HARDLINES HiQ
HOME IMPROVEMENT QUARTERLY

THIRD QUARTER / 2013

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CASTLE'S KEN JENKINS
The most frank and up-close executive interview you'll read this year

PLUS:
- Unlock the potential in POS
- The latest industry statistics
- Improve your same-store sales
- Réno-Dépôt: one to watch
- Canadian Tire goes digital

FEATURE STORY

WHO'S WHO IN RETAILING
Our annual report on Canada's Top 20 retail home improvement groups

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THIRD QUARTER / 2013

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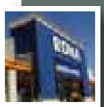

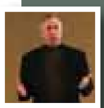

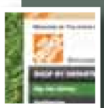

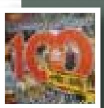

EXECUTIVE INTERVIEW

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INDEPENDENTS FEATURE

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MERCHANDISING

RÉNO-DÉPÔT GETS "BACK TO ITS ROOTS"

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THE BIG PICTURE

MICHAEL McLARNEY, EDITOR

Canada's largest largest home improvement retailer is in the midst of a dramatic transformation. And whether RONA can successfully make the changes it has laid out will have a huge impact on this industry.

RONA decided two years ago to redirect its focus from big boxes to its medium-sized "proximity" stores. That was a wise move, as its big box competitors have since adjusted their own businesses. Home Depot Canada stopped adding stores two years ago, while Lowe's expansion efforts in Canada have been slowed, pushing it to consider new, smaller formats of its own (as it is doing through acquisitions in Australia). In addition, RONA's recent sell-off of its Commercial and Professional Market division reflects a renewed focus on the company's core businesses, while it looks for ways to reposition its big boxes and fortify its online presence.

What RONA is going through right now reflects, on a grand scale, the challenges facing every home improvement retailer in the country. RONA's challenges reflect the need of every dealer in this industry to adapt to a new retail environment that involves everything from a new way to buy (online and mobile) and a new, dominant customer (goodbye boomers, hello millennials) to new competitors (Target, etc.) and a still-shaky economic situation, as problems in places as far away as Spain and Greece may yet blow back to North America.

All these factors are having their effect on RONA just as they are affecting Home Depot, Canadian Tire, and, yes, every single hardware and home improvement dealer in this country. At least every dealer who intends to still be in business five years from now. That's right. The changes are that dramatic, that imminent, that prevalent, that no dealer can afford to ignore them.

> "RONA's challenges reflect the need of every dealer in this industry to adapt to a new retail environment."

So the success or failure of RONA's turnaround also reflects the ability of this entire industry to manage change. It goes beyond whether a company like RONA can compete. It's about whether this entire industry will be viable in the future.

mike@hardlines.ca

QUARTERLY BUSINESS CONDITIONS

FIRST QUARTER 2013

Business conditions were down in 1Q 2013 but the industry is optimistic about the remainder of the year.

According the latest HARDLINES Quarterly Business Conditions Survey, done in conjunction with NRHA Canada, business was down for both vendors and retailers, as a frigid start to the year and a late spring impacted sales across the country.

OPTIMISM FOR RETAILERS

A year ago, when retailers were asked how their business in the first quarter compared to the same time a year earlier, 62.5 percent of respondents answered that business was up, as 2012 experienced a very mild start to the year. But in the first quarter of this year, just 41 percent answered that business was up.

The optimism of dealers versus last year was a bit less positive. In 1Q 2013, 69.1 percent expected sales to increase in the next six months versus 74.7 percent in 1Q 2012. The longer-term outlook gets even more pessimistic: when dealers were asked for their outlook on conditions over the next 12 months, just 56.1 percent said they expect their sales to increase, down dramatically from 80.4 percent of retailers in 1Q 2012 who expected sales to increase.

MAKING CHANGES

Retailers are offering new products to combat pessimism mixed with falling sales. In 1Q 2013, 67.9 percent of retailers offered new products or services to better compete, a substantial increase from 55.2 percent in 1Q 2012, and up 13 percent from the previous quarter, 4Q 2012.

With weather continuing to be a wild card, many retailers are changing their product assortments in an effort to better compete this summer.

A TOUGH QUARTER FOR VENDORS

Vendors had a more consistent quarter than the retailers, with expected sales increases for the next six and 12 months more closely aligned with responses from last year. More than two-thirds of vendors are expecting increasing sales over both the short and long terms (70.1 percent in 1Q 2013 were expecting increased sales in the next six months compared to 70 percent in 1Q 2012).

The most drastic shift in attitude was found when comparing business conditions to the same time last year. In the first quarter of 2012, 65 percent of vendors thought that business was up from the previous year; in 1Q 2013, that had dropped to just 46.2 percent. This dramatic drop underlines an enormous shift among vendors, with 35.9 percent of vendors responding that they experienced decreasing business, compared to just 17.5 percent having decreasing sales 1Q 2012.

When asked about receiving more orders, 46.7 percent of vendors responded that they did not receive more orders in 1Q 2013 than the previous year; 16 percent indicated that they received the same amount of orders.

CONCLUSION

A year ago, unseasonably warm weather started the year, fuelling an optimistic outlook that the recession was finally over. Those high expectations carried the first half of 2012, but by the beginning of this year, that optimism for larger sales increases had evaporated.

1Q 2013 was even tougher on vendors, with decreasing sales but steady expectations about the coming months. Retailers are less optimistic about the future but are changing their assortments to better compete for the rest of 2013 and into 2014.

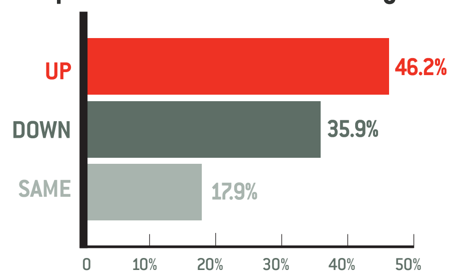
VENDORS: Top issues in first quarter

1. Falling consumer confidence
2. Higher raw material/shipping costs
3. Increased retailers demands
4. Housing market

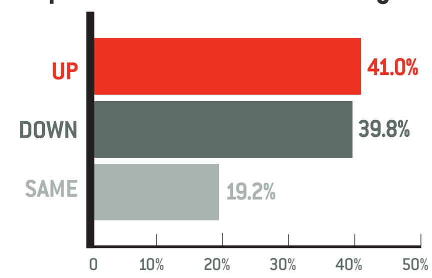
VENDORS: Top concerns in first quarter

1. Parity with the U.S. dollar
2. Keeping pace with technology
3. The rise of online retailing
4. Rising mortgage interest rates
5. The increased presence of U.S. retailers

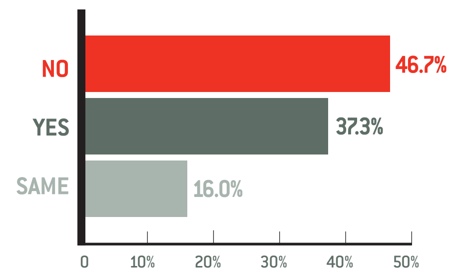
VENDORS: How did your business compare with the same time last year?



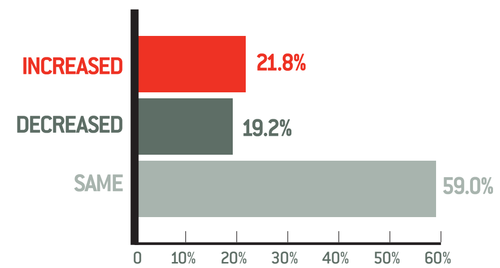
RETAILERS: How did your business compare with the same time last year?



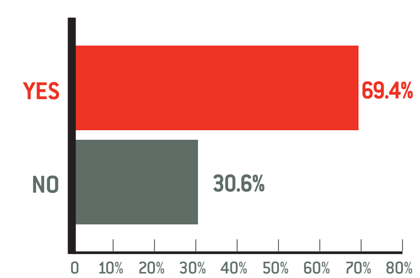
VENDORS: Did you receive more orders in 1Q 2013 than 1Q 2012?



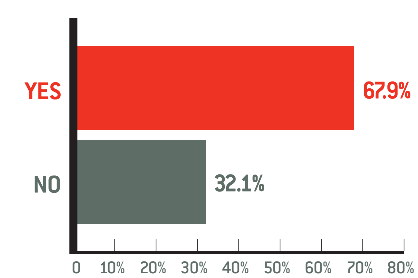
RETAILERS: Did your conversion rate increase in 1Q 2013 compared to 1Q 2012?



VENDORS: Did you offer new products/services in 1Q to better compete?



RETAILERS: Did you offer new products/services in 1Q to better compete?



RETAILERS: Top issues in first quarter

1. Customer retention
2. Increased competition
3. Staffing
4. Training
5. Expanding products
6. Adding new services
7. Succession

RETAILERS: Top concerns in first quarter

1. The rise of online retailing
2. Keeping pace with technology
3. Parity with the U.S. dollar
4. Rising mortgage interest rates
5. The increased presence of U.S. retailers

Source: HARDLINES Quarterly Business Conditions Survey

NORTHERN SPAIN IS CENTRE FOR PRODUCT INNOVATION

BY MICHAEL McLARNEY

Who knew? A trip to Spain's Basque region provided a powerful lesson in the value of domestic production.

The show attracted the country's main purchasing groups, co-operatives, and superstores and drew buyers from 39 countries.

BILBAO, Spain, was the scene for a recent showcase of some of the country's finest hand tool and hardware makers—the combined Ferroforma-Bricoforma show, held at the Bilbao Exhibition Centre March 12-15.

Despite a troubled economy in Spain that was exacerbated this year by poor weather throughout Western and Northern Europe, the show managed to draw some 13,000 visitors. (Frankfurt airport was all but closed down by a snowstorm and driving winds, which held up many—including this editor—in their efforts to reach the show.)

The show attracted the country's main purchasing groups, co-operatives, and superstores and drew buyers from 39 countries including Germany, Saudi Arabia, Algeria, France, the Netherlands, Iran, Israel, Italy, Nigeria, Poland, and the U.K. Visitors came from as far away as Argentina, Brazil, and Chile, and even a few Canadians made the trek to Spain's Basque region to attend the show.

An important aspect of the show was its regional strength: the Basque region's strong tradition of hand tool makers and hardware makers, in an area which has been historically a centre for internationally renowned steel production, made for a strong local representation by companies that have managed to resist the draw of manufacturing in the Far East. Many of them have established themselves supplying OEM markets and developing private-label products for well-known international brands.

Elene Cepeda Arzuaga, of the Spanish Hand Tool Manufacturers Association, took HARDLINES to meet some of these companies on the show floor. For example, one supplier, Koldo Ribera, managing director of a hand tool company called Bianditz, proudly showed off his line of tube cutters, with a proprietary system of needle bearings on the rollers, "to convince our customers that we have extra features," he said. Despite the move of many companies to get their products off-shore, he said his company has maintained a share of market with quality. "We can't," he admits, "compete on price." This attitude was echoed by many of the suppliers at the show, who have held firmly to a tradition of quality to maintain their niche.

These manufacturers were, almost without exception, keen to do business with new markets, including Canada. Their specialization, their focus on quality domestic production, puts them on the edge of a worldwide trend to repatriate production from the Far East, a trend being felt by some Canadian suppliers, as well.

SPAIN: ECONOMY IN A TAILSPIN

Spain's trade show for hardware and building materials, the combined Ferroforma-Bricoforma show, may have been about half the size that it enjoyed pre-recession. But considering the state of the Spanish economy, the fact that there was a show at all was impressive.

While the entire European Union has been plagued by faltering economic conditions ever since the world-wide recession of 2008, Spain is one of the most severely hit countries. Household incomes are constrained by the continuing decline in house prices, which fell 10 percent in 2012. What's worse, the total unemployment rate is approaching 27 percent, with the youth rate at 56 percent.

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RONA says that the changes being made to its big boxes in Quebec, particularly with its Réno-Dépôt chain, may offer some clues as to what's in store for its big boxes in other parts of the country.

RONA ANNOUNCES MORE BIG BOX CLOSURES

RONA says it will close, by the end of 2013, 11 non-profitable stores: eight in Ontario—including six big boxes— and three in British Columbia, of which one is a big box. In addition, 125 jobs will be cut in the four administrative centres in Canada.

Five big boxes were already closed under a new strategic plan developed under the aegis of RONA CFO and then-acting CEO Dominique Boies. At RONA's AGM in May, Boies said, "Sales volume was redeployed to nearby stores, to two proximity stores, and to five satellite stores which opened in recent months."

At that same AGM, RONA announced that first-quarter revenues dipped 0.5 percent to $929.4 million, a decline of $4.6 million from the same quarter last year. Same-store sales were up 9.5 percent in the distribution segment and down three percent in the retail and commercial segment.

This latest round of changes to the big boxes comes just one week after RONA entered an agreement to sell its Commercial and Professional Market division for an approximate total of $215 million. The company expects the sale to allow RONA "to focus on its core retail and distribution business in the construction and renovation market." In the short term, the proceeds from the disposal of this division will be used to reduce RONA's debt.

> "Sales volume was redeployed to nearby stores, to two proximity stores, and to five satellite stores which opened in recent months."

BIG BOX GIANTS REPORT VARYING FIRST-QUARTER RESULTS

Despite harsh weather, the recovering housing market in the U.S. helped boost first-quarter results for the world's largest home improvement retailers. However, while Home Depot's numbers exceeded expectations, number-two player Lowe's saw its numbers fall short.

Home Depot reported sales of $19.1 billion for the first quarter of fiscal 2013, a 7.4 percent increase from the first quarter of 2012. (The first quarter of 2012 had an extra week that added approximately $574 million to sales.) On a like for like basis, same-store sales for the quarter were positive 4.3 percent, and up 4.8 percent for its U.S. stores. Net earnings were up 20 percent to $1.2 billion.

Lowe's also saw an increase in profitability for the quarter, reported net earnings of $540 million for the quarter ending May 3. That's an increase of 2.5 percent, but still falls short of the double-digit increase by its competitor. Diluted earnings per share increased 14.0 percent to $0.49 from $0.43 in the first quarter of 2012.

Sales for the quarter decreased 0.5 percent to $13.1 billion, while same-store sales for the quarter decreased 0.7 percent. March was especially tough, with same-store sales down 10 percent, affected largely by a seven percent same-store sales drop in outdoor products, before turning around in April to positive 10 percent same-store results.

Like Lowe's, Home Depot's seasonal sales took a hit in the quarter.

Home Depot indicated that sales at its Canadian stores were also up, but would not reveal by how much. The fact that same-store sales in U.S. stores were higher than for the company overall indicates that growth in Canada would have fallen short of increases in the U.S.

MCMUNN & YATES BUYS UP MCDIARMID ASSETS

McMunn & Yates has bought up most of the assets of home improvement chain McDiarmid Lumber Ltd. McDiarmid had been plagued in recent months by internal strife, as its owner, Tom Matthews, and his son-in-law, Vince Ryz, who also managed the business, came into conflict and ended up suing one another.

Matthews stepped in, injected cash into the ailing business, and brought in turnaround expert Richard Hutchings as chief restructuring officer. According to the Winnipeg Free Press, the deal with Dauphin, MB-based McMunn & Yates is worth about $30 million. It includes all the McDiarmid stores, excluding one in Winnipeg, one in Yorkton, SK, and the location in Sioux Lookout, ON. It also includes McDiarmid's commercial and farm divisions and its truss operation, Superior Truss.

They will be added to the 16 stores already owned by McMunn & Yates, which are located mainly in smaller centres in Manitoba and Saskatchewan. McMunn & Yates has been growing through acquisition in recent years, but this is by far its biggest takeover.

BRIEFLY

NEW HOME FOR HARDWARE SUPPLIER

Chalifour Canada has announced it will relocate its Vancouver distribution centre to a modern industrial park in nearby Delta, BC. Construction is expected to be completed by mid-2014. Chalifour said the new DC will be in a state-of-the-art facility in the Tilbury Industrial Park, approximately 20 minutes from its current site in Surrey.

SEARS CANADA INTRODUCES NEW HOMETOWN FORMAT

Sears Canada has opened a new-concept Hometown store in Orillia, ON. The company's format for independent owners in smaller markets sells major appliances, mattresses, furniture, fitness, and seasonal goods such as barbecues, patio furniture, and outdoor power equipment.

LATEST COSTCO IN EDMONTON

St. Albert, a neighbourhood in the metro Edmonton market, is getting its own Costco store, as Costco Wholesale Canada prepares to open a warehouse, liquor store, and gas bar before year's end. The new location, at 1075 St. Albert Trail, is Costco's sixth in Edmonton and its 15th in the province. Costco now has 85 warehouses in Canada.

GIANT TIGER GOES WEST

Giant Tiger, the junior department store chain, is looking to expand in smaller markets in Western Canada. Winnipeg-based North West Company has the master franchise rights for Giant Tiger in the West, and North West executives say that large retailers such as Walmart and Target are less likely to try and compete in smaller rural communities.

EVEN INDEPENDENTS WILL FACE CHALLENGES FROM TARGET

Even though home improvement dealers won't necessarily compete directly with Target as it rolls out its aggressive expansion plans in Canada, those dealers will feel the ripple effects of the arrival of this giant U.S. mass merchant.

Michael McLarney, editor of HARDLINES, warns independents that the big competitors are all aggressively reinventing their businesses.

This was just one of the messages delivered by Michael McLarney, editor of HARDLINES, giving a keynote at ProfitMaster's Business Partner Conference, held earlier this year at the Delta Hotel in Winnipeg. Following the theme of the event, "Rewriting the Future," McLarney talked to the roomful of dealers about the end of the big growth years in home improvement retailing, and warned that the big competitors to independents are all aggressively reinventing their businesses.

He pointed out that Target's loyalty program is terrifically sophisticated, enabling the retailer to develop detailed profiles of the shopping habits of its customers. And Target's range of products will be a big enticement to Canadian shoppers, siphoning off consumer dollars that might otherwise have gone into the hardware channel.

"While Home Depot has not opened any stores in Canada in two years, it is aggressively fine-tuning its services to cater more effectively to contractors," he said. "And Canadian Tire may not open many more new stores, but it will continue to expand or relocate many of its existing locations."

Nor is new competition coming just from U.S. retailers like Target and Lumber Liquidators. Online retailing is a growing threat to bricks-and-mortar retailers. McLarney encouraged every dealer to develop an online strategy, even a modest one, to suit their local market.

BRIEFLY

ACKLANDS-GRAINGER ADDS 200,000 PRODUCTS

Industrial, safety, and fastener products supplier Acklands-Grainger is expanding its online inventory and expects to add 200,000 new products over the next several months. With the expansion, the company will offer more than 300,000 products. This product expansion complements the February launch of the industrial supplier's 2013 catalogue, which offers 116,000 products, including 16,000 new items.

CENTRAL OWNER AWARDED

Steve Smith, the owner the Central group of Companies, is one of three individuals inducted recently into the Junior Achievement Nova Scotia Business Hall of Fame. Smith started selling wood stoves with his brother out of his parent's garage and opened his first store in Antigonish in 1976. Today, Central Supply has seven stores, plus a DC in Antigonish, and employs more than 650 people in Nova Scotia and New Brunswick.

LOWE'S OPENS THIRD IN EDMONTON

Lowe's Canada opens the doors officially to its third Edmonton location on April 30 in North East Edmonton. This is the sixth Lowe's store in Alberta.

CANWEL ACQUIRES WOOD TREATMENT BUSINESS

CanWel Building Materials has completed the acquisition of Abbotsford, BC-based North American Wood Preservers, adding its assets to CanWel's existing wood treatment holdings.

HOW HOME DEPOT CANADA IS INVESTING IN ITS BUSINESS

Driving down costs at retail remains the mantra of Home Depot Canada, and it is investing in its business in specific ways to achieve those goals, says its top merchant.

Jeff Kinnaird, Home Depot Canada's vice president of merchandising, spoke recently at a breakfast seminar held by the Canadian Hardware and Housewares Manufacturers Association.

The first way, he said, was through online investment, and referred to the company's newly redeveloped website. "We're investing as an e-commerce retailer online." Initiatives in-store are being tested now that aim to keep the company ahead of the curve electronically. New hand-held devices, along with new kiosks right in the stores, will help customers shop online, then pick up their orders right in the store. "We're investing in wi-fi in our stores, Kinnaird said.

Home Depot Canada is investing in their role as e-commerce retailer online.

Second, the company is investing in the in-store experience. "We're opening up the front of the stores." Kinnaird added that Home Depot Canada is going through a comprehensive series of resets, "and these resets are performing three times better—and more—than our existing sets."

Finally, the company is investing heavily in its supply chain. Following the supply chain model of its parent company in the U.S., HDC is building two regional distribution centres. The first will open in Vaughan, ON, in March 2014. The second will open a year later in Calgary. "We're expanding the footprint of our supply chain by more than a million feet," Kinnaird said.

HOME HARDWARE DEALERS CELEBRATE THEIR 100TH MARKET

Home Hardware Stores Ltd. celebrated its 100th market this past spring, and dealers on hand for the event were generally upbeat, despite the late arrival of spring. Vendors at the show reported good traffic, especially on Sunday, which was the first day of the market.

Part of the show's appeal for its dealers is the amount of training and education that takes place around the market. The day before the show is dedicated to a pre-market conference held at the Waterloo Inn in nearby Waterloo, ON, with multiple sessions happening concurrently throughout the day.

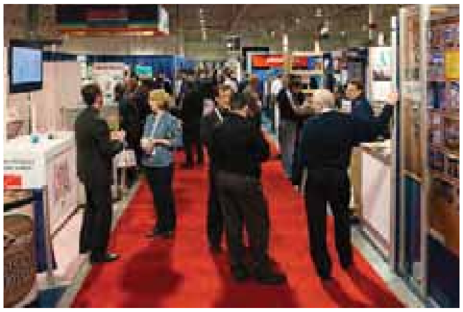
During the market itself, which takes place right in the company's St. Jacobs, ON, warehouse, a training room upstairs in the mezzanine offers hands-on sessions on topics ranging from the latest intranet innovations to online product knowledge training.

The buoyancy felt at the market translated into orders just a few weeks later. In mid-May, Home Hardware set records for the highest number of lines shipped out of St. Jacobs—and the most lines shipped in the company's history.

TIM-BR MART HELPS DEALERS BUILD ASSORTMENTS

Executives at TIM-BR MART Group say the buying group enjoyed "real growth" in 2012 and not just inflationary growth, as prices began to rise for LBM during last year.

Randy Martin, vice president, merchandise for TIM-BR MART Group, said Chalifour Canada, its hardware distribution arm, continues to add new products for both bannered TIM-BR MART dealers and other independents. But, he noted, the focus is not just on selling hardware. Efforts by the wholesaler to round out its assortments aim "to create a vehicle for customers in the stores" for project sales, Martin said.



TIM-BR MART's efforts to offer a wider range of products were reflected at its latest annual dealer show, held in Toronto in the spring. There, a lot of emphasis was put on new, proprietary products—including an expanded range available under the Ace brand. These included the full rollout of Ace's high-end paint brand, Clarke + Kensington. In addition, a proprietary mid-range line of paint was unveiled under the Blue Ribbon name. And based on demand from dealers, the group is expanding its housewares offering with a new house brand called "La Maison."

With LBM purchasing power through TIM-BR MART and the hardware supply through Chalifour, dealers have the benefit of a winning combination, added John Morrissey, vice president, building supplies. "Independents now understand they don't need just sticks. They need hardware."

The wide range of products carried by big boxes can be replicated by independents, he pointed out, but inside a smaller retail footprint.

IN MEMORIAM:

BOB MONDY PASSES AWAY

Robert G. (Bob) Mondy passed away on May 1. Bob played a major role at Sexton Group, when owner Ken Sexton brought Bob on as general manager when the group was founded in 1985. Bob was instrumental in the growth of the Sexton Group and an icon in the industry until he retired in 2009.

Product SPOTLIGHT

BY JON STOLLER

Lufkin Control Series Tapes

The Drag Strip feature controls tape retraction with the touch of a finger, while the wide end hook grips fast and tight. Extends up to 10 feet without collapsing, and has an ergonomically positioned opening for maximum control.

www.controlseries.lufkintool.com

Concrobium Mould Stain Eraser

Concrobium says its eraser eliminates tough mould stains quickly and easily with no scrubbing, and contains no bleach so it won't discolour surfaces. Works on composite decks, wood, siding, outdoor furniture and stone, and indoors on drywall and grout.

www.concrobium.com

SealPro Resealable Paint Trays

The patented air displacement feature allows for extended paint storage. Rollers can be stored inside the tray, and a magnetic brush handle makes switching tools fast and easy. Large and small sizes are available.

www.sealproproducts.com

Giani Granite Paint

This paint kit gives kitchen countertops the look and feel of granite for much less money, and without the difficult installation. Includes primer, mineral paints, applicators, and a demo DVD. Easy application makes it perfect for first-time painters.

www.gianigranite.com

Wash It

This innovative laundry solution turns water into a brightening and cleaning agent without the help of bleach, softeners, or detergents. There are no toxic chemicals, and no hot water is required, making it easier on the wallet and the environment.

www.washit.com

Techniseal Protectors

Techniseal's line of low VOC sealers updates the look of any driveway, backyard, or walkway while providing a protective layer. The tinted line can enhance the existing colour of pavers, or provide up to four distinct hues.

www.techniseal.com

Roll and Stow

This multifunctional unit for paint and paint tools has wheels on the bottom for easy paint tray movement on the job. The locking lid helps it act as a storage unit to prevent paint from drying out. Accommodates various paint trays, cans, and pails.

www.fonora.com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CANADIAN TIRE READIES FOR TARGET WITH SMALLER MARGINS, BIGGER DATA

Like many other retailers in Canada, ranging from mass merchants to clothing and grocery stores, Canadian Tire has been readying itself for the arrival of Target in this country with a number of strategic moves.

In anticipation of the arrival of U.S. retail giant Target, Canadian Tire first identified the locations that compete geographically most directly with Target stores. Those locations have become the site of store upgrades, new displays, and refreshed merchandising assortments.

Increased focus on margins indicates that Canadian Tire's retail business is trying to be more competitive price-wise, as well. However, that initiative to tighten up margins did have an impact on sales—and on its fourth-quarter 2012 results. Then, cold weather through most of Canada in the first quarter took a further toll on CTR's results.

Retail segment revenue increased 1.5 percent or $32.8 million to $2.2 billion in the first quarter, but this was due to strong performance at the company's sporting goods division, FGL Sports, and sales growth at Petroleum and Mark's. Consolidated retail sales were $2.4 billion, up just 0.8 percent offset by a 1.6 percent sales decline at Canadian Tire stores and 2.4 percent decrease in same-store sales for the quarter.

Sales in key categories at Canadian Tire stores were offset by declines in seasonal, gardening, and outdoor living.

PLAYING CATCH-UP WITH LOYALTY PROGRAM

But for Canadian Tire, staying competitive means more than just products and prices.

An area that Target understands well is the profile of its customers, based on data generated by its loyalty programs. To meet that challenge, Canadian Tire began offering online loyalty rewards in addition to its Canadian Tire money.

"With the data generated by our loyalty program, we are able to gain valuable insights," said Marco Marrone, then-COO, Canadian Tire Retail, which includes the Canadian Tire stores. "Through our loyalty data, we are able to determine if those customers are high-value customers, and we are able to look at prior purchases as well as understand the correlation across categories. All of this will sharpen our ability to target and focus promotional activity that will help in improving sales and margins."

(At the end of the first quarter, Marrone announced his departure from the company after 27 years there. He has been replaced by Allan MacDonald, formerly senior VP automotive and marketing, to serve as the new COO of Canadian Tire Retail.)

CTR is currently testing the loyalty program in Nova Scotia, and expects to roll it out widely next year.

DIGITAL CATALOGUE, SMALLER STORES

Another way Canadian Tire intends to bolster its bricks-and-mortar business in 2013 is with the rollout of a new digital catalogue, launched at the end of the first quarter. The key element of the digital launch has been the deployment of 7,000 in-store devices that will allow customers and staff alike to access the catalogue—anywhere, anytime.

Canadian Tire is also testing its new smaller "Express Store" format. At about 10,000 square feet, these outlets join a trend that has already been followed by the likes of Walmart, RONA, and Tesco to create smaller footprints with convenience assortments for urban dwellers.

Interestingly, Canadian Tire tried a "small store" concept about five years ago, identifying up to 100 locations across Canada that might accommodate a store format under 10,000 square feet. That initiative was quietly sidelined. What's even more interesting is that no mention of the Express Store format, which would fit into strip malls and other downtown locations, was made anywhere in Canadian Tire's discussion of its first-quarter results.

SPIN-OFF OF REAL ESTATE ASSETS

At the same time, the company announced the creation of a real estate investment trust (REIT) to hold its real estate and promote growth. Most of its real estate assets sit under some 250 of its 490 Canadian Tire stores, as well as a distribution centre, and represent about 18 million square feet of real estate. The portfolio is being valued at $3.5 billion.

The purpose of the REIT is to "unlock" the value of Canadian Tire's considerable real estate holdings and create a stand-alone vehicle for Canadian Tire's property holdings, which will support continued real estate investment. The REIT is also expected to generate cash that can be used to invest further in Canadian Tire's retail operations.


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HARDLINES

WHO'S WHO IN RETAILING

Our annual report on Canada's Top 20 retail home improvement groups

COMPILED BY THE EDITORS OF HARDLINES

1. RONA

Boucherville, Quebec

2012 Dealer Sales: $6,173 million

2012 Points of Sale: 981

When RONA named former Metro executive Robert Sawyer as its president and CEO on March 19, the appointment brought to a close a tumultuous chapter for the nation's largest home improvement retailer, one that included the departure of its long-time chief executive and the fending off of an unwanted takeover bid by rival Lowe's Cos.

In between, RONA reported a meagre 1.7 percent increase in revenue, to $4.88 billion, for 2012. The good news was that the company crept back into the black, reporting $8 million in net income compared to an $86.4 million loss in fiscal 2011.

During 2012, RONA launched its latest five-year strategic plan, dubbed "New Realities, New Solutions," aimed "at improving the performance of our bottom performing stores." The centrepiece of RONA's strategy then was a shift away from big-box stores to smaller "proximity" stores outside of Quebec, with a greater emphasis on commercial and professional sales. (The company unveiled its first contractor-only store at its dealer show last September.)

The company expected this plan to result in an estimated annualized contribution to cash flow of $10 million starting in the fourth quarter 2012 and more than $30 million for fiscal 2013. RONA also reiterated its three financial priorities: improve efficiencies, optimize its capital structure, and increase its return on capital.

However, at its annual meeting in May 2013, RONA disclosed that it now plans to hold onto most of its big boxes outside of Quebec. RONA's larger goal is to reinforce its image as a national Canadian retailer, one that can succeed without needing to be sold to an American company.

2. Home Depot Canada

Toronto, Ontario

2012 Dealer Sales: $5,393 million

2012 Points of Sale: 180

Home Depot Canada, the country's second-largest home-improvement retailer, last year stood pat with 180 stores. But the big-box giant wasn't standing still.

During the spring months of 2012, Home Depot brought its tool maintenance services in house; stopped selling shelter books in its stores to make room for more merchandise; and inked a deal to continue selling Martha Stewart-branded paint, furniture, cabinets and carpeting through at least 2016.

In all its stores in North America, Home Depot is trying to establish product "authority" in categories where it sees growth potential, such as appliances, lighting, window treatments, power tools, faucets and "independent living." The Atlanta-based dealer spent US$94 million to acquire U.S. Home Systems, a captive supplier of kitchen cabinet refacing products. It also launched a program in both the U.S. and Canada called Drywall Direct, to simplify the ordering and delivery of gypsum wallboard to contractors and heavy DIYers.

It remains to be seen whether Depot wants to open more stores in Canada. But the outlets it operates already are steadily receiving the operational benefits that Home Depot's stores in the U.S. enjoy. Last year it rolled out its FAST employment management and staff scheduling tool to its Canadian stores. And the company will finally build one of its massive Rapid Deployment Centres in Canada. The first, in Vaughn, ON, and scheduled to open in January 2014, will be 657,000 square feet, with 200 shipping and receiving doors and the capacity to process 400 cartons per week.

3. Home Hardware Stores Ltd.

St. Jacobs, Ontario

2012 Dealer Sales: $5,100 million

2012 Points of Sale: 1,057

Despite its carefully cultivated low-key corporate image, Home Hardware is constantly tweaking its training and support programs for the benefit of its dealer-members.

In 2012, technology took centre stage as Home upgraded its point-of-sale system; worked towards getting more members onto a new intranet network called Connect; and launched a mobile website and apps for smartphones that include a store locator and product search function. The company is also bolstering its dealers' social media interaction with customers through a landing page on Facebook as well as a data hub that provides content for its members' Facebook pages.

To give its members a competitive edge, Home's merchandising strategy is now placing even greater emphasis on new products and proprietary brands. Its popular paint line, Beauti-Tone, teamed up with décor and lifestyle magazine Style at Home to create a colour-card system aimed at simplifying shoppers' selection process. (The system's six palettes were showcased at a fashion show conducted during Home's fall dealer market.)

Helping its dealers become better operators also helps Home Hardware maintain stability within its membership. "As long as a store is profitable, we're going to find successors," said Paul Straus, Home's president and CEO. He observed that family succession is becoming more common.

4. Canadian Tire Retail

Toronto, Ontario

2012 Dealer Sales: $4,962 million*

2012 Points of Sale: 490

**Estimated hardware & home improvement sales only*

Canadian Tire Corp. had solid year-end results for 2012, with consolidated retail sales up 10.1 percent to $12.9 billion, reflecting the acquisition a year earlier of FGL Sports. During the year, 247 stores were converted to its "Smart Store" store format, reflecting the refurbishment of its existing store stock rather than emphasis on new store locations. Stores that were converted and opened in 2012 experienced full-year sales growth of 2.7 percent over 2011, and stores converted prior to 2012 saw sales increases averaging 1.3 percent.

The company is attempting a lot of new initiatives, including a revamped interactive online catalogue, and a test of online sales in Nova Scotia, which is expected to roll out more widely in 2014. It has been looking for ways to shave margins to be more competitive, and maintaining a strong focus on seasonal and sporting goods, including hunting and fishing.

It is also looking for locations for a new "Express Store" concept, locations that are no more than 10,000 square feet in size, suitable for urban areas, including shopping malls.

Canadian Tire has also created a real estate investment trusts (REIT), to "unlock" the value of the property under which the majority of its stores sit. The company expects to complete the IPO for the REIT this fall.

5. TIM-BR MART Group

Calgary, Alberta

2012 Dealer Sales: $3,602 million

2012 Points of Sale: 757

TIM-BR MART Group is part of a larger holding company that includes the hardware wholesaler Chalifour Canada. A priority of the group in recent years has been the establishment of Chalifour as both a primary hardware supplier for TIM-BR MART members and a general wholesaler for independents regardless of their banner.

Some big changes of late for the group include the planned re-location of its Surrey, BC, distribution centre (the former IRLY Distributors facility that was acquired by TIM-BR MART in 2011) to nearby Delta, the re-branding of its store banner to "TIMBER MART," and a closer alliance with Ace Hardware in the U.S. That alliance has translated into more Ace-branded products becoming available to TIM-BR MART members. These included the full Canadian rollout of Ace's high-end paint brand, Clarke + Kensington, plus a proprietary mid-range line of paint under the Blue Ribbon name. And based on demand from dealers, the group has expanded its housewares offering under the "La Maison" brand.

TIM-BR MART owns the license to the Ace name in Canada and many of its members fly that banner either alone or along with the TIMBER MART banner.

6. Independent Lumber Dealers Co-operative

Ajax, Ontario

2012 Dealer Sales: $3,000 million

2012 Points of Sale: 1,008*

*Including other member buying group locations

ILDC has two kinds of members: close to two dozen independent chains, representing some of the strongest regional players in the country; and two other retail collectives, La Coop fédérée and Federated Co-operatives Ltd.

While other groups actively recruit new members to add to their ranks—and increase their purchasing power—ILDC takes a more measured approach to its membership. Because of the large size of its members, most of which have multiple outlets and dominate in their markets, ILDC takes pains to prevent its members from overlapping competitively. One area in which it does see opportunity for growth is Western Canada, particularly British Columbia.

The member retailers meet regularly, not just to negotiate with vendors, but to share best practices and competitive intelligence.

7. BMR

Boucherville, Quebec

2012 Dealer Sales: $1,400 million

2012 Points of Sale: 187

As buying groups go in Canada, BMR is unique in a few ways. It was one of the first to determine a need for its own hardware and building materials distribution, and has warehouses to serve its members fully in both these capacities. It was also distinctly regional, a powerhouse in its home province of Quebec, but has branched out over the past decade to pick up about 20 member dealers in other provinces, ranging from Windsor, ON, in the west to Lunenburg, NS, in the east.

BMR focuses on both the front and the back end in its support of its members. LBM plays an important role, while specialty categories such as Boutique Inspiration for home décor and lifestyle, and Agrizone, devoted to farm hardware and ag products, reflect the range of the company's offerings and its ability to support dealers in their respective markets.

8. Sexton Group

Winnipeg, Manitoba

2012 Dealer Sales: $1,400 million

2012 Points of Sale: 350

This national buying group has its roots in Western Canada, where the majority of its members can still be found. However, the company is growing, with recent additions to its membership that includes dealers with stores in Ontario, Quebec, and Atlantic Canada.

Sexton is committed to securing the best deals for its members. With no banner program of its own and only limited private label, it puts the dealer's brand ahead of Sexton's own identity and works with national brands in the stores.

Its members are mainly traditional yards, but the area of growth for the group in recent years has been with non-traditional operations, especially companies that produce factory-built homes—a niche well-suited to serve hotspots like Fort McMurray that are prospering, thanks to oil sands development.

9. Castle Building Centres Group

Mississauga, Ontario

2012 Dealer Sales: $1,388 million

2012 Points of Sale: 297

Castle is celebrating its 50th anniversary in 2013, following a year when the buying group expanded its membership, adding more than 35 members in 2012.

Signups in 2012 included Hamilton Builders Supply, a 90-year-old business with five locations in Ontario. Saddle Lake Building Supplies in Alberta was among the seven dealers with 10 locations that Castle added in May 2012 alone in Alberta, Prince Edward Island, Ontario, Saskatchewan, and Quebec. It added five more in January 2013.

"I think 2013 will be our most successful year," predicted its president Ken Jenkins. That success is being measured "in terms of new member traction, purchase volume increases, total member growth, and rebate payments." Dealer purchases were up about 14 percent last year. About 15 percent of its members' sales are from hardware sales and Castle's supplier relationship with U.S. hardware wholesaler Orgill continues to grow.

Castle is also searching for the next generation of dealers at job fairs, franchise shows, and other events where, said Jenkins, "we can present our strong business model" to college graduates and businesspeople open to careers or investments in retail home improvement.

10. Allroc Building Products

Calgary, Alberta

2012 Dealer Sales: $658 million

2012 Points of Sale: 48

This buying group distributes wall and ceiling products, as well as tools and fasteners, to dealers that specialize in drywall in Canada and the U.S. It is part of the 113-branch Construction Products Distribution (CPD) division of the energy holding company Superior Plus. The division generated $526.1 million in revenue in 2012, up 9.6 percent. But its operating cash flow (profit before taxes, depreciation and amortization) was off by 14 percent to $20.8 million.

Last year, Superior Plus reorganized this division by adopting a hub-and-spoke operational model, which resulted in the closing of 15 branches, including nine in Canada, as Allroc exited Atlantic Canada altogether. Restructuring at head office has included the hiring of Ray Sears as vice president of supply, reflecting the company's increased focus on supply-chain management.

11. Delroc Industries

Langley, British Columbia

2012 Dealer Sales: $608 million

2012 Points of Sale: 118

Delroc, a buying group for building materials, serves 118 gypsum supply dealers (GSDs) and building supply dealers, mostly in Western Canada, and has been in business for 39 years. This buying group stays focused on LBM purchases: buying as effectively as possible while offering a competitive rebate program, a full product offering, and low overhead.

About a half of Delroc's dealer base consists of Windsor Plywood stores, the B.C.-based lumberyard chain that specializes in specialty and imported woods (and ranks number 20 in this list). Like other GSD suppliers, Delroc has identified other growth products, such as wall and ceiling products.

12. Lowe's Canada

Toronto, Ontario

2012 Dealer Sales: $541 million

2012 Points of Sale: 31

Lowe's Canada added four stores in 2012, bringing its total to 31. Robert Niblock, chairman and CEO of the Canadian's division's North Carolina-based parent, told investors and analysts in November that his company remains keen on creating "critical mass" in Canada, which would include experimentation with smaller-format stores. Niblock made these comments a few months after Lowe's had formally withdrawn its $1.8 billion proposal to RONA's board of directors to acquire all of RONA's common stock.

Regardless of its expansion plans, Lowe's Canada is moving forward under the leadership of Sylvain Prud'homme, a former Loblaw executive from Quebec who replaced Alan Huggins as president on March 25, 2013. Prud'homme's resumé includes stints with Walmart Canada, Sobey's West, and Super C, and suggests Lowe's future interest in Quebec expansion.

Lowe's Canada should also benefit from the March 2013 opening of a 626,000-square-foot distribution centre in Milton, Ont., which employs 250.

13. Federated Co-operatives Ltd.

Saskatoon, Saskatchewan

2012 Dealer Sales: $510 million

2012 Points of Sale: 232

The enduring power of the co-operative movement is well expressed through the success of Federated Co-operatives Ltd. FCL is the second-largest company in Saskatchewan, and the top non-financial co-op in Canada. Additionally, Scott Banda, CEO of Federated Co-operatives, was named one of Saskatchewan's most influential men in early 2013.

Much of FCL's growing revenue comes from crop supplies, feed, and petroleum, but FCL's presence in our industry is still extensive, with 235 owner-member retail co-operatives from British Columbia to Northwestern Ontario. FCL also supplies independent, non co-op members on a fill-in basis, through its ValuMaster banner division.

Over the last year, FCL has been working on updating its store network. Those upgrades include getting more product out of the back and on the shelves and putting more emphasis on core categories, especially plumbing. Already, 12 upgrades have been completed and it expects to refurbish all existing Co-op stores over time.

14. Alpa Group

Mississauga, Ontario

2012 Dealer Sales: $501 million

2012 Points of Sale: 24

Alpa is a vertically-integrated home improvement machine that has continued to grow because of its competitiveness in the supply of construction materials to large-scale builders. As the economy recovers slowly, housing demand in the Greater Toronto Area, the fourth-largest urban and suburban centre in North America, has continued to be active. As a result, after a slowdown in 2010, housing starts began to rebound in 2011 and have continued to grow, to the benefit of this supplier to tract builders and large developers across the GTA.

Closely held by the DiPoce family, the Alpa Group owns 24 locations, mostly in the GTA, with a couple in the Ottawa area. Alpa owns lumberyards, truss plants, window and stair manufacturers, and manufactures its own engineered wood product called Alpajoist.

15. Kent Building Supplies

Saint John, New Brunswick

2012 Dealer Sales: $496 million

2012 Points of Sale: 42

One of the leading home improvement retailers in Atlantic Canada, Kent is aggressively opening new stores in all its markets, with special emphasis on growing in the burgeoning economy of Newfoundland. Elsewhere, a store in Charlottetown will replace a former 50,000-square-foot Schurman outlet. A new store being built in Dieppe, NB, across the river from Moncton, will add a big footprint to that market.

Additionally, Moncton will be the site of a new distribution centre; the facility is reportedly 368,000 square feet in size, with plans to make it expandable to allow for a second phase of expansion soon after the opening. The new DC will handle commodities, mainly building materials and heavy industrial hardware.

In late 2012, Kent opened its first Kent Contractor Supply outlet in the St. John's area, in Conception Bay, NL. Two more traditional stores also recently re-opened under the Kent banner in early 2013, an acquisition of two existing 6,000-square-foot locations in New Brunswick, one in Shediac and the other in Pointe à Landry.

16. TORBSA

Bolton, Ontario

2012 Dealer Sales: $440 million

2012 Points of Sale: 71

Bolton, ON-based TORBSA has most of its dealers in Ontario, and until the beginning of the year, just a couple in Quebec. Since hiring Ken Pompey as dealer development manager in late 2012, this no-frills LBM buying group has been actively looking to grow its ranks. The first new member TORBSA signed, on the heels of the announced hiring of Pompey, was Canac, one of Quebec's largest home improvement retailers, which has 22 locations.

The addition of Canac on January 1 of this year effectively doubles the retail sales represented by this group's dealers (and will move TORBSA up in the ranks of our Top 20 next year). It also marked a definitive move by TORBSA into the realm of dealer recruitment after years of maintaining a membership that represented almost 50 locations. The addition of two more members this year, Halifax-based National Foam Supply Ltd. and Altieri Building Supplies in Niagara Falls, ON, shows that TORBSA is ready to venture well beyond just Ontario and Quebec for growth.

17. UFA Co-operative

Calgary, Alberta

2012 Dealer Sales: $340 million

2012 Points of Sale: 36

UFA has major investments in fuel, fertilizer, and feed to serve the rural Alberta customer. Those businesses account for the bulk of UFA's roughly $2 billion in revenues. But 2012 was a time of continued transformation for the co-op, as it reduced its presence in sporting goods by the sale of Wholesales Sports U.S. Ltd., a business that had been part of a previous strategy to expand UFA's reach into more lifestyle businesses.

Renewing its focus on the core needs of its mainly rural customers, UFA introduced an "ag" (agriculture) concept in 2011 and by the end of 2012 had eight such stores. That, plus re-organizing the business by trading areas to offer a more regionalized product mix, resulted in UFA's 35 Farm & Ranch Supply retail outlets—plus one building centre in Fort McMurray—contributing to UFA's 2012 success.

18. Canac

L'Ancienne-Lorette, Quebec

2012 Dealer Sales: $306 million

2012 Points of Sale: 22

The largest independent home improvement retailer in Quebec, Canac (formerly Canac-Marquis Grenier) is one of the

CANADA'S TOP 20 RETAIL HOME IMPROVEMENT GROUPS ($ MILLIONS)*

RANK	COMPANY	2011	2012	CHANGE	# STORES
1	RONA inc.	$6,100	$6,173	1.2%	981
2	Home Depot Canada	$5,236	$5,393	3.0%	180
3	Home Hardware Stores	$4,940	$5,100	3.2%	1057
4	Canadian Tire Corp.	$4,860	$4,962	2.1%	490
5	Tim-BR MARTS Ltd.	$3,514	$3,602	2.5%	757
6	ILDC	$4,302	$3,000	-30.3%	541
7	BMR	$1,400	$1,400	0.0%	187
8	Sexton Group	$1,352	$1,400	3.6%	350
9	Castle	$1,180	$1,368	15.9%	287
10	Allroc	$600	$658	9.7%	48
11	Delroc	$600	$608	1.3%	118
12	Lowe's Canada	$552	$541	-2.0%	31
13	Federated Co-op	$486	$510	4.9%	232
14	Alpa Lumber	$490	$501	2.2%	24
15	Kent Building Materials	$475	$496	4.4%	42
16	TORBSA	$396	$440	11.1%	71
17	UFA Ltd.	$320	$340	6.3%	36
18	Canac	$302	$306	1.3%	22
19	La Coop fédérée	$297	$300	1.0%	177
20	Windsor Plywood	$215	$219	1.9%	58

** Sales provided by the companies themselves or HARDLINES estimates*

most powerful family-owned regional chains in our industry. Well known as a low-cost dealer, it's especially competitive on commodity items such as gypsum. Canac has resisted being acquired by larger enterprises over the years, and finally, at the beginning of this year, joined the buying group TORBSA (number 16 in this list).

Canac operates 22 building supply outlets, 12 of them in the Quebec City area where it has its head office and distribution centre. Even in the wake of the recession, Canac continued to grow, opening three new stores since 2010. It continues to eye markets farther south in the province.

19. La Coop fédérée

Trois-Rivières, Quebec

2012 Dealer Sales: $300 million

2012 Points of Sale: 177

La Coop fédérée, Quebec's farm cooperative, represents a network of affiliated co-operatives, owned by more than 100,000 members. La Coop's network has a combined turnover in excess of $ 8.5 billion.

It started 2013 with a lot of buzz around a possible merger or takeover of BMR, putting the company front and centre in industry news. The buzz has cooled, but La Coop's success has not. It has been actively expanding its presence in hardware and home improvement retailing, phasing out the Coop brand for its hardlines outlets in Quebec, replacing it with Unimat, a banner that was first introduced in 2004. The co-op's flagship is the largest Unimat store in its network, a 32,000-square-foot outlet in Thetford Mines, QC. It's also the first Unimat to bring together a complete range of home improvement products under one roof.

20. Windsor Plywood

Surrey, British Columbia

2012 Dealer Sales: $219 million

2012 Points of Sale: 58

Windsor Plywood specializes in hard-to-source interior and exterior finishes and imports them from around the world. Founded in 1969 in Vancouver, the company has stayed focused on this specialty, backed by strong customer service, through the years, growing mainly in British Columbia and Alberta. A key member of the Delroc buying group, Windsor Plywood outlets average 10,000 square feet in size.

SHOW AND TELL

Dealers address the ongoing challenge of reinvention.

BY JOHN CAULFIELD

Every week, employees working in Central Home Improvement's seven stores participate in a friendly competition to see which of their departments can come up with the most original displays. The stores take photos of their displays and email them to the other stores, as well as the corporate headquarters in Antigonish, NS, which chooses a winner.

There are no prizes for the contest. "Just bragging rights," says Steve Smith, Central's president. The real benefit of the contest is how it keeps employees on their game and the stores fresh. Central's merchandising and operations managers make sure the best displays are shared with the other locations.

Progressive home improvement retailers are constantly looking for ways to reinvent and recharge themselves to attract more customers. Sometimes, switching buying groups can influence the image that a dealer projects to its shoppers. Other times, the introduction of a hot new product line or unique service will do the trick. As the Central example illustrates, a store's freshness—its "newness"—ultimately rests with its employees' enthusiasm, product knowledge, and familiarity with the needs of homeowners and professionals shopping them.

A NEW STORE DOESN'T HURT

It goes without saying that opening a new store can create a lot of buzz for both the store's associates and its customers. That certainly was the case five years ago when RONA Turner Valley in Black Diamond, AB, which had been in business for 25 years, moved out of its 3,000-square-foot location into a 12,500-square-foot showroom with a 1,600-square-foot greenhouse on three acres.

That new store features a centralized service desk and broader assortments in such categories as lighting and hardware. Turner Valley also carries farm and ranch products not normally found in RONA outlets.

Even though it took a while for this dealer to get its operational efficiencies and employee training right, the larger store, says owner Robbie McKay, was "essential" to competing in a market where an 85,000-square-foot Home Depot is just 15 minutes away. "Dealers need to have an advantage, and be able to show people something they want to see."

Offering a unique service can also be a market differentiator. For decades, RoadStar Transport in British Columbia has handled pool deliveries for IRLY and TIM-BR MART dealers within the TIM-BR MART buying group. And when, in 2010 and 2011, it re-entered retail with the acquisition of two lumberyards in rural Ladner and Princeton, BC, (now called Fletcher Building Supplies), RoadStar decided to leverage its trucking business to become "the deliverer of choice" for dealers in Western Canada, says Susan Robinson, a principal at RoadStar.

This year, the company, with about 50 vehicles, has added to its fleet, including crane trucks, which Robinson says have contributed "significantly" to sales from roofing contractors and historical building renovators.

The Fletcher stores also recently started flying the Ace banner, although its TIM-BR MART affiliation will continue to have a strong presence.

MAKING A SWITCH

Switching buying groups and banners is another way dealers re-invent themselves.

After Turner Valley switched to RONA a few years ago, McKay says he discovered that his company did not have a good understanding of either its competition or market. So he started marketing niche products, such as steel, on a weekly basis. McKay admits some customers didn't even know his store sold these products. "You need to display, market, and merchandise what you sell."

Drummond Building Supplies and Rent-All in Marmora, ON, joined BMR, the Quebec-based buying group and wholesaler, in 2006. That move prompted a complete gutting of Drummond's 5,000-square-foot store, which it replaced with a 13,000-square-foot showroom. Co-owners Peggy and Debbie Drummond say BMR is a "good fit" for their company, partly because it allows the store to retain its own identity while providing the distribution and marketing support it needs.

That identity is distinctively female-centric: women own the store and account for many of its 15 employees. "We also have a lot of women customers who want a female opinion about paint and home décor products," says Peggy Drummond.

Smith at Central Home Improvement says he regularly swaps ideas with other members of his company's buying group, Independent Lumber Dealers Cooperative (ILDC), which "gives us a coast-to-coast perspective." ILDC's members meet quarterly to discuss best practices, and at a recent meeting Smith learned from one dealer's success importing kitchen cabinets from China. Central took on that vendor, and over the following six months sold 10 containers of cabinets.

PURSUING NEW CUSTOMERS

Three years ago, six-unit Moffatt & Powell moved from ILDC to RONA. That put this London, ON-based dealer, which gets 70 percent of its sales from pro customers, on more of a consumer-oriented path. In 2010, it purchased an 18,000-square-foot RONA store in Exeter, ON, that "gave us a taste of retail," recalls co-owner D'Arcy Quinn. And on April 12 of this year, Moffatt & Powell held a grand re-opening for its location in Tillsonburg, ON.

The company closed its 5,000-square-foot store there, which had been purchased in 1984, and opened a 12,000-square-foot store with higher ceilings and a broader merchandise assortment within a warehouse on six acres.

"Tillsonburg is a test for us," says Quinn, to get a better handle on managing a full-blown retail-oriented store while maintaining a strong relationship with its pro customers. Moffatt & Powell had to retrain older employees and hire some new people to handle that location's anticipated sales velocity. "But the staff is really pumped up about moving into a new store."

SERVICE TAKES MANY FORMS

Ask any dealer what separates his or her store from the rest of the pack and inevitably you'll hear "great customer service." But consistently putting that into action requires a commitment to service that goes beyond the obvious.

The Drummonds recall a customer coming into the store and asking for life jackets, something they don't sell. But instead of turning that shopper away, their father lent his own life jackets to the customer for the weekend.

The sisters also note that having long-time employees in their store is a plus, because they know their customers by name and what projects they're working on. "They keep the customer important."

The level of a store's service is often a function of location and competition. For example, several of Central's stores are in rural markets, where customers "expect a convenience [product] offering," says Smith.

On the other hand, many of Patrick Morin's 16 stores in Quebec compete with Canada's leading home improvement chains. So Patrick Morin emphasizes its associates' product knowledge in stores that range from 20,000 to 40,000 square feet and average 120 employees, with between 60 and 80 associates working in the larger stores at any given moment.

"Price is less of a factor once the customer is inside the store," says general manager Daniel Lampron. And those employees are trained for project selling that potentially raises a customer's average ticket purchase. "That's very important for us."

The RONA in Cold Lake, AB, also goes head-to-head with several big-box and chain dealers. What keeps customers coming in, says owner Jay Kolewaski, is its "family atmosphere," conveyed through employees whose tenure with the company averages six years. Those employees receive cross-departmental training and so are knowledgeable about more products throughout the stores. "It's almost like a concierge service," says Kolewaski.

In Verona, ON, the 5,000-square-foot RONA owned by Chad and Nicki Van Camp plays up the breadth of its product mix—about 15,000 SKUs—and its willingness to order and deliver just about anything a customer wants. The in-store assortment features some unusual items, including maple syrup and tapping equipment, as well as pumpkins, corn, and apples from a local farmer.

The store, which serves a rural community, also installs wells (between 15 and 20 per year) and appliances. Its lead installation technician started with the company as a high school student. Verona RONA has eight employees, and Van Camp says he prefers hiring young people when they are 15 or 16 years old, "so I have them for a few years before they go off to college."

BALANCING FRESHNESS WITH FAMILIARITY

Verona Hardware hasn't been remodeled in at least 18 years. But, says Van Camp, "we're constantly changing things, moving counters around for better promotions." He also notes that what customers want most is a store that is "clean, friendly, and they know where things are."

As Van Camp's comments suggest, some dealers may think change at retail can reach a point of diminishing return. The famous adage "familiarity breeds contempt" is rarely uttered by dealers who say their customers come back because they are comfortable with the store's layout and with employees they know and can talk to.

The challenge dealers face, then, is maintaining that balance of familiarity with the need to keep a store from appearing "old" vis-à-vis the competition. Kolewaski of RONA Cold Lake notes that his store's layout and design are "more modern" than what's typically found in a local hardware store. Every winter he changes something, most recently moving around 30 percent of the store's displays to double the size of the flooring department and rework the plumbing area.

This year, Patrick Morin will open its 17th store, a 40,000-square-foot unit on the west side of Montreal. Instead of building several new stores each year, this dealer will build one and renovate two or three others. "Sometimes it's a small change," says Lampron, "like painting, new lighting, or planogramming."

Preston Hardware in Ottawa went through a major renovation four years ago, "and every year we do something to keep up with today's styles," says president Mario Giannetti. He says he can walk into any store and tell when it's "tired" and in need of a facelift. "You can't afford to let that happen anymore. It's like a restaurant; you can't rely only on your regular customers coming in. You have to sell yourself constantly."

One way Preston Hardware freshens itself is with new products. It recently introduced a line of Rockwell power tools that included nearly a dozen items that are "unique and innovative," says Giannetti. He also likes the fact that Rockwell markets itself, and that Preston can compete with this line and still make reasonable margins.

STAYING IN THE SPOTLIGHT

Strong marketing is critical to any dealer's image maintenance and re-invention. More dealers now go beyond product promotions in-store to include customer outreach in their strategies. In 2012, Central Home Improvement was involved in 200 community sponsorships. It also recently revamped its website, something which Smith says has become an important tool to introduce customers "to Central's story." Likewise, RONA Cold Lake uses social media such as Facebook and Twitter to stay in touch with customers and link them to manufacturers' sites.

Drummond BMR has had success attracting women customers via "Ladies Nights." This spring, the dealer sponsored a magic show where the magician offered gift cards whose value increased as the audience guessed wrong about how he pulled off his tricks. (Hint: one of the store's employees, wearing BMR garb, was part of the act.)

Sometimes, though, dealers just need to get back to basics to shine a light on their companies. That's why Preston Hardware recently started advertising again on television for the first time in more than a decade. Some people who saw those ads came into the store and told Giannetti they hadn't realized that Preston Hardware was still around, "even though we've been in business for 60 years."

NATIONAL HARDWARE SHOW

REGAINS PRE-RECESSION EXCITEMENT

One thing that should not stay in Las Vegas was the energy surrounding the latest National Hardware Show, held in that city in early May. Co-locating with the NRHA All-Industry Conference, the show was also the destination for many Canadian companies, including a growing number of independents.

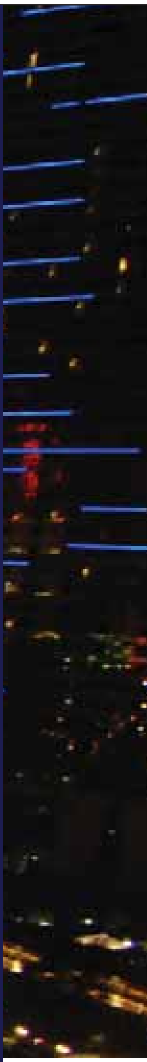
Still feeling the effects of a slowly recovering economy in the U.S., this year's National Hardware Show nevertheless managed to generate excitement on the show floor not felt since the show first moved to Vegas from Chicago in 2004. Vendors and buyers alike were generally upbeat, buoyed by the strong flow of traffic circulating through the floor of the Las Vegas Convention Centre. The show boasted some 2,500 companies representing more than 250,000 products.

Canadian buyers were out in full force with familiar retailers including Home Hardware, Home Depot Canada, Lowe's Canada, BMR, Chalifour Canada, Canadian Tire, and RONA all well represented. Even relative newcomer Amazon.ca had four buyers at the show (Amazon.com in the U.S. had more than 40 buyers present).

Off the show floor, there were plenty of activities, as well, as the show focused not just on the newest products, but on networking opportunities and educational seminars. Once again the North American Retail Hardware Association hosted its All-Industry Conference concurrently with the show. The theme of this year's conference was "The Changing Consumer," and educational presentations throughout the event focused on that topic.

A meeting of the Worldwide DIY Council brought together exporting manufacturers from the U.S. and Canada to share experiences and to hear from Clive Duncan, director of merchandising and store development for Australian big-box retailer Bunnings.

The recovery may be coming slowly to the U.S., but attendees at this year's National Hardware Show apparently weren't going to wait. The event seems to have made a full recovery from the slower years it endured following the worldwide recession of 2008.



RETAILERS THE WORLD OVER LOOK FOR WAYS TO COPE WITH ONLINE

Besides new products, this year's National Hardware Show offered up many opportunities for learning more about the trends and challenges confronting the retail home improvement industry.

At a lunch meeting of the Presidents Council, an advisory group of retail leaders which meets at trade shows around the world, a presentation offered insights into the changing habits of today's online shopper. Jim Crawford of Taberna Retail challenged the efficacy of traditional advertising with a number of facts, including telling the group that, "Eighty percent of consumers simultaneously use a laptop or mobile phone while watching TV."

The likelihood that these viewers will remain engaged when ads come on is slim, he suggests. Even the delivery method for those programs is a further challenge for traditional advertising. "In France, 52 percent of television viewers are already watching programming through some other means than broadcast."

Crawford's message was that consumers want a positive experience when shopping, whether that's online or in a store. His message was supported by a presentation later the same day at the first-ever Global Home Improvement Conference. The event was sponsored in part by NRHA and HARDLINES, and emceed by our own publisher, Beverly Allen. A presentation by Erwin van Osta, president of BricoAlliance in Europe and CEO of Belgian-based retail group Hubo, was highlighted by a lively video presentation (in 3D, no less, complete with 3D glasses for the audience). That animated video outlined how a shopping experience might evolve from the year 2000 to 2011, through to a hypothetical 2020.

The message? No matter how sophisticated the technology becomes, the customer service experience remains much the same, even as the delivery process changes.

BY MICHAEL McLARNEY

BACK ON THE TOP AGAIN

Ken Jenkins' first goal as president was to redefine the vision for the company.

How a buying group transformed itself while staying true to its roots.

Just six years ago, the conventional wisdom was that there were simply too many buying groups. Castle was considered the likeliest next victim of an industry plagued by consolidation and shrinking players. Ken Jenkins knew that when he took over the group in 2006.

Truth be told, if you asked many people to gauge the future of Castle five years ago when Ken Jenkins took the helm, the odds for the company's long-term health were not good. The group had lost members and lost focus.

"I had some perspective being a supplier for many years before that (he was formerly national accounts manager with CGC)—that the image, the performance of Castle was slipping. People were looking at Castle and asking, 'could it survive?' "

He recognized back then the rise of what he refers to as "bannered stores," and for sure, RONA was on a tear, aggressively recruiting new independents even as Home Hardware was beefing up its own dealer development team to attract more members of its own.

PHOTOS: CALLUM PINKNEY

Home Depot was still adding stores in Canada, and Lowe's was about to enter the fray. Castle's membership was slipping.

Even on the vendor side, big boxes were considered the preferred customers that could drive the volumes they needed. "The word independent became passé," Jenkins says matter of factly. The question he had to ask himself was, "Where does Castle fit in?"

Jenkins also recognized the inherent strength in the group—the dealer base that comprised the buying group's membership. In fact, that's what drew him to the job. Underlying his decision to come to Castle was his own experience dealing with the industry as a wholesale representative. "My best relationships were with the independents. I knew that side of the business very, very well."

REFOCUSING THE BUSINESS

His first goal as president, Jenkins says, was to redefine the vision for the company. "We needed a new game plan," he says. "We needed to really focus on a business plan that reflected the strengths of the independent." But change didn't come fast. He says it took more than a year to identify what he calls "deficiencies on the buy side." That meant focusing on core product lines and then rallying the members to support those buys. Next, he and his team had to convince vendors that Castle could deliver on those volumes—75 percent of which goes to contractors. These pro customers deal in volumes and tight pricing, in turn putting margin pressure on the dealers themselves.

> "We needed a new game plan. We needed to really focus on a business plan that reflected the strengths of the independent."

Jenkins says he was able to get the support he needed from his dealers, driven by a strong pro customer base. "We were able to exhibit to our suppliers that there is another level of pricing in the industry, and our dealers represent that," he says.

Another part of the equation was the need to round out his team. That's when he brought on James Jones, whose background included executive roles at Réno-Dépôt, Home Depot Canada, and RONA. Jones became vice president, national marketing. "He brought an element of professional negotiating and an understanding of pricing—and he had an unwavering commitment to the success of the independent," says Jenkins.

"We moved the needle dramatically and that was phase one of increasing the retention levels of our dealers."

THE LARGER ROLE FOR HARDLINES

Another challenge Jenkins confronted when he took over at Castle was an emerging trend to move more into hardware. CanWel Hardware was working hard to drive hardlines and tool sales into the LBM channel. As the market was slowing through the recession, Jenkins says that adequate sourcing for hardware was becoming a strain on many independent groups that were not distribution-based.

While it represented a smaller overall market than building supplies, it did provide better margins and greater breadth for dealers dependent on contractors. It was straining many independent groups that were not distribution-based from the start and many of them saw the importance of hardware.

So Castle looked for a distribution partner of its own. Jenkins was intrigued by the large number of true independents in operation in the U.S., dealers with no affiliation to any banner that relied solely on their own branding in their local markets to succeed. That aligned with the mandate of Castle to support its members in their own markets. "And the Orgill name kept coming up."

So when Ron Beal, the president of Orgill, came up to Toronto in 2007 to speak at the Hardlines Conference, Jenkins was keen to learn more. Beal described Orgill's mandate to be a pure wholesaler, offering products and services to support the dealers' sale of those products—like promotional items and flyer specials—while leaving the bannering and the branding to the individual dealers.

"What really excited us most was seeing another level of cost savings for our members," Jenkins recalls. The opportunity was there to get access to a wide range of hardware products at a low cost.

"There were already, at that time, a lot of members doing some import business, but by mid-2009 the hardware situation in Canada wasn't getting any better," he says. "We needed to find a full solution for the independents." He began discussions in earnest with Orgill.

A year later, the face of hardware distribution in this country changed dramatically—and abruptly. RONA bought TruServ Canada, the hardware wholesaler based in Winnipeg that sold to True Value hardware dealers and V&S general store/junior department store outlets. Just one week later, TIM-BR MARTS Ltd. acquired CanWel Hardware Division from CanWel Building Materials.

"All the takeovers came as no surprise. Everyone knew some change was needed," he says frankly. "But we already had a goal, and Orgill had already made a decision to ship product to Canada. We already had our game plan to launch an agreement with Orgill."

That partnership, he stresses, was not a reaction to the CanWel or TruServ deals. "Our decision had already been made."

AN UNCONVENTIONAL ALLIANCE

Jenkins knew that aligning himself with this new player was an unconventional move, to say the least. "I realized there was going to be a lot of positioning by my competition to poke holes in our position. But I would not have staked the future of this group on a business that I thought was going to go away."

He's been challenged for "selling out," but he is adamant in his resistance to this notion. "Being proudly Canadian doesn't mean being foolishly blind," he insists. Rather, Orgill's price competitiveness "has helped lower prices across the board and forced other hardware distributors in Canada to raise their game.

"I don't feel for a second that we've sold Canadian manufacturers or wholesalers down the road."

He offers some further insight into his decision to look to this company from south of the border for a hardware solution. "Orgill is different from other Canadian wholesalers. They're a logistics company first. They are going to be the most efficient logistics company possible."

Those logistics enable Orgill to identify regional differences to help dealers get product off the shelf, "and that's not something we'd seen from other hardware wholesalers."

He also looks at Orgill's "giant footprint in the U.S., which supports huge volumes that keep prices down." It means that Orgill can seed markets here to grow its business—even those markets that cost money at first. Their overall global business affords them the efficiencies that domestic wholesalers don't have."

LBM: CASTLE'S CORE STRENGTH

Despite all the attention that Castle's deal with Orgill has attracted, Jenkins puts the hardware side of the equation in perspective. "LBM still accounts for 80 percent of the volume in our group."

That emphasis on the back end highlights the focus that so many Castle dealers place on their contractor and builder business. For Jenkins, his dealers' connection with those contractors is at the heart of their success as markets move up and down and the economy stalls or surges.

He also views that building materials business as an important hedge against the rise of online retailing. Online will continue steal sales from bricks and mortar, but mainly on the hardware side, he says. "The ability to point and click on that power tool for Father's Day is the dynamic today." But the harder a product is to move, the harder it is to be viable online. "The barrier to entry in building materials is prohibitive, whereas, if you have a deal with a courier company, you can be in hardware distribution."

BACK ON TOP

Another important aspect of his members' specialty in LBM is the generally local nature of that business. That local presence is something Castle supports, without the need for a national banner or national advertising tie-in. "We want our members to be the face of building material sales in their markets."

Here, Castle's mandate is counter-intuitive to the evolution of other groups, which over the past years have integrated their distribution and services with the core purchasing role of a buying group. And while Castle offers a full range of services, they are strictly à la carte. This puts Castle in an interesting position: on one hand, the group wants its members to have a full basket of support services for their own business; on the other hand, those members put their own business first.

These dealers tend to be "asset rich," says Jenkins, "so as business conditions change they can adjust their business model accordingly. Their ability to flow with market changes is better than any other type of dealer in the industry."

An important part of Castle's growth these days comes from its Commercial Builders Supply (CBS) division. It gives a place within the buying group to large commodity dealers that sell high volumes of product, typically in urban markets. "CBS has grown exponentially over the past three years and is an important part of Castle's future."

Another way Castle is evolving is in its definition of what the independent looks like. Its other division, for specialty dealers, is growing rapidly, as the group takes on flooring, door, and window dealers whose purchases contribute to the overall volumes of the group. However, it has also left Castle open to criticism that its definition of a member may be getting too relaxed. Jenkins balks at the notion. He insists his group's credit rules for membership are as rigorous as anyone's out there—and in fact the selection process recognizes the new face of the independent dealer.

"We are proud to be able to take an entrepreneur's vision and energy and create an opportunity for them in the industry they represent. But they must meet our financial criteria. However, if we see potential there, we'll invest our energy in their vision."

That strategy appears to be paying off. Castle's membership was once in serious danger of heading south of 200, but now Jenkins believes that membership could crack 300 by the end of 2013. Purchasing volume through the group enjoyed double-digit increases in 2012, while same-store sales nationally were up a healthy 8.1 percent. And five months into 2013, Jenkins says that Castle has achieved double-digit growth yet again.

"There are several opportunities in the market that an independent can pursue. But we think ours is most unique."

THINKING ABOUT BUSINESS SOFTWARE? CONSIDER THE FOLLOWING

BY JON STOLLER

Today's retail management systems offer a variety of cutting-edge capabilities, from real-time customer analysis and sophisticated order management to advanced inventory analysis. But can they help to run a better business?

Home improvement retailers face a sea of options when considering a POS system. Vendors claim their latest software will streamline inventory, simplify accounting, and prevent theft, and that their newest hardware will accelerate checkout, drive sales, and increase customer satisfaction. Retail systems are capable of much more than they were even five years ago, and can be a powerful asset when leveraged properly.

This doesn't mean managers should rush out and buy the latest products. Some vendors offer a dizzying array of features, and managers can't afford to be bogged down by extraneous and confusing components, some of which are quite expensive. Instead, they need to carefully consider how a system can help their business, and find the simplest solution that fits.

Here are some key points to consider before purchasing a system:

THE LATEST TRENDS

POS hardware has become much sleeker in recent years. Customer-facing LCDs, which allow people to review their purchases, have grown increasingly popular, as have mobile POS systems that allow checkout from anywhere in the store. Touch screens are also on the rise. Lowe's in the U.S., for example, rolled out 42,000 iPhones to its associates in late 2011 that were capable of credit and debit transactions.

Antoine Choinière-Codaire, marketing advisor for Acceo Solutions, says an intuitive, easy-to-use graphical interface can help to lower training costs, because it's easier for new employees to learn on. He says this is particularly important in a high turnover industry like home improvement retail, and that a simpler interface also means fewer input errors and faster checkout times.

And even more radical hardware advancements are on the horizon. Radio Frequency Identification (RFID) tags, which can track objects anywhere in the store, could potentially allow customers to complete a purchase simply by walking out of the store, eliminating line-ups altogether.

Software is also becoming more advanced. Compatibility with other systems is lending more mobility to the industry, allowing managers to check inventory, track sales, and facilitate orders from nearly anywhere via a mobile device like their smartphone. This is particularly useful for managers who aren't on location or have multiple stores to manage.

Modern software is also leveraging increasingly advanced statistical tools to analyze the torrents of data that these systems absorb, including average checkout time, popular products, and peak sale periods.

Service providers are quick to stress the advantages of these so-called "business analytics." While there are benefits— such as better inventory management—retailers should assess their own needs carefully before making the financial investment. A small-town independent with a dedicated customer base, for example, may have trouble justifying the expense, not to mention the significant time required to learn and configure the new software, for what may amount to a small edge. Large retail chains, on the other hand, often have sales models that are more conducive to a statistical approach.

Modern systems can also provide customized, on-demand sales reports that are much more detailed than the canned reports of old. Again, it takes time and money to configure the software, and retailers must determine if the benefits outweigh the costs.

INVENTORY MANAGEMENT CAPABILITIES

Razor-thin margins are a fact of life in home improvement retail, making effective inventory management not just desirable, but essential to squeezing out a profit. When done properly, a well-managed inventory can reduce shrinkage, co-ordinate sales across multiple stores, and ensure minimal product is left on the shelves.

Retail management systems can help in this regard. A properly configured system automatically keeps track of what's in stock, helps facilitate the re-ordering process when a product is running out, and ensures prices are the same across multiple locations.

Software has also become more predictive in recent years. The results will vary depending on the size of the business, what types of data are absorbed, and how well the software is integrated into business processes. "In the past it was like driving a car by looking in the rear-view mirror," says Doug Smith, Eagle product manager with Epicor, "because it would tell you what your sales were and how much inventory was sold. Today, it can tell you what you're going to need going forward."

Some small independents are able to squeeze by with a simple cash register, but larger stores almost surely need a more sophisticated system to help manage their inventory. When configured properly, it means less time counting receipts and stocking levels, and more time on value-added activities.

PLATFORM INTEGRATION

Modern systems aren't just compatible with more hardware; they can also seamlessly integrate with other software. Many, like Epicor Eagle, have modules for inventory, point of sale, accounts receivable, and other virtual platforms built directly into the same program.

This is not to be confused with an interfaced system, which links to third-party software like Quickbooks or Simply Accounting.

There's a subtle but potentially significant difference between the two. An integrated platform uses the same data files across all modules, meaning information is distributed simultaneously, whereas an interfaced system often has to have that information transferred manually, although automated tools exist to make this easier.

The right choice depends on a retailer's needs. The lowest cost system involves manually entering daily transactions into an accounting system. While retailers can save a lot of money this way, it's time consuming and much more prone to input errors.

Retailers that go with an interfaced system are free to stick with the third-party software of their choice. If they prefer accounting software like Peachtree, for example, and don't want to invest the time and money required to make the switch, this can be a smart option.

Because data isn't shared in real time, though, it can result in discrepancies across platforms if the numbers change quickly. While some vendors offer features that automatically update other systems in real time, often they don't link across other platforms. POS data, for example, may be transmitted to the general ledger, but not to accounts receivable.

An integrated module provides real-time data across the board, a unified interface, and a single, easily accessible information source. However, retailers have less choice when going with this option, and may be stuck with an accounts payable interface, for example, that

WHICH SYSTEM IS RIGHT FOR YOU?

Finding the right retail management system means understanding precisely what vendors have to offer, and weighing those against the costs of investment. Here are some quick pointers to help make a better decision:

Establish your needs – There are thousands of options available across the POS products spectrum; managers need to create a list of priorities, such as faster checkout times, or a simplified inventory management system, to help narrow down those choices.

Talk to your customers – Retailers can never do this enough. Ask customers what they want and expect from their home improvement retailer, and consider how a system can help.

Compare and contrast – Too often, retailers go with what's in front of them. While they can't be expected to wade through all of the options available, considering a range of products will ensure a better choice.

Talk to other retailers – Sharing experiences with other retailers is a chance to get candid feedback on POS systems, and other advice to help make a better purchase.

Establish a budget – Many vendors provide a basic service for a monthly cost, then charge extra for additional features like software modules, or prioritized customer support. Some offerings can be enticing, but costs can quickly spiral out of control if a clear budget isn't established.

they don't like. Many dedicated third-party applications, on the other hand, have been around for decades, and offer a better product.

Both integrated and interfaced platforms ultimately help reduce errors, provide better visibility, and mean less time manually inputting information. This is a considerable advantage for most retailers, and a major incentive to upgrade.

VENDOR PROS AND CONS

The sector has been the scene of unprecedented consolidation in recent years. Now, two companies dominate: Epicor, based in Dublin, CA, has acquired Silk Systems, which in turn had bought up Dimensions. Its programs now include Epicor BisTrack and Epicor Eagle for the retail home improvement industry. The other giant is Montreal-based Acceo Solutions, which has acquired a number of companies including Winnipeg-based ProfitMaster Canada and, most recently, management software company OGC.

Victoria Moore, consulting analyst at Info-Tech, says newer options like Square One and PayPal Here, which essentially turn mobile devices into POS terminals, are particularly enticing to small or medium-sized businesses because of low or even non-existent upfront costs.

Incumbents, however, offer their own advantages. Assured long-term support, reputable customer service, industry connections, and time-tested software and hardware solutions are just a few of the benefits of going with a well-established provider.

Different vendors provide different services. Some, like ProfitMaster, offer a turn-key solution for their in-house software, while others, such as Collective POS, are resellers and can offer a range of different products from multiple companies.

A monthly fee for ongoing support is common, and can vary depending on the level of support customers want. A monthly fee for software and ongoing support is common, and can vary depending on a customer's needs. Epicor Eagle, for example, has a modular architecture, meaning customers can tack on additional software at an extra cost. Acceo also charges a monthly fee for its Transaxion software.

One Home Hardware manager told HARDLINES that it's important to look for a vendor that provides reputable customer service and best-practice advice, that can also effectively communicate with their clients' suppliers.

Long-term support is another essential, meaning the ongoing stability of a vendor should at least be considered. Incumbents like ProfitMaster, which has had some clients for more than 25 years, may provide an advantage in this regard.

If a retailer wants a simplified trouble-shooting process when their POS system goes down, they may want to consider purchasing hardware and software from the same vendor. This means less choice, but ensures a single phone call for customer support.

IDENTIFYING TANGIBLE BENEFITS

With so many options available, it's essential for retailers to understand what they can get out of a system. Many come with a multitude of cutting-edge features, but these don't add up if, for example, they don't shorten lines, provide better inventory control, or simplify accounting.

Getting a system properly configured to such needs isn't easy, and managers need to be prepared to invest the time and money required to learn the new system. "You don't just put in a point-of-sale system, and plug it in and it does everything for you," says Smith at Epicor. "You do have work to do to get it where it helps you manage your processes."

Buying a retail management system isn't just a one-off; retailers can expect to rely on their provider for customer support, software updates, and additional modules. As a result, retailers need to work with a POS vendor that understands and supports their needs.

See Epicor at the Home Hardware, Chalifour and TruServ fall events

Epicor Software Inspires Business Excellence

"The **Epicor Eagle** system makes it easy to view our stock levels, helps us identify optimum levels, and manages the process of maintaining these levels."

Jim Fulford
Owner
Fulford Hardware
Owen Sound, ON

"The **Epicor BisTrack** system is an awesome tool for our company. I can see every branch like I'm in the store. New-age contractors like emailed statements and invoices, as well as being able to check their accounts and pay online from their smart phones and computers."

Mark Kennedy
VP Operations
North American Lumber
Winnipeg, MB

Epicor is proud to serve over 700 Canadian lumber, building materials and hardware businesses with Epicor business management solutions. With sales, service and support offices throughout Canada, strong vendor relationships with leading buying groups, Epicor is committed to helping you improve profits and customer service to give your business a competitive edge.

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Contact us today at 888.463.4700 or lumber@epicor.com

EPICOR®
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THE KEYS TO INCREASING YOUR SAME-STORE SALES: *PART TWO*

BY BILL WILSON, RETAIL ADVISOR, NRHA CANADA

Are new competition, a late start to spring business, and very little building throughout the winter months making it difficult to achieve same-store sales increases?

Sales increases can come from many areas. Let's review the most important ones:

- Increased investment in advertising, to create more new customers;
- The same customers, but with a larger average sale;
- Improved training for your employees, to increase your "close rate" of sales;
- Refreshing or re-merchandising your store to make it easier to shop in;
- The addition of more impulse items throughout the store to drive add-on sales;
- Increasing gross margin through variable pricing—becoming more competitive on the 200–300 price-sensitive items that are typically the most popular in a retail home improvement centre—and increasing the price on less sensitive products.

Next, let's review some operational areas within your plan—and ask some tough questions—that will help you achieve those sales increases.

KEEP YOUR MERCHANDISING FRESH TO KEEP YOUR SALES UP

Have you reviewed your product categories to make sure you are up to date with new products? New products are very important to sales increases. In fact, many retailers look for 10 to 20 percent of their sales to come from products added within the last 12 months. What are your new goods sales?

Within your store categories, have you identified the categories in which you are the dominant player in your competitive area? Dominance does not always have to mean the largest inventory, but you should nevertheless have a comprehensive inventory in those categories so that your customer can buy all the products and quantity required to complete a project.

Another important way to achieve category dominance is by establishing your store as the most knowledgeable in a certain field or fields, backed by product knowledge and how-to information. Niche categories also help to drive sales. For example, do you have the best bathroom fixture display in your competitive market?

Remember the customer's criteria for shopping:

- Do you have what I need?
- Do you have the job quantities I require?
- Do you have all the pieces to finish the job?

LOST SALES AFFECT SALES INCREASES

Do you count the out-of-stock holes in your store weekly? By not having product on hand when your customer needs it, you not only fail to meet your customers' needs at the time, but set that customer up to take their loyalty elsewhere in future. Each out-of-stock can cost you sales at the time—and in the future.

Using higher store fixtures offers room to store stock safely in the department and let your staff replenish product more easily, which will generally lead to fewer holes. Also, having the proper number of item facings for stock replenishment and store operation needs will lead to operational improvement and fewer out-of-stocks.

MAKE YOUR STORE EASY TO SHOP

Make sure you have plenty of promotional merchandising opportunities, such as clip strips and dump bins, strategically placed throughout the store for impulse sales. Merchandising feature ends with one or two key items will help to generate additional impulse sales.

Up to one-third of your customers will make an impulse purchase (an unplanned decision to buy a product) when they're in the store. But those customers should not have to search for an impulse item.

In your power aisle, skid lots of high-volume items help to drive sales, but take note: these products do not always have to be sale priced. The very nature of dump bins and skid lots enforces a sense of low cost and immediacy among customers, which will help drive sales regardless of the posted price. When choosing impulse items for promotional areas, take into account seasonal products, which lend themselves well to the notion of time-limited availability.

The best merchandising zone for impulse sales is between 36 and 66 inches up on the fixture. Are you taking advantage of this dynamic sales space to increase sales?

RECAP: THE KEYS TO ACCOMPLISHING YOUR SALES PLAN

- Well-trained, knowledgeable employees to drive sales.
- Updated store look and merchandising with focus on new products.
- Strong promotional merchandising.
- Full stock of the 20 percent of SKUs that do 70 percent of your business.
- Both flyers and e-commerce to make certain you are in your customers' mind through more advertising.

A company's ability to deliver an experience that sets it apart in the eyes of its customers helps to increase spending by those customers. By establishing goals for increased sales in your store and actively implementing those goals, you will be better positioned to increase your sales for 2013—without adding staff or square footage. Good luck creating same-store sales increases!

Bill Wilson is Retail Advisor for the North American Retail Hardware Association Canada. He has a background of more than 40 years of experience in hardware and home improvement retailing and distribution and is committed to training for independents.

RONA TAKES RÉNO-DÉPÔT "BACK TO ITS ROOTS"

BY MICHAEL McLARNEY

Quebec chain focuses on core customers' needs

The re-positioning of the 18-store chain involves reducing SKUs and increasing depth of inventory to ensure those out-of-stocks don't occur.

A key part of RONA's strategic planning as it continues to turn its business around is its re-positioning of the Réno-Dépôt banner in Quebec—an approach that may become the template for the turnaround of its other big boxes throughout Canada.

That re-positioning is in fact more of a return to Réno-Dépôt's warehouse-outlet roots, says the company. Because the Réno-Dépôt name was so well-entrenched in Quebec, RONA chose not to convert it to RONA when it bought the company back in 2003. It would be the only chain that was not ultimately subsumed into the RONA brand.

Réno-Dépôt has always had a strong appeal for contractors and heavy DIYers. But over time, Réno-Dépôt's differentiation from RONA's other big boxes was eroded, as its management and practices became more and more absorbed into RONA's own culture.

"It's about going back to the core competency of Réno-Dépôt," said RONA's Dominique Boies. In an interview with the company's CFO earlier this year, he made clear Réno-Dépôt's need for a new direction. "We must go back to case quantities, job lots. [Contractors] want the product in stock. They don't want to wait."

The re-positioning of the 18-store chain involves reducing SKUs and increasing depth of inventory to ensure those out-of-stocks don't occur. The reductions mean fewer lines, and even fewer brands, offered at better prices. It's all about regaining its warehouse roots and maintaining its focus on its core customers.

Karim Salabi is executive vice president of marketing for all of RONA's stores across Canada. He provides an update on Réno-Dépôt's merchandising strategy. "You might have 30 different types of a product, but only seven SKUs that really sell well. So make sure you have those seven in stock at all times." Those SKUS, he adds, will be "the products that appeal to the Réno-Dépôt customer—the contractor and the heavy DIYer. Those are the focus of Réno-Dépôt."

In addition, a separate buying team has been created to manage the Réno-Dépôt inventory. Some of the members of this team came from within the RONA ranks; others were new hires. The Réno-Dépôt buying team has been separated from RONA's other teams within the Boucherville, QC, head offices, and it is dedicated solely to stocking Réno-Dépôt's shelves and managing its strategy.

"We want to be thinking differently, buying differently, and merchandising it differently," says Salabi.

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TORONTO GETS A TOOL LIBRARY, GIVING USED TOOLS A SECOND LIFE

BY KATHERINE YAGER

Toronto's first tool library opened recently in the city's west end. The co-op rents out tools to local residents and DIYers for an annual membership.

The concept of a lending library for tools started in Berkeley, CA, in a trailer that loaned out used tools, equipment and "how-to" instructional manuals for a membership fee.

The tool selection expanded so vastly that it was not long before it moved into a more permanent location. It was then amalgamated with the city's public library, so that anyone with a library card could also have access to thousands of tools, in addition to books. Since then, the tool library concept has taken off in other cities, and there are now 40 tool libraries throughout North America—with Vancouver opening its first last year.

The idea is simple: used tools are donated by local community members or bought through sponsorships. They're sorted and tested, then catalogued to be lent out to the public. Ryan Dyment, the Toronto Tool Library's executive director, explained that 80 percent of the tools are donated and the remaining 20 percent come from grants and corporations. Dyment says they recently bought a rototiller because it was in high demand, but that's the biggest item that they have bought so far. Everything else, he says, has been donated.

In Toronto, membership costs fifty dollars a year, but the fee is waived for members who make less than $40,000 a year. Anyone can join and get access to the tools, which range from a band saw and a CNC router to a 3D printer. The tools are even listed online, just like a library catalogue, so members can see what's available.

Except for tools that have been purchased outright or are in high demand, almost all the tools are included in the annual flat fee. Tools are usually kept for three to seven days. In addition to lending out tools, the space is also used for how-to workshops and demonstrations.

By late spring of this year, the Toronto Tool Library had 82 members, having only been open for just short of two months. "I did not expect the tool library to take off like it did," says Dyment. "The response has been extremely positive."

The goal is to have 500 members and already plans are in place to open another location in Toronto's east end this fall. That location will include a separate workshop space to expand the community reach of the Tool Library's programs.

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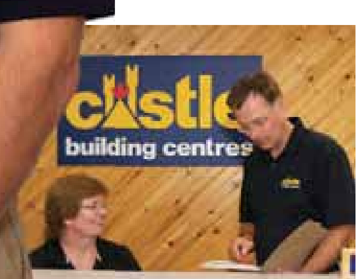

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