT SIMPLE

Updated tool displays, but familiar polished concrete floors at Bunnings Preston.

So what, exactly, is up with the Wesfarmers-owned Bunnings these days?

This turns out to be something of a complex question. That's been highlighted by the amount of information delivered about Bunnings. One month after the release of the FY2024/25 H1 Wesfarmers results, Bunnings hosted an investor briefing and site tour in late March 2025, where investment analysts visited the Preston Bunnings Warehouse, followed by a presentation. Eight weeks later, Wesfarmers is set to hold its Strategy Day for 2025 on 22 May.

You could say that this additional information day comes down to how a single number should really be interpreted. That number is 3.2%, which is how much revenue grew for Bunnings in FY2024/25 H1, as contrasted with the previous corresponding period (pcp), which is FY2023/24 H1. Other indications around sales are close to that number, with total sales growth increasing by 3.5% and store-on-store (comp) sales growing by 3.4%.

For the same comparative periods, earnings before interest and taxation (EBIT) grew by 3.6% — though Wesfarmers prefers (for good reasons) to post growth for earnings before taxation (EBT), which grew by 3.1%.

We can consider these numbers in the context of the long-run averages for these performance figures for the nine first halves from FY2011 H1 to (pre-Covid) FY2020 H1. For revenue growth, the average over those halves was 8.3%, with a high of 11.8% in FY2015, and a low of 5.3% in FY2020. EBIT growth averaged 8.7% over the same period, with a high of 13.4% in FY2016, and a low of 3.1% in FY2020.

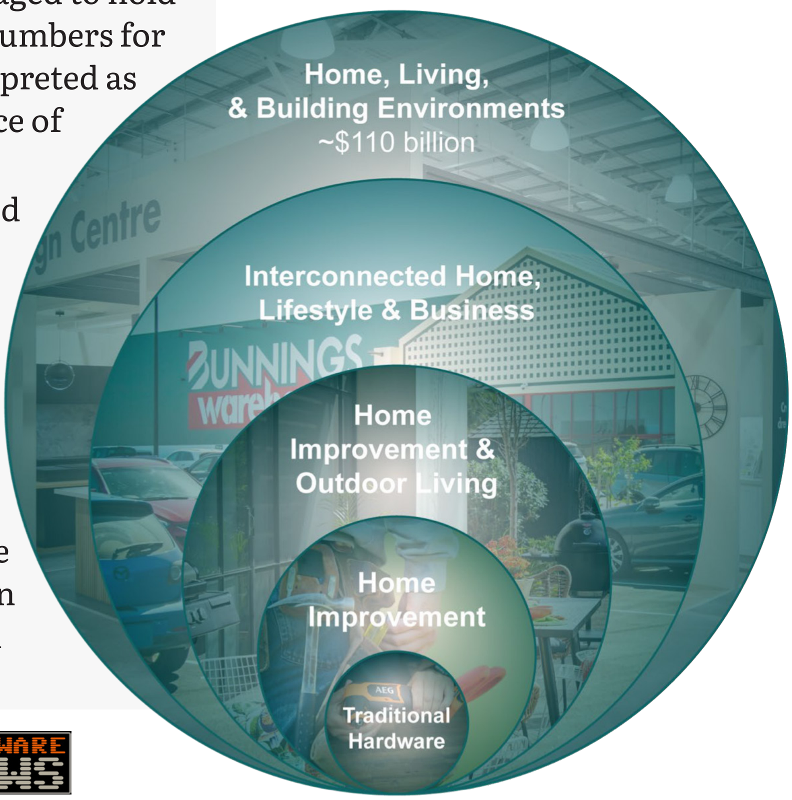
Probably the simplest statement we can make about the 3.2% is that this isn't a case of "the glass half-full"; rather it's the case of a glass maybe 45% full. What complicates matters is that the glass in this case is a lot bigger than it used to be.

That's mostly down to the huge boost in performance for FY2021, fuelled by COVID. The first half revenue went up 24.4%, and EBIT growth increased 38.6%. Importantly, Bunnings has managed to hold onto that growth, though low growth numbers for FY2022 H1 and FY2024 H1 could be interpreted as representing negative growth, in the face of high inflation.

The reality of the information supplied about Bunnings — with more still to come during this year's Strategy Day — is that the company is both further defining and evolving its current strategic focus. As the details of this focus emerge, it seems a tempered, more-conservative-than-not approach to the market — a marked shift from the Bunnings that responded to competition from Woolworths through a risky rapid expansion.

This isn't a case of "the glass half-full"; rather it's the case of a glass maybe 45% full. What complicates matters is that the glass in this case is a lot bigger than it used to be.

Bunnings typically provides this diagram to illustrate the growing market.



In fact, the general sense of the strategy is that it could be a missed opportunity. Oddly, for a business that can be a bit bristly to deal with in terms of its self-regard, it has seemingly underrated its own capabilities. And it's hard not to see that as a lasting consequence of the business' one great failure, the attempt to enter the UK market through the acquisition of Homebase. Growth has occluded the $1+ billion impact of that difficulty, but the psychological impact on strategy may remain.

Sticking to the cycle

In simple terms, the revised strategy is about remaining a business somewhat tied to the cyclical housing market, with a strong focus on productivity improvements in its logistical and backend operations. Growth is to be achieved through continuing to refine existing product lines, along with introducing new product lines. That expanding category reach is to be enabled through more productive use of existing store floorspace.

In one sense, this is a way to deal with the fragmenting marketplace Bunnings is facing. Once able to market more narrowly to (largely) baby-boomers and Gen X, the viable market now extends through Millennials and Gen Z — generations far less skilled at basic DIY. You can see a simple logic that evolves out of this — most families have pets and cars, for example. No doubt there is a wide range of products with broad, general appeal.

The big question that remains is, will this be enough?

Not to push the analogy too far, but the "bigger glass" mentioned above could point to what Bunnings used to term "runway" for expansion in existing and new markets — which would validate this strategy to some extent.

But it could point instead an emerging retail market where much of the growth is in direct customer-facing services enabled — directly or indirectly — by software technology. Which, in the HardwareNews reading of the new Bun-

Top: Ryobi tools at Preston Bunnings 2025; Middle: AEG tools at Preston Bunnings 2025; Bottom: Ryobi tools at Preston Bunnings 2023.

As part of its push to intensify the product display, Bunnings is pushing its store displays taller. This does limit in-store vision for customers, and can feel a little oppressive, but does deliver more products in a smaller space.

nings strategy, is an area the company is somewhat mapping around.

As a simple example, is paint a product or a service? At Bunnings right now, it is distinctly a product. Some people just want a product they can use to repaint their houses in the same colour. But the more vibrant end of the market is for people who want to transform the aesthetics of their spaces — which is a service. Can Bunnings afford to neglect one in favour of the other?

Some people just want a product they can use to repaint their houses. But people also want to transform the aesthetics of their spaces — which is a service. Can Bunnings afford to ignore the latter?

The results

In describing the half-year results — as well as the results for Wesfarmers overall — the managing director of Wesfarmers, Rob Scott, emphasised one word: resilience.

> This is another result that demonstrates the resilience of our portfolio of businesses and the capacity of our divisions to adapt and prosper in tough markets. I'm also confident that we're entering 2025 with our businesses in better shape to manage risks, but also to benefit from any improvement that may occur in economic activity.

And specifically regarding Bunnings:

> Bunnings demonstrated the resilience of its offer and it continued to grow sales and earnings despite challenging market conditions, particularly in residential construction.

There is real justification for that claim, as the background growth for hardware retailing, based on Australian Bureau of Statistics (ABS) figures, was just 1.6% for the half. (Though the composite growth rate for Bunnings would likely be lower, due to its concentration of retail in eastern states. For New South Wales hardware retail revenue growth was negative by -0.3%, in Victoria it was 0.2%, while both Queensland and Western Australia had rates over 5.0%.)

"Resilience" in this case likely refers to the capacity of Bunnings — and other Wesfarmers divisions — to maintain profitability in market down-cycles. That was certainly proved with the Kmart result: while revenues only grew

WESFARMERS/BUNNINGS RESULTS FY2024/25 FIRST HALF

WESFARMERS

	FY2024/25 H1 ($M)	FY2023/24 H1 ($M)	%CHANGE
Revenue	$ 23,490	$ 22,673	3.60%
EBIT	$ 2,299	$ 2,195	4.74%
NPAT	$ 1,467	$ 1,425	2.95%

BUNNINGS

	FY2024/25 H1 ($M)	FY2023/24 H1 ($M)	%CHANGE
Revenue ($M)	$ 10,280	$ 9,963	3.18%
EBIT ($M)	$ 1,388	$ 1,340	3.58%
EBT ($M)	$ 1,322	$ 1,282	3.12%
Total store sales groth (%)	3.5%	1.9%	
Store-on-store (comp) sales growth (%)	3.4%	1.2%	
Digital Sales (%)	6.3%	5.1%	

by around 2.0%, EBT rose by around 7.0%. What that points to, most likely, is both a degree of contra-cyclical activity (cost-of-living concerns making less-premium brands more viable) and the strength of the Anko brand in maintaining good margins.

Commenting on growth at Bunnings, Wesfarmers chief financial officer (CFO) Anthony Gianotti said:

> Sales growth of 3.1% was supported by growth in both consumer and commercial segments. Higher growth in the consumer segment was supported by sustained demand for repair and maintenance products, growth in digital sales and strong demand for new and expanded product ranges. Commercial sales growth was supported by higher demand from trades and organisations, which was partially offset by lower demand from builders where activity remains impacted by the subdued residential construction environment.

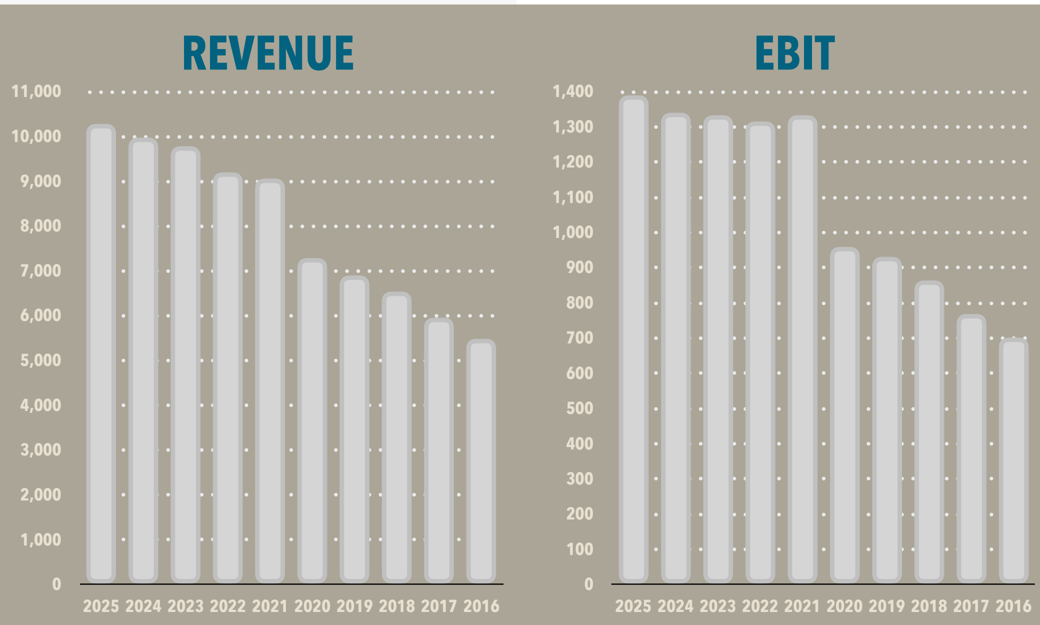
(There is, of course, a category error in that statement, as "online" is a channel differentiator, not a market component.)

In answer to an analyst's question Bunnings managing director Michael Schneider was quick to point out the retailer's productivity improvements in backend logistics:

> Can we offset [price pressures]? Absolutely. We've got very strong productivity initiatives right across the board at Bunnings, which are around making our stores simpler to operate investments in fulfilment, so our Laverton North fulfilment centre in Victoria and a new one to be opened in Wacol in Queensland, strip some cost out of supply chain and last-mile delivery and even our investment into our own team members running deliveries gives us a much better sort of returns profile.

Looking back over the past 10 years of results, the current dynamic for Bunnings is clear. While revenue continues to increase, EBIT growth has stalled somewhat.

The core question is how much Bunnings needs to change in its new, bigger post-FY2021 form. Does it continue as it has been, or does it need to change structurally?



FINANCIAL YEARS – FIRST HALF

Asked about seasonal benefits from a warmer than usual spring and summer across Australia, Mr Schneider focused on range improvements in existing product lines:

> I think what you saw, particularly in the sort of outdoor and barbecue categories, was a real shift in capability in the team and the new ranges and the quality of those products, our ability to source better really gave customers an opportunity to sort of buy something different, new and quite differentiated but at an incredible, incredible price, which means that as we've sort of gone through the season, customers have responded well to that.

He finished that answer with a glance ahead to the tour and briefing day, by pointing to new categories, and the ongoing evolution of existing categories:

> We're participating in more the introduction of automotive, the expansion of our tool shops, they're all driving really pleasing stories in terms of return on space and stock turn and improvement in ... gross margin return on space, which is the main inventory productivity measure that we use at Bunnings.
>
> I think across the board, we've ... seen really ... solid activity. They do drive some traffic to store, but the core categories of outdoor, tools, paint, all of these categories have continued to ... grow and evolve and innovate. I think when we're together for the operational briefing day, one of the things we want to clearly illustrate is that it's great to bring some new categories in, but there's actually a genuine and deep transformation in existing categories, which is going to continue to drive growth because it's bringing innovation to the market. That's what customers really value alongside the value credentials that we have.

Tour and briefing

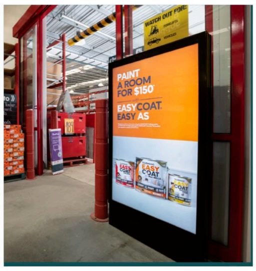
What was hinted at during the half-year results presentation in February was further developed at the store tour and briefing in late March 2025. Mr Schneider began the presentation with a summary of the shifts in strategy:

> Whilst our business has grown and matured over the last three decades, there is an incredible opportunity to continue to drive sustainable sales and earnings growth over the long term. This includes expanding and innovating our offer to remain relevant, optimising space through ranging and technology, more deeply personalising the experience through our customers and improving labor productivity right across our business.

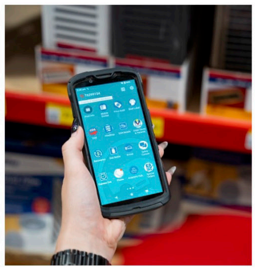
Expand and **innovate** our offer

Grow and **optimise** our retail space

Drive commercial growth



Accelerate digital, data and retail media



Enhance productivity through our entire operations

> The success of our category expansions and space management trials have been really pleasing and have laid a really great foundation for the years ahead. We continue to see a strong runway of growth across our commercial business as we find better ways to meet the specific and the tailored needs of our builders, trades and organisation customers.

Mr Schneider went on to nominate Bunnings' move into more digital processes, built over five years, as a primary driver of growth.

This was followed by what was a rather curious discourse that ended up taking up the next eight minutes or so. Much of this was mostly about Bunnings employees and employee relations, and historical references. Perhaps the statement that best represents the general tenor would be this one:

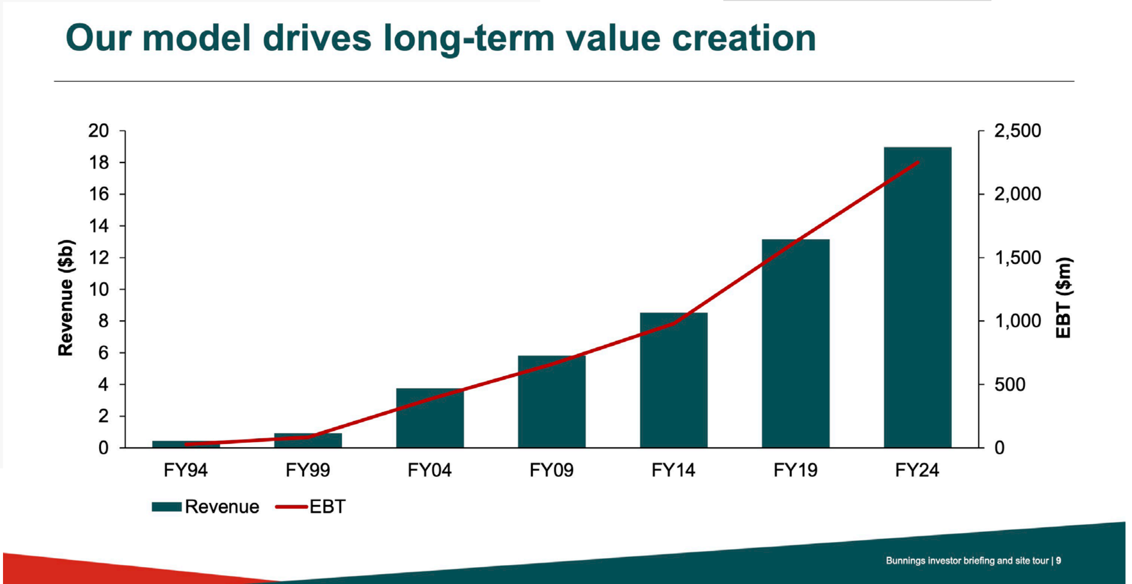
> Since the inception of the Bunnings warehouse model back in 1994, we've delivered uninterrupted revenue and earnings growth. To illustrate the magnitude of this growth, we recently reported a half year revenue result of over $10 billion. This represents a comparable revenue result for the entirety of FY2016 and it was a similar story earnings wise.

The near-constant growth that Bunnings has achieved is certainly something of an accomplishment, but this statement does lack context. Leaving aside the issues that, given inflation, that $10 billion in 2016 would be worth around $13 billion in 2025, and that $3.7 billion of that growth occurred in FY2020 and FY2021 as the result of the COVID crisis — well, those results pretty much illustrate how compound growth works.

Equally, there is no mention of what was the major event for Bunnings and Wesfarmers during the nominated period: the $1+ billion failure after the acquisition of Homebase in the UK and the launch of Bunnings UK & Ireland, just as John Gillam was stepping down as managing director.

Perhaps the only other point worth bringing up is that Bunnings' portrayal of its competitive position has been a little

There is no mention of what was the major event for Bunnings and Wesfarmers during the nominated period: the $1+ billion failure after the acquisition of Homebase in the UK.



An encouraging chart, no doubt. But is it better as an internal communciation, rather than data for investors?

unusual for some time. Many of the companies it lists as competitors in an established slide format certainly do compete with Bunnings, but it's really more along the lines of the way 7-Eleven competes with Woolworths.

The reality is that, in terms of true competition, the only other largish player in the Australian hardware/home improvement industry is the Metcash-owned Independent Hardware Group (IHG). Metcash has a market cap of $3.5 billion versus Wesfarmers' market cap of $84.5 billion. Annual revenues for IHG in its FY2024 were around $1.8 billion vs Bunnings' of around $19 billion. The lack of substantial competition in terms of market reach is just one reason why many people working in hardware retail regard Bunnings as something of a quasi-monopoly.

Later, Mr Schneider does return to more strategic issues, in particular Bunnings' move to better space optimisation it its stores.

> I'd like to share some perspectives on how we think about the significant opportunity in terms of space and space optimisation. We've had a lot of success over many years improving our return on space and we see space optimisation as a material opportunity for Bunnings in the future. In the last decade, sales and earnings have grown well ahead of space growth. From FY2015 to FY2024, we delivered a 99% increase in sales while space grew by just 27%. This was a result of relentless focus on category overhauls to ensure the strongest possible offers for our customers with new categories, category expansion and ranging optimisation, the significant investments into digital and personalisation see our online penetration growing week on week.
>
> And lastly, we've grown overall sales density as well as gross margin return on space, and we're accelerating these opportunities. This acceleration is enabled by our more recent investments in core space planning capability. This capability is powered by tech and data that provides us with a lot more sophistication to determine ranging layouts and spacing. This provides the ability to tailor ranging to local catchments and refine ranges for our smaller stores. The range

The new automotive products section at Bunnings Preston is illustrative of better space utilisation in shelf spaces.

refinement in our smaller stores is delivering growth through higher sales of core ranges while leveraging our online offer for the wider product needs of our customers.

Despite these improvements over the last decade, we know from our relationships with global peers that the space opportunity ahead of us does remain significant.

The executive team

At around the 15-minute mark in the presentation, Mr Schneider handed over to some of the executive team. It's perhaps best to summarise what they had to say in a series of points.

Ryan Baker, chief operations officer

- Success of "smart home" and pets offering
- Expanding offer in rural areas
- Moving into the automotive category
- Electrical vehicle (EV) charging and household renewables (batteries) categories introduced

Kitchens

From humble beginnings, we've grown our kitchen range and service offer over many years and have been able to make affordable kitchen renovations a reality for so many Australian and Kiwi households already. However, we know there are large customer segments within this market who we don't currently serve well and we're investing in product innovation and more seamless design and installation experience to better meet their needs.

Plumbing

We're continuing to expand our offer and introduce market leading brands that resonate with plumbers ... We have increasing stock depth of key lines to ensure the plumbers can purchase the products they need in the quantities they want supported by our extended trading hours.

Tools

Since last year, we've completely reinvigorated our tool shop layout, ranging and displays to bring a more compelling offer to our consumer and commercial customers alike. Our space optimisation capability will allow us to unlock over 1600 additional bays and range approximately 1500 additional SKUs all in the same tool shop footprint.

Small format stores

With the growth in our digital and last mile capability comes the opportunity to curate ranges in our small

Ryan Baker

Chief operating officer since June 2024. Previously chief customer officer from November 2022.

Prior to that Mr Baker was director operations, general manager of operations Australia, state operations manager in Western Australia, and area manager in Perth.

He started as an operations manager for Bunnings in Brisbane in 2001.

format stores. Our investment in space productivity data and insights gives us the ability to consolidate ranges and be even more relevant to each local catchment and curate our offer in favour of products and ranges that local customers purchase the most. We see a really big opportunity through our initial trials to drive sales uplift as well as better in-stock outcomes and more efficient stock replenishment. We're now rolling out these changes to the rest of our small format network

Rachael McVitty, chief customer officer

Commercial customers

Commercial is a key growth driver of our business and has grown in the past decade to now represent 38% of total sales. The addressable market is large, fragmented and growing, and we have lots of runway and opportunities to participate in this market more deeply. Our commercial business comprises of three core customer segments, builders, trades and orgs, and we have clear plans to grow with each of them. For builders, we have our whole of build strategy, which is focused on developing a full credible offer across all stages of the build, frame to fit out, to finishing. As part of this, we leverage our Beaumont Tiles and frame and truss offers. For trades it's all about ensuring we've got the products and tools to get the job done. Trades is our largest commercial growth group and have the value of our broad product range and convenience store network. Here our Tool Kit Depot business supports our Bunnings offer by enabling a deeper range of trade quality brands and service. Now for orgs, this group represents a diverse mix of customers from small business operators to large complex business and government. Here we're targeting growth sectors, education, hospitality, and healthcare.

Tool Kit Depot and Beaumont Tiles

Tool Kit Depot is an important complement to our Bunnings' tool shop offer and gives our commercial customers an even deeper and wider range of specialist tools and brands. We've been pleased with the strong online growth and account managed sales through this platform, and we'll continue to build out the network strategically and in key catchments.

And finally, we continue to grow and invest in Beaumont Tiles as a leading flooring specialist. We continue to expand the network in WA, leverage our opportunities across Bunnings commercial customers and have introduced new ranges in timber and hybrid flooring. We're also looking to further leverage opportunities across the Bunnings group and we'll be

Rachael McVitty

Ms McVitty was previously the CFO for Bunnings, and was promoted to her current role chief customer officer in May 2024. She has worked in the Wesfarmers Group for over 15 years, including five years in the Wesfarmers Insurance Division and five years in the Wesfarmers Industrials Division. Her roles have included Blackwoods CFO for New Zealand and Australia.

trialing a store in store concept in the near future as just one example.

Backend ops and delivery

Later, after the contribution of Bunnings' chief information officer, Ms McVitty covered issues related to improving backend and customer delivery logistics, beginning with price tags.

We are pleased by the productivity benefits in recent trials of electronic shelf labels. This is removing the need for our team members to manually monitor and replace price labels. We have started a rollout nationally and select categories across our warehouse.

Bunnings is also planning to make changes to its delivery processes.

Today, the vast majority of our stock is delivered to our store network for a decentralised supplier led model. This has enabled rapid growth over many years and continues to serve us well. However, it does mean many part filled truck deliveries to our store. As our business continues to grow and mature, we see opportunities to work with our suppliers to drive lower costs by consolidating orders and optimising delivery times. Moving to fewer fuller trucks to our stores will also improve safety outcomes and reduce store costs from better stock flow. As noted before, this is an incremental multi-year journey where we are partnering with our suppliers to collectively deliver the benefits and ultimately enable the customer offer to be even better.

Genevieve Elliott, chief information officer

Personalisation

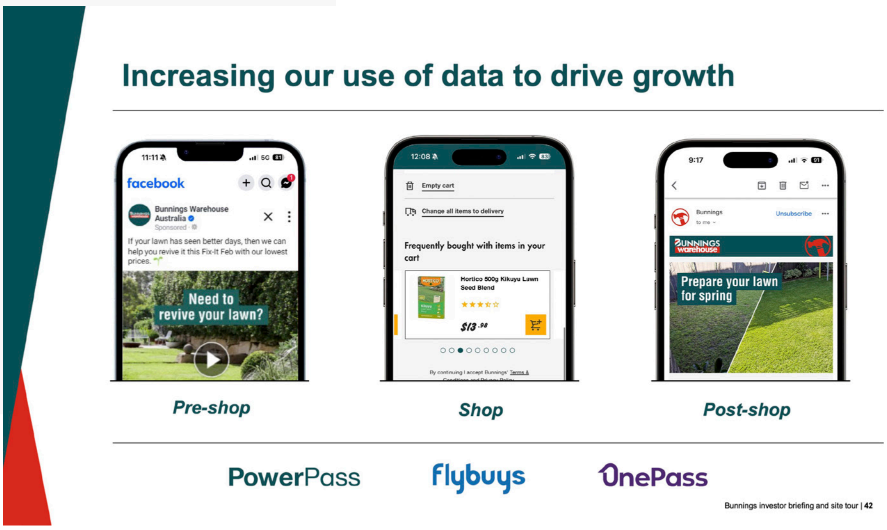
Onto slide 42. On this slide, we have provided an example that illustrates how we're personalising a customer's experience across multiple channels, both owned and not owned. Based on what a customer has purchased, we will know whether they have a lawn. They may have purchased from the lawn care range, but we'll also look for signals such as lawnmowers or whipper snippers from our power garden range. If we have seen a customer buying these items, they may be included in one of our dynamic customer segments: lawn care enthusiast ...

At certain times of the year, we may target this audience via channels outside of our ecosystem such as social media, and you can see an example of this in the pre-shop image.

Genevieve Elliott

Ms Elliott has been chief information officer since June 2024. Previously she held two roles at Bunnings, as director of marketing, data and analytics, and she began working at Bunnings as general manager, data and analytics in 2020. Prior to that she worked for Vicinity Centres.

Ms Elliott's slide 42.



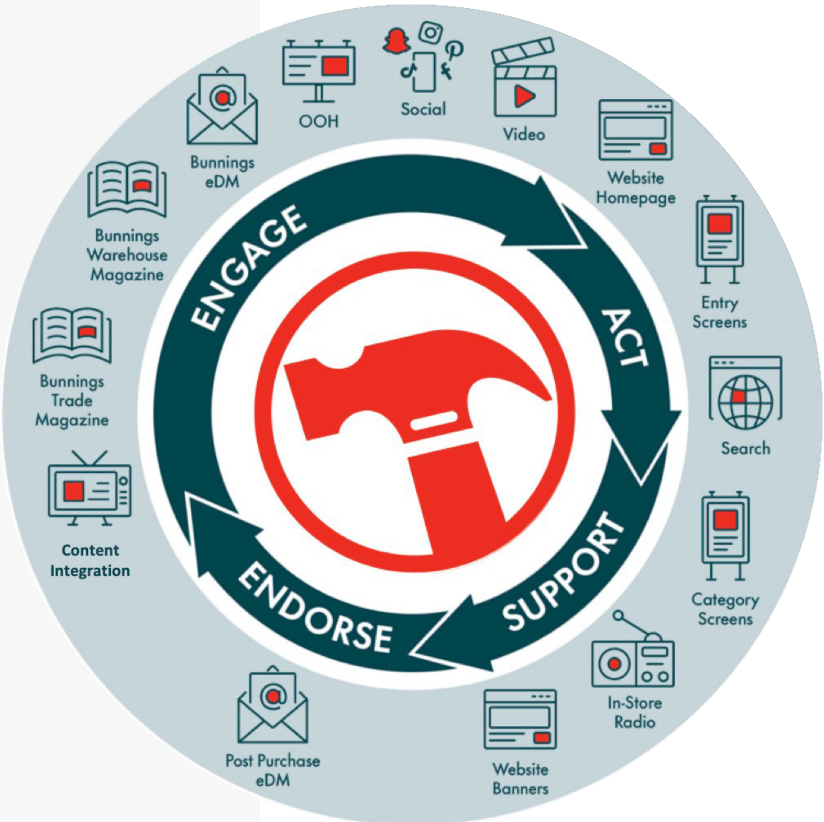
If the content resonates with the customer and they come to browse on our website, we can then use the product recommender feature to suggest other products that may be useful to them. Equally, if they come into store, one of our helpful team members will also provide this insight and advice.

Once a customer has purchased, we can then send them content that's helpful to them to help maintain their lawn. Our lawn care enthusiast program now operates across an annual cycle tailored to the location of the customer and is a combination of helpful information and suggested product purchases at the right time of the season.

This is just one example of many of the journeys we have established and it demonstrates how we're leveraging our rich data and insights to deliver a more connected and relevant customer experience across all of our channels.

Retail media

We've recently incorporated digital advertising into the Bunnings website as well as across a fleet of 300 in-store screens into our offer today. We also have access to extensive offsite inventory such as YouTube and social media. The customer reach achieve with this inventory is significant and it enables us to serve our customers with the right message at the right time. Our offer provides a holistic omnichannel experience and comprehensive ecosystem for suppliers across the channels their customers and their prospective customers are most likely to engage with. Better still, the customer wins because of the tailored and relevant content and experience that guides and supports their shopping journey.



Why do we believe that our retail media offer is an attractive proposition to suppliers and advertisers? Well, it starts with the trust customers have in our brand that we've worked so hard to earn over several decades. This is underpinned by our extensive network of 350 warehouses and smaller format stores across Australia and New Zealand, and then finally layer over the scale of our digital ecosystem and loyalty programs with both the number of customers as well as the extent of their engagement with our brand, our products, and our services. Collectively, these elements come together to provide a compelling retail media destination for brands. This is amplified even further when combined with the other Wesfarmers retail divisions through OneReach. We've been blown away by the interest and the takeup from our supplier partners who have opted to participate in our initial campaigns.

The summary

Mr Schneider returned to deliver a summary statement, with a callback to resilience.

So to recap, our business model has demonstrated a consistent track record of delivering sales and earnings growth over the long term, regardless of the phase of the economic cycle. Our model continues to evolve and expand our addressable market, which is supported by a raft of favourable long-term demand drivers over the medium term and likewise, the diversity of our customer base, the physical network, our product assortment and digital channels all underpin the enduring resilience in our operating model.

Internally, we have a number of tangible and material strategies to deliver both growth and productivity benefits, I should say in the near term. As always, our product and service offer will continue to evolve to reflect the ever-changing needs of our customers, unlock incremental sales opportunities and bring new customers to our stores. Underpinning our ability to execute this evolution of our offer is our retail space optimisation capability, which continues to mature.

The analysts

Questions from the assembled investment analysts focused for the most part on the highlights of the presentation: the introduction of the automotive range, retail media, digital, logistics and the role of commercial customers.

Michael Simotas of Jefferies began with some questions about the automotive category. He asked about the product fit in terms of price and range.

The reason I ask is a couple of the categories that you've expanded into recently, like cleaning and auto, tend to be priced on a high-low bias basis by most of your competitors.

The automotive products section at Bunnings Preston 2025.

Presumably that means you need to be a lot more dynamic in your pricing and change your pricing a lot more frequently. How will you manage that process?

Mr Schneider responded by first pointing out that Bunnings had implemented electronic shelf labelling, planned for tools and smart home, with later expansion into cleaning and automotive. First seen in the Australian hardware industry at Metcash's Total Tools, this technology enables store managers to change displayed prices instantly. He then went on to explain the pricing plan.

Our automotive buyer … talks about the fact that he's mapped the market. We enter [it] at a price that is roundabout where [high-low retailers] go to on the "low". So that's where we're starting. And then [we're] really only moving incrementally to make sure that we're delivering on our lowest price promise.

Mr Simotas also asked about the consequences of Bunnings offering only a limited range of automotive products.

Then on range in a category like auto, you are never going to have the same range as an auto specialist. So for example, if I want to do an oil change, I can buy oil from Bunnings, but then I have to go and buy a filter from somewhere else. How does that fit into your strategic pillar or are you just targeting a slightly different customer?

Mr Schneider responded by explaining Bunnings has a specific customer in mind.

I think we understand that customers shopping in our store aren't looking for us to be the sole destination for automotive. What informed our thinking on auto really came from two different parts of the store. Firstly, the tool shop, and if you think about some of the automotive accessories that we've moved out of tool shop into auto, we were seeing strong participation in that. The second's been the move that we've had over time to garage storage. So we've really built out the garage storage part of our business into what has been a very strong growth driver for us over the last 10 or so years … We definitely don't want to be a SuperCheap or an Autobarn or something like that, but we think we can offer the core elements that make sense.

Retail media has attracted much attention from analysts, both for Bunnings and more generally across Wesfarmers retail. Tom Kierath of Barrenjoey asked if Bunnings had developed a view on the revenue potential in this area.

Part of the push into automotive includes EV charging accessories.

Mr Schneider responded by mentioning that Bunnings had studied what was going on with retail media in Europe and the US. He also indicated that the retail media product is still under development.

> We haven't set very clear targets for where we think we will go, but we do think that what we bring to endemic and non endemic advertisers is a unique point of difference. I think Gen [Elliot] articulated really well today just the depth of knowledge we now have around those known customers on the consumer side. We've equally got that on the commercial side, so we've got some significant opportunities. They will definitely flow through to the bottom line, but our real focus is on making sure that the value proposition we offer you as a supplier, whether you're a supplier to Bunnings or someone looking to enter that ecosystem, is real valuable, actionable insight so that you are really confident that investing with us in retail media is delivering really tangible outcomes for your business needs.

Ben Gilbert from Jardine also asked about retail media.

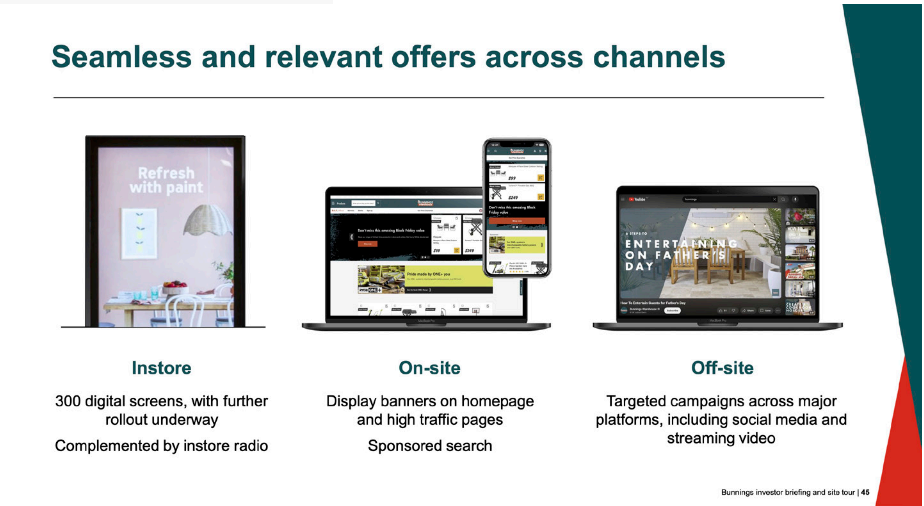
> On the [retail] media side of things, how much sort of easy wins – if you like – are there from just formalising media? I don't think you charge for catalogue at the moment, for instance, and in theory that could be a couple of million bucks a week.

Mr Schneider replied that with catalogues and associated media, this was currently part of the trading terms Bunnings negotiated.

> But we also know that for our supplier partners, they're out advertising themselves. So if we can actually use the data we've got, to help inform them more deeply on the customer segments that they're going after based on the data ... we think there's a good value exchange there for them to invest in the retail media program. And then secondly, we've got some really interesting customer bases and known customer bases that a lot of others don't have. And I think here about our trade business, every tradie drives a ute. If you're a vehicle retailer in Australia, what a market to want to engage in and participate in.

Caleb Wheatley of Macquarie asked further about retail media, specifically about the amount of exposure Bunnings could offer, as contrasted with that of Amazon, or domestic supermarkets.

Retail media opportunities (slide 45).



Mr Schneider replied that Bunnings was looking at a range of exposures, including those outside of stores, to include magazines and radio.

> One of the things that I was really clear on the team was if this is just a screen in store play, then we're wasting our time. This has to be a far more sophisticated model as we go forward.

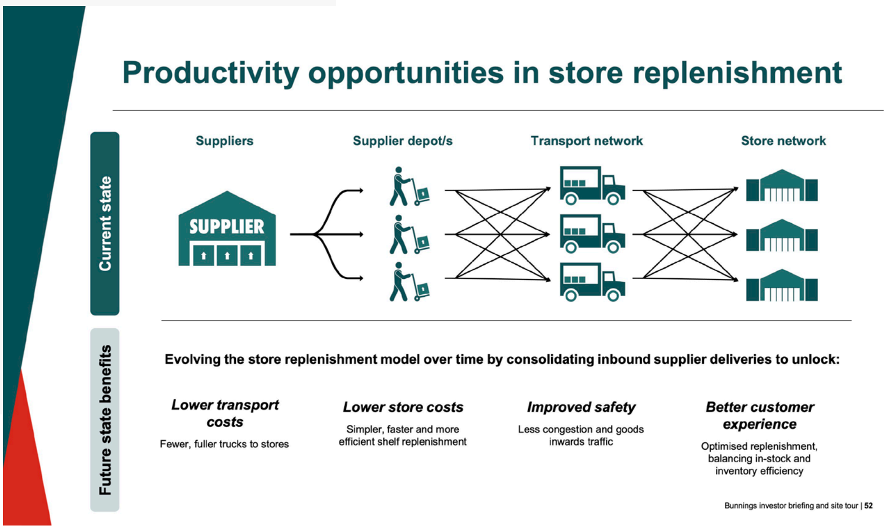
Ongoing improvements to logistics was one of the key messages the Bunnings team wanted to communicate. Brian Raymond from JP Morgan asked for more detail on the logistics shift Bunnings has signalled, in particular why aspects of it had to change.

> What's the issue you're trying to solve here with [changing] the current direct-to-store model? Seems like it works relatively effectively. Suppliers are doing a lot of the hard yards for you in terms of getting product to your stores. But is this about a trading terms discussion with supplier to get more out of them? Is this about limiting out-of-stocks? Where do you see the opportunity from either sales or earnings perspective that you're trying to fix it?

Mr Schneider replied that it was all about doing more to suit the distribution network to the needs of the product and the supplier, adding efficiency.

> So what's currently working really well, DC [distribution centre] deliveries and our import DC is doing an amazing job. It's such an important part of our network. We're really well covered across the eastern seaboard, Perth and Auckland with DCs. So that's in good shape. We've got some fantastic supplier partners that are really large organisations who've made really substantial CapEx investments of their own. We're not looking to disrupt the supply chains of those sorts of organisations.
>
> …
>
> But what we do know is that there's a lot of small to medium suppliers [for whom] it's actually quite a challenge. It's a challenge not necessarily through transport rates and things like that. Our team do a great job at negotiating really good transport rates. But a big warehouse, so Preston, where we were today, that could get 60 to 80 deliveries in a day. That's everything from [Auspost] delivering a couple of satchels through to some B-double [semi-trailers]. But we want to sort of simplify that for our store team because that will

Changes to replenishment logistics (slide 52).



improve in-stock availability in store, it takes cost off the back dock, and we think it improves efficiency all the way through. So we're always going to have a hybrid model.

An analyst asked Mr Schneider what he thought the commercial customer opportunity looked like in the future. He responded that Bunnings continued to be optimistic about the market potential.

I've [been] very clear internally and externally we'd love to see commercial 50/50. It's got to be led by the customer, it's got to be led by the market. Clearly we would love to be seeing more out of residential construction and we think that's a big driver of future opportunity. And we're certainly primed to go with investments not only in locations for frame and truss, but the capability and the robotisation that we've invested in for those...

I think the other big one for us where we're getting significant momentum is in organisations where we're starting to have the credentials to be able to demonstrate to larger organisations and government that we can fulfil that. And then there's some verticals like tourism and the tourism economy where we are very low and there's lots of upside to go forward. So there's still plenty to come.

Analysis

We can summarise the approach that Bunnings is putting forward in its first-half results and the store tour and briefing as we see it. Essentially, the company believes the core Bunnings business model, developed over the past 30 years, does not need to change — or not by much. The company's strategic thinking is that it's better to work on improving the existing model, largely through productivity and efficiency gains, than taking on the risk of adopting a more progressive model.

To really get to grips with everything that means for Bunnings over the next five years or so, it is necessary to take a bit of deep dive into how exactly that existing model works.

One of the difficulties that impedes this kind of analysis is that Bunnings has certain self-descriptions which might work well internally for run-

Commercial development (slide 36).

ning its operations, but do not correspond to the externally observable truth. That is pretty much true of many large organisations, but Bunnings in particular seeks to generalise these self-descriptions more broadly.

To start with basic economics, we can say the surplus value a retail business creates (which is where both profit and funds for reinvestment are derived) is largely based on the difference between the use value of the labour it employs, and the exchange value the worker can receive for that labour. Extracting value from labour is a matter of wage control and the intensity of the work derived, factors which need to be translated as much as possible into productivity.

In a service business such as retail, this brings up a contradiction. Workers who are more highly trained tend to be more productive. However, if they are trained to be specialists, this then gives them more leverage when it comes to negotiating wages, as they are not as replaceable as untrained workers.

Bunnings' response to this, in HardwareNews' opinion, has been to adopt a model that is closer to that of a factory than a standard retailer — following a global trend also observable in other large retailers. Modern factories work to produce workers who are flexible, capable of doing a wide range of activities, but not exceptionally skilled in any one task.

One reason this has worked well for them is due to the wide scale adoption of automation and, more recently, roboticised operations. These provide both greater conformity and precision in key functions, as well as improved safety for less-skilled workers.

To take an example of how — in HardwareNews' opinion — this works with Bunnings, we can look at its Kaboodle kitchen business. The wages award document from late 2023 specifies the salary differentials for different specialties (see figure 1). (These will have increased since 2023, but this provides a proportionate view.) The salary uplift for a "store team member" who becomes a "kitchen specialist" is 4.26%. That's not nothing, and over the course of a normal working year, that's an increase (before tax) of around $2270, for

Figure 1. Extract from Bunnings Retail Enterprise Agreement 2023.

	Bunnings Warehouse	Bunnings Trade	Hourly Wage Rates September 2023	
Grade	Role	Role	Base Rate	Casual Hourly Rate
Team Member	Store Team Member	Trade Team Member	$27.00	$33.08
		Customer Service Operator		
Team Member (Expert)	Expert Team Member	N/A	$27.43	$33.60
	Special Orders, Service & Trade Desk Team Member			
Specialists	Forklift Operator	Forklift Operator	$28.15	$34.49
	Kitchen Specialist	Trade Administrator		
	Activities Organiser	N/A		
	Store Administrator			
	Inventory Specialist			
	Forklift Coach	Forklift Coach	$28.42	$34.82
	Trade Qualified TM	Trade Qualified Customer Service Operator		
	Trade Specialist	N/A		
Supervisor	Supervisor	Supervisor	$29.01	$35.54

a base salary of around $57,000 (based on a 38-hour work-week). Bunnings also offers three levels of performance-based incentive payments.

Yet that wage rate is below the industry average for kitchen designers, which is over $70,000 — a 28% gap.

That's not accidental. Bunnings' entire kitchen business has been designed to be "wage efficient". Kaboodle produces standardised kitchen elements (though some customisation is available), the kitchen specialists use custom software (also freely accessible online) to design the kitchen making use of those elements.

The result is — for those customers where everything works — a relatively inexpensive kitchen that might last in reasonable condition for the 10 years of its structural warranty.

While many reviews praise the product, things don't always work out. On the Product Review website, Kaboodle kitchens have an overall score of 2.5 stars out of five, with 60% negative reviews.
(Product Review — Kaboodle)

Most of the negative reviews relate to product quality. There are specific reviews which praise and thank some of the kitchen designers at Bunnings.

This is in many ways a classic CapEx over OpEx play. By investing capital in both the prefab kitchen construction and software to match this, Bunnings deskills the design aspect, and delivers both price competitiveness for customers and margins for the business itself.

This kind of deskilling seems to show up in the overall wages for retail workers in general. According to an article in The Guardian from early 2025:

> Retail worker salaries are failing to keep pace with the rising cost of everything and lag increases secured by those in other sectors, despite a period of elevated company profits.

About Bunnings, the article states:

> Bunnings, also owned by Wesfarmers, recorded almost $19bn in revenue last financial year, compared with $13.2bn five years ago, but base pay rates at the hardware giant are rising by just 3% a year.

(The Guardian: Retail workers' wages)

Kitchens at Bunnings Preston. Some good design in customer self-service, but overall the industrial feel of much of Bunnings

Could Bunnings improve its kitchen business by upskilling its kitchen designers and paying them more? Perhaps. But this is very much "the model" at Bunnings — the whole point is that it is universal throughout the business.

Customer service

One of the constant claims by Bunnings executives is that the company supplies a high level of customer service. For example, during the briefing, Mr Schneider stated:

> For our team, providing a safe, inclusive and rewarding workplace is not only the right thing to do, but it enables the team to deliver world-class service.

However, most smaller hardware retailers — including IHG — regard the level of customer service offered by Bunnings to be below their own standards. They point in particular to the long-running expertise individual store owners can offer, the extension of credit to individual builders through relationships built over decades, and an engagement with community which is direct rather than filtered through corporate offices.

It's hard not to agree with the smaller retailers. While there are plenty of stories about good customer service from Bunnings, there are also many stories of poor customer service. One of the standards Bunnings is seen to fail, in the view of smaller retailers, is consistency.

Small retailers work hard to make every customer contact positive, no matter the circumstances. The Bunnings model instead seems to make allowances for varying levels of service, depending on the circumstances.

For example, there are evidently times in interacting with Bunnings when factors such as staffing levels lead to a sub-optimal experience. As one former Bunnings employee, writing on the online social network Reddit, explains:

> Staffing and rostering is terrible, and I was quite often the only person covering about seven aisles across bathroom, plumbing and kitchens. It became a bit of a joke, as I was stacking heavy kitchen cabinets on my own due to overwhelming, unmanaged stock. You also get absolutely mobbed by customers at times.

(Reddit: ex-Bunnings staff)

Small retailers work hard to make every customer contact positive ... The Bunnings [customer service] model instead seems to make allowances for varying levels of service, depending on the circumstances.

Bunnings Preston front of store. The sheer scale of these Bunnings Warehouses raises problems with customer service.

Regular late night shoppers know that if you wander into something like the paint department of certain Bunnings Warehouses after 7:00pm on a Wednesday, you are unlikely to experience "world class" customer service. Reports indicate that customers often have to start by finding a staff member, and the advice and help offered is at times less than the best.

If you raise such examples casually with actual Bunnings store managers, they can get a little offended. Basically, their belief is that the "great customer service" consists of being open that late at night. There's going to be very low levels of staff, and that staff is not going to be their most experienced team members. The point for them, however, is that at least you can still buy a tin of paint late at night, something no other hardware retailer is offering.

From this we can see that the company's promise of great customer services actually comes with a caveat, or a form of "rider" — though Bunnings doesn't seem to think about it in this way. That rider is that the customer service level will depend on the constraints of efficiency and low cost. Bunnings more-or-less seems to believe customers will do that kind of calculation for themselves. In other words, the customers are expected to absorb some of the company's ethos.

The customer service level will depend on the constraints of efficiency and low cost. Bunnings more-or-less seems to believe customers will do that kind of calculation for themselves. In other words, the customers are expected to absorb some of the company's ethos.

There was a perfect example of exactly this behaviour at the store tour and briefing event itself. Analyst David Errington of Bank of America asked a very apposite question stemming from his experience at the Preston Bunnings Warehouse:

> I was talking to Rachel [McVitty] about it when we were doing our store tour. A pain point for me is getting customers out of the store. Sometimes it's just too much congestion and to me, you don't focus enough on getting customers out servicing. And you talked about store productivity. How do you measure that? Because to me that's a real pain point.

Anyone who has shopped at a Bunnings Warehouse during peak times, such as Easter Saturday, or on a weekend in late December, has probably found themselves in a longish queue at the checkouts, which is what Mr Errington is referring to.

Mr Schneider replied:

> Yeah, and look, you could argue that it's a good problem to have that you've got too many customers trying to get out of your store. But we do want to make

> sure that customers have a really seamless experience. So we've benchmarked our Bunnings operating system for registers called BPOS, Bunnings point of sale. We've benchmarked that from a technology point of view against pretty much every operator in the world to see if there's a faster register experience. We can't find one that makes sense for us.
>
> Our commercial customers now don't need to go to the checkout at all. So our commercial customers that are at the trade desk that you would've seen this morning could actually transact on their device. They can actually do that transaction the night before coming in the morning and then pull that product in the ute. We check it and they're gone.
>
> So there are some customers who do want to sort of retain a consistent experience. We do have mobile EFTPOS, so we have a capability on a busy day. So Easter weekend's a very busy weekend for us. The team can actually use those mobile devices they have to transact in the moment, so there's more of that happening.
>
> Our team members can also do what our tradies can do and self-check. We would like to extend that to more and more customers. What we've got to make sure is we do it in responsible way so that we know that what's going out the door is being paid for... What we haven't solved for is how we offer that to more customers.
>
> And maybe you can imagine a world in which PowerPass customers, OnePass customers who are reaching a certain spend level, get those sorts of things for certain numbers of products and then expand it out as we go forward.

Well, gosh, how could you possibly go about solving this problem of long lines at the checkout, given all these obstacles? Giant robots using AI, perhaps?

Or, you know, Bunnings could simply invest in building more checkouts per store, and also invest in staffing those checkouts for longer periods. More points of exit, shorter lines, less customer time wasted. That's exactly what many other retailers do.

What this example illustrates is that cost containment and efficiency is so utterly baked into everything Bunnings' management thinks about or does, that "let's just spend lots of money on that problem" is generally not even considered as an option. We could say that for Bunnings that would be like designing an airplane without taking gravity into account.

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Or, you know, Bunnings could simply invest in building more checkouts per store.

What is Bunnings?

While we've said that many aspects of Bunnings seem somewhat factory-like, it's also evident that Bunnings really isn't a factory. But what is it? How do we go about defining what Bunnings does, how the company sees its customers, and how those customers, in turn, see Bunnings?

The one description that we've found that does seem to work to some extent is this: **Bunnings works like the parts bin for the factory of life.**

What we mean by this is that its customers have a defined view of Bunnings as a kind of general resource. When they want to do something, especially if it's a bit beyond the normal tasks of life, they turn to Bunnings as the place that will have the parts and tools they need to accomplish that task.

This means that customers have a different set of expectations of Bunnings than those they have with other retailers. They tend to engage more directly with the products as presented in Bunnings. One aspect of that, for example, is the "good, better, best" ranging. As that is consistent throughout the store, they don't really need as much advice. If you are buying a pop-rivet tool which you will use for around 200 rivets over a 10-year period, you can get the cheapest, but you might choose to buy a more expensive coping saw, because it is easier to use.

But, equally, calling back to the earlier example, you only go to Bunnings for paint, not for colour. Colour you work out for yourself, or by using other resources, such as those on the Dulux website.

What's been true of Bunnings is that those tasks it does enable have often been part of the way its customers have built meaning in their lives. Having access to certain tools and parts at what were, in its earlier days, meaningfully lower prices, was somewhat transformative.

HardwareNews would go so far as to say that this low-cost and wide availability even helped to loosen the laces on some of the class nonsense Australia inadvertently inherited through being a former British colony. It's not just that you can build a deck that almost as good as the one the house down the street had professionals install, it's also that you "own" that deck in a different and deeper way as well.

The one description that we've found that does seem to work to some extent is this: Bunnings works like the parts bin for the factory of life.

But that doesn't work for everyone. What about all the potential customers who aren't at all interested in adopting, or being subject to, the particular ethos that Bunnings represents? And is Bunnings' business prediction, then, that the acceptance will continue in future dominant demographics, even as DIY skills continue to diminish? (Which would raise the additional question: have Bunnings management actually really met Gen Z just yet?)

The call that Bunnings is making with its current strategy is that the societal and demographic changes that are coming can be met by adjusting its present model. In one concrete example, as the gap widens between the "traditional" demographic of baby-boomers/Gen X and Millennials/Gen Z, that model suggests it can be bridged by just selling more stuff in a broader range of categories, and these can be accommodated by increasing sales density.

You can see some aspects of this strategy in its expansion into pets and automotive. Those two categories do have a link: It's not just that they are general across generations, it's also that they are both essentially passions. While the concerns analysts have about the automotive category are well-founded, the reality is that "automotive" for Bunnings is far more about Armour All® than it is oil filters.

One reason that might work well for them is there are factors which limit owner/enthusiast work on cars today. Extended warranty periods make self-servicing less likely, and there is almost no servicing individuals can do to EVs.

The concern, though, is that the market has altered, and will alter still further, in ways that are more structural, and to which the familiar Bunnings model will not be able to adapt. At some point, just having a wide range of categories with a wide range of products in each of those may not match the available market opportunity.

To return to the earlier example: There may be more sales in colour than in paint. Colour isn't just about service, it's about social as well. And social is one area where Bunnings does not shine.

There may be more sales in colour than in paint. But colour isn't just about service, it's about social as well. Bunnings doesn't shine in social.

Structural changes in kitchens

Another example is kitchens, one of the existing areas Bunnings is seeking to revamp. Is "product innovation and a more seamless design and installation experience" really going to be enough?

One of the fundamental changes to the kitchen business relates to the housing market. In the article on the housing crisis in this issue, we've mentioned that one major factor is what has come to be called the "financialization" of the market. Just to précis that, we could say that in most housing markets there are two models of how dwellings as commodities accrue additional value:

(1) M → C → C' → M'
(2) C → M → M' → C'

where C is the dwelling commodity, M is money, M' is M + ΔM and C' is C + ΔC

Model 1 models how most people would think the housing market works. Money is converted into the dwelling commodity, which is then, with the addition of an increase ΔC, becomes C' and is then converted into M' including ΔM on exit.

In this case, we're looking at the dwelling itself increasing in value during the ownership period.

Model 2 models how financialization works. A part of the house commodity C is converted into money M in the form of a loan. That M value then increases through ΔM to form M'. Before sale, M' is converted back into the housing commodity C', which incorporates ΔC.

In this case, it's almost as though as part of the dwelling purchase, homeowners are also buying something like a derivatives contract, a speculation based on future scarcities in the housing market. That is financialization.

One of financialization's core properties is that, as it is focused on market activity itself, the way the underlying asset is valued changes. Its potential value becomes largely tied to its liquidity, which is associated to a large extent with categories. This means that the pure value of renovations — the extent to which they provide greater amenity — ceases to be as important as whether, from a market perspective, they increase appeal.

What this means in practical terms is that a $15,000 Bunnings/Kaboodle kitchen will have very little impact on sale value. Conversely, a $50,000 custom kitchen could increase sale value by around 60% of its value, or $30,000. So, from the perspective of a homeowner, the choice is between spending $15,000 in sunk capital for an OK but not great kitchen, or spending $20,000 in sunk capital (plus financing

The end effect of this is to split the kitchen renovation market between $5000 to $7000 renovations, and $45,000+ for custom kitchen refits. Kaboodle kitchens don't fit either of those categories.

costs), and getting a very good kitchen — which also boosts the liquidity of the prime asset.

The end effect of this, for a certain class of dwelling, is to split the kitchen renovation market between the $5000 to $7000 mild renovations of existing kitchens, and $45,000 to $70,000 for custom kitchen refits. Kaboodle kitchens don't really fit into either of those categories.

That's not to say that the market for Kaboodle is fading away, but it is likely that growth in that market will be constrained. Bunnings is, of course, very good at adding a bit of extra zest to a particular category, but it's hard to see what moves they would really have in this one. At heart, Kaboodle is all about cheap kitchens with a jolt of unexpected style.

If the kitchen business could be restructured, there might be a growing market for $25,000 to $30,000 refits that could generate something like a 40% to 50% return on the investment at sale. However, any such shift would likely begin by elevating the position of "kitchen designer" to something more than a simple add-on to "team member". Which is not just a simple re-designation of a role, but a real shift in the factory-like structure of the Bunnings workforce.

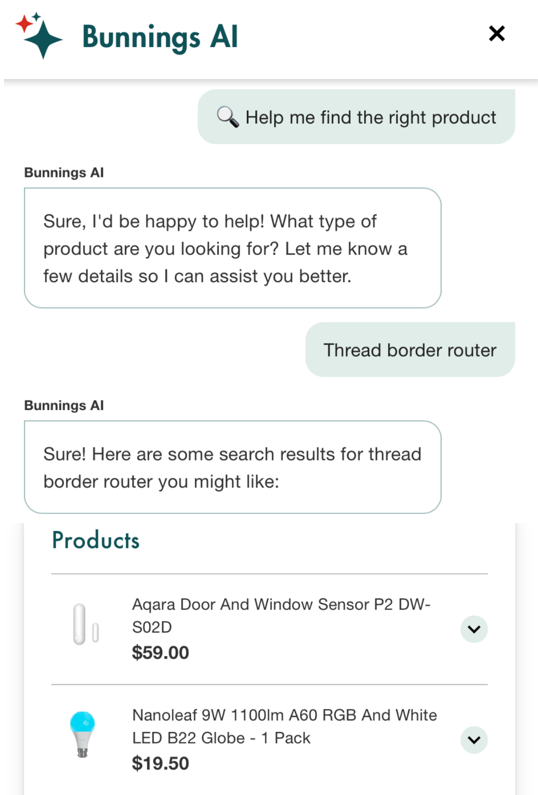
Not to mention the potential need for more technical development. It might be possible to link together Lidar-generated point clouds that define the space of kitchen installation sites with CNC routers to produce custom-designed kitchens in coated MDF and plywood — but that's not what Bunnings does.

The thing is, you run into very similar obstacles whenever you look at just about any category at Bunnings that could be given a bigger boost by updating it to current tech capabilities. For example, one way to make paint more about colour than product is opening it up to a form of social selection — but that requires a whole new set of capabilities that Bunnings has yet to develop.

As another example, while Bunnings boasts about increasing sales in the smarthome category, the truth is that potential is not being utilised well. Just try asking any Bunnings staff member which smartlock works best with a Thread border router for your Matter smarthome network. Or ask the AI on the Bunnings website to recommend a border router. And plain search is even worse.

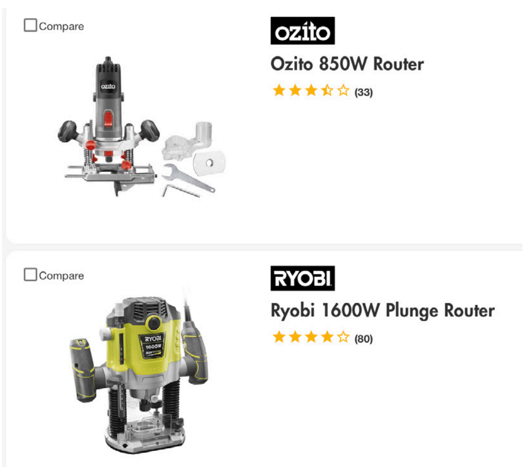
Because AI is the solution to everything

Thread networks smarthome devices together (so that they can use Matter as a communications protocol). A Thread border router helps connect the Thread network to WiFi, for remote control.

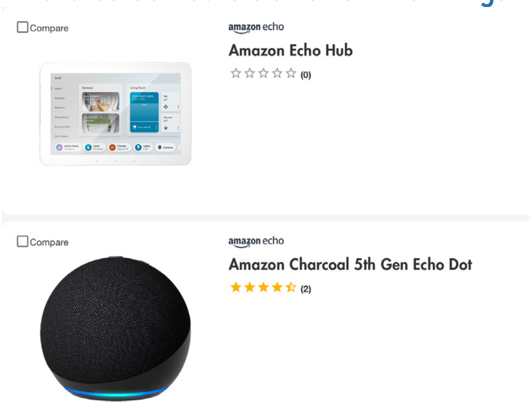


None of the above are Thread border routers.

Search results



Thread border routers on sale at Bunnings



Again, though, that's just not the Bunnings model, but it does indicate a gap. The sales growth for smarthome isn't in selling individual components, it's in helping customers develop an integrated system, and that requires specialist knowledge.

Conclusion

In HardwareNews' view, one of the curious problems Bunnings is facing at the current moment is that it actually underrates itself. As an organisation, it has come to believe that its capabilities tend to rest in the way it currently does things, and not in its evident strength in both market and process analytics.

In simple industry terms, Bunnings tends to think of itself primarily as a good builder — which it is. But it's actually an even better architect.

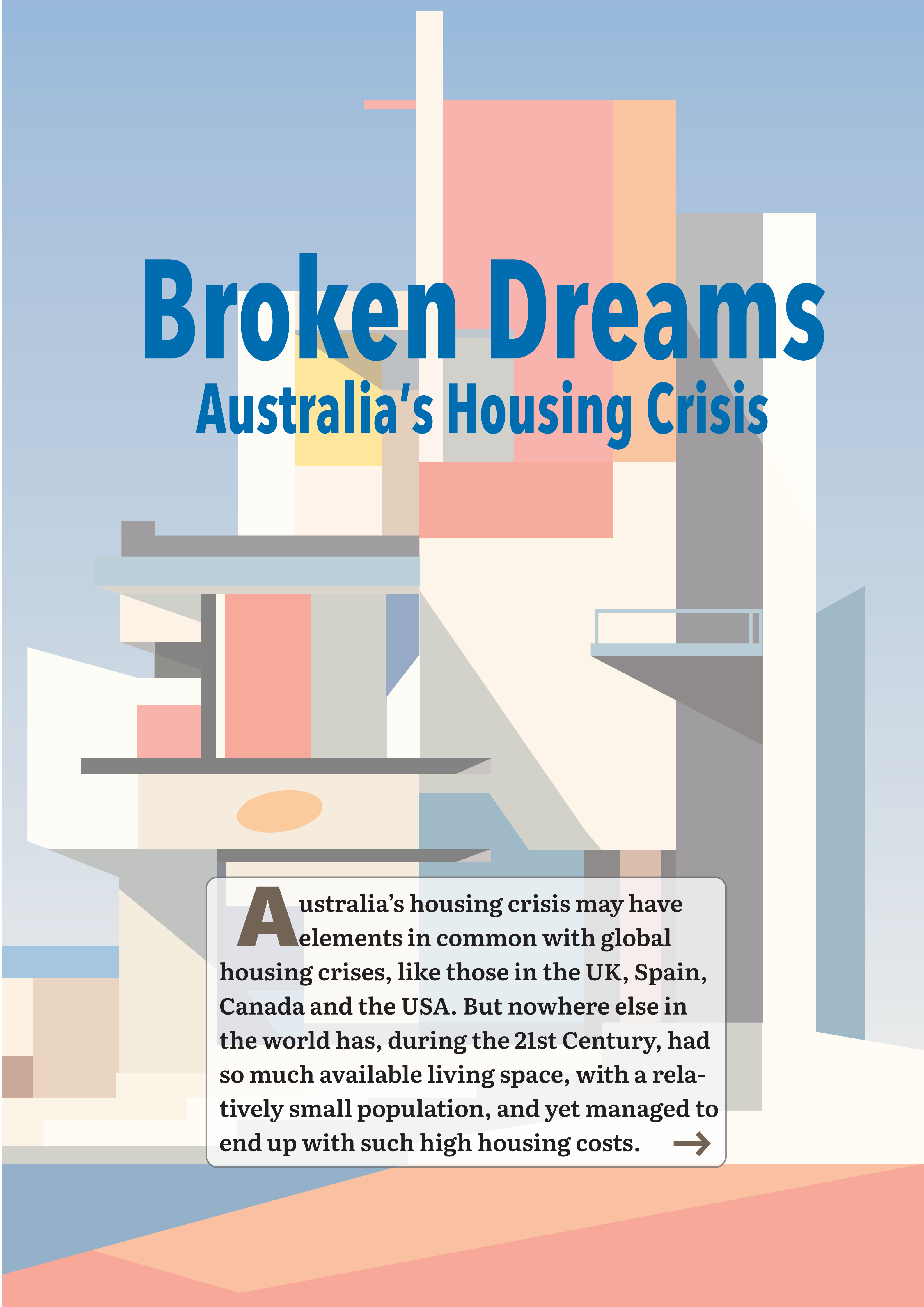
To go further, we would suggest this might, in a deep sense, be an ongoing consequence of the colossal failure that was the Bunnings expansion into the UK with its acquisition of Homebase.

It does seem that in some ways Wesfarmers as a whole has not fully absorbed the lessons of Homebase. It is a visionary company, but some part of a necessary feedback loop seems to be missing. Catch really showed up that flaw — there was immediate negative feedback to the changes Wesfarmers made, but they seemed to respond by doing even more of the same. Wesfarmers never understood that the online discounters (especially Catch) are a form of social network first, and retailers second.

What we could say is that Bunnings really did "get" the lessons of Homebase. But it hasn't absorbed the more positive lessons on the other side of that equation, such as what Kmart managed to do with Anko.

At the moment, for Bunnings the risks of being conservative and being dynamic are evenly balanced — but that equation will only ever move in one direction. And that's not in the direction Bunnings has chosen. Which is a pity, because it is a highly capable business, with good leadership.

In very simple industry terms, Bunnings tends to think of itself primarily as a good builder — which it is. But it's actually an even better architect.



Broken Dreams

Australia's Housing Crisis

Australia's housing crisis may have elements in common with global housing crises, like those in the UK, Spain, Canada and the USA. But nowhere else in the world has, during the 21st Century, had so much available living space, with a relatively small population, and yet managed to end up with such high housing costs. →

High house prices would lead, one would think, to something of a boom for construction industries — and at times, the industry has been taxed to capacity. Yet for many businesses in the hardware retail industry, for builders, tradies and subcontractors (subbies), there has been anything but a long-lasting boom.

Many hardware retailers, after the surge of consumer spending during the COVID pandemic, are doing it tough. In FY2024, the Australian Securities and Investments Commission (ASIC) reports there were 1952 insolvencies for construction businesses. Cashflow problems were nominated as the most prevalent cause of failure. That compares to 1541 insolvencies in FY2023 and 919 in FY2022.

If you talk to tradies and subbies, you will find that while there is work out there, it's a real scrabble to put together an income through contracting. Competition is fierce, despite the reported shortages of qualified trades.

That's one reason why there has been a surge in corruption at places such as the Victorian Building Authority (VBA). Across Australia, unscrupulous builders put in cheap bids on projects, then corrupt inspectors to secure approval for below-standard materials and poor workmanship.

While that's the extreme case, elsewhere builders feel constant pressure to reduce material and other costs as much as possible in order to make money on the cheap bids the market forces on them. Which leads to reduced quality, even if they do manage to meet standards.

In other words, many things seem somewhat upside down both in housing markets and the construction industry itself. Houses should be becoming better, not worse, as they grow more and more expensive. We should be seeing a burgeoning industry, flush with cash, and instead it's super-stressed and increasingly less efficient.

Moving from "what" to "why"

As unique as it is, Australia is a good example to use to study housing crises in general. At the root of the housing crisis in areas such as Northern California's Bay Area is a simple lack of room to build (the major city in that region, San Francisco, is built on a peninsula). The crisis in Australia clearly shows this type of crisis is less about how much land is available, and more about how available land is put to use.

With this understood, the discussion can move on from the question of “What could we possibly do?” to “Why can’t we do what is needed?” It’s evidently the latter question that really needs to be answered.

On the top-most level it’s not that hard to find an answer. At the basis of the crisis, there is a maldistribution of wealth. In fact, the housing crisis is a consequence of what has been a several decades-long excursion into planned inequity.

That is not (directly) the “fault” of those who have benefited from that maldistribution. But to get the nation’s social “mojo” back, some individual aspirations, based in the widening “grey area” between investment and speculation, will have to give way to broader social needs and national aspirations.

The alternatives are stark. For now, the housing crisis is causing distress. What we should see happen over the next election cycle is either the formation of new minor parties with housing as a focus, or the adoption of a general “housing consensus” by several of the minor parties. That could enable the issue to be seriously considered by the Senate, at least.

If consequential change does not emerge from that process, in another six or seven years the distress could turn to rage. Without recourse to substantial change, Australia could be less than a decade away from something like the housing protests we’ve seen nearly cross into riots in nations such as Spain.

It’s that serious.

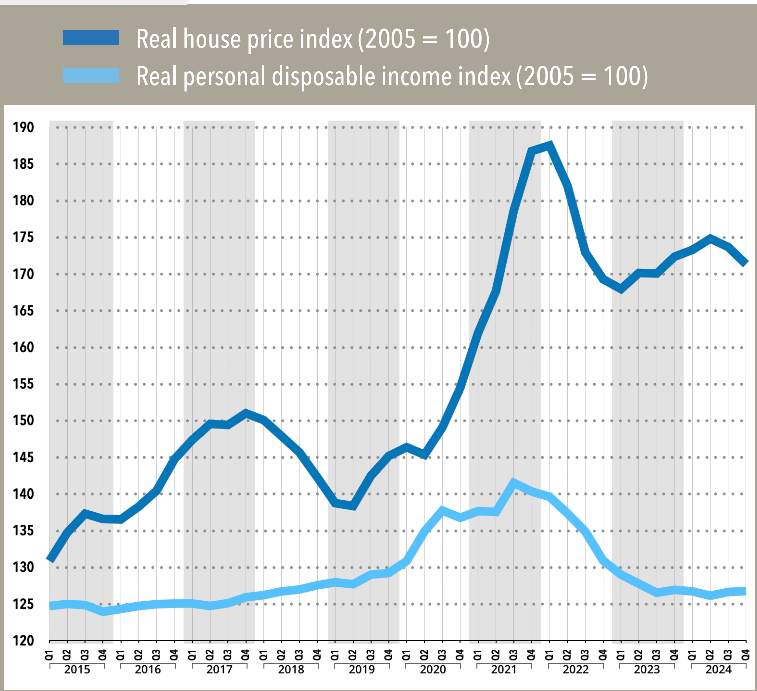
Anatomy of a Housing Crisis

The real house price index (RHP) and the real personal disposable income index (RPDI) represent deflated measures.

Versions of this chart are often used to illustrate the apparent contradiction of the post 2023-Q2 emergence of a reduction in disposable income and an increase in house prices, using deflated measures such as RHP and RPDI.

Another interpretation is that there has been a shift from reliance on future income growth for income improvement, to reliance on an investment strategy, namely real estate. As former RBA governor Philip Lowe remarked in his March 2019 address to the AFR Business Summit, “as the period of weak income growth has persisted, it has become harder to ignore it”.

It’s arguable that this response was built into the Australian economy by the capital gains and negative gearing provisions of the Howard government, given its obsession with keeping the rate of wage increase below inflation.



Data source: US Federal Reserve Bank of Dallas
HardwareNews acknowledges use of the dataset described in [Mack and Martínez-García (2011)](https://www.dallasfed.org/research/international/houseprice#ata). https://www.dallasfed.org/research/international/houseprice#ata

The available analysis

Not only the crisis itself is unique in Australia, but the response to it as well. That response has been split between some of the potentially worst coverage of any similar crisis worldwide, alongside some of the very best coverage.

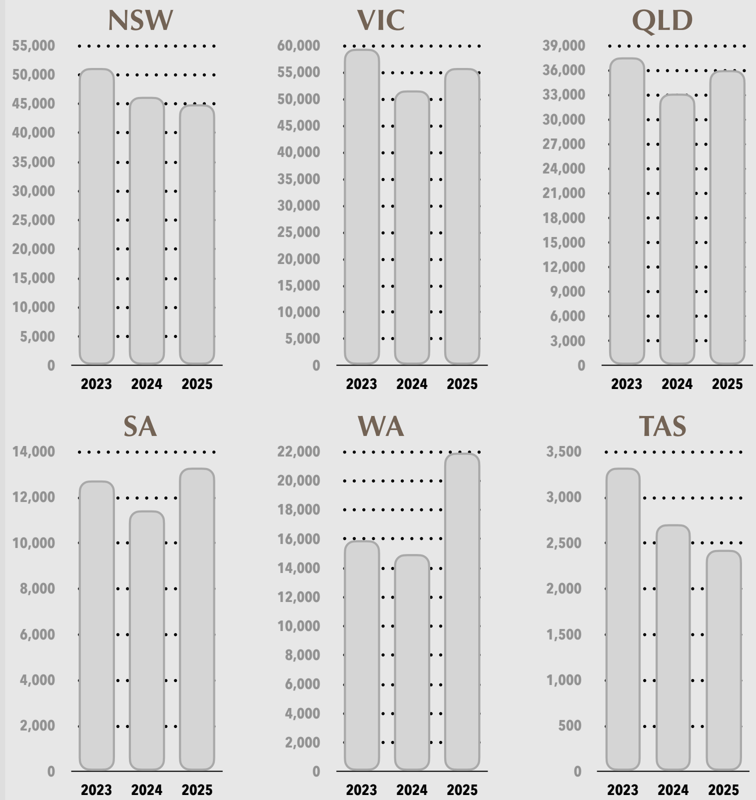
Much of the worst coverage might be described as consistently missing the point. Even work by usually more reliable sources such as the Grattan Institute (GI) ends up being more misleading than not. (GI's analysis of negative gearing seems especially lacking.)

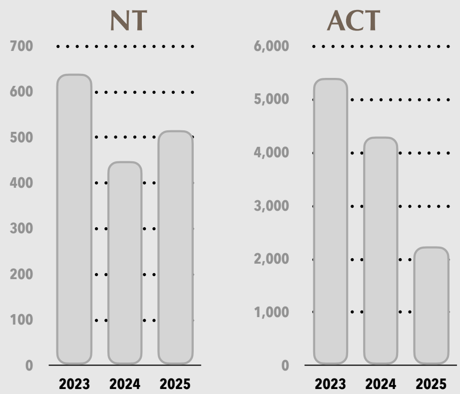
Disappointingly, the Australian Broadcasting Corporation (ABC), capable of at times acerbic criticism of social mores, has lost its edge with the housing crisis. Much of the time the ABC seems to be simply explaining the middle class to the middle class.

Another source of insipid commentary is a particular academic elite — all hand-waving, and "we're so sorry we're making so much money". Then there is what we might term "podcast analysis": meandering, conversational, and mildly inaccurate.

Coverage in major news sources, such as the Nine newspapers, seems equally feckless. Profiles of single mothers unable to afford a home, alongside profiles of middle-class families not able to afford their daughter's ballet lessons because of their $2 million mortgage, do not advance the analysis.

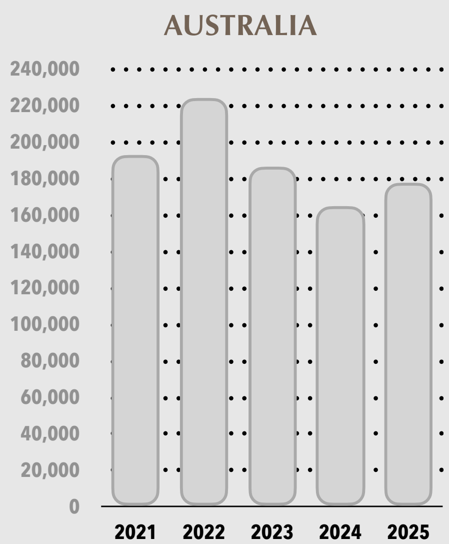
BUILDING APPROVALS
Australia
Number all dwelling approvals





While there is a commonly held belief that building approvals remain in decline in Australia, these charts indicate that, for the trailing 12 months to February 2025, this is not the case. However, on a state and territory basis, this is mixed. Australia overall did have fewer total approvals for dwellings than in similar periods for 2021, 2022 and 2023.

For Australia overall, approvals increased by 12,343 (7.5%). WA led the increase in 2025 over 2024 with 6971 (46.6%) additional approvals, followed by VIC with 4185 (8.1%), QLD with 2893 (8.7%) and SA with an even 1900 (16.6%). ACT – surprisingly – had the steepest decline with -2973 (-48.1%), NSW fell by -1313 (-2.8%) and TAS was down -287 (-10.6%).



Source: ABS **Period**: Trailing 12 months to Feb., year-ended.

The politics

From the political perspective, it would appear the housing crisis does not really exist. During Australia's 2025 federal election, the Liberal and National Party (LNP) coalition leader, Peter Dutton, declared that he hoped house prices would continue to rise. The ruling Labor Party was not quite so overt, but none of the policies it put forward addressed the ongoing price increases.

Instead both parties offered forms of support for the so-called "first home buyer" — despite all the economic work that has been done to demonstrate that this might alleviate matters for a small section of the community, but ultimately contributes to problems for a broader section.

Just to show how potent the politics are, Labor was almost in electoral trouble simply for modelling the effect of negative gearing. No questions, please.

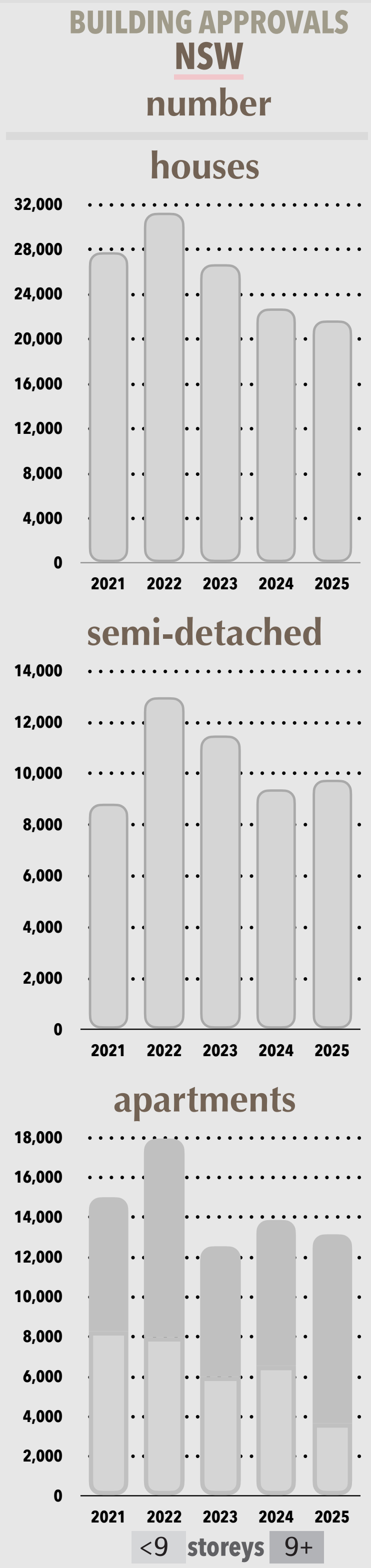
A better way

Yet, startlingly, despite the poor reporting and uninspiring politics, on the better side of the journalistic coverage equation are works such as Alan Kohler's *The Great Divide: Australia's Housing Mess and How to Fix It* (TGD). This was originally published in the Quarterly Essay (QE92 - November 2023), and is now available as a separate book by that title in print or on Kindle from Amazon.

This is a very, very good analysis — on a world-class level. It's so good, it is astonishing other analyses barely reference TGD, rather than treating it as an able point of departure.

Mr Kohler is perhaps best known in popular culture for his reporting on economic matters for the ABC, especially on video/television. He has also served as editor of both the Australian Financial Review and The Age newspapers. He's well known in financial circles for his involvement with information services such as the Eureka Report.

Particularly in his role with the ABC, Mr Kohler has developed a friendly and affable approach to discussing economics. He frequently explains situations that he conceives as simply needing the application of common-sense. These are contrasted with his more unusual analyses, which often rely on an interpretation of less well-known statistics or events.



Source: ABS

Period: Trailing 12 months to Feb., year-ended.

He brings this gift for explanation to TGD, and the result is a compact accounting for the origins of the housing crisis, concluding with an interesting pathway to a solution. What is most notable in TGD is Mr Kohler's skilled navigation through the depths of complex systems and events, ensuring that readers can keep their feet on solid ground, while still giving them encouragement to try swimming for a bit.

Mr Kohler is also critically aware of just how bad this crisis could become, and its importance to Australia, economically and socially. As he writes near the end of TGD, summing up his position:

> So the number one blockage to dealing with housing affordability is that there is no consensus that there is a problem at all, let alone how to fix it. Academics, economists and journalists all say it's a crisis, and millennial renters complain bitterly because they cannot buy a house, but the majority of home-owning Australians are happy to shut up and keep growing their wealth – and banks, developers and governments are all happy to make sure it happens.
>
> My view, and the basis of this book, is that there definitely is a problem and that the high price of housing is undermining social cohesion and the proper functioning of the economy and the nation. The doubling of house prices in relation to incomes has distorted Australian society over the past twenty-five years and focused wealth creation on an unproductive asset. Something must be done about it even though most people may not like it. (pp. 129-130).

Here at HardwareNews, we intend to build on the basis Mr Kohler offers, pushing into some deeper waters, taking the extra step that might be difficult for some of the general public, but welcome to readers who have given a deeper consideration to the housing and construction industry.

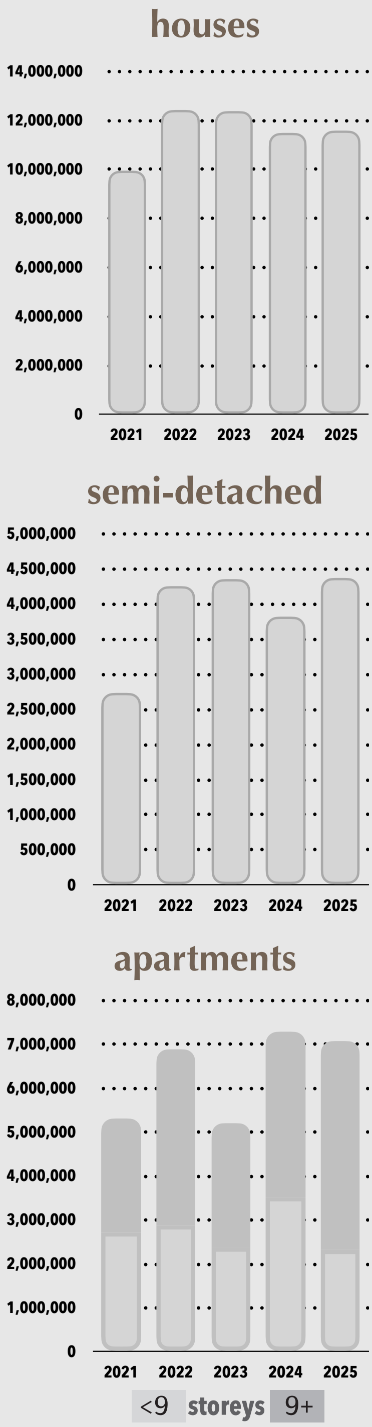
We do need to note clearly that, while we've been alert to the gentle hints in Mr Kohler's work, we certainly don't see ourselves as "second-guessing" him. The opinions and analyses with which we seek to extend TGD are entirely our own responsibility.

One crisis or two?

While most people refer to "the housing crisis", in fact it's not one crisis, but rather two, which orbit each other, locked as tight as binary stars.

The first crisis is the pure affordability of housing, usually represented as having to do with the hypo-

BUILDING APPROVALS
NSW
$Thousands



Source: ABS

Period: Trailing 12 months to Feb., year-ended.

thetical “first home buyer”. But really what is being described is anyone buying a house primarily as an abode rather than an investment. They are seeking an alternative to renting, where they have a measure of control and certainty over their family’s living space, and the prospect of gaining some equity.

The second crisis is about what we could call “debt peonage”. It seems somewhat wryly ironic to feel pity for homeowners struggling under the weight of their mortgage on a $1.7 million house, but that is more-or-less what we are asked to do. They’ve typically wrangled mortgages that are so high, they can barely afford the necessities their middle-class lifestyles require. Even worse, the chances that all that sacrifice and effort will really pay off are steadily diminishing, given the growing force of the first crisis.

The combination of these two sub-crises into one major housing crisis brings about a kind of ping-pong when it comes to finding a “solution”. To solve the affordability crisis, homes need to be priced downwards. That then exacerbates the second crisis. “Containing” the investment crisis means ever-appreciating house prices, which means the first crisis will continue to worsen.

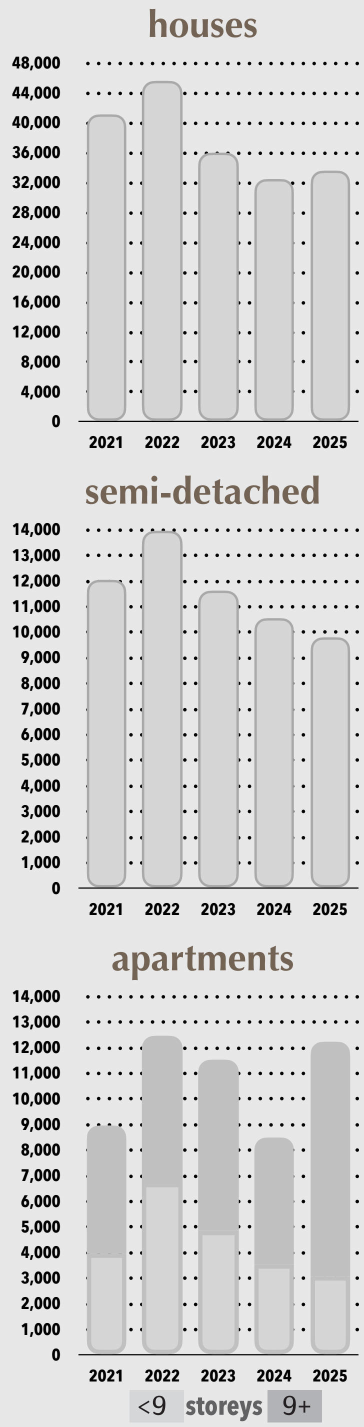
Markets don’t always work as expected

As long as the current housing crisis is viewed through the lens of today’s standard economics approach there is indeed little hope of resolving this “double-bind”. Since the early 1990s that dominant approach has been based on economic principles which see markets as the ultimate economic arbitrator between value and price.

While it’s easy to use terms such as “neo-liberal” to label such policies, there is really something more fundamental and simple at work here. We could say that there are two competing views about how Capitalism works.

In one view, Capitalism is like a good cross-country runner, lithe and nimble, sprinting across the landscape. It is accompanied by business as a kind of coach, and government, which acts like a kind of sports official, making sure the rules are obeyed. Most of the time, that sports official is seen as an interference, except when the sprinter encounters an extreme difficulty (a crisis), which is deemed to be

BUILDING APPROVALS
VIC
number



Source: ABS

Period: Trailing 12 months to Feb., year-ended.

“unfair”, and the official steps in, at great expense, to help with recovery.

The other view pretty much sees Capitalism as like some big bloke who has spent a little too much time at the pub, and is now trying to stagger home at past midnight, though rain and fog, along a footpath that runs beside a busy street, where only every third streetlamp gives out a dim, flickering glow. Business and government are like two helpers half the size of Capitalism, who keep trying to keep the big C on track, but find he inevitably walks into the odd lamp-post, steps into traffic, or simply slips and falls.

Working together, business and government can sometimes help steer him out of trouble. However, much of the time only one is helping, and often they pull in opposite directions — resulting in a crisis.

Which view is more accurate? Well, below is a list of only the major and more generalised crises to emerge over the past 40 years.

- 1987 Black Monday US stockmarket crash
- 1992 Black Wednesday, UK sterling crisis
- 1997 Asian financial crisis
- 2000 Dotcom bubble crisis
- 2008 Global Financial crisis
- 2010 European debt crisis
- 2020 Covid global crisis
- 2025 US Tariff crisis

It would seem that leaving everything up to markets, a policy in place since at least the mid-1980s for much of the West, might not exactly have succeeded in terms of stabilising world economies.

One problem with markets is that, over time, they become increasingly self-referential. This gets expressed in their ability to set prices based on future — rather than current — supply and demand. That can be a good thing if the product is simple, such as let’s say, arabica coffee beans. All it takes is some bad weather in Brazil, and the price of those coffee beans goes up, anticipating a future reduction in supply.

There are even markets for markets, in a sense, which sell futures contracts and other derivatives. These enable coffee companies to “lock-in” future prices, through purchasing the right to buy a quantity of coffee at a set price at a future date. That helps coffee companies to stabilise their businesses.

For products more complex than coffee beans, however, markets are often much less efficient. Two

BUILDING APPROVALS
VIC
$Thousands

Source: ABS

Period: Trailing 12 months to Feb., year-ended.

major problems for markets relate to liquidity and supply elasticity. Liquidity is the measure of how easy it is to buy and sell a product. Supply elasticity relates to how quickly producers can respond to increased demand by making more.

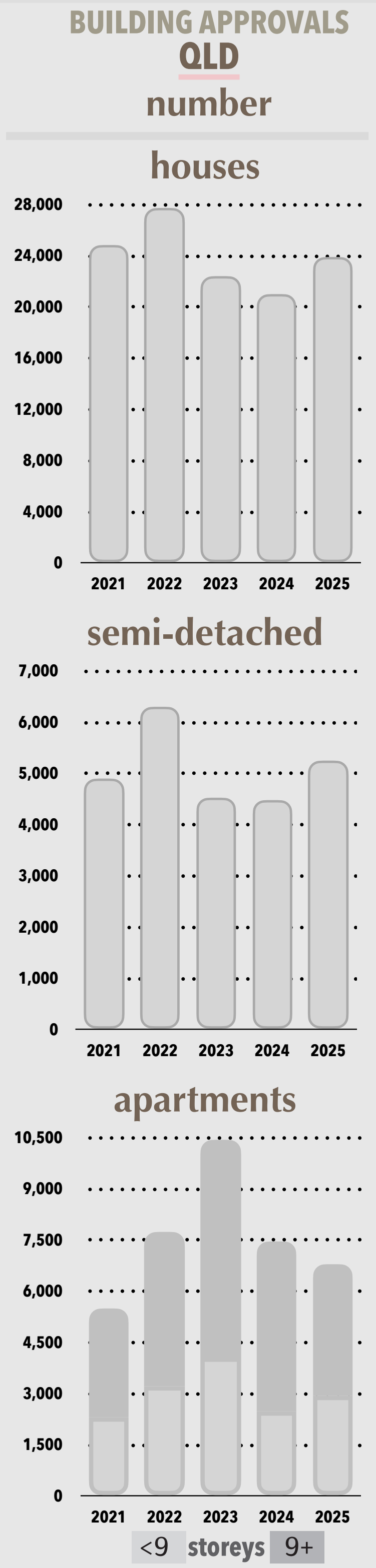
The problem with markets in illiquid, supply-inelastic assets is that they tend, over time, to begin to produce a kind of "non-value" value (NVV). That NVV is, essentially, a forecast future value: in periods of constant growth in demand there is an incentive to purchase based on scarcity of future supply. This builds into a peculiar kind of circular logic — because there is a social consensus that things are going to be worth more, they become worth more, especially if their value is partially based on a scarcity that could continue to increase.

We can see this happening in the current housing crisis. House prices have gone up not because we've invented a new kind of "super house" that is worth so much more, but because the value of houses is now presumed to be "guaranteed" to increase. That presumed additional value (really NVV) drives demand, which increases scarcity, which drives up the NVV — and so on.

One simplified analogy we could use to describe how NVV inhibits the original purpose of markets — to adjust price based on social value in the context of supply and demand — is to suppose you had something like a "mandatory" vehicle/gold ratio when you went to buy a car or truck. Say you had to buy 0.01% of the weight of any motor vehicle you purchased in gold, additional to the cost of the vehicle itself. So if you bought a Ford Ranger ute weighing 2000kg, you would also have to buy 200g of gold, which would be worth an additional $32,000. As a condition, you could only sell that gold when you sold the vehicle itself.

If you want to speculate in gold, that might suit you. But if you just want a vehicle to use as a vehicle, to go places, suddenly it has become much more expensive, and is exposing you to future risks. Not to mention that you never get to directly access that gold, unless you stop driving altogether, as the next vehicle you buy, and the next, will all require the gold purchase.

To use some more technical terms, we could say that NVV is really the equivalent of a futures deriv-



Source: ABS

Period: Trailing 12 months to Feb., year-ended.

ative — purchasing the (apparent) right to sell at a future price. A house that cost $1.5 million five years ago sells for $2.1 million today because it is forecast to sell for $2.9 million in another five years. It is likely that something like 25% to 35% of the purchase price is that kind of an informal derivative.

This shift from markets based on the actual material value of the asset to the immaterial and riskier NVV is what is sometimes termed “financialization”.

While there is a relatively recent tendency to view financialization as relating strictly to the dominance of shareholder value over stakeholder value in corporate goals, Greta Krippner in her well-regarded paper “Financialization of the US Economy” defines it in broader (and more useful terms) as:

> ... a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and production .... ‘Financial’ here refers to activities relating to the provision (or transfer) of liquid capital in expectation of future interest, dividends, or capital gains.

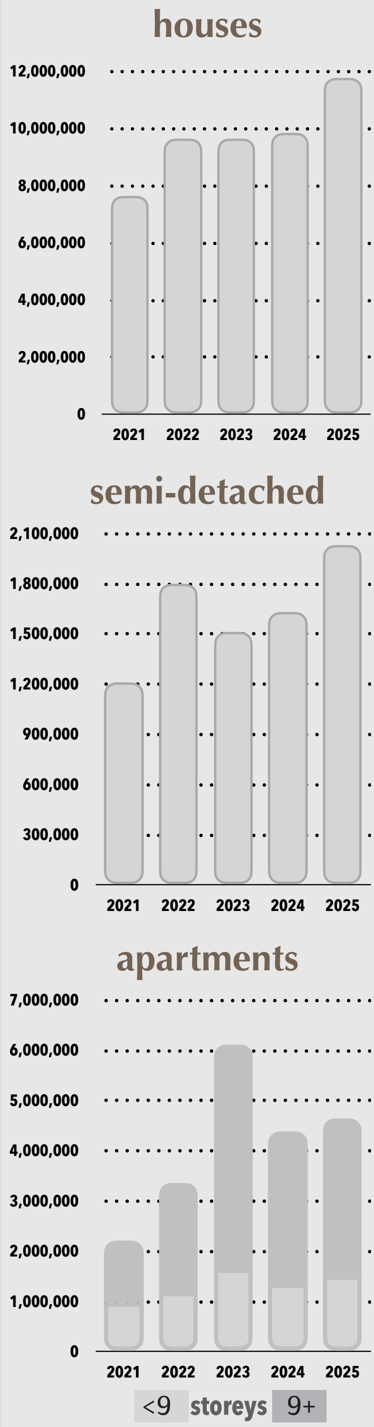
(Download Financialization of the US Economy)

Under the influence of financialization — itself a product of ready access to finance-backed credit — the market becomes controlled by the operations of the market itself. In particular, it is the market’s ability to price out future profits today which drives this. This means that supply and demand ceases to operate strictly on assets, and moves instead to the opportunities for that financialization.

As part of this, the quality of the asset becomes disconnected from the price. In fact, what makes NVV particularly pernicious in the market is that, as its importance increases, it leads to the actual devaluation of that underlying asset. This is because while NVV may not account for the majority of a price, it will account for the majority of the profit. That profit is almost unencumbered, as there is no real underlying asset cost involved in NVV, only the financing cost.

The overall consequence is that instead of relying on qualities such as livability, convenience and energy efficiency, houses are almost solely judged by how they will perform in the market at some future date. Just about every four-bedroom house, for example, is superior to every three-bedroom house, because the former addresses a broader market. Never mind

BUILDING APPROVALS
QLD
$Thousands



Source: ABS

Period: Trailing 12 months to Feb., year-ended.

— within limits — how large those bedrooms are, or if they have big, bright windows. The design and size of a house has moved from being an amenity to a guide for categorisation.

NVV

The point is that NVV is truly fictitious — it does not deliver any benefits other than (the purchasers hope) the possibility of income at that indefinite future date. As Mr Kohler points out, the higher price doesn't arise from value creation, but is just a redistribution of wealth:

> High-priced houses do not create wealth; they redistribute it. And the level of housing wealth is both meaningless and destructive. It's meaningless because we can't use the wealth to buy anything else – a yacht or a fast car. We can only buy other expensive houses: sell your house and you have to buy another one, cheaper if you're downsizing, more expensive if you're still growing a family. (p8)

This ends up neglecting what used to be the mainstay of the housing market: normal families. Families that are seeking a place to call their own, to provide stability and security. They hope for at least a neutral financial outcome — the long-term growth in simple equity they would not get from renting.

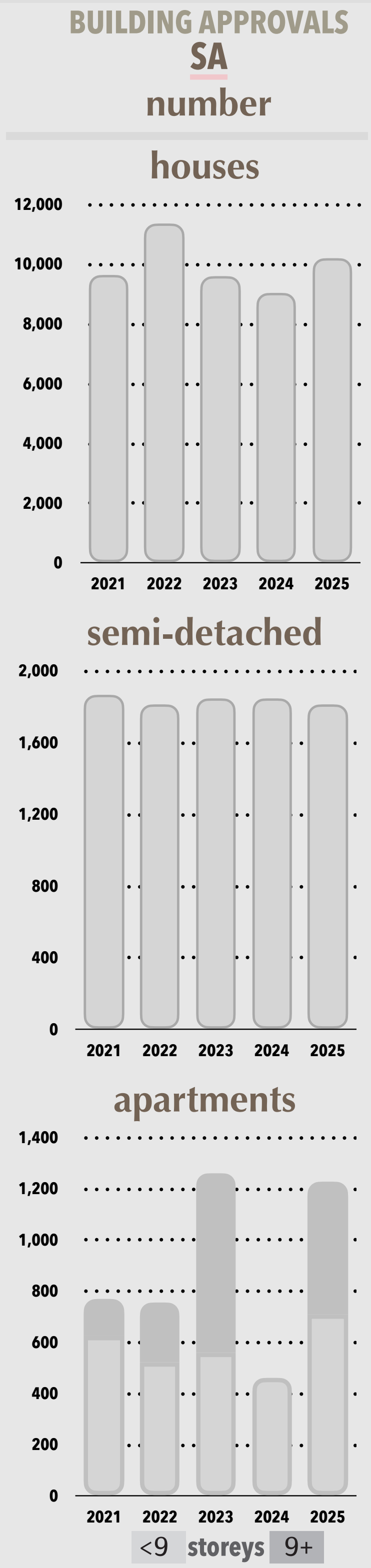
These families can no longer find that in the market. Instead, they are forced to channel all of their investment power into a single asset, because that is how the market is geared. As Mr Kohler describes the situation:

> As I will argue, it will be impossible to return the price of housing to something less destructive - preferably to what it was when my parents and I bought our first houses - without purging the idea that housing is a means to create wealth as opposed to simply a place to live. (p9)

How it came to this

So the big question is, really, what happened? How did something so negative get a grip on the housing market? Some of it was, likely — to borrow a phrase from Mr Kohler — not unintended. But how did it continue to the point where it produced so severe a crisis?

Much of TGD is taken up by Mr Kohler's engaging account of the historical processes which contribut-



Source: ABS

Period: Trailing 12 months to Feb., year-ended.

ed to the housing crisis in Australia. He covers three parts of the supply side: Public housing, the sprawl of Australian cities, and state/local government planning restrictions.

To summarise the social background to the crisis (in our words, not Mr Kohler's), what happened is that post-World War II Australia moved on from the 19th Century notion of the deserving poor, to that of the deserving well-off (Menzies' "quiet people" and Howard's "battlers").

The irony is that supporting these "quiet achievers" was supposed to lead to greater social stability. Instead, the side-effects (negative spillovers) of those policies have created a large potential for instability. That is the "great divide" to which the title of Mr Kohler's book refers.

It is very much the case that without these preconditions, the housing market would have been much better off. However, the real trigger to the housing crisis is what happened with demand, which Mr Kohler — naturally — describes last.

One way of looking at the situation is that 21st Century moves to increase demand were based in part on an approach that was developed in immediate post-World War II Australia. They worked within that narrow timeframe. Continued 60 years later they failed, due to societal and market changes on the supply-side.

Public housing

While ostensibly about using public funds to supply housing to those less able to afford it, this section of TGD is really a portrait of how the inner character of Australian society has shifted from the 1950s to the 1970s.

Mr Kohler opens discussion of pre-War public housing with a quote from a Commonwealth Housing Commission (CHC) report from 1944, which begins:

> We consider that a dwelling of good standard and equipment is not only the need, but the right of every citizen – whether the dwelling is to be rented or purchased, no tenant or purchaser should be exploited by excessive profit. (p. 38)

This shifted by 1949 to the position outlined by Robert Menzies in a campaign speech, where he stated that:

Source: ABS

Period: Trailing 12 months to Feb., year-ended.

[T]he Commonwealth must accept large obligations of assistance. There is already a Commonwealth-States Housing Agreement. We will seek its amendment so as to permit and aid "little Capitalists" to own their own homes. (p. 40)

In 1946 the legislation which established price controls on house sales expired, and efforts to extend those controls failed, resulting in Australian house prices doubling in cities such as Sydney and Melbourne. On the positive side, however, in 1945 the Commonwealth State Housing Agreement (CSHA) was established to provide states with funds for public housing. This helped the Commonwealth Housing Commission (CHC) to fund states to build 96,000 homes for rent between 1945 and 1955.

Menzies' minister for social services, Sir William Spooner, changed the conditions relating to the sale of those houses built by the CHC in 1954. Where previously they were only sold to their current tenants, Spooner made them available to middle-class Australians who did not live in them. He argued that low-income workers did not "deserve" a deal on housing as they "had no culture of thrift or sense of community obligation." As Mr Kohler points out, this was an appeal to Menzies' "forgotten people".

The end point of this change came in 1978, when then-Prime Minister Malcolm Fraser brought in legislation to make states charge market rates for public housing, with rebates provided for means-tested lowest income households.

Surprisingly, since then a succession of Labor governments did little to reverse the established trend, announcing goals for house construction that were missed, or somewhat aimless. Public housing today has become a last resort for the extremely disadvantaged, who must provide a special case of needs to qualify even for consideration.

The sprawl

Post World War II the key factor that shaped cities was transportation, specifically the car. As Mr Kohler points out, as most Australian cities began their growth spurt only after the War, cars played more of a role in urban development than they did in Europe, or even the US. The broadly marked-out territories formed by centralised railways were infilled with houses built by car owners employed somewhere near the local CBD.

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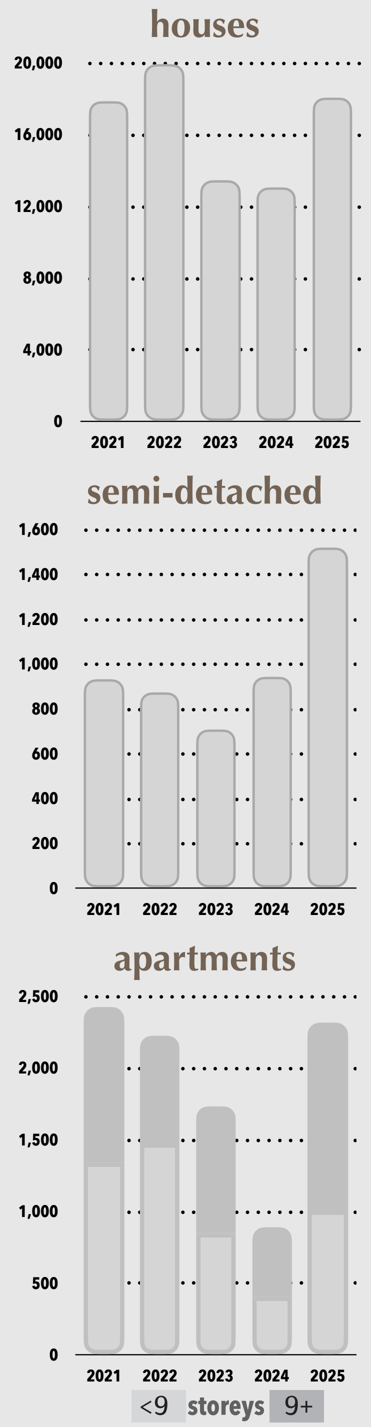

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Period: Trailing 12 months to Feb., year-ended.

Even as Australian cities have sprawled, however, they have mostly failed to develop additional CBD-like centres outside of the single, main CBD. That single centre, with the need to be somewhere proximate to it in order to receive a high level of services and find the best employment, has contributed greatly to a lack of affordable housing. Areas such as New York City, with its five boroughs, Northern California's Bay Area, with its multiple city centres, the multiple regions of London, Paris, Rome, Milan, Madrid, Barcelona, and the sub-regions of Los Angeles all provide a diversity of "prime" real estate.

It is as though, with the centrality of city center CBDs initially established by rail lines, the car did little but to shade over that original outline. Australian cities managed, somehow, to both adopt the general sprawl the car enabled, but not its key benefit, which was a greater degree of decentralisation.

State/Local governments

State and local zoning has long been seen as an impediment to building more affordable housing. Mr Kohler points to a study by the Reserve Bank of Australia (RBA) which indicated that the zoning effect on house prices contributed 54% of the cost in Perth, 42% in Brisbane, 69% in Melbourne, and 73% in Sydney.

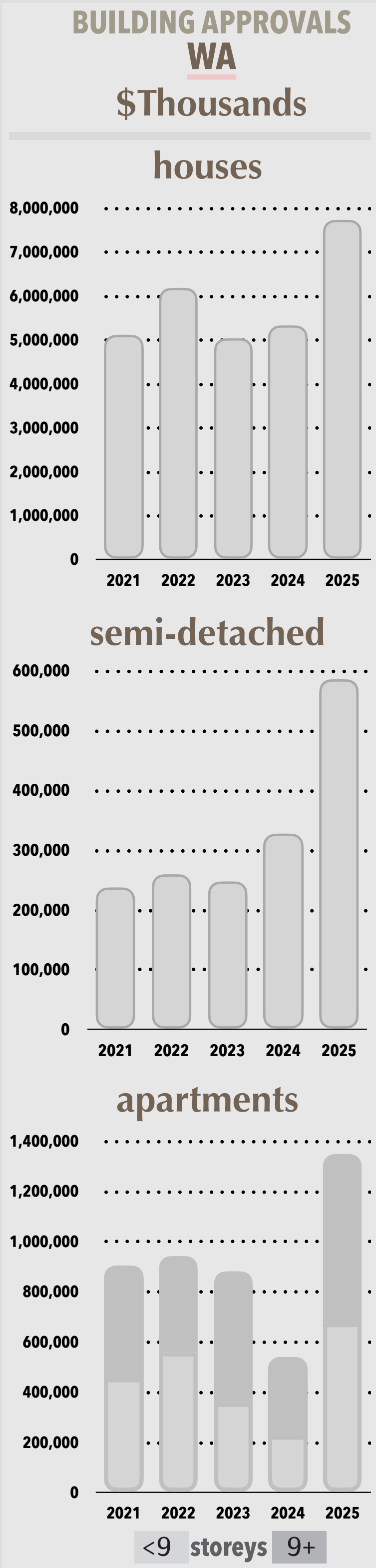
The lack of centralised planning, and its allocation to states and local government authorities, creates a range of problems for affordable housing:

> First, affordable housing is eroded because local councils aren't responsible for promoting it and require planning proposals to be profitable; and second, when public authorities want to acquire land that's not already set aside or "zoned" for public purposes, they have to pay the market rate, competing with developers. (p. 59)

Demand

While Mr Kohler sees the supply side history as important, he does place more immediate importance on what has happened on the demand side. The supply side is background, but the demand side is the real trigger for housing unaffordability since 2000.

The two minor issues Mr Kohler mentions on the demand side are the resumption of first home grants in July 2020 and the increase in migration numbers allowed, which took root from 2003 to 2009.



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Period: Trailing 12 months to Feb., year-ended.

There is a long history of economists strongly suggesting that first home grants are counter-productive, and only serve to further inflate house prices. Mr Kohler quotes economist Saul Eslake's submission to the Senate Economics References Committee in 2013 entitled "Australian Housing Policy: 50 years of failure", where Mr Eslake states:

> It's hard to think of any government policy that has been pursued for so long, in the face of such incontrovertible evidence that it doesn't work, than the policy of giving cash to first home buyers in the belief that doing so will promote home ownership. (p. 78)

In his submission, Mr Eslake further continues:

> Cash grants and other forms of assistance to first-time home buyers have served simply to exacerbate the already substantial imbalance between the underlying demand for housing and the supply of it.
>
> In those circumstances, cash handouts for first home buyers have simply added to upward pressure on housing prices, enriching vendors (and making those who already housing feel richer) whilst doing precisely nothing to assist young people (or anybody else) into home ownership. For that reason, I often think that these grants should be called "Existing Home Vendors' Grants" – because that's where the money ends up – rather than First Home Owners' Grants.

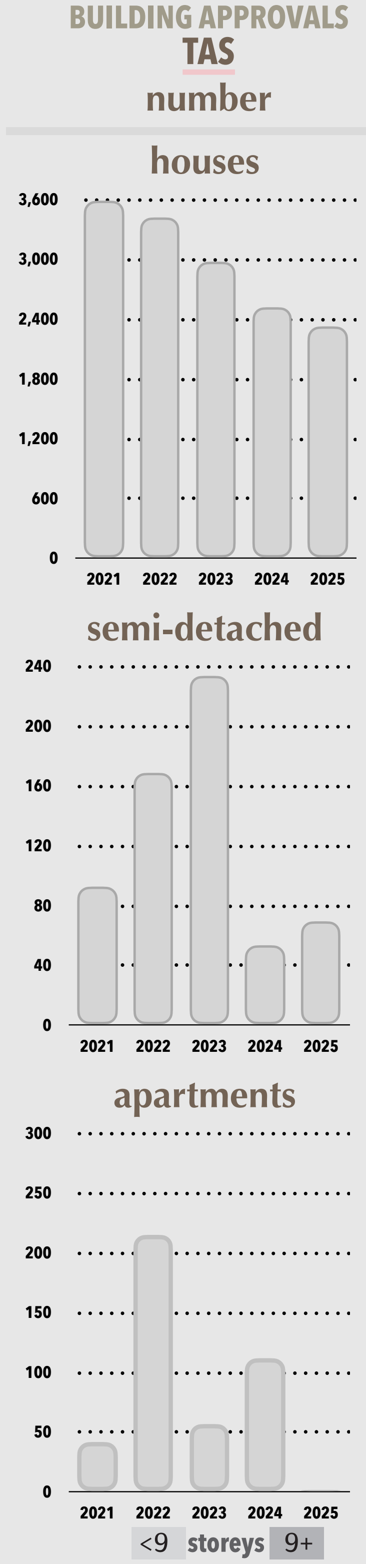
(Mr Eslake has also commented somewhat wryly on the continuing support for these grants during Australia's 2025 federal election.)

It is one of those clear cases where popular politics triumphs over common sense economics. "First Home Grants" sounds positive, and it might improve circumstances for a very limited number of people over a very limited time, but grants for first home buyers can only contribute to higher dwelling prices.

In terms of immigration, Mr Kohler is undoubtedly correct that higher numbers of immigrants, who go on to purchase houses two years after coming to Australia, contribute to higher house prices.

One thing to consider, however, is that the ability for overseas corporations to participate in the Australian market through "build to rent" enterprises — common in, for example, the US — is extremely limited. That's largely due to the influence of Australia's capital gains taxation and negative gearing legislation.

While it would be wrong to suggest that there is any direct connection between overseas investment



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Period: Trailing 12 months to Feb., year-ended.

in housing construction and immigration, there is something subtly wrong in the notion of opening up Australia for an influx of migrants, while effectively closing foreign investment in a key — and not unrelated — industry. In general, migrants do also contribute to the Australian economy. Is it possible to mitigate the negative effect on the housing market of this source of increased demand?

The main game

Alongside these more minor points about the demand side, Mr Kohler also mentions two major point: the 50% cut in the capital gains tax for individuals made by the Howard government in 1999, and the 2.0% cut in interest rates made by the RBA from 2001 to 2003.

While those are events that definitely helped to launch the surge in housing prices that created the current crisis, these are also, as Mr Kohler describes it, the more prominent elements of a more complex situation. To list most of the events that contributed to the development of the crisis:

- Negative gearing reinstated in 1987
- Reduction in income taxes for FY2000 (after the introduction of the goods and services tax)
- Cut to capital gains tax in September 1999
- Reduction of interest rates by 200 basis points from February to December 2001

The change to the capital gains tax, coupled with negative gearing, were the two principal moves, as Mr Kohler explains:

> On 21 September 1999, the Howard government replaced that CPI adjustment by simply decreeing that only half of any capital gain would be taxable, and since it had just cut income tax rates, this was a double benefit.
>
> That was a big, radical tax reform in itself, but it was Australia's unique system of negative gearing plus the abolition of inheritance taxes twenty years earlier that really made it work. Allowing tax deductions against other income for losses incurred while owning an investment property, and then only taxing half the eventual capital gain at the rate of income tax, and then not taxing inheritances at all made real estate by far the best wealth creation and preservation strategy in Australian history. (p. 68)

Later, Mr Kohler models out what this could mean for an investor. He takes up the example of a house in Box Hill — an outer suburb of Melbourne — that would cost $1.65 million to buy, which at 6.9% inter-

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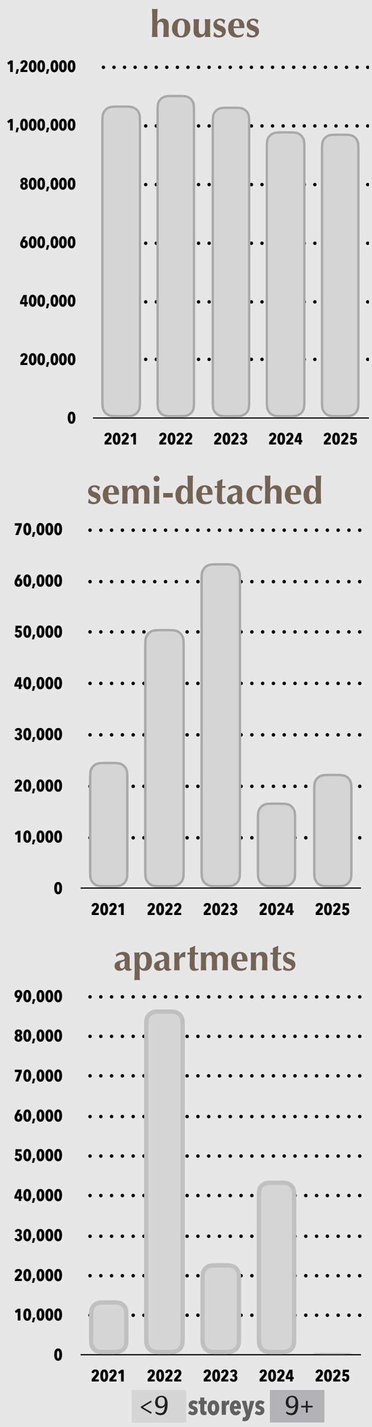

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Period: Trailing 12 months to Feb., year-ended.

est would result in repayments of $11,567 a month or $138,804 a year, and rent out for $33,800 a year, generating a loss of $105,000 a year.

> Nasty. Except, that loss would get the investor's taxable income below the $180,000 threshold for the 45 per cent top marginal tax rate, reducing their income tax by about $45,000 a year. The long-term average annual increase in house prices in Melbourne is 7.9 per cent a year; if that capital growth applied to Box Hill South, as it would, then 35 Foch Street would grow in value, on average, by $130,000 a year, half of which, after inflation, would end up getting taxed at the marginal income tax rate, which is now 37 per cent instead of 45 per cent because of negative gearing, so $24,000 tax per year. If the whole capital gain was taxed at 45 per cent, minus an adjustment for inflation of, say, 3 per cent, that would be $56,745, or $32,745 more. Therefore, with the saving in income tax on top, the investor is $77,745 a year better off than they would have been without Peter Costello's benefaction of 21 September 1999. That represents an investment return, just from the tax benefit, of 4.4 per cent a year ($72,745 as a percentage of the original investment of $1.65 million). (pp. 70-71)

(It is this kind of consequential modelling that seems to be somewhat lacking in the commentary produced by the GI, and other sources.)

This shift in the capital gains tax — a tax first introduced by Paul Keating — was often excused later by Mr Howard, who suggested that no one had ever complained to him about making their home's value increase. Which shows the difference between the two Prime Ministers: Paul Keating was a very good economist, but only an average politician, while John Howard was a very good politician, and a barely average economist. The change to capital gains was the equivalent of burning the furniture to keep the house warm: it worked, and felt good, as long as the longer term value-destroying cost was ignored.

While this kind of mathematics was attractive enough to private investors, circumstances would help turn this from a warming fire to a virtual inferno, when the metaphorical floorboards were added to the blaze. Those circumstances were largely down to changes made by the RBA to interest rates which referenced events and standards which had little connection to Australia's actual economy at the time.

Just before global share markets crashed in 2000 in the wake of the so-called "dot-com bust", the RBA

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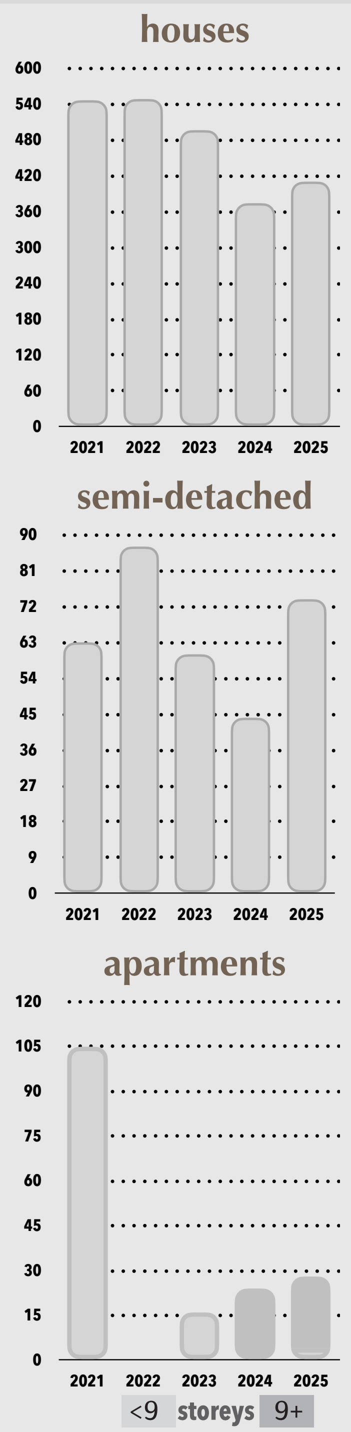

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Period: Trailing 12 months to Feb., year-ended.

was actually raising interest rates — right before, in February 2001, it began to cut rates. Combined with a declining Australian share market, those rate cuts helped fuel a boom in housing expenditure. As Mr Kohler puts it:

> All of which prompted a flight of investors from shares to property in 2000/01, which became a stampede because of the halving of capital gains tax in December 1999. The value of share transactions fell 10 per cent, while the value of real estate transactions increased 17.5 per cent. By the middle of 2002, when interest rates started rising again, loans to housing investors were growing at more than 20 per cent a year, and in 2003 hit 30 per cent. (p. 82)

This stabilised relatively quickly, however — only to be followed by the global financial crisis (GFC) of 2007/08. With the US and other economies under severe stress, the RBA cut interest rates from 7.25% in August 2008 down to 3.0% in April 2009. According to Mr Kohler, “The median [house] price in Sydney rose 68% between 2010 and the pandemic of 2020, and in Melbourne by 54%” (p. 83).

That increase in housing prices was driven by further cuts in interest rates, as the RBA attempted to lift inflation from under 2.0% to within its target range of 2.0% to 3.0%. Rates were cut from 4.75% in October 2011 to 2.5% in August 2013, and eventually reached 1.5% in August 2016. But that was not the end of it:

> And then, unbelievably, between June and October 2019, the RBA under Philip Lowe’s leadership cut interest rates three more times – to 0.75 per cent – in an effort to get inflation up to 2 per cent. Those five years between the start of 2015 and the end of 2019 were one of the worst periods in the history of Australian housing. (p. 84)

Financialization and construction

While Mr Kohler is very much concerned with the affordability of housing, this shift in the Australian housing market has also had harsh consequences for the overall dwelling construction industry as well as homeowners.

In contrast with previous periods of high housing prices and ongoing demand, the post-COVID market has been marked by a degree of stress for many participants in the housing construction industry — builders, tradespeople and even hardware retail-

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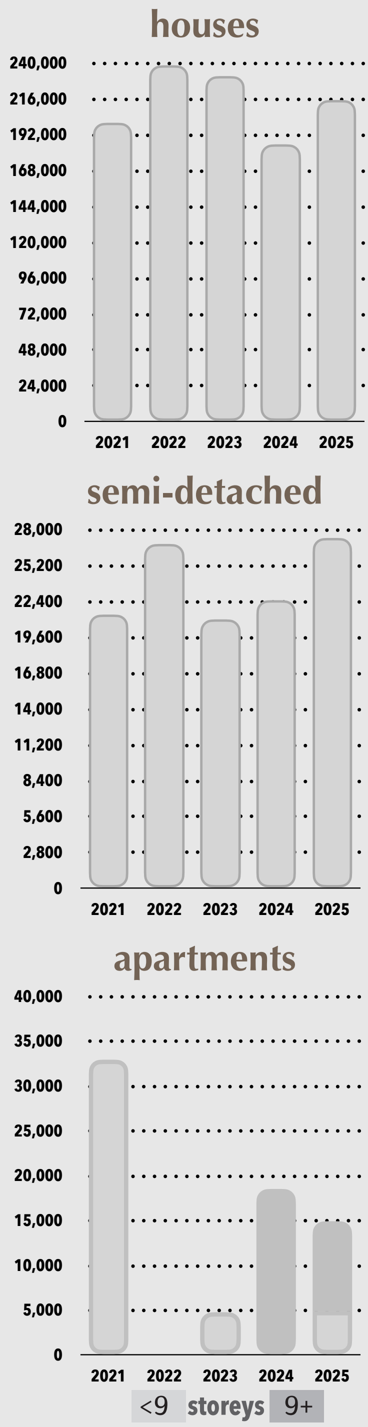

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Period: Trailing 12 months to Feb., year-ended.

ers. There is more money than ever flowing through the housing market, but less than expected is being picked up by construction.

To understand how this can happen we need to look at the way in which the shift to financialization in the housing market led to a devaluing of the actual constructed housing asset itself. We can map that out by showing the standard cycles of money and commodities in this sector of the Australian economy. We can trace those cycles of money, investment and return — the cycle that produces capital — diagrammatically with equations such as:

$$M \rightarrow C \rightarrow M$$

This represents money (M) which is transformed into commodities (C) and then returned to money (M) again. Commodities in this case refers to everything that goes into making something of (social) value, including raw materials, productive machinery, and labour. In a standard capitalist system, a slightly more accurate depiction would actually be:

$$M \rightarrow C \rightarrow \Delta C \rightarrow \Delta M$$

Money is transformed into commodities, which are further transformed into other commodities, with a Δ (delta) change which represents added surplus value. This is then returned as money, with an additional amount of money (Δ again) corresponding to that surplus value.

When we look at a similar equation that describes a market where financialization is at work, we get this basic equation:

$$C \rightarrow M \rightarrow C$$

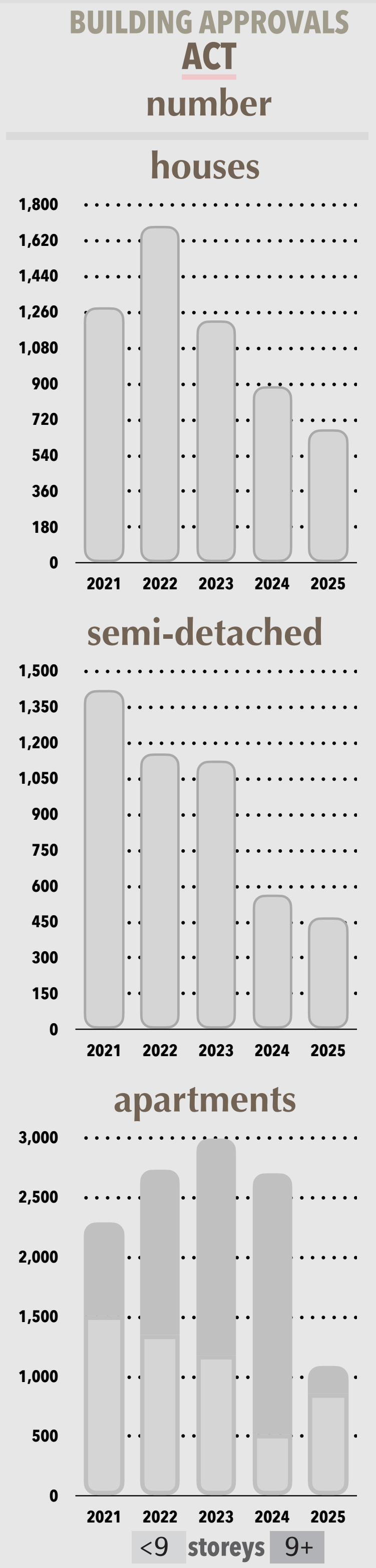
So commodities into money and back to commodities. This yields the more accurate depiction:

$$C \rightarrow M \rightarrow \Delta M \rightarrow \Delta C$$

Commodities are transformed into money, which through the "magic of the market" accrues surplus value, and can then be transformed into commodities with an additional surplus value.

It's a little reminiscent of that (supposedly) Japanese saying about alcohol consumption: first the man takes a drink, then the drink takes a drink, then the drink takes the man. The middle part of the equations, where surplus value appears, is the determinate part of the cycle.

In the case of the Australian housing market, both cycles are at work, and they have been at work together for at least 60 years. What has changed is that



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Period: Trailing 12 months to Feb., year-ended.

the second, financialization cycle has, over the past 20 or so years, become increasingly dominant.

What really determines the basic differences between these two cycles is what takes place in the delta. What is it that drives the increase, and how does it increase? In the case of both ΔC and ΔM, homeowners have similar objectives — a good place for their families to live in, and a return on an investment which is both profitable and as secure as possible. Over time, however, as ΔM has taken over from ΔC, unintended side-effects become pervasive.

We can see how the differences between seeking ΔC and ΔM play out by looking at two key questions that come up when buying a house: “Where to buy?”, and “How much to spend?”

Where to buy

We’re all familiar with that old real estate agent adage of: “What are the three most important things about a property? Location, location, location”. This does not refer to whether the building is positioned on a hill that catches the cool evening breeze. What is meant is, how does the dwelling “plug into” the surrounding social infrastructure and culture? Are there good schools nearby, a nice park, plenty of transportation options, including well-made and safe roads? Are the neighbours reliable? Is there a strong community sense? Is it in a “walkable” area?

There are two aspects to this: what this means for living in the dwelling, and what these positive attributes mean in terms of purchase and resell value. Or, to put that slightly differently, what is the investment opportunity? How does location affect ΔC and ΔM?

Go back 30 or 40 years, and it was a common practice for new homeowners to buy newly-built houses in the (truly) outer suburbs of a major city. These were often relatively “unfinished” social environments: the public transportation was spotty at best, shops were a significant drive away, parks and recreational areas were under-serviced, and the schools were not fully functional.

But the new homeowners worked hard to help things improve. They informally car-pooled to distant train stations, even to the shops. They pitched in at the school’s tuckshop, or helped chaperone class trips. They lobbied local and state governments for better services, improved amenities and safety pro-

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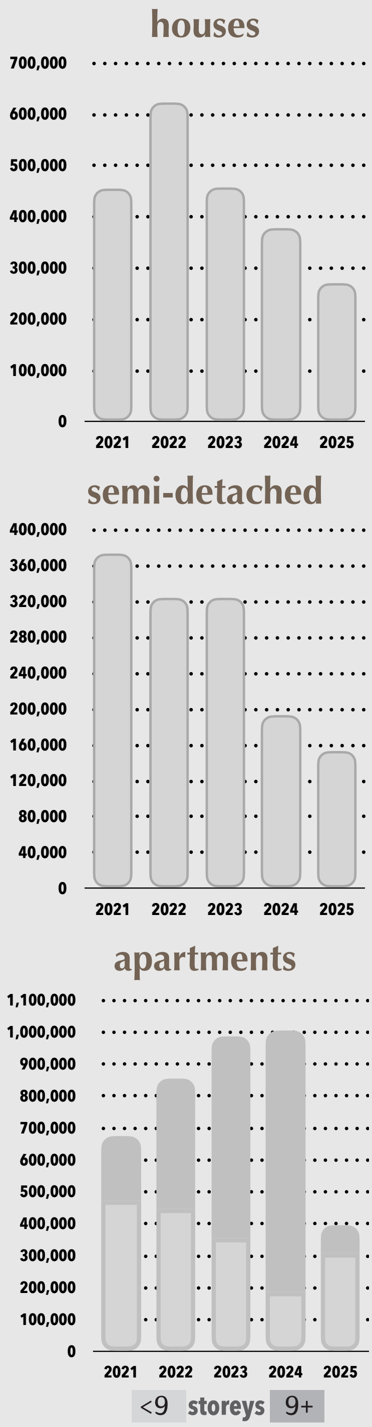

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Period: Trailing 12 months to Feb., year-ended.

grams, helped set up amateur sports teams, school fetes, arts programs, mothers' clubs and hobby associations.

Over the space of 15 or 20 years, they transformed these suburbs from suburban "pioneering" communities to lovely places in which to live. (Aussies are good at this.)

This was taken, at the time, as being a very legitimate "investment strategy". These homeowners were not just accepting a "second-best" housing solution. They knew that their hard work would be rewarded by a higher value for their dwellings in the future. This is the core ΔC strategy.

When it comes to ΔM, the situation is almost reversed. Homeowners pursuing that cycle are very unlikely to buy a house in a remote, unfinished suburb — because, while it will appreciate in value over time, the rate of appreciation is going to be far slower and more uncertain than that of a house in an established neighbourhood closer to the CBD.

The closest that ΔM buyers would come to this ΔC strategy would be to buy a property in a "gentrifying" area — one that is transitioning from a ΔC to a ΔM opportunity. They are not interested in participating in the development of an area (typically), but will get involved in preserving that area to keep it as it was when they bought the property. As these areas are privileged to begin with, most changes can be seen as a diminishment of that privilege.

How much to spend

From the point of view of ΔC, purchase price of a property is a kind of "common-sense" proposition: spend as little as possible on a good bargain in the market. This might be a property in a less-popular area, a "fixer-upper", or even a more rural property, that with hybrid/work-from-home making a longer commute more bearable, is now viable. Essentially, these purchasers are looking for properties that are slightly undervalued, but which demographic or other shifts will make more valuable at some point in the future.

For ΔM, the situation is very different. It's a curiosity of the current property market that, given its location is in a well-established area, the more money that is spent on property, the safer the investment would seem to be. That is partly based on the notion that the top-end of the market is made up of investors who tend to represent a stable and constant demand. But it is also something of circular proposition as well: if most investors/homeowners believe that top-end properties are safer and represent a better investment, demand is maintained, and they do become better investments.

It's a kind of topsy-turvy thinking, where spending more and taking on a consequent greater risk in dollar terms is seen as prudent because it is likely the market risk will be less.

Beyond that, there is also the simple human inclination to "bet big". In his book *Narrative Economics*, Nobel Prize-winning economist Robert Shiller quotes from *House Lust: America's Obsession with Our Homes*, written by Daniel McGinn, and published in 2007:

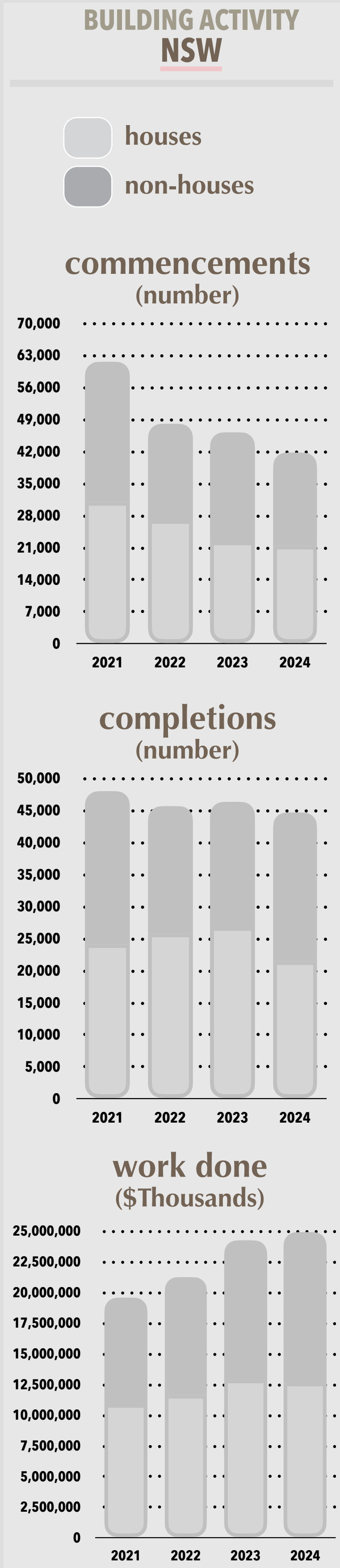
> McGinn also describes an "Our House Is Our Retirement Plan" effect: the story that a house is necessary to successful living because it is a recognisable store of value. The narrative in the recent boom [2003 to 2008] fuelled house prices by implying the dictum that one should "stretch" or "reach" to buy a house. Buy the biggest house you can afford, because you will be glad that you did so when the house's value goes even higher.

So the last thing this group of homeowners want is a "bargain". They might bid aggressively at auction, but they expect to pay for what they get.

Value and construction

What we could say, to summarise the above, is that currently in the market ΔC is grossly devalued as compared to ΔM. Most of the investment value for a dwelling, given that the dwelling meets a range of basic standards, is dependent on the market itself rather than the quality (commodity value) of the dwelling itself.

What that directly translates to is that for new dwellings there is an incentive to reduce expenditure on construction costs to a bare minimum. There are entire districts, in fact, in designated "development corridors" where there are plentiful examples of poor house design and barely adequate construction quality. Whittlesea, for example, to Melbourne's north, has areas where aesthetics in building design was definitely not a priority.



Source: ABS

Period: Calendar years (from quarterly data)

The productivity “mystery”

All of this has had a long-term effect on the construction industry itself. That was illustrated in a report recently released by Australia’s Productivity Commission (PC) on productivity in the dwelling construction industry. This was welcomed by a blaze of accusatory headlines and news commentary. The top-level finding from the report “Housing construction productivity: Can we fix it?” (HCP) were:

- The number of dwellings completed per hour worked by housing construction workers has declined by 53% (physical productivity)
- Gross value added per hour worked – a more comprehensive measure that controls for quality improvements and increases in the size of housing – has declined by 12% (labour productivity)
- Labour productivity in the broader economy has increased by 49% over the same period.
- Had labour productivity in the broader economy moved in line with the housing construction sector, average incomes in Australia would be about 41% lower than they are now.

While the reports from the PC are nearly always interesting and of great value, much of the analysis offered tends to follow what we might term a somewhat naive approach to productivity. That naivety stems from a core belief that if businesses refuse to innovate to improve productivity, they are making a simple mistake, based on a lack of information and/or foresight in their planning.

The reality is that businesses regularly choose not to increase productivity because it is not a zero-sum situation — greater efficiency frequently does not lead to greater profits, at least in the short- to medium-term. This topic is outlined by David Harvey in his book *The Limits To Capital* like this:

> The problem for capital is to avoid unnecessary disruptions within the work process and to achieve that pace and configuration of technological change consistent with sustained accumulation.

He continues later:

> Any technological and organisational change incurs direct and indirect costs. Among the former are outlays on new plant and equipment, the cost of retraining the work force and other direct costs of implementation. Among the latter are managerial inexperience with new techniques or new systems of authority, worker resistance and even sabotage of methods to which workers are not accustomed or which they find degrading, hours lost learning on the job, plus a wide variety of unforeseen external-

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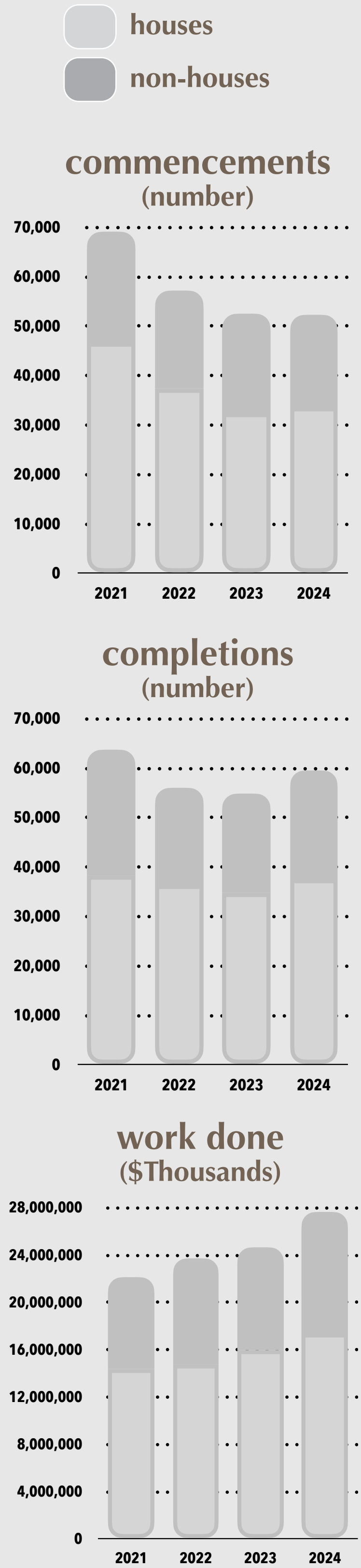

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Period: Calendar years (from quarterly data)

> ity effects that did not enter into the initial calculations. Any firm has to weigh the costs and benefits of change in relation to existing and expected states of competition ...
>
> Chief among the potential costs, however, are those that attach to the premature retirement of fixed capital that has not yet been fully amortised. The value embodied in machinery and other forms of fixed capital can be recouped only over a certain time period. Revolutions in the productive forces can have disastrous impacts here and force producers to take large losses if new equipment (cheaper and more efficient) comes on to the market.

In plain words, there are times when companies deliberately choose a lower level of productivity. Which means there is something of a gap here between the more academic economics perspective on productivity held by the PC, and what gets taught informally in businesses as well as in many business courses.

It is necessary to understand this, because without that perspective what happens with reports such as HCP is that the workers, in this case the tradies and subbies, cop most of the blame. The other forces at work are ignored, and it all comes down to some kind of "worker sabotage" — even though, confusingly in the case of construction, it's being performed by what are supposed to be contracted micro-businesses.

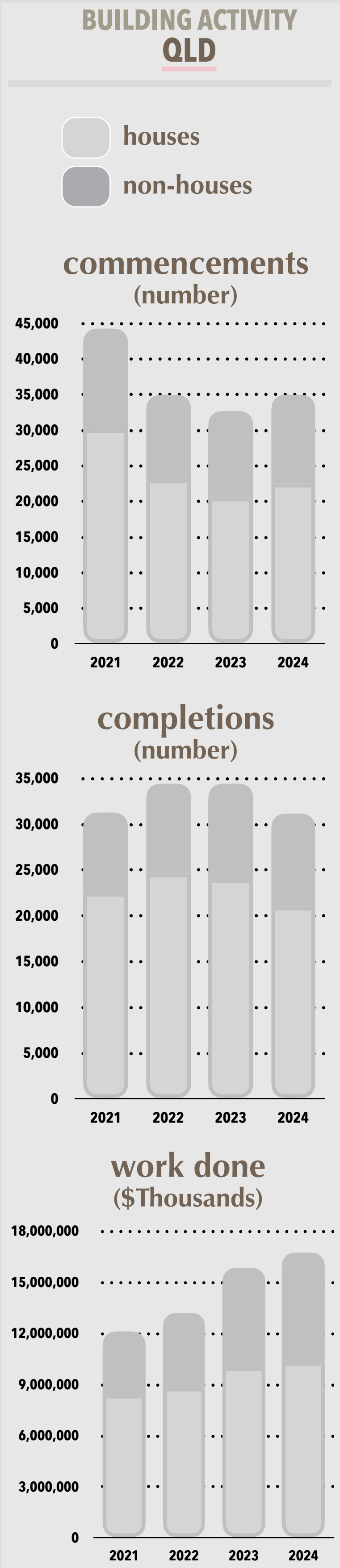
Take for example the article entitled "Our housing industry's going nowhere fast. It's not just red tape" by economics editor for the Nine newspapers, Ross Gittins, published on 5 March 2025. This begins with:

> You may think that a newly built home or unit looks pretty swish. But what no one's noticed until now is that our home building industry is clapped out. Gone to pot. It's going nowhere fast. While most of our industries have improved greatly over the past 30 years, the housing industry hasn't. If anything, it's getting worse.

He goes on to sock home the blame for this:

> The recent report by the Productivity Commission has revealed that the musclebound blokes in shorts and work boots – and their bosses – have yet to be introduced to the lovely Miss Productivity. They drive the latest monster SUV utes – all with names like the Bronco, the Wrangler, the Grunt, the BigOne and the BallScratch – but that's where modernity ends.

And this is down to a lack of innovation:



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Period: Calendar years (from quarterly data)

What stands out, the report says, is the housing industry's lack of innovation. Few of the industry's bosses put much effort into searching out and trying new ways of doing things.

Those of us who are a little more acquainted with what goes on in the construction industry know that tradies' embrace of technology goes somewhat beyond buying the latest utes. There have been significant advances, for example, in cordless power tools over the past two decades, especially by Milwaukee Tool. In fact, the expenditure on power tools has grown so significant that we now have several major retail chains selling nothing but power tools and accessories.

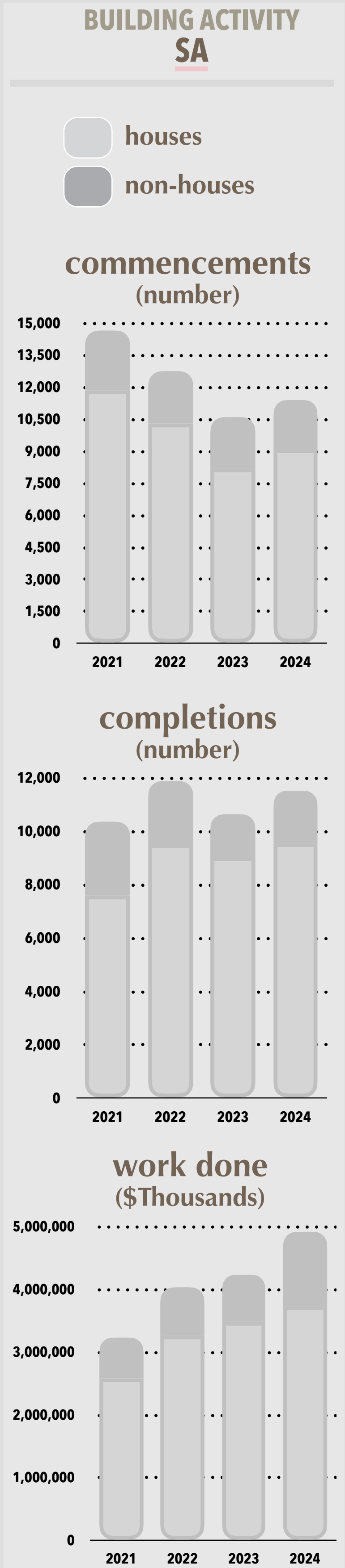
To name just one such innovation, many tradies today would be somewhat lost without their laser levels. Using those levels has both sped up many tasks and improved general quality.

That said, there is also some truth to what Mr Gittins has to say about both productivity and innovation. Yet while he concludes by placing much of the blame on "red tape" and government regulations, if you are looking for the real smoking gun in the PC report, it is probably in the section entitled "Lack of direct benefits to firms from innovation" (p31). This states:

> Another explanation [for a lack of innovation] is that firms may not receive the benefits when they do innovate.
>
> ABS data indicate construction firms are less likely than most other industries to report receiving any payoff from innovating, ranking third highest (out of 17 industries) in the proportion of businesses to report 'no benefit' from the innovations they introduce.

This is followed by a chilling paragraph that explains what is really going on in the industry:

> The PC did hear from residential housing market participants that produced higher quality products through innovation – for example, a factory using automated robots to manufacture highly precise, low tolerance prefabricated housing components that improve the overall energy efficiency of housing. However, they were not able to achieve a price premium for these products. Exactly why price premiums are hard to extract is unclear. Whether it stems from consumer preferences, such as a lack of willingness to pay for additional quality at the market price, versus market failures: that consumers may have less visibility over build quality.



Source: ABS

Period: Calendar years (from quarterly data)

We have more or less already answered the question posed here by the PC. The reason why those improvements are not acknowledged by competitive advantage of some sort is because they affect ΔC (improved product) and not ΔM (improved return on funds invested).

That said, the productivity story goes even deeper than this. We would suggest, in fact, that far from being the source of productivity problems, tradies and subbies are very much the victims of efforts to keep productivity growth relatively low.

Everyone in the construction industry would agree about one fundamental: this is very much a people industry. There are very few other industries which are so reliant on skilled, athletically-capable individuals performing difficult tasks under difficult situations to achieve a technically complex result. So, if you want to improve productivity in that kind of industry, what would you do, naturally?

Education. You would work to enhance the capabilities of the people working on building projects.

Yet in the entirety of the PC's HCP report, education in relation to better training for tradies is mentioned just once — and that is in an externally sourced comment from someone in the industry:

> Communication is very poor and the knowledge of contractors and builders working in the industry is at an all-time low. Much more is needed to boost the education and training of the sector. The skills of building designers and architects in relation to the quality and standard of plans and documentation is very poor and leads to duplication of work, errors and misunderstandings during construction which leads to a loss of productivity. (brief comment 19, excerpt; p37)

When it comes to innovation and productivity growth, the traditional apprenticeship training for most trades is less than optimal, to say the least. It's based on teaching newcomers to the field to replicate what has been accepted practice for the past three or four decades. The more academic alternatives on offer might improve on this, but not by much.

Figure 1 lays out the training and education that is provided in Germany for what is known as a construction engineer — which is regarded, we must point out, not as an academic course, but as a vocational course. This is a three to three and a half year course. It is described as follows:

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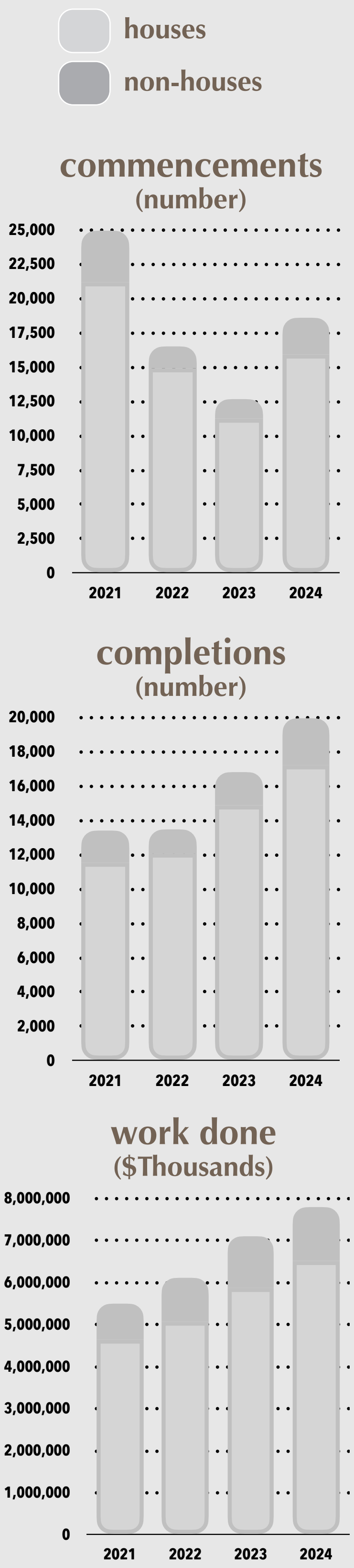

Source: ABS

Period: Calendar years (from quarterly data)

The vocational training system in Germany's construction sector, often called the Germany Vocational Training Program, is an integral part of the national development strategy. Germany implements the Dual System of Training, which combines theoretical studies in schools with practical experience in enterprises. This approach enables students to develop practical skills alongside specialised knowledge, paving the way for promising job opportunities in Germany.

Figure 1: Training Process in the Construction Industry (Germany)

Academic Year	Target	Curriculum content	Practical Training
First year	Familiarise with the industry and basic knowledge.	• Occupational safety and safety standards at construction sites. • Types of construction materials: concrete, steel, wood, and how to use them. • Applied mathematics in construction: measuring, calculating areas, and material volumes. • Introduction to basic technical drawings and how to interpret them.	• Familiarize with the construction site, equipment, and machinery. • Perform basic tasks such as mixing concrete, laying brick walls, and tiling floors. • Learn how to work as a team and follow instructions from supervisors.
Second year	Specialised in construction engineering.	• Calculating and designing basic structures: slabs, columns, beams. • Construction standards in Germany and related legal regulations. • Introduction to modern construction technology: BIM (Building Information Modeling). • Basics of project management: planning, progress monitoring.	• Construct complex structures such as building foundations, ceilings, and drainage systems. • Operate modern machinery like tower cranes and automatic concrete mixers. • Inspect the quality of construction and address any issues that arise.
Third year	Refine skills and specialize.	• Designing and constructing special projects: bridges, roads, and high-rise buildings. • Project management and budgeting. • Analyzing and assessing project risks. • Applying new technologies such as automation and artificial intelligence in construction.	• Supervise real construction projects in the role of a trainee technician. • Participate in creating detailed plans for a project from start to finish. • Integrate green building (Green Building) and sustainability standards.
Theory	3000 to 4000 hrs	Students study theoretical subjects related to construction, engineering, occupational safety, and construction processes. The theoretical learning period during the semesters typically accounts for about 70% of the total duration of the training program.	
Practical	1200 to 1800 hrs	Students study theoretical subjects related to construction, engineering, occupational safety, and construction processes. The theoretical learning period during the semesters typically accounts for about 70% of the total duration of the training program.	
Internship	600 to 1000 hrs	Intern at construction companies to enhance professional skills and apply the knowledge gained in real-world scenarios.	
Exam	80 to 120 hrs	Students participate in final theoretical and practical examinations for a construction vocational certificate.	

As shown in Figure 1, the coursework consists of over 3000 hours of theoretical, over 1200 of practical, up to a 1000 hours of internship, and the final exam consists of around 100 hours of work.

Imagine if you took some of Australia's best tradies, already qualified as carpenters, plumbers, electricians, and they went through that kind of training. What would emerge would be a kind of "super-tradie", capable of providing a real boost to productivity in the practice and workflow of dwelling construction in Australia.

If you were serious about improving productivity in construction, it makes sense — doesn't it? — to a billion dollars into a program that provided this kind of training. It's hard to imagine any other input into the industry that would have that kind of potential for change.

But, that will never happen. Indeed, if you wanted to define what a nightmare looks like for most property developers and builders, it would be the emergence of something like the super-tradie.

Why? It has to do with labour costs. If we look at the evolution of the workforce in regards to the manufacturing factory floor, and even in retail, there has been a consistent move to make individual workers as replaceable as possible. If workers are replaceable, then their ability to negotiate higher pay is limited, as ready substitutes can be found.

Opposing that are workers who have some kind of more rare artisanal skills, that result from a combination of education, training and experience. As they are not easily replaced, they have better chances of negotiating higher fees for their work. That was, 70 years ago, the whole point of getting into a trade, as Mr Kohler's father did. It was about security, dignity, making a contribution, doing something that could be engaged in from the point of view of producing useful things.

Today, however, the markets for labour have managed to move labour costs for trades into line with those for factory workers. In some respects, this has been done by opening up a market that doesn't employ people, but rather contracts them. This means that on every project there are really no set rates. Instead tradies and subbies are forced to compete with each other on the basis of market price. These competitors are most often very small, one to three

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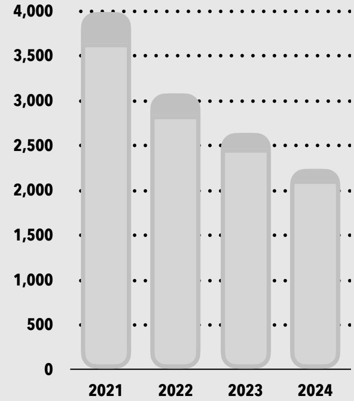
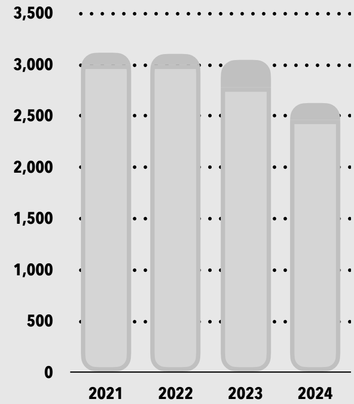
houses
non-houses

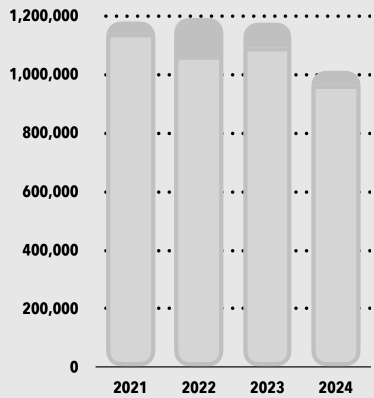
commencements
(number)



completions
(number)



work done
($Thousands)



Source: ABS

Period: Calendar years (from quarterly data)

person businesses, run by people who do not have good general business skills in fields such as accounting, strategic planning, marketing or promotion.

There is a similar trend in construction in the USA. A recent article in the New York Times, entitled "How Contracting Work Became a Race to the Bottom" details how building contracting in states such as Connecticut post the GFC has seen profit margins for contractors become very slim. The reporter, Marcela Vardes, details the working life of carpenter Ben Whelan. While in the early 2000s Mr Whelan could run a profitable business providing quality work, that changed with the GFC in 2008.

> Between May 2007 and May 2009, [US] national spending on residential construction dropped by 56 percent. Homeowners began asking as many as six contractors to give them bids, even for small jobs like bathroom renovations.
>
> "It was alarming to start seeing that kind of activity on these jobs," Whelan says. Everyone he knew in the business was struggling to find work, and the bidding wars drove the profits to new lows. Sometimes, when he learned the winning bid, he was stunned – he would have lost money at that price.

Mr Whelan's competitors could offer lower prices, because they were evading the law.

> Beginning in the 1980s, but accelerating since the Great Recession, builders slashed costs by subcontracting out almost every facet of their projects. Subcontractors, in turn, were favoured for delivering the work at a lower price, which they often accomplished by illegally misclassifying full-time employees as independent contractors or simply paying them off the books. These manoeuvres allowed employers to dodge mandatory expenses, like payroll taxes and workers' compensation insurance, and to evade liability for on-the-job injuries.
>
> Across the country, workers fled construction after the industry adopted employment practices that eroded wages and working conditions.

How Contracting Work Became a Race to the Bottom

Again, there is a push for the industry to work in ways which are blatantly illegal, which includes the use of unskilled, undocumented workers as well.

If you introduce super-tradies, who have been educated in construction as well as business practices, that market would be changed — by simply having an externally derived measure of quality added to it, if nothing else.

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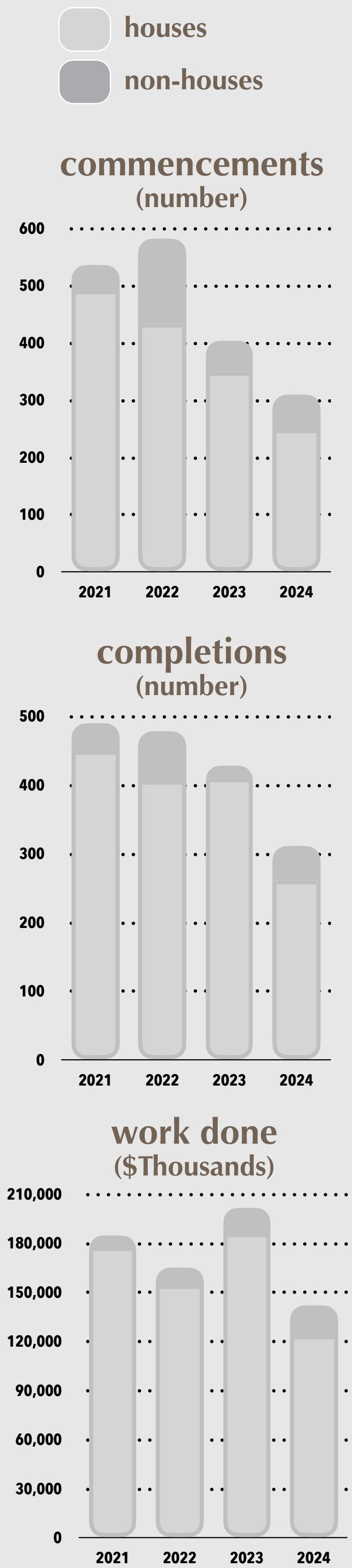


Source: ABS

Period: Calendar years (from quarterly data)

Customers would be attracted to builders with highly qualified personnel. Those tradies could charge more, and would be well-equipped to compete better in the market (and the first step they would take, very likely, would be market consolidation). Suddenly, with no discernible benefit to themselves (but many benefits to their customers), developers and builders would find themselves facing higher labour costs.

Again, there is little discernible benefit because the ΔM cycle has completely overwhelmed the ΔC cycle. The emphasis is on investment not build quality.

Basically, when we look at this PC report, and the general press response to it, we can see that tradies have been deliberately "dumbed down" by the industry — "musclebound blokes in shorts and work boots" — and by governments who somehow can't see the benefits of education in this field. And now, as the final coup de grâce, the tradies themselves are being blamed for this — as though they should be able, somehow, themselves to find the odd $50 million to start a national educational program.

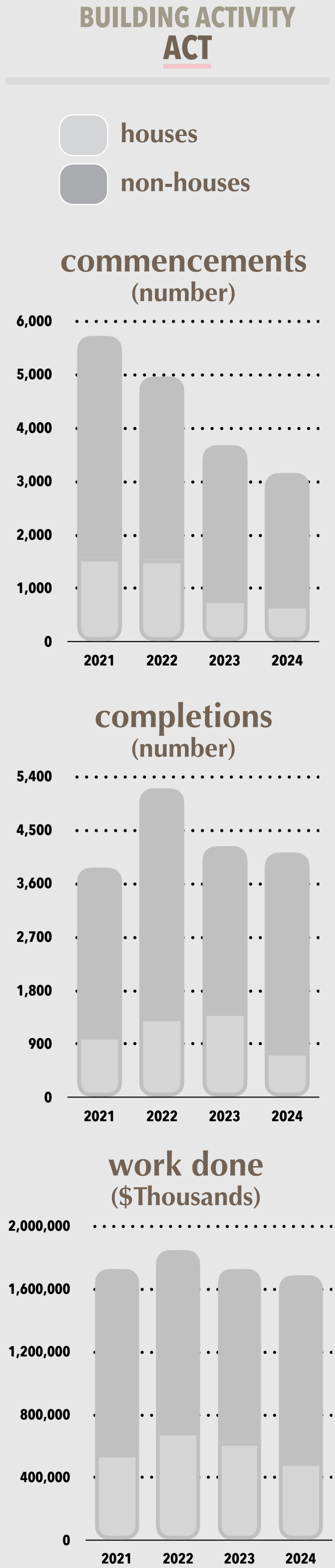
The solutions

Beyond analysis, Mr Kohler sees a need to suggest specific policies and actions that can help at least alleviate the current housing crisis in Australia.

> [I]f there is ever going to be a housing policy that means anything, it needs to have an explicit aim. All the work on this subject ... is like a journey with no destination. What are we trying to achieve? And does anyone who matters really want to achieve it? In my view, the aim should be simple and easily stated and understood, and should refer to the problem identified at the start of this book: that the price of housing is now twice the multiple of income it used to be. (p. 127)

What Mr Kohler comes up with is essentially very simple and very direct. No extras, no ideology, no appeal to obscure economic formulae, no inbuilt criticism of past or present policies. Just something that could work immediately. In his words:

> The only way to significantly increase the supply of "well-located" housing must be trains – fast ones, coupled with ACCC involvement in the housing development business.
>
> I'm not talking about Japanese and Chinese-style "bullet trains" ... but simply the sort of trains that ply



Source: ABS

Period: Calendar years (from quarterly data)

> the European countryside at 150 to 200 kilometres an hour. For example, a new housing estate has been established on farmland at a place called Armstrong Creek, south of Geelong, about 100 kilometres from Melbourne's CBD. There's a railway station not far – at Marshall – and including the drive to the station, the train journey to Melbourne takes two hours. That's simply not viable for commuting, except to Geelong. The trip to Melbourne needs to take less than an hour, and if it did, a lot more people could live there and developers would build more houses there. (pp. 136-137)

He goes on to further detail his thinking about this proposal:

> Unless there is a big and unlikely increase in the density of housing within 50 kilometres of the CBD, the commuting radius needs to extend to 100 to 200 kilometres. To make that happen, commuter trains need to travel 150 kilometres an hour, and preferably 200 kilometres per hour, so there can be a few stops while keeping the travel time to an hour.
>
> To be a housing affordability solution, high-speed rail needs to radiate inland from the CBD, as well as up and down the coast. Specifically, commuters need to be able to live in Bathurst, 200 kilometres from the Sydney CBD and currently a four-hour train journey, and get to work in the city within an hour. Or Bendigo, 150 kilometres from Melbourne. Or Toowoomba, 125 kilometres from Brisbane, which currently takes two hours on the train. (p. 137)

He condenses the approach behind the proposal:

> What's needed is decentralisation of housing but not necessarily of employment, and that requires fast, efficient commuting trains that allow dormitory suburbs to be developed further from the CBD. That would dramatically increase the supply of "well-located" land as the government's housing policy describes it, without pushing against the natural barriers against medium-density housing closer to the city. In a way, the effort to squeeze more housing into a 50-kilometre radius from the CBD is really just an effort to avoid the cost of infrastructure. The trouble is, it won't work. All the talk about a lot more medium-density housing is just that – talk. It will never actually happen. What's needed is transport infrastructure. (pp. 137-138)

This helps to turn the whole debate about housing into a discussion about one, single issue: Are federal and state governments in Australia capable of building 200km rail tracks that radiate out from the CBDs of major cities? If they can do that, then the housing crisis can at least be alleviated to some extent.

A little further

It's possible to further work out what is meant by the solution that is offered by Mr Kohler in TGD. This does somewhat go against Mr Kohler's intent, it would seem. His solution is offered as a kind of "stem cell" economics — a basic set of relationships that could be used for a range of policy situations.

That said, there is some advantage to sketching things out a little further. It's evident that this solution is not about trains. It's about using faster train technology to create "new" regional suburbs, that can exist parallel to other suburbs, through providing similar commute times to the CBD.

Using the southern suburb of Frankston as an example, it takes 1h20m to get from there to the Melbourne CBD by train, a distance of close to 60km. If you can use a faster train with fewer stops to cover three times that distance in an hour to a new area, that creates a suburb that is a commute equivalent.

At the same time, however, there would be important key differences between the parallel suburbs, and those differences would help to make the new suburb a place better suited ΔC than ΔM development. For one thing, the journey from Frankston to the CBD by car is around an hour, where the journey from the new suburb to the CBD would likely be over two hours.

Instead of the more established neighbourhood that exists in Frankston, the homeowner would be plugging into a developing neighbourhood. That would mean initial problems with schools, shopping, support services and local public transportation.

It's really a model of investment that is closer to that of those families that helped pioneer suburbs such as Frankston 20 or 30 years ago.

Back to the question

We can return, once more, to the question with which we began — the question not of "what" we can do, but rather "why" we are seemingly doing very little.

One part of the answer, as Mr Kohler indicates throughout TGD, is that at the moment more Australians benefit from the increase in house prices than don't — though that "benefit" comes at the cost of debt burden.

As Mr Kohler's solution requires imagination, a degree of daring and leadership, the possibility it will be even noticed in the current environment of pusillanimous politicking is limited, to say the least.

What is even more depressing, however, is that Australia is not even looking at what other nations, broadly similar to Australia, are doing to cope with a housing crisis. One major suggestion in this area would be Canada. "Canada's Housing Plan: Solving the housing crisis" was produced by the government agency Infrastructure Canada, and published in 2024. This clearly outlines the causes of Canada's housing crisis in its introduction. After detailing how past housing crises had been averted, it states:

> Over time it became more challenging to build homes in Canada. Restrictive planning policies prevented the construction of high-density housing near existing infrastructure and transit. Municipalities started charging extra fees to help meet budget demands. Provinces fell behind on supportive housing investments. And the federal government pulled back when it should have stepped up. These factors created higher costs, construction delays, and a lack of affordable housing options.
>
> We are still paying the price today.

Is this simply too much to expect from an Australian political party? A clear statement of the crisis and causes?

The document goes on to delineate three areas where it plans to improve: Building more homes, making it easier to own or rent a home, and helping Canadians who can't afford a home.

Under that first category, building, and to our point about what has happened to construction in the current house market boom, this is how Canada sees the restructuring of this industry:

> Canada will create incentives to get builders building. We will encourage certain types of buildings, like apartments or multiplexes, to help reduce the cost of renting, free up space in the market, and create more opportunities for Canadians to save for a downpayment on their first home.
>
> We will speed up the pace of construction. By incentivizing municipalities to improve their zoning and permitting processes, building the infrastructure to support housing growth, and working with provinces

> and territories on the National Building Code, among other things, we can shave months off of lengthy bureaucratic processes that slow down construction and drive up costs for those who build homes and those who need them.
>
> We will help change the way homes are built in Canada. We need to take the new technologies and building techniques that exist today and deploy them on a scale that Canada has never seen before, including by supporting industry to build more homes in factories. Buildings that are energy efficient and climate resilient can help reduce the lifetime cost of maintaining a home by lowering utility bills and insurance costs.
>
> We will grow, train, and support the Canadian workforce to develop the skills workers need to build the homes we all want and create good paying jobs along the way.

It is just a 24-page document, but it goes far beyond anything so far proposed in Australia, and includes some really innovative new ideas. For example, making government land available for lease at low cost where developers can build affordable housing. That secures that source in perpetuity, reduces development costs, and instigates a private public partnership in social housing.

[Canada's Housing Plan: Solving the housing crisis]

The structure of inequality

What Mr Kohler is, we believe, pointing to, and what we have tried to underline as well, is that the housing crisis is not circumstantial — it's not just about over-demand and/or failure of supply. It's structural.

Solving those structural problems begins with infrastructure. That's transportation, but it's also construction as well, the way houses get built, and what it means to surface that immediate value through social means.

Overall, though, it is a somewhat pessimistic situation. We seem to be living in an era where we can effectively forecast future problems, but the populist nature of decision-making means each crisis has to develop into a critical case before the political will can be found to solve it. In this case, it's hard to see that Australia will manage to swerve around some severe social disruption.

Low Carbon Cement significantly reduces its environmental footprint with 30% less embodied carbon than General Purpose (GP) cement

Cement Australia advances towards net zero by 2050 with Lower Carbon Cement

For Cement Australia, the movement to "green solutions" is not a new undertaking

For hardware and building supplies retailers looking to stock a product that meets the needs of customers interested in sustainability — a growing market — then Lower Carbon Cement is ideal for in-store purchases.

Cement Australia has achieved comparable strength capabilities to standard General Purpose (GP) cement with its Low Carbon Cement product. Additional benefits include lower permeability and enhanced durability. It comes with 30% less embodied Carbon dioxide (CO_2) — compared to GP Cement.

As a result, users can confidently use Low Carbon Cement as a direct replacement for GP Cement whilst having a lower environmental impact.

Low Carbon Cement is made with a sustainable mixture using the company's patent pending GreenCem™ technology that enables the replacement of the GP cement ingredient with fly ash and/or slag in higher quantities than previously possible — without compromising on performance.

This technology was developed in-house by Cement Australia at its NATA (National Association of Testing Authorities) accredited testing laboratory in Brisbane (QLD).

Cement Australia uses GreenCem™ technologies in a number of products in bulk and packaged formats. It is ideal for projects where reduced embodied carbon is an important consideration, and for customers who are actively seeking ways to cut down on their own embodied carbon footprint.

In addition to a 30% reduction in embodied carbon, Low Carbon Cement complies with the Type GB (General Blend) requirements of Australian Standard AS3972.

Type GB cement, according to Australian Standard AS3972, is a uniform blend of Portland cement and fly ash or slag that complies with specific requirements for setting time, soundness, fineness, and compressive strength. Specifically, the initial setting time must be no less than 45 minutes, the final setting time no more than 10 hours, soundness must be no more than 5.0mm, and compressive strength must meet minimum values at 3, 7, and 28 days.

Low Carbon Cement is also supported by an independently verified Environmental Product Declaration (EPD). The EPD Australasia register hosts verified documents from brands across Australia that provide data on the lifecycle environmental impact of a product. It is the first product of its type to be on the EPD register.

Using Low Carbon Cement can require less water for workability and pumpability compared to concrete produced with GP cement. It is suitable for a variety of domestic and commercial projects including:

- Construction such as concrete slabs, driveways and footpaths
- Structural concrete such as pre-stressed slabs, columns and tilt-up walls
- Pavers, blocks, panels and pipes
- Mining applications
- Major engineering or civil projects requiring high quality and consistency
- Specialty formulations such as adhesives, renders, mortars and grouts

Low Carbon Cement is locally manufactured and is tested for Australian conditions.

Click on the image to watch Low Carbon Cement being tested as part of a Tradies Tough Test

Decarbonisation at Cement Australia

The Australian cement and concrete sector have worked for decades behind the scenes to reduce the industry's CO_2 emissions that is the inevitable result of the energy intensive chemical process involved in cement manufacturing. The industry has been working to improve its overall environmental impact.

For Cement Australia, the movement to "green solutions" is not a new undertaking. It has taken significant steps toward reducing its carbon emissions. In response to increasing environmental concerns, regulatory requirements and the global demand for sustainable practices, the company has launched a range of measures aimed at achieving net zero emissions by 2050.

These measures include Carbon Capture and Storage (CCS) across its operations. This is a process designed to reduce the significant CO_2 emissions produced during cement production.

In addition, Cement Australia is developing projects focused on lowering manufacturing-related emissions including:

- Alternative Fuel Replacement (AFR) is the substitution of conventional fossil fuels (such as coal, oil, and natural gas) with alternative or renewable fuel sources including biofuels (eg. ethanol, biodiesel), electricity (from renewable sources) and waste-derived fuels (eg. from industrial waste).
- Supplementary Cementitious Materials (SCMs) are materials that, when used in combination with Portland cement, enhance the properties of concrete. Types of SCMs include fly ash (from coal combustion) slag cement (ground granulated blast-furnace slag).
- Energy management – implementing energy-efficient technologies and practices across operations.
- Waste reduction – implementing waste programs such as recycling initiatives, increasing recycled content and reducing disposable materials.
- Transportation and logistics – reducing carbon emissions from transport by changing transport modes and optimising logistics.

An aerial view of Klingspor's plant in Ukraine

Klingspor marks anniversary of diamond tool production in Ukraine

Klingspor entered the diamond cutting blade market with its investment in its state-of-the-art production facility in Ukraine

Ten years ago, abrasives manufacturer Klingspor established its own production facility for diamond tools in Lviv, Ukraine. In 2025, it celebrates this decision as a milestone in the company's history and can add to its claim that making products in-house leads to products of the highest quality.

Selecting the city of Lviv in western Ukraine (around 70 kilometres from the border with Poland) as a production site was no accident, according to Klingspor. It offers a number of ideal conditions including excellent logistical connections and a pool of highly qualified specialists. Despite the challenges in recent years, the location has proven to be robust and future-proof, underscoring the company's strong partnership with the region and local employees.

Paul Hoye, Klingspor managing director – Asia Pacific, showed HardwareNews some of the products made in Ukraine at the 2024 HBT conference. He spoke about the genuine human-interest story behind them and said:

> What Kingspor did, they stopped trading in Russia immediately once the war started. They closed the Kingspor business in Russia. We had offices and staff, and they offered for all the Ukrainian staff to relocate to Germany or Poland with their families, which many of them did, and they paid for it and put money aside from them as refugees basically.
>
> Also, when some of the staff got conscripted into the Ukrainian army, they had no money or equipment. So Klingspor provided them with all their equipment such as boots, bags, and helmets. But not weapons so these young boys won't get into the fight. It's extraordinary, isn't it? And very Klingspor to do something like that. I'm very proud of what they do.

> And the other thing is the factory in Ukraine is open. They are still producing fabulous products so the whole group feels proud of them.

Klingspor has remained family-owned since it was established in 1893 by Johannes Friedrich Klingspor when it started to make abrasives. Today Klingspor is a global manufacturer for finishing surfaces and cutting off materials.

Diamond tool production

Klingspor entered the diamond cutting blade market with its investment in its state-of-the-art production facility in Ukraine. This led to the company introducing its first diamond product line in 2015.

Klingspor's diamond cutting blades are designed in the company's research and development department at its main plant located in Haiger, Germany. They are developed as high-performance tools to deliver consistently excellent results. These diamond cutting blades provide the professional user with matching cutting abrasives and guaranteed to deliver short cutting times with minimum burr formation.

The product line includes diamond cutting blades for the angle grinder, petrol saw and table saws. In addition, certain cutting blades can be paired with standard joint cutters as well.

They are manufactured in Lviv, Ukraine in a variety of dimensions, and characterised by exceptional quality and durability. The latest manufacturing technologies, strict quality controls and innovative new products result in consistently high levels of performance, resilience and precision. In a statement, Dirk Köpsel, director for sales and marketing at Klingspor, said:

> Our diamond tools set standards in the industry. They offer our customers around the globe a superior cutting performance and a significantly longer service life – a clear competitive edge over other manufacturers.

The tenth anniversary of Klingspor's production facilities in Ukraine is an occasion not just to look back on the successes of the past, but to look forward to the future. The company plans to continue investing in innovative technologies and the development of the Lviv site in a bid to further enhance its position in the market for diamond tools.

With this anniversary, Klingspor is sending a strong signal in terms of quality, innovation and the value of long-term partnerships — to customers and employees alike.

The Klingspor Australia team at the 2024 HBT Conference. L-to-R: Luke Bray, David Nagel, Jody Vella from HBT, and Klingspor managing director – Asia Pacific, Paul Hoye.

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- **Business Support:** Benefit from HBT's expert business platform, MyHBT Portal, making it easier to manage supplier relationships, shop promotions and access a range of features to assist you in running your business.

HBT gains ground in tough market

Greg Benstead, HBT's CEO since 2017

Originally hardware retail buying groups were a way for smaller retailers to get together and obtain better deals from suppliers. Since the early 2000s, however, their mission has gradually shifted to helping retailers better compete against the major force in the market, the Wesfarmers-owned Bunnings.

Nowhere is that more evident than with HBT National Buying Group. Since 2017, when Greg Benstead took over as CEO, HBT has managed to take the best lessons from how the hardware retail corporations (including Metcash's Independent Hardware Group) operate. But they've gone further by instilling that with the "heart" that belongs to HBT. This starts with an acute focus on the members, what they want and what they need. As Greg puts it:

> Our core priority has always been—and will remain—improving outcomes for our members. Whether that's through sharper upfront pricing, enhanced rebates, or a combination of both, delivering value is at the heart of everything we do. Much of what shapes our direction comes directly from conversations with members, especially during state meetings where we invite feedback and ideas. At the end of the day, we work for our members, and we are committed to acting on what matters most to them.

There are three main areas where Greg has brought his long-term retail management experience — especially with Woolworths — to bear on HBT. The first is simply the dealmaking that goes on with suppliers, the second is making processes within HBT much more modern and efficient, and the third is helping HBT's members put their stores in the most advantageous position in the market.

Greg's real achievement, however, is how he has helped HBT — and therefore its members — to integrate those three things together. Where before they tended to each go in their own direction, placing stresses on the organisation, they now for the most part pursue common goals. We could say those goals are simplicity, efficiency, plus direct and immediate benefits delivered to members. That has culminated

(l-r) Jody Vella, general manager - buying, Mike Lo Ricco JP, general manager - membership and CEO Greg Benstead in giving HBT the ability to help suppliers improve parts of their businesses to work better with the independent retailers HBT represents and supports.

The deals

With HBT, everything has always started with the deals it achieves for members with suppliers. There have been three evolutions of deals at HBT in recent years: ongoing attention to ever-improving terms; a shift from HBT itself collecting a small percentage of rebates to being paid a direct service fee by suppliers; and reshaping deals to be less dependent on reaching volume targets.

HBT is always on the hunt for a better deal from suppliers. That starts with regularly reviewing existing deals.

> We are currently reviewing all supplier agreements to ensure members are receiving the value they deserve when buying through HBT. While only a few agreements require adjustment, we are committed to addressing them. Strengthening deals is fundamentally about building relationships and leveraging them effectively to benefit members.

While "fixing" deals is important, it's equally vital to maintain pressure on suppliers to eke out the extra percentages that will benefit members.

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When we expanded our buying team, we focused on ensuring they understood HBT's unique culture and values. But at times, it's necessary to set clear directives—for example, pushing for a 1% rebate improvement across the board. We know suppliers often offer better pricing to major competitors, and it's our job to make sure HBT members get their fair share.

HBT has also changed how suppliers are charged for the services rendered to them. Historically, HBT earned its own revenue, to support the business, by retaining a very small portion of the rebates that members received. However, that has obvious limitations. Some suppliers may benefit from more engagement than others, for example, and with that "commission" basis, the arrangement was very rigid.

Greg has changed the system so that now the payment from suppliers is a separate item.

> We've also refined our processes, such as separating supplier admin fees from rebates, so we can guarantee that 100% of rebates go back to members. Suppliers understand they pay us for the services we provide in promoting their offers to members.

A major part of this improvement process is changing the basis of some of the rebates, which were formerly more dependent on reaching certain volume targets.

> Additionally, we are addressing outdated or conditional deals—those that penalise members for not hitting specific thresholds. Our goal is straightforward: buying through HBT should deliver better pricing, and larger volumes should unlock further long-term incentives.

Improving processes

Though HBT would likely not think about it in this way, much of the process change at the buying group has followed the principles of "lean" thinking. Originally pioneered at Toyota in Japan during the 1980s, lean management seeks out areas of waste and eliminates them as much as possible. As Greg puts it:

> Strong businesses continually ask themselves, 'How can we do this better?' We're applying this mindset across HBT.

One typical source of waste, for example, is double-handling, and Greg is all over that at HBT.

> Our IT team is developing a more efficient, accurate way to collect sales data. Currently, suppliers manually fill out spreadsheets, and while the majority comply, the remainder creates unnecessary manual work and risks data errors, which can impact rebate calculations.
>
> To resolve this, we are introducing an online sales form that connects directly into HBT's systems. This will allow real-time checks—flagging, for example, if a reported $10,000 sale looks inconsistent with historical averages. This improvement will reduce rework, accelerate processing, and ensure members receive the rebates they've earned.

Member stores

Right from the start of his tenure, Greg knew it was vital to get out on the road and visit members in their stores. As he explains, during his first months on the job he could see the problem.

> When I joined HBT in December 2017, I quickly realised that some members felt disconnected from the organization. With over 1,000 stores nationwide, it's impossible to visit every location, but we are focused on improving communication and touchpoints.

Greg realised early on that the best solution to this problem lay with technology, specifically the development of the members' portal.

> We want members to feel supported—not just through conferences and state meetings, but also through better digital engagement. With tools like a user-friendly app, a robust member portal, and now regular Zoom "town hall" meetings, we're creating more opportunities for dialogue and connection. Our aim is to ensure every member has a voice and can engage in a way that works for their business.

Better business

The road to business improvement for members does go beyond improving relations with suppliers. HBT is constantly on the lookout for opportunities that can boost businesses — even outside of standard hardware. Including, for example, soft drink vending machines.

Greg is also a believer in watching what Bunnings is doing, and taking up some of the expansion categories it has entered into.

> We're always seeking opportunities to help members grow—not just within traditional hardware categories, but beyond. For example, we've explored partnerships like placing PepsiCo vending machines in stores or expanding into cleaning and grocery product lines. If there's a segment where members can benefit, we want to explore it. After all, if big players like Bunnings are doing it, there's no reason our independents shouldn't have access to similar opportunities.

Supplier management

What has really pushed HBT ahead over the past seven years, however, is its ability to create and maintain better relationships with suppliers.

> We've established a reputation as a trusted, transparent buying group—something suppliers value. Our role is to negotiate strong deals, communicate opportunities clearly to members, and bring efficiencies to the supplier network by uniting independents.

Beyond that, however, HBT is also working with suppliers to develop better channel management — which directly benefits its members by providing unique products to sell.

> We also guide suppliers on smarter channel management to avoid unnecessary competition and margin erosion. For example, where Bunnings or other majors are involved, we work with suppliers to differentiate products or packaging, ensuring our members maintain a competitive edge.

For independent hardware retailers, finding products that differentiate them in their local markets remains fundamental to what they do. HBT also offers a community that helps them feel that they are not alone in facing competitors and dealing with industry changes.

Greg can look back during his time heading up HBT knowing that the accumulative effects of the changes he has made has allowed HBT to become a buying group that can negotiate effectively with suppliers.

He has helped to consolidate HBT's position as a group that gives suppliers access to a large number of viable independent retailers. In 2025, it will continue to work on gaining additional accounts from members. As Greg puts it:

> We often go to stores and find it is worthwhile challenging [the status quo]. You look at a store and say this area is going really well, this area hasn't moved at all. Can we pull out of this area?
>
> It's easy to understand why some people hold on to dead stock but it's better to find something that can sell, and to take a loss on an item and get rid of it if it's not returning anything to the store owner.

For members, Greg said they can expect more engagement and improved communications. Ultimately, HBT is all about improving rebates for members, and growth for suppliers.

> That's where we're always going to be about.

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