

Just a day after Woolworths [limped from](#) the Do-It-Yourself battlefield, the Wesfarmers dynasty (owners of Bunnings) [announced its plan to invade the United Kingdom](#) .

For Woolies, its foray into Masters was a comprehensive defeat, a six-year campaign ending in a rout with the once mighty retail champion [driven from the field of battle with Bunnings triumphant](#) .

[In the end it was all so predictable](#) , but that does not lessen the pain for the once dominant Woolworths dynasty (and their unlucky shareholders), who must now go back to lick their wounds and work out what to do next.

Attention now turns toward Wesfarmers and its Bunnings subsidiary and its takeover of the [Homebase](#) chain from the UK based Home Retail Group (HRG) .

At first glance, Bunnings appears to have got itself a real bargain, almost doubling its size at a knockdown price of only (?) \$705 million. But is this a marriage of inconvenience or is it the precursor to worldwide domination by the Bunnings empire?

The briefing to analysts on the acquisition is effusive and optimistic

“First step in a program including investment in the Homebase team & reinvigoration of core assets, building an exciting new Bunnings-branded business over three to five years”

In the next few years, Bunnings plans to invest more than \$1 billion in its new acquisition and to rebrand Homebase with the all-conquering Bunnings logo.

But is the future as rosy as it seems?

Homebase has been in HRG's tray of special offers for some time but has been [difficult to shift](#). It appears that the Sainsbury's group (the second largest UK food retailer – another Coles) has for some time [wanted to buy Argos](#), the jewel in the crown of HRG, but just didn't want Homebase. Now that Homebase has been deeply discounted (given away?), it looks like HRG can sell itself to Sainsbury's – and the game of DIY thrones can continue.

This is interesting because if anyone should know Homebase it's Sainsbury's, since it set up the chain more than 30 years ago before selling it off to a private equity firm (shades of Dick Smith).

In other words, Bunnings is betting that it knows something that Sainsbury's doesn't. In behavioural economics such a dismissal of the evidence of prior failures is a psychological phenomenon known as the “[planning fallacy](#)” or a tendency to underestimate the difficulties of implementing a decision, often in the mistaken belief that this decision is somehow novel and unique, sometimes justified as “this time it is different”.

It is interesting to note that in the upbeat announcement of the takeover, the word “risk” is used just once and that is in relation to the firm's humongous and fairly solid balance sheet. The idea that the takeover might end in tears is just not contemplated.

Fairly typically, Wesfarmers is spruiking the upside rather than the potential for failure. It is yet another example of the [halo effect](#) – we are Bunnings, we sell lots of nuts and bolts in Australia, of course we can do the same in the UK.

In an eerie echo of the original rationale for the creation of the Masters chain, Wesfarmers CEO, Richard Goyder, wrote:

“£38 billion UK home improvement & garden market (HI&G) is an attractive & growing market”

Growing, yes (but from a disastrous few years of retreat in the DIY market following the global financial crisis).

Attractive – maybe/maybe not?

Despite what we see in the interminable re-runs of UK TV shows such as Grand Designs and 60 Minute Makeover, all is not well in the UK housing market, not least since the UK Chancellor, George Osborne, effectively torpedoed the UK Buy to Let home market [in his last budget](#) . With prices as likely to fall as rise in the overheated south of England housing market (incidentally where the bulk of Homebase stores are located), market growth may be hard to find.

It is very difficult to make an overseas acquisition work. Just ask the National Australia Bank (NAB). If all goes well, NAB will this year finally rid itself of the last of its disastrous international acquisitions in its planned [demerger of the Clydesdale Bank](#) . Having spent the last thirty years acquiring and then disposing of overseas firms (who can forget the

[HomeSide fiasco](#)

) NAB has decided to get back to doing what it knows best, which is lending money to local companies, such as Wesfarmers.

The issue is not whether the Homebase acquisition will succeed or not. Given the quality of Wesfarmers management it probably will not be a fiasco on the scale of Masters. The more pertinent question is whether investors should be given the whole story, not just the juicy bits. Reading between the lines [analysts are already wary](#) .

The acquisition of Homebase is a major undertaking in an unknown market yet Wesfarmers has not set any concrete targets against which management can be measured.

What exactly is the endgame of the strategy? Is it a bet on turning around a very cheap acquisition and then selling it off at a profit? Or is it a long-term plan to transfer Aussie know-how to the Old Dart, in which case what is the target market share? Or is it the cherry on the cake for Wesfarmers CEO, Richard Goyder, who has been at the helm for a decade and maybe at a time to move onwards and upwards?

Bunnings - a game of clones

Written by The Conversation

It is part of ASIC's role as corporate regulator to ensure that investors are properly informed of the risks of investments proposed by the firms that it regulates. After Woolworths, Dick Smith, Homeside and many other failed strategies, ASIC needs to up its game on investor protection, especially on the disclosure of strategic risks.

Read more <http://theconversation.com/bunnings-a-game-of-clones-53369>