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HOME IMPROVEMENT QUARTERLY

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FOURTH QUARTER / 2013

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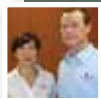
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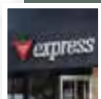


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THE RETAIL EXPERIENCE

What does your store have that online shopping doesn't have?

MICHAEL McLARNEY, EDITOR

What's considered the biggest threat to Home Depot long term? According to a confidential survey of suppliers conducted during the summer, Home Depot's biggest concern, second only to big-box rival Lowe's, is Amazon.

That's right. An online retailer. Probably *the* online retailer. Pundits are counting down to the time when Amazon will become larger than the world's biggest company, Walmart.

But guess what? Whether you are a giant chain or an independent focused on your local community, these trends loom large for every retailer today.

Take "showrooming." This phenomenon is bringing the online showdown right into every store. However, according to our report starting on page 44, it can be an opportunity, not a threat. Then, in conversation with retail consultant Doug Stephens, whom we interview on page 50, he explains that the secret to bricks-and-mortar retail in the coming years will be the retail experience you can provide more than what's on the shelves. The product

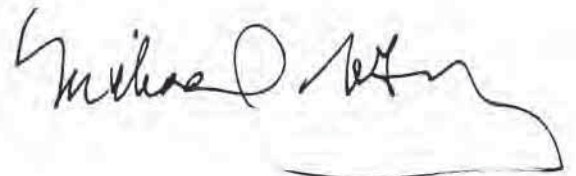
that's sold is just the "door prize," he notes.

So what shapes the retail "experience?" It's more than just a place to buy products. It's a place that offers service, atmosphere, and a destination not simply for inventory but for ideas, problem solving, and guidance.

Creating an authentic retail experience is about forming a partnership with your customers. This is not news to the savvy independent. But the rise of mobile shopping and the dominance of internet retailing

“Creating an authentic retail experience is about forming a partnership with your customers.”

have made the stakes higher than ever. The good news is that the independent is in the best position to tailor a retail experience for your customers—by service and having staff who really know how to solve customers' problems.



mike@hardlines.ca





QUARTERLY BUSINESS CONDITIONS

SECOND QUARTER 2013

Retailers' sales have remained mostly consistent, but vendors are not faring well as the economic climate remains challenging.

Retailers saw business decrease in the second quarter of the year, compared to the same period a year ago, but the shift was not great. While 49.1 percent of retailers reported that sales were up, that number is down from 55.6 percent in 2Q 2012. According to the latest HARDLINES Quarterly Business Conditions Survey, done in conjunction with NRHA Canada, the second quarter was a much tougher one for vendors.

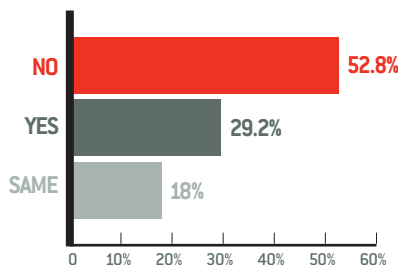
Almost half of vendors reported that business was down in the second quarter of the year, a big drop from the same quarter last year, when just 20.2 percent reported business was down. The optimism seen at the beginning of the year is not playing out into strong sales overall.

2013: A TOUGH YEAR

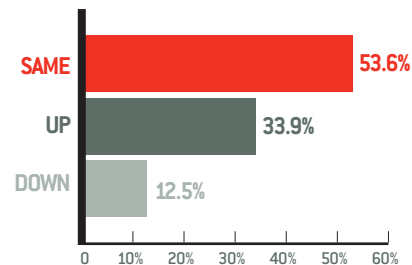
The year started out with a cold spring, bringing a halt to the beginning of the spring shopping season. And even though warm weather finally hit most parts of Canada by mid-July, weather continued to be a major challenge

throughout the second quarter. Not only that, but the economy is not growing as fast as was anticipated. The latest numbers show that GDP growth is predicted to slow to 1.8 percent in 2013, down from 2 percent in 2012, according to Stats Canada. Relatively weak

VENDORS: Did you receive more orders in 2Q 2013 than 2Q 2012?



RETAILERS: Did your conversion rate increase in 2Q 2013 compared to 2Q 2012?



economic conditions have also impacted the housing market, with housing starts down in 2013 compared to 2012.

With all these factors in play, it's no wonder that vendors and retailers are facing a difficult year.


PREPARING FOR BETTER SALES

Both retailers and vendors are offering new products to better compete in this difficult year. Just over two-thirds (67.2 percent) of retailers offered new products or services in Q2. That's up from Q2 2012, when 57.4

percent of retailers offered new products. Similarly, the number of vendors offering new products and services to better compete was up, from 64.6 percent in the second quarter of 2012 to 78.8 percent in Q2 2013.

Looking long-term, both retailers and vendors expect sales to increase over the next 12 months. Anticipating an improvement in the economy, 65.5 percent of retailers (compared to 57.8 percent in Q2 2012) and 74.4 percent of vendors (compared to 74.2 percent in Q2 2012) responded positively.

CONCLUSION

In the long term, the optimism from the beginning of this year can still be seen through expectations of sales increasing by this time next year. But the short term outlook is less appealing. As vendors and retailers prepare for the coming months with expanded assortments, we have to hope that the weather will co-operate and housing starts will increase through the second half of this year. 

Source: HARDLINES Quarterly Business Conditions Survey

VENDORS: Top issues in second quarter

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

RETAILERS: Top issues in second quarter

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

VENDORS: Top concerns in second quarter

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

RETAILERS: Top concerns in second quarter

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

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MID-YEAR, BUSINESS REMAINS “SOLID, STEADY” BUT LARGELY UNSPECTACULAR

Conditions varied across the country in the first half of the year as optimism varies over the rest of the year.

“We’re not hearing much from the members. It’s been relatively quiet here because everyone is so busy.” That’s the report from Gary Hamilton, president of the Western Retail Lumber Association, on the state of the marketplace by late summer.

And while that healthy level of activity appeared to be something shared by dealers through most of the country, it may not be enough to put most dealers ahead in sales over last year.

In Central Canada, where things have not been quite as buoyant, many dealers finished the first quarter down by as much as 15 percent, said Dave Campbell, president of the Lumber and Building Materials Association of Ontario. The consensus among his dealers, he noted, was such that if the year stays strong enough for them to meet last year’s numbers, most of them would be happy. “It’s a soft year,” he added frankly. “Some of it’s been the weather; some of it’s the economy.”

FLAT IS GOOD DOWN EAST

Down east, conditions may have been even more moderate, not including Newfoundland, which is “still going strong,” said Don Sherwood, president of the Atlantic Building Supply Dealers Association. “The potential there remains good.” But not so elsewhere in the Maritimes. “This year, flat is good,” he said. “But most of the groups are saying, ‘we haven’t seen the good yet.’ A large number of them are not getting there.”

However, he remains optimistic that his dealers’ year-over-year sales will be able to

catch up in the back half of the year, given that the back half of 2012 was soft through most of the Maritimes.

“WORST IN A DECADE”

While the West and Newfoundland remain relatively strong, dealers in Quebec were working hard through the summer to try and make up their year. Richard Darveau, president of Quebec’s home improvement industry association, AQMAT, was blunt in his assessment. “Quebec is doing badly.”

He blames a combination of factors that made the spring and early summer what he calls “the worst in a decade.” Unrelenting rains in the spring were followed by a hot, dry spell. Second, the mood of people in the province was dampened by the ongoing revelations of corruption and payoffs within the municipal governments of cities like Montreal and Laval. Third, a construction strike right in the middle of the summer selling season took its toll, said Darveau.

“This conflict in the industry literally paralyzed the business in the residential sector at a time of the year when it is normally at its peak.”

Darveau doesn’t expect dealers to make it up easily in the back half of the year. “What is lost will stay lost. But we are optimistic for the fall.”

OPTIMISM STRONGEST IN THE WEST

Meanwhile, the greatest strength still appears to be out West. Hamilton at the WRLA reports that the weather “is

co-operating,” and things are returning to normal after the severe flooding in Alberta back in June. “But overall, it’s been very good, helped further by the migration back into Manitoba and Saskatchewan.”


Yet even with the strong level of building activity in cities like Winnipeg, Hamilton remains “cautiously optimistic,” echoing the sentiments of his colleagues across the country. “There are no great records being broken out there; just solid, steady business.”

GOOD WEATHER PROPELLED BRITISH COLUMBIA

With the benefit of some “fairly strong activity in 2012” to propel it, the market in British Columbia is enjoying good sales this summer, said Thomas Foreman, president of the Building Supply Industry Association of B.C.

In fact, after a slow start to the year that was typical of most of the country, “We’ve had four weeks of unprecedented good weather and sunshine, which is overall making up for the earlier spring months of heavy rain,” he said. Dealers are seeing their staff hustle as customers begin to accelerate projects.

“People are painting, roofing, paving—doing all the things they don’t usually get to do when it rains.”

For the year, Foreman expects some continued positive growth—tempered by forecasts of a slower housing market. He notes that factors such as the provincial election earlier this year have brought some stability to the province. 

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TIM-BR MART MAKES LEADERSHIP CHANGES REVIEW OF OPERATIONS AND LEADERSHIP

Just over a month after TIM-BR MART Group's board asked its two top executives to take a paid leave of absence, the company provided further information on the status of CEO Tim Urquhart and executive vice president and COO Barb Hopper, including the announcement that Urquhart had left the company.

Following the departure of the pair on July 24, TIM-BR MART retained outside advisors to conduct an independent review of its operations. "That review has identified isolated instances of failure to adhere to corporate reporting structure and corporate governance," the company said in a release. "As a consequence, President and CEO Tim Urquhart has accepted the company's request for his resignation, which is effective immediately.

"Barb Hopper remains on paid leave of absence," the release continued. "Michael Westrum, Chair of TIM-BR MART Group's Board of Directors, will continue to act as CEO on an interim basis with the support of the senior leadership team in managing the company's day-to-day operations."

Urquhart shared this comment with HARDLINES: "It has been my pleasure to have worked with the TIM-BR MART team, the dealers, and the suppliers for these past 10 years. So much was accomplished during that time and I wish everyone continued success in the future."

The TIM-BR MART release added that the group will continue to enhance internal controls and efficiencies, while maintaining a commitment to growth and profitability.



CEO Tim Urquhart and executive vice president and COO Barb Hopper have stepped aside to allow the board to evaluate the company's direction.

CANADIAN TIRE TO OPEN FIRST SMALL STORES



This storefront on Danforth Avenue, in Toronto's Greektown, was a Mark's until it re-opened as a Canadian Tire Express, reflecting the retailer's new small-store strategy. With it, Canadian Tire intends to penetrate urban markets that would not typically support a conventional Canadian Tire store.

The stores, part of Canadian Tire's strategic plan for 2013, will be about 10,000 square feet in size, with assortments modified to suit a more convenience-oriented location. In addition to storefronts like this one, the format is intended to suit shopping malls.

HOME HARDWARE HAD BEST YEAR EVER, SAYS CEO

Home Hardware's president and CEO says his company had its best year ever in 2012, both in terms of profit and sales. "Our surcharge return to our dealers was a record number," he adds. That growth occurred in both hardlines and building materials.

During the first quarter of 2013, Home also showed an increase, but adverse weather left the country "a little tender," he notes. He is confident that Home's dealers are poised for further growth for the rest of the year. Categories that are seeing good growth include paint, plumbing and electrical, and fasteners. "We're trying to grow all categories."

One area that has seen considerable growth, says Straus, has been the addition of new dealers. Since the creation of a dealer development team five years ago, the company has added 105 new

members, he says.

But the company is also looking at ways to help all its dealers increase their sales per square foot. "One of the areas we're concentrating on now is to work with our existing dealers." Initiatives include training for dealers and their staff, and coaching from a merchandising standpoint—helping dealers understand the importance of cleaning up their stores and adhering to Home Hardware's programs.



UFA SUPPORTS HIGH RIVER RECOVERY EFFORTS

UFA, the Calgary-based co-op and hardware store chain, has been actively involved in restoration efforts after severe flooding devastated many parts of Alberta at the beginning of the summer.

The company initiated a "Flood of Support" campaign, bringing flood relief—both operational and financial—to communities throughout the province. But one community that was particularly hard hit was High River.

UFA's store there was one of the only businesses not affected by the flood, says Amanda Bates, a spokesperson for UFA, and it has become a focal point for much of the support being provided, including time and energy donated by UFA employees.



BRIEFLY

HOME HARDWARE EXPANDS ITS EASTERN DC

Home Hardware Stores Limited is celebrating the ongoing expansion of its eastern distribution centre in Debert, N.S. The expansion began its first phase in March with the addition of 180,000 square feet. Phase two, set to launch next spring, will add another 56,000 square feet. The expansion will support Home's growth in Atlantic Canada, which has seen the addition of 31 stores over the past five years. Home now has 217 members Down East.

CANADIAN TIRE SEES SOLID SALES

Canadian Tire reported a healthy second quarter, with same-store sales up across all its retail banners. Retail sales (namely, Canadian Tire dealer-operated stores, Mark's, PartSource, and FGL Sports franchisee-operated, Petroleum retailer-operated and corporate-owned stores) increased \$74.1 million or 2.1 percent in the quarter. For the Canadian Tire stores, retail sales increased 2.9 percent in the quarter, including "solid sales" in backyard living and cycling, following weak seasonal sales in the first four months of the year. Automotive and Living were particularly strong.

CANWEL REVENUES CLIMB

Revenues for **CanWel Building Materials Group Ltd.** for the second quarter climbed to \$210 million, up from \$207 million in the same period in 2012. The increase in revenue relates primarily to higher sales of specialty and allied products and the acquisition of North American Wood Preservers. Net earnings in the second quarter dropped to \$3.6 million from \$5.2 million.

NEW DEALERS, SPECIALTY PRODUCTS ARE AREAS OF GROWTH FOR SEXTON



Sexton Group, the privately owned buying group based in Winnipeg, reports that it has enjoyed good dealer growth, with 15 member locations joining from across the country since the beginning of the year.

In Central and Eastern Canada, Sexton welcomed Del-Pro Building Supplies, a drywall dealer in Whitby, Ont.; and Multi-Glass Insulation Ltd., a distributor and customized value-added fabricator of insulation systems and other energy conservation building materials to the commercial, industrial, and residential construction markets. It has seven locations in Ontario, Quebec, and Atlantic Canada.

Growth continued elsewhere in the country, as well. In the Prairies, Tora Ventures Ltd., in Calgary, is a new company specializing in roofing materials and accessories. Versatile Concepts Industries, located in Vonda, Sask., manufactures modular structures for

Steve Buckle, the group's general manager, says Sexton members are purchasing and selling building materials and hardlines at a record pace this year.

industrial camps and schoolroom additions. In British Columbia, Sexton added Twin Anchors Marine Ltd. in Sicamous, which manufactures modular structures; and Winton Global Homes in Prince George, a manufacturer of factory built structures.

According to Steve Buckle, the group's general manager, Sexton members are purchasing and selling building materials and hardlines at a record pace this year. "Despite poor weather and a late spring, our members reported very solid results for the first two quarters. Certain products, such as siding and windows, suffered in the first quarter but have fully rebounded now that the sun is shining."

BRIEFLY

LOWE'S SUFFERS LOSS IN AUSTRALIA

Year-end profits for **Woolworths** climbed 24.4 percent to AU\$2.26 billion. However, that rise was driven by the retail giant's food and liquor business, its hotel holdings and apparel. Its Masters hardware division, which it operates in partnership with U.S. home improvement retailer Lowe's Cos., suffered a loss of AU\$139 million for the year.

TRUE VALUE REPORTS INCREASES

U.S. co-op **True Value Company** reported gross billings of \$543.3 million for the quarter ending June 29, up 1.4 percent or \$7.3 million from \$536 million for the same period a year ago. Revenue was \$411.5 million, an increase of one percent or \$4 million from \$407.5 million. The co-op posted a quarterly net margin of \$23.8 million, up 7.2 percent or \$1.6 million, compared to \$22.2 million from a year ago.

McDIARMID STORES SWITCH

McMunn & Yates, the Dauphin, Man.-based home improvement chain, is converting the stores it took over from rival McDiarmid Lumber. According to the Winnipeg Free Press, M&Y is renaming five of the six stores it purchased to its own banner, adding to the 15 stores it already has. They will all be serviced eventually out of M&Y's dedicated distribution centre in Headingley, Man., just west of Winnipeg. A sixth McDiarmid store in Dauphin was closed. Left with just three stores, McDiarmid soon after closed those as well, one remaining outlet in Winnipeg, plus locations in Yorkton, Sask., and Sioux Lookout, Ont.

COLOGNE HARDWARE FAIR RAMPS UP FOR SPRING 2014

Koelnmesse, the organization that owns and operates Eisenwarenmesse, the International Hardware Fair, is promoting the show in earnest as the biennial event approaches, in Cologne, Germany.

The fair prides itself on being a truly international event, and based on the fact that 85 percent of the exhibitors in 2012 came from outside Germany, organizers are confident that trend will continue in 2014. So far, the tools area is shaping up to be the biggest exhibition zone in the show. In 2012, more than 1,500 companies presented a comprehensive range of hand and power tools, as well as power tool accessories.

Eisenwarenmesse, the International Hardware Fair is being held in Cologne, Germany, from March 9-12, 2014. For more information about the show, go to eisenwarenmesse.com.

Despite the still-slow economy across most of Europe, the Cologne Hardware Fair remains the largest show of its kind in the world.



YOUNG PEOPLE A “GREAT ASSET” SAYS CASTLE PRESIDENT

Young people are coming into home improvement retailing at an unprecedented rate, says Ken Jenkins, president of Castle Building Centres Group Ltd. These young people, he adds, are a “great new asset for the industry, especially in light of the fact that the boomer generation that has dominated this industry for so many years is rapidly entering retirement age.”

In addition, in a tight job market, especially for those under 30, a whole genera-

tion of Canadians is having a tough time getting employment. "They may take another look at the lumber yard of their mom and dad," he notes.

But one challenge for this new generation of dealers will be the need to communicate and build relationships with their customers, especially the contractors and tradespeople who make up such a large part of the business for most Castle dealers. 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.

The appeal of owning a yard or home centre is not only for the young; Jenkins says the inherent value of the independent is being recognized much more widely today—especially after years of dominance by big boxes. “It’s fashionable to be an independent. It’s cool to be the local building material dealer again.”

PEAVEY MART ADDS ELECTRIC CAR CHARGING STATIONS

Peavey Mart has begun adding charging stations for electric cars at all 29 store locations. It already has them in Red Deer, Alta.; Regina, Sask.; and Medicine Hat and Wetaskiwin, Alta. Peavey claims to be the first retailer in Canada to make such a commitment.

The service is free, says Doug Anderson,

president of Peavey Industries Limited. Most drivers are expected to take about an hour to charge their cars.

Saskatchewan-based Sun Country Highways installed electric chargers along the Trans-Canada Highway last year. Peavey is adding to that system. “We’re extending the reach north, says Anderson. “Soon



people will be able to travel from Dawson Creek, B.C., to Estevan, Sask., and hook in to the Trans-Canada network.”

LOWE’S CANADA TAKES POP-UP KITCHEN ON TOUR

A summer street festival in the west end of Toronto featured the usual array of vendors selling ethnic foods, straw hats, and vintage clothing. But amidst the makeshift booths that reflect the neighborhood’s Portuguese, Korean, and Italian populations, Lowe’s Canada stood out with a sophisticated fold-out trailer featuring the latest kitchen fixtures and appliances.



RONA DISCLOSES STRATEGY FOR SMALLER STORES, BIG BOXES


With its announcement to close another 11 stores, of which seven are big boxes, RONA inc. is also working on fine-tuning the performance of many of its other points of sale. According to Robert Sawyer, president and CEO of RONA, another 50 stores need attention in order to be more profitable.

Plagued by poor weather, a June strike in the Quebec construction industry, and a decrease in single-unit housing starts across the country, RONA reported second-quarter sales of

\$1.25 billion, down \$59.6 million from 2012. Same-store sales for the total RONA network were down 1.0 percent, due to a decrease of 2.7 percent in the distribution segment and 0.7 percent in the retail segment.

“We have a strong action plan to ensure they get a lift,” to help the locations—mostly smaller stores—to return to profitability. “That work,” he adds, “has already been started this year.” He notes that the big boxes will benefit from the lessons learned from the current refurbishing

of the Réno-Dépôt chain in Quebec.

Those stores have been reclassified as “discount” outlets, with a focus on serving contractors and offering more focused assortments and higher service levels for pros and heavy DIYers. Up to 75 percent of the Réno-Dépôt stores will be re-tooled, says Sawyer. Then, aspects of the concept may be rolled out to some of the big boxes outside Quebec, although, he adds, they will continue to be bannered as RONA stores. 

THE FUTURE IS BRIGHTER AT HOME

"With our previous banner, there were constant changes in suppliers and products. Frequent and long stock shortages were the norm – a stark contrast to Home's 95+% fill rate. At Home, every Dealer is treated equally, with no plateaus for rebates instead of different conditions for every Dealer. We wanted a brighter future for our stores, not an uncertain one. That's why we're so glad we came back Home."

Yves Morel

Ste-Anne-des-Plaines and
Saint-Lin-des-Laurentides QC



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Luc Martin,
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Andrew Parkhill,
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British Columbia,
604.751.3853

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Ontario,
Manitoba,
Saskatchewan,
519.501.5988



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ProductSPOTLIGHT

BY JON STOLLER

DAP FASTPATCH 30 ▶

DAP says this multi-purpose powder patching compound sets in just 30 minutes, so users can paint and patch in just one day. Versatile formula repairs holes in plaster and drywall, fills cracks in concrete and wood, and finishes drywall seams. No primer required before painting.

dap.com



▶ ROXUL RockFill Insulation

This loose stone wool insulation can be applied on top of existing attic insulation to increase a home's energy efficiency. ROXUL says their product boosts thermal insulation, absorbs sound, and reduces energy usage.

roxul.com

Cathelle LED Worklight ▶

Contains 60 super bright LEDs that emit virtually no heat. The handle features a grounded outlet, and ratcheting hooks on both ends enable 360° rotation. Cathelle says the average rated life is 50,000 hours.

cathelle.com





◀ Hitachi Coil Framing Nailer

Built for the jobsite, Hitachi's new addition, the NV90AG 3-1/2" Coil Framing Nailer, comes with an all-aluminum body and steel head plate for maximum durability. Full of features for convenient operation and superior performance, making the professional grade construction tool feel effortless to maneuver in applications ranging from installing wall sheathing to making boxes, pallets and drums.

www.hitachipowertools.ca

Minwax Ultimate Floor Finish ▶

A technologically advanced, durable topcoat for floors, this floor finish provides exceptional levels of floor durability in a crystal clear finish. Self-crosslinking technology provides a tough, non-ambering floor finish that is great for any hardwood floor.

minwax.ca



◀ Milwaukee Fastback II Utility Knife

Features a one-handed blade opening for fast, easy activation. Tool-free blade change ensures quick adjustments, and thin body design makes it pocket-friendly. Magnetic blade storage holds one spare to maintain slimmess.

milwaukeeetool.com

Task Tools Surge Protectors ▶

The patented 360° rotating outlets allow users to insert plugs without blocking adjacent sockets. Provides effective power surge protection, and ensured clean power delivery for high-demand electronics. Two of the five products feature dual USB ports.

task-tools.com



◀ Cendrex Adjustable Access Door

Provides easy access to any wall or ceiling. Cendrex says installation takes five minutes, and requires no tools. Door is magnetically secured, and provides a discrete, clean white finish.

cendrex.com

ProLine Linear Drain ▶

Trench drain designed for accessibility and style. The no-threshold design makes getting in and out of the shower easy and safe, and the stainless steel body is built to last. For residential and commercial use.

quickdrainusa.com



ORGILL MARKET SEES INCREASE IN CANADIAN ATTENDANCE

Canadian dealers are curious to find out what this U.S. hardware wholesaler can offer them, as the Canadian distribution scene continues to evolve.

This year's Orgill Fall Dealer Market, held in Boston in August, saw a visible increase in the number of Canadian vendors and dealers in attendance. Even more striking was the number of Canadian flags in the vendors' booths representing Canadian-compliant goods; around 90% of the vendors carried merchandise ready to ship to Canada.

Orgill started shipping here on a widespread basis three years ago and has been growing its presence here ever since. This year alone, Orgill is expecting over \$185 million in growth. Orgill claims it is fast reaching a point where it can offer a range of SKUs that rivals the inventories of domestic wholesalers. This type of growth has made the Orgill Market a compelling destination for more Canadians than ever.

Orgill's growth in Canada has been methodical, however. A partnership with Castle Building Centres Group brought Orgill into the Canadian market, and today Orgill's Canadian team is focused on providing national support and the company ships to every province and one territory. Now more dealers are seeing Orgill as a sourcing solution, as evidenced by the number of retailers from a range of retail banners walking the show in Boston.

Orgill's growth in Canada has been further aided by its new flow-through facility in Brampton, Ont., which has eased difficulties with getting stock across the border, particularly chemicals that have different regulations in the U.S. and Canada. "The door is open, come on in," is how James Jones, Castle's vice president of national marketing, explained Orgill's position.



Orgill's model "Windsor Falls" store, is a 12,000-square-foot showcase stocked with entirely Canadian-compliant products.

Within the show, there were a number of "model" stores, fully merchandised with complete hardware assortments. These included two model hardware stores and a lumber and building materials model store. One of the model stores was the "Windsor Falls" store, a 12,000-square-foot showcase stocked with entirely Canadian-compliant products. "The Windsor Falls store is the most impressive independent hardware store in Canada," said Jones.

The fall market had some other notable additions, such as the first-ever Canadian "Door Buster" specials, demonstrating the breadth of Canadian-compliant products now available through Orgill.



Jones, who insisted that dealers could increase their margins by buying through Orgill, added that Castle has had record purchases through Orgill, surpassing its purchases with any other hardware distributor.

MEETING PLACE FOR THE INDUSTRY: THE 18TH ANNUAL HARDLINES CONFERENCE

Google, Sears, Home Hardware are among the headliners at the industry's leading summit for networking and learning.

In an era that is overwhelmingly dominated by social media and electronic connections, there's something to be said for just getting together in the same room.

And that is one of the key strategies behind the Hardlines Conference. The event has been bringing together retail dealers and executives, suppliers, and industry professionals for face-to-face networking for almost two decades. This year, the 18th annual conference on October 23 and 24 in Toronto will deliver all that—plus a dazzling array of keynote speakers.

The theme this year is “Transform your Business.” Speakers will include some important retail leaders who are doing just that. Richard Lord, president and CEO of Richelieu Hardware, spearheads a progressive hardware company that has grown rapidly over the past decade with acquisitions on both sides of the border. There's not a dealer in this country that doesn't carry Richelieu's products.

Despite its challenges, Sears Canada remains one of this country's largest retailers—and one that is committed to a range of hardlines categories. James Ryan, VP home, hardlines & major appliances at Sears Canada, will share his company's initiatives in this important area—and opportunities for vendors supplying the giant department store retailer as it re-invents its hardlines assortments.

FROM THE FRONTLINES

Besides the big retailers, delegates will also learn from the industry's front lines. Frances Sologuk is an award-winning Home



Hardware dealer from Osoyoos, B.C. What she's doing to connect her store with her customers will open your eyes and warm your heart.

On the building supply side, Jeffrey Kilgour, VP special projects & analysis for Eacom Timber Corporation, will share his insights into the worldwide demand and pricing that is dictating the market for lumber. What is China doing and why does it matter to Canadian dealers? Kilgour will explain.

BIG BRAINS AND BIG LEADERS

Retail Guru Anthony Stokan is the latest retail expert to join the Hardlines Conference. Stokan's engaging and enlightening take on retail trends has been a favourite of Hardlines Conference delegates in previous years. This year, we'll get up close and personal with this incredible retail mind, in a "question and answer" format that will be both informal and enlightening.

An important part of the Hardlines Conference each year is the "Profiles in Leadership" Series. This year, the conference welcomes former parliamentarian Bob Rae. Rae served as Ontario's 21st Premier from 1990 to 1995, and since 1978 has been elected 11 times to both federal and provincial parliaments. From 2011 to 2013, he served as the interim leader of the Liberal Party of Canada.

WHAT ARE THE TRENDS IN RETAIL?

Delegates will hear from Rafe Petkovic of Google Canada, who is responsible for leading Google's sales teams that guide customers' online and multi-channel strategy to drive more customers to their stores. Ibrahim Ibrahim is managing director at Portland Design in the U.K. With offices in London, Utrecht, Cairo, and Dubai, Portland is a leading international branding and retail design consultancy. Ibrahim returns to the Hardlines Conference by



Anthony Stokan



Bob Rae



Jill Nykoliati



Ibrahim Ibrahim



James Ryan



Rafe Petkovic



Pat Bolland



Frances Sologuk

popular demand, after wowing our audience just two years ago.

Jill Nykoliati is president and lead strategist of ad agency Juniper Park. Her team brings together the disciplines of strategy, design, and advertising for a global client roster that includes Virgin Mobile, The Source, CIBC, Del Monte, EOS, Pfizer, Tropicana, and Weston Bakeries.

Rounding out the program is Pat Bolland,

media coach and host at Sun News Network. He has an insightful take on the direction of Canada's economy that is as refreshing as it is unconventional—not to be missed!

The 18th Annual Hardlines Conference will be held October 23 and 24 at the Sheraton Toronto Airport Hotel. Special rates are available for independent dealers and managers. Check out www.hardlinesconference.ca for more information.

Outstanding retailers will be honoured at gala dinner

A gala dinner on the first night of the Hardlines Conference will pay tribute to the passion and dedication of a group of hardware and home improvement retailers. The Outstanding Retailer Awards are now owned and managed by Hardlines Inc., which publishes *Hardlines Home Improvement Quarterly* and the weekly e-newsletter HARDLINES. The awards will be presented at the Outstanding Retailer Awards Dinner on the first evening of the conference, October 23.

The ORAs began in 1992 to honour excellence in merchandising and retail performance. The awards recognize that some of the greatest retailers in Canada are hardware and home improvement dealers. The ORA ceremony has been held during the Hardlines Conference for the past decade, paying tribute to dealers from a range of banners and regions across Canada.



HOME IMPROVEMENT RETAIL ENJOYS ANOTHER YEAR OF GROWTH

The retail home improvement industry didn't grow a lot last year, but it did grow. And modest growth is expected to continue through 2014.

BY THE EDITORS OF HARDLINES

According to a new report from **HARDLINES**, 2012 marks the third year of consecutive positive growth, after retail sales in this industry shrank during two recessionary years in 2008 and 2009.

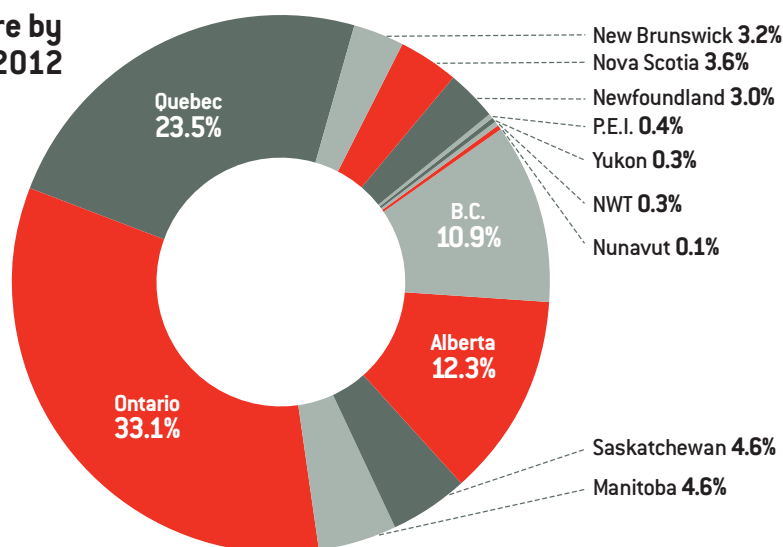
But growth post-recession comes nowhere near the increases enjoyed a decade ago, as revealed in the newly released *2013 Hardlines Retail Report*. In fact, the three years of combined positive growth since 2010 barely exceeded 6 percent in total—a typical single-year increase before 2008.

And that modest growth was spread in widely varying degrees across the country. The *Retail Report* reveals that the Atlantic Provinces all slipped last year in their home improvement sales, with the exception of Newfoundland and Labrador, which was up 4.6 percent. In the West, all provinces enjoyed positive sales, while Alberta led the way for the entire country with 6.4 percent growth.

In Central Canada, Ontario managed a 3.0 percent increase, after four consecutive years of falling sales. Quebec's market, however, was sluggish overall in 2012, with sales down 1.9 percent.

The *2013 Retail Report* also analyzes the performance of the various retail store formats. For example, the big boxes continue to recover post-recession. Their collective sales grew by 1.0% in 2012, and that number would have been higher if not for the fact that RONA is focusing growth on traditional building centres, while Lowe's is facing tough conditions in Canada as it expands here. However, the big boxes have yet to return to pre-recession sales levels.

Market share by province – 2012



Sales growth of Canada's retail home improvement industry

Year	2011	2012	2013 (fc)
Sales	\$40.01	\$40.80	\$41.38
y-o-y change	2.1%	2.0%	1.4%

Market share of the top 20 home improvement groups

	2012
Top 20 Retail Groups	87%
Rest of Industry	13%

Consolidation continues in this industry, as the latest data from the new report point out. The top 20 retail groups in the country grew their sales overall by 2.4%, ahead of the industry average of 2.0%, thereby growing their collective market share even further in 2012. Those groups now represent fully 87.0% of Canada's retail home improvement sales.

In addition, business conditions of dealers year-to-date and through the next 12 months reveal cautious optimism for 2014, with two-thirds of dealers expecting their

sales to improve going into next year, providing slightly more positive forecasts for growth to the end of this year and 2014.

(The *2013 Hardlines Retail Report* is a comprehensive overview and analysis of the retail home improvement industry in Canada. With more than 150 PowerPoint slides filled with charts and graphs, it's the only tool for measuring the growth and market shares of the key sectors and retail companies in this industry. Go to www.hardlines.ca and click on "Publications.")

BUILDING CONNECTIONS



Wednesday, January 22

7:00pm - 11:00pm ~ Opening Night Meet & Greet
Radisson Hotel, Mezzanine Level



Thursday, January 23

8:00am - 4:30pm ~ 2014 Prairie Showcase Day 1
12:00pm - 1:00pm ~ Annual General Meeting
Prairieland Park

7:00pm - 11:00pm ~ Gala Evening
TCU Place, 2nd Floor
Featuring Alter Ego

Friday, January 24

8:00am - 3:30pm ~ 2014 Prairie Showcase Day 2
Prairieland Park

7:00pm - 11:00pm ~ Closing Night Party
TCU Place, 2nd Floor
Featuring Johnny Reid (he promised)

11:30pm - Late (or early) ~ WRLA Hospitality Suite
Radisson Hotel, Main Ballroom, Mezzanine Floor

Saskatoon, SK



Johnny Reid

For complete details go to www.wrla.org/prairie-showcase or email ckelly@wrla.org



The 18th Annual Hardlines Conference

October 23-24, 2013, Sheraton Toronto Airport Hotel and Conference Centre
www.hardlinesconference.ca

This important industry event features retail leaders who will discuss the latest trends and innovations driving home improvement retailing. Join your fellow top home improvement retail leaders at this year's Hardlines Conference.

Topics include:

DAY 1:

Independent Retailer Case Study

FRANCES SOLOGUK, Owner, Osoyoos Home Hardware

Tomorrow's Shopping, Competing for the Future Today

IBRAHIM IBRAHIM, Managing Director, Portland Design

Profiles in Leadership

RICHARD LORD, President and CEO, Richelieu Hardware

Global Economy and What it Means to You

PAT BOLLAND, Media Coach & Host - Sun News Network

China Factor: Changes in Canada's Forestry Industry

JEFF KILGOUR, V.P. Special Projects & Analysis at EACOM
Timber Corporation

Facing the Retail Challenge

JAMES RYAN, VP Home, Hardlines, Major Appliances, Sears
Canada

The Future Is Here: Technology Trends and Their Impact

RAFE PETKOVIC, Head of Industry - Google Canada

Hardlines Outstanding Retailer Awards Gala Dinner

Join us as we celebrate the outstanding achievements of Canada's finest home improvement retailers.

Special pricing for independent retailers



Canada's Conference for the Home Improvement Industry



DAY 2:

Why Independents Can Compete and Survive

BILL MORRISON, *President, Truserv Inc.*

Retailing Tips From Around the World

MICHAEL MCLARNEY, *Editor, Hardlines*

BEVERLY ALLEN, *Publisher, Hardlines*

It All Starts with the Brand

JILL NYKOLIATION, *President, Juniper Park*

Profiles in Leadership: Bob Rae

BOB RAE, *Counsel for the Matawa First Nations in Northern Ontario's Ring of Fire and Former Liberal Member of Parliament*

Consumption is Changing...Are you?

ANTHONY STOKAN, *Partner, Anthony Russell Inc.*

Join your fellow retailers and vendors as we celebrate the industry's top home improvement retailers at the Hardlines Outstanding Retailer Awards and Gala Dinner at the 2013 Hardlines Conference. Wednesday, October 23, 2013. 6:00pm – 8:30pm at The Sheraton Toronto Airport Hotel and Conference Centre in Toronto.

Single tickets: \$145

Tables of 8: \$1,000

Visit www.oras.ca to register and for more information.



Visit: www.hardlinesconference.ca



BY JOHN CAULFIELD

SIZING UP THE MARKET

Retailers experiment with smaller stores, but big boxes aren't dead yet.

Leave it to Kent Building Supplies to be contrarian.

At a time when Canada's big-box home improvement retailers are once again weighing the future of gigantic stores as part of their growth strategies, Saint John, N.B.-based Kent this fall opened its first new big box in more than a decade.

That 100,000-square-foot outlet, which is reportedly costing the retailer's parent, J.D. Irving Ltd. \$10 million, will be part of a shopping plaza in Charlottetown, P.E.I. The large store will replace an existing store about half its size and bring to eight the number of big boxes (ranging from 85,000 and 100,000 square feet) that Kent operates, along with 34 smaller stores, in Atlantic Canada.

Kent officials have not stated their reasons for deciding to open a big-box store now, nor did they return HARDLINES' requests for comment. But the retailer's decision comes at a time when other dealers are re-thinking whether store size is an impetus or impediment to increasing customer traffic and gross margins.

"Canada is at a point of saturation" when it comes to big boxes, asserts Mike Rowe, CFO for Home Depot Canada. In fact, that retailer has no immediate plans to open any new stores, large or small, beyond the 180 warehouses it operates already.

"The market for big boxes is pretty much exhausted in Atlantic Canada," adds Steve Smith, president of Central Home Improvement, which operates three

stores over 50,000 square feet, as well as four traditional yards. But it has no new stores on the horizon, either. Smith thinks that as shoppers age they tend to become less tolerant of the inconveniences associated with big-box shopping, including those long marches through parking lots and cavernous aisles to reach the paint or lighting department.

But industry watchers have been ringing the death knell for the big-box era almost since this type of retailing emerged in the late 1970s. And there are still dealers out there for which big boxes are growth vehicles. Costco, for one, wants to increase its store count in Canada to 110 units from its current 85, and in May was building a 148,000-square-foot warehouse in Edmonton.



SMALL DEALERS GET BIGGER

Since 2009, Home Hardware Building Centre in Gananoque, Ont., has operated within a historic 84,000-square-foot building on 12 acres. It's using 42,000 square feet for its retail showroom, 12,000 square feet to display furniture and appliances in an adjoining Home Furniture outlet, and 35,000 square feet as a drive-through lumberyard. The store is currently using only five acres, so it could expand if business conditions warranted it.

The store's owner, Ken O'Connor, readily acknowledges that his location is larger than what's needed for a market with 9,500 people within an eight-mile radius. However, "it keeps people in town," he says, by offering a wider selection of products than the 8,000-square-foot store it replaced. Plus, at any given time this Home Hardware will have 25 to 30 employees on the floor available to serve customers.

His store takes in about \$13 million in annual sales, which is definitely on the high side for a retail outlet selling hardware and building materials. But O'Connor hasn't seen many other Home Hardware dealers who are willing to invest in large-format

stores. In fact, O'Connor thinks the big-box era "is done." There are simply too many big-box stores fighting for too small a pie in many markets, and often doing a bad job of it on the service side, he says.

“The market for big boxes is pretty much exhausted in Atlantic Canada.”

SAME BRAND, SMALLER VERSIONS

Has Canada's retail landscape finally reached a point of diminishing returns for opening new big boxes? One might think so, based on the number of retailers giving smaller stores a second look.

Canadian Tire, for one, continues to convert its full-line stores to its more-efficient "Smart" format. But the Toronto-based retail giant has been playing with smaller stores since 2007. Back then, it disclosed its plans to open "Smaller Market" stores—18,000 square feet of retail space with 7,000-square-foot enclosed garden centres—in about 100 communities. While

that strategy never went beyond a handful of test stores, Canadian Tire is once again experimenting with smaller stores—this time 10,000-square-foot stores aimed at shopping centres and other urban locations.

Lowe's Canada operates 35 warehouse home centres, and has potential to grow in some areas, including Western Canada. Some industry watchers read into Lowe's failed attempt last year to acquire RONA as the U.S.-based retailer's acceptance that there weren't many markets left in Canada to open new big boxes on its own.

This summer, Lowe's may have given a clue to its expansion plans when it purchased 72 of 91 Orchard Supply Hardware stores in California, stores that average 36,000 square feet, considerably smaller than Lowe's traditional big box at 113,000 square feet. Lowe's also recently debuted Lowe's Express, a 50,000-square-foot store in Wall, N.J., that will employ up to 70 people during peak selling seasons. The company has also said it would test a smaller-store strategy in Canada, but that strategy has yet to materialize.

It is not known yet whether or where Lowe's intends to open more Express outlets in the U.S. or Canada. (Lowe's did not return phone calls from HARDLINES requesting comment.) But it would come as no surprise if Lowe's joined those other dealers whose business models now embrace a variety of store sizes. For example, half of the 24 stores



Kent has opened Canada's latest home improvement big box. This 100,000-square-foot store opened in Charlottetown in September, going against a trend by most companies to downsize their store footprints.

PHOTO: CALLUM PINKNEY

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We believe in building relationships, too. You can rely on our trained, professional sales staff to give you the latest products, custom programs, competitive pricing, and timely delivery. We serve a wide variety of customers, including:

- Lumberyards
- Concrete & construction supply yards
- Home improvement centers
- STAFDA dealers
- Roofing & siding specialty distributors
- Electrical & plumbing retailers
- Drywall supply yards

that Walmart opened in mid-July in the U.S. were 40,000-square-foot Neighborhood Market outlets, a concept Walmart introduced in 1998 and now operates in more than 230 locations across the U.S.

And through June of this year Walmart opened 17 Walmart Express units, 12,000- to 15,000-square-foot grocery stores that include pharmacies and general merchandise including health and beauty aids. An

Express that Walmart opened in Princeton, N.J., in May even includes a gas station.

STAYING BIG, BUT WITH BETTER SERVICES

Going small is no guarantee of either market penetration or financial success, of course. Home Depot has flirted with home centres as small as 40,000 square feet. It's only test store in this format has been operating in Parry Sound, Ont., for several years; the format was never rolled out.

In the U.S., its venture into smaller hardware-store retailing, dubbed Villager's Hardware, caused quite a stir and some panic among competitors. But that concept never went beyond a four-store test in New Jersey. The first Villager's Hardware, a 56,000-square-foot building in East Brunswick, N.J., has sat vacant and unleased since Home Depot closed it in the summer of 2008, nine years after its much-ballyhooed debut.

Home Depot Canada has no interest in opening smaller stores, says Rowe. "Our customers expect a larger presentation from us, and are willing to travel greater distances for it." So growth, particularly at the bottom line, will come from better execution at its existing warehouses. Rowe says Home Depot's big boxes already benefit from the implementation of customer services programs such as FIRST (an acronym for Find a customer, Inquire, Respect, Solve and Thank). Rowe also says the stores are more efficiently merchandised and maintained since the company turned over those responsibilities to 1,500 of its own employees.

Home Depot Canada sees potential in improving its profitability through inventory control, especially once its first Rapid Deployment Centre for the Canadian market opens in 2014. The division also expects online sales, which account for less than two percent of its revenue currently, to expand. Rowe calls this "interconnected

BRITISH RETAILERS SIGNAL FUTURE OF BIG BOX

Larger retailers are getting creative with their use of space in order to respond to changing consumer patterns. That includes reinventing the traditional "big box" shopping experience to compete with a growing range of other formats.

After years of competing to be the biggest and best, retailers are shifting into reverse, as locally-sourced and ecologically responsible products become more and more important to consumers. British hypermarket chain Tesco is taking a dramatic step with the re-opening of its Watford store. Originally launched in 1988, the re-booted store will feature a veritable village of shops-within-a-store. Giraffe Restaurants, which Tesco bought out in March, will operate one of its casual dining rooms on the premises. A coffee house, gym, and community space—like those offered in Loblaws stores closer to home—are also included in the plans.

Another Tesco store, in Northeast England in Stockton-on-Tees, is piloting a soft play room for youngsters and a Pilates studio for more mature customers. All of these experiments have the same goal: to capitalize on large spaces in an internet age when consumers no longer need one-stop shops to access a variety of goods quickly. The European phenomenon mirrors the push to small formats seen across the pond among retailers like Walmart, previously defined by their sheer size as much as by their low prices.

Tesco isn't alone in Britain, either. Rival Asda has internally expanded its George clothing shops to achieve more of a stand-alone shop experience, making it feel like a section of a larger store. CEO Andy Clarke told the Financial Times the trend in the future could be toward "mini high [main] streets" inside stores. He wants to partner with local artisans to create indoor markets with rows of butchers, bakers, and fishmongers dotting the aisles. Meanwhile, supermarket chain Sainsbury's has few hypermarkets, but several pharmacies, dental clinics, and doctors' offices on its properties.

Nor is the space crunch confined to the grocery industry: Kingfisher has determined that its B&Q home improvement chain could retain profitability at 20 percent less space. Asda is stepping in to take over half of a B&Q property in Kent.

—Geoffrey McLarney

retailing,” and notes that 10 percent of online purchases are now picked up at Home Depot’s stores.

RONA is another company that is reasserting its support of big-box retailing in tandem with smaller stores within its corporate and dealer network.

Over the past year, as it has gone through changes at the executive level and regrouped strategically, the fate of RONA’s big boxes outside its home province of Quebec was a point of strong contention. Company officials talked about closing big boxes or converting them to RONA’s “proximity” stores.

A chunk of the \$67.1 million in non-recurring charges RONA took against earnings in 2012 covered the costs of “restructuring” several big boxes outside of Quebec—code for closing some and


making others smaller. But earlier this year, RONA pulled back on that strategy. And while six of the 11 stores it plans to close this year are underperforming corporate-owned big boxes, the company is committed to keeping open its remaining warehouse stores, which include 17 Réno-Dépôts that are being refurbished in Quebec.

“We believe there is a future for those stores,” says Luc Rodier, RONA’s senior vice president of retail. RONA’s latest “hub and spoke” business model offers different products and services at various locations within the same markets across Canada. For example, the Réno-Dépôts are being retooled to cater to contractors and serious DIYers.

RONA is now showcasing its warehouse home centres as places where customers

can find “highly specialized” services such as kitchen installations, says Rodier. Those stores’ product selection will also be far deeper than what customers can find in RONA’s smaller outlets.

Rodier says that, unlike some competitors, RONA doesn’t have to experiment with smaller formats because “our core is the proximity store.” He is quick to note, though, that the draw of big boxes has changed “dramatically” over the past few years, thanks to real estate developers that have put a warehouse home centre in power centres in every metro market in Canada.

“The square footage increase in terms of big boxes has surpassed greatly the increase in population,” says Rodier. But that doesn’t mean RONA won’t open more big boxes at some point. “Market by market, the story is always different.” 

A Letter from Tim Urquhart

I have been fortunate to enjoy a 30-plus year career in the hardware and building material industry, and am especially proud to have served the last ten as President and CEO of TIM-BR MART Group.

I would like to thank each and every TIM-BR MART and Ace Dealer and Vendor; and TIM-BR MART, Ace and Chalifour employee for your support over the years. Thank you for giving me the chance to lead TIM-BR MART as it grew from a Western Canadian buying group into the complete service corporation it is today, serving dealers of all size across every province and territory in Canada.


It was amazing to be part of the success we achieved together; growing purchases from \$600 million to over \$2.2 billion (2012 was a record year), expanding our TIMBER MART and ACE marketing programs, acquiring our own hardware distribution solution, and enabling every one of our dealers to become shareholders in the company - now your company.

This has been an extremely rewarding time for me and I look forward with anticipation to what the next chapter has in store.

I wish each and every one of you prosperity, good health and continued growth.

US Industrialist Henry Kaiser said “Live daringly, boldly, fearlessly. Taste the relish to be found in competition - in having put forth the best within you.” I believe TIM-BR MART stakeholders embody this spirit and succeed by dreaming big and being fearless!

Thank you for letting me be part of that success. I look forward to the time when our paths will cross again,


Tim

tim.urquhart01@gmail.com
587-437-1264



DIY SHOPPING CENTRE

BY MICHAEL McLARNEY

Talk about diversifying. Jeff Redden wanted his Home Hardware store to anchor a shopping plaza. So he took over the plaza himself.



Jeff Redden has taken over this plaza in Windsor, N.S., with an imaginative array of retail stores that attracts customers from as far away as Halifax.

S till struggling post-recession, the Fort Edward Mall in Windsor, N.S., was having trouble getting tenants back in 2009.

The mall owners ended up gutting the facility and turning it into a plaza. That conversion left some space available as other retailers left. Jeff Redden saw this as an opportunity for his Home Hardware store. He took over that space—and put it to imaginative use.

Redden started by expanding his own 15,000-square-foot store by another 3,000 square feet. Then he got really creative, adding in a Home Installs division to that, complete with a kitchen and bath design centre. Next, he brought in a Home Furniture store, adding in another 15,000 square feet. As a plaza, his retail now had its own entrance, so he used the new layout to expand further, adding a Bell store and a bakery and café.

In the fall of 2010, the expansion was complete. With a total of 34,000 square feet, he had more than doubled his presence at the site.

Much of this retail diversity fits well with

the concept of what a hardware store could offer, and Redden doesn't miss the opportunity to encourage customers to go from one retail environment to another. For example, anyone who spends at least \$1,000 on furniture can get a free can of paint. "There are all kinds of cross-merchandising opportunities," he says.

But Redden went even further. While the bakery was downsized to a self-serve coffee shop, complete with organic fair-trade beans, it still provides an important gathering spot for regular customers—and the free wi-fi helps. "It's a nice added bonus. It gives people labouring over a high ticket appliance purchase a chance to regroup and think."

The 1,700-square-foot space formerly dedicated to the bakery has been turned into a boutique for Home Hardware's

higher-end kitchen products, including Kuraidori, Cuisinart, and KitchenAid.

As unconventional as it all may sound, the combination works, says Redden. "We say we're like a casino—the longer you stay, the more money you'll spend."

But Redden sees a bigger picture in all this. Like so many small towns across the country,

“There are all kinds of cross-merchandising opportunities.”

customers get lured to larger centres, attracted by big retailers and (supposedly) lower prices. "We feel we have the destination to give local shoppers the reason to come here."

In fact, says Redden, his retail combo now draws people into Windsor, often from as far as Halifax, 30 minutes away. "We're actually going after people outside our area. We give city people a reason to come out here. They like the small-town service they get. They're not used to that in the city." ■

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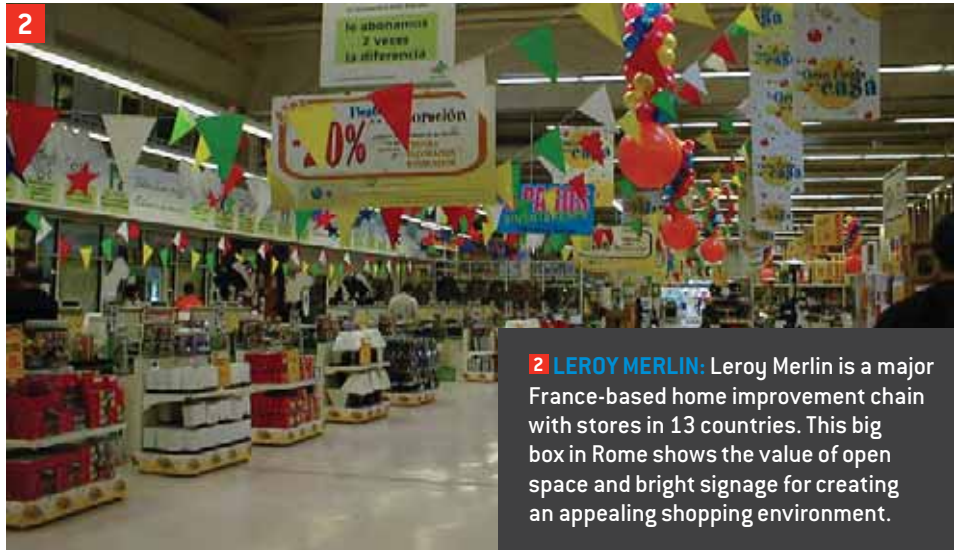
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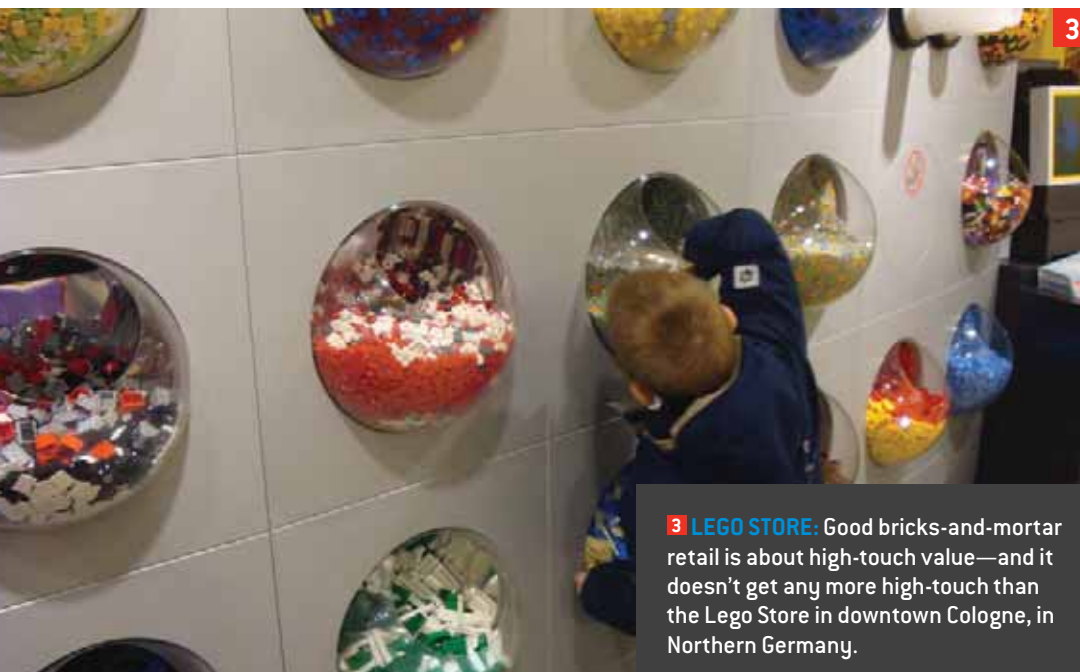
EXCELLENCE IN MERCHANDISING: A GLOBAL PERSPECTIVE

How far is the retail envelope being pushed? The **HARDLINES** editors have gathered some of the best practices from their travels.

1 BACK BAY HARDWARE: In this age of big retail, there's something to be said for understatement. This True Value store in Boston's historic Beacon Hill neighborhood fits right in with its venerable environs.



2 LEROY MERLIN: Leroy Merlin is a major France-based home improvement chain with stores in 13 countries. This big box in Rome shows the value of open space and bright signage for creating an appealing shopping environment.



3 LEGO STORE: Good bricks-and-mortar retail is about high-touch value—and it doesn't get any more high-touch than the Lego Store in downtown Cologne, in Northern Germany.

4 THE SHOPS AT DON MILLS: The Shops at Don Mills in Toronto is an "urban village," an attempt to re-invent a tired old enclosed shopping centre into an integrated shop/play environment. It succeeded, with a mix of restaurants, shops, and condos.



5 PASADENA MIXED USE CENTRE: “New urbanism,” the architectural trend that attempts to create more walkable neighborhoods, puts its stamp on this mixed-use centre in the old town in Pasadena, Calif., combining living and shopping in one location.



6 GLOBETROTTER EQUIPMENT: Talk about high touch! Globetrotter, a sports store in Cologne, Germany, has a pool where customers can get scuba-diving lessons, while a zip-line runs across the top of the atrium around which this store is constructed.



7 + 8 KRONEN: This lawn and garden centre may be indoors, but plenty of skylights ensure that it still benefits from lots of natural light. Note the natural wood feel, as well, thanks to the giant timber beams holding up the ceiling.



9 TAKE IT OUTSIDE: This Gap store in Los Angeles has used the storefront in an imaginative way to display T-shirts.

10 KNAUBER: The Knauber store in Bonn, Germany, is a home improvement retailer, but not conventional by any means, as this tropical fish department can attest.



11 SANTA MONICA PLACE: Santa Monica Place in Southern California is a toney open-air shopping complex that knows the value of creating a welcoming environment—and the importance of multi-cultural marketing.



12 COLOGNE CITY CANDY STORE: Do one thing and do it well. There can be no question in any shopper's mind that this store in Cologne sells candy—and lots of it.

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UNDERSTAND YOUR COMPANY'S STRENGTHS AND WEAKNESSES

BY BILL WILSON, RETAIL ADVISOR, NRHA CANADA

As 2014 draws nearer, now is the time to create your next year's business plan.

We are all aware there has been little growth in the retail LBM & hardlines business for the past five years and forecasts for 2014 anticipate increases of under two percent—with inflation essentially flat. Housing starts are expected to gain some momentum in the fourth quarter of 2013 and be up approximately two percent in 2014. Canada's GDP is forecast to grow from 2.4 to 2.8 percent in 2014. Watch **HARDLINES** for additional forecasts as we get closer to year end.

Business growth, then, must come from gaining market share.

But instead of just crunching numbers, I would suggest you start with a SWOT analysis of your business: Strengths, Weaknesses (internal analysis), Opportunities, and Threats (external analysis). The SWOT analysis enables companies to identify positive and negative influencing factors inside and outside of their company. The key role of SWOT is to help develop a full awareness of all factors that may affect planning and

decision-making to help with your business plan.

GETTING STARTED

Have your managers sit down with you for a brainstorming session. Start with explaining your store's business position in your area and then answer the following questions:

1. What strengths do we rely on for our business? Are there other strengths we ignore? What can we do to strengthen our advantages?
 2. How do we deal with weaknesses? What have we done about them in the past?
 3. What opportunities have we had? What did we do? Was it successful?
 4. What threats have we faced? How did we handle them? Which ones did we ignore?
- Identify and write down all of the store's strengths, weaknesses, opportunities, and threats based on known competition.

ASK YOURSELF: STRENGTHS OR WEAKNESSES?

- Do we have a friendly, well-trained staff who are customer focused?
- What are the three strongest categories in our business and what have we done differently with them?
- What are our three weakest categories? Why? What can we do to change this?
- Does our business mix match our business objectives, i.e., building materials versus hardlines?
- Is our store up to date, with modern fixtures, décor, and the latest merchandising ideas?
- Are we using social networking and internet marketing to reach customers?
- What can we do to increase business in the next 12 months?

OPPORTUNITIES OR THREATS?

- What are the known or expected changes in construction growth or additional employment in your area?

A close-up, low-angle shot of a wooden keyboard. The keys are made of light-colored wood with dark, possibly metal, lettering. The perspective is from above, looking down at the keys. A solid green horizontal banner is positioned across the middle of the image, partially obscuring the keyboard. On the left side of the image, there is a decorative graphic consisting of a series of white squares of varying sizes, some of which are arranged in a grid-like pattern, resembling a staircase or a digital staircase.

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- What are the known or expected changes in your competition?
- Will there be competition for employment with your key employees that could swing sales?
- What changes can the business implement to get ahead of the competition?

I am sure that as these questions are debated, you will come up with other points that should be discussed. I would suggest you come to a consensus on the key items in each category and use them as your review for forecasting your future year's financial performance.

SWOT ANALYSIS TEMPLATE WITH SOME EXAMPLES FILLED IN:

STRENGTHS: Assess your store strengths	WEAKNESSES: Assess your store weaknesses
<ul style="list-style-type: none"> • Market experience • Dominant store in two categories 	<ul style="list-style-type: none"> • Staff resources are stretched • Weakest store in three categories • Gross margin lower than average
OPPORTUNITIES: Assess your store opportunities	THREATS: Assess the threats to your store
<ul style="list-style-type: none"> • New project may improve local economy 	<ul style="list-style-type: none"> • New competition mid-year

After identifying your Strengths, Weaknesses, Opportunities, and Threats, you should set some objectives to define your plan to change weaknesses to strengths and threats to opportunities. How will that affect your business in the coming year? Set a monetary objective for each of these with volumes and margins for next year, with a time frame for implementation.

FORECASTING YOUR FINANCIAL PLAN FOR NEXT YEAR

Sales forecasts for your store should take information from your SWOT analysis and apply it to the opportunities for increasing business in your community. With increases in costs and inflation you must

KEY PROFITABILITY AND PRODUCTIVITY MEASUREMENTS

	Lumber Outlets		
	Typical*	High Profit*	Canada**
Gross Margin After Rebate	32.50%	36.60%	26-35%
Operating Expenses	31.30%	28.20%	23-27%
Total Payroll	15.60%	15.60%	13-16%
Inventory Turnover	2.6x	3.6x	3.5-4.6x
Average Collection Period (Days)	45.4	53.4	63-65
Sales per Full Time Equivalent Employee	\$244,342	\$311,578	
Sales per Customer	\$69	\$85	\$80-\$150
Consumer Sales	30%	35%	
Return on Assets (Pre Tax)	5.00%	18.20%	
Return on Net Worth (Pre Tax) (Owners' Equity)	10%	29.90%	4.4-17.4%
Profit Before Taxes	1.60%	9.60%	

*The industry average numbers we show are from the NRHA Cost of Doing Business Survey 2012.

**Canadian numbers have been gathered from retailers showing ranges that we have received.

increase sales by a minimum of five percent to maintain profitability.

Take your current monthly financial statements and start to forecast monthly sales and costs for next year. Some volumes could change due to the poor weather we had early this year, so use an average percentage from previous years. Do you know of any projects that could increase business? Where can you reduce costs?

KEY FACTORS BASED ON AVERAGE OF \$5M SALES

Sales: A \$2 increase on your average sale with 39,000 transactions equals \$78,000 in additional sales. Remember: inflation/price increases of 1.5 to two percent with the same sales as this year equal \$75,000 in sales.

Gross Margin: A 1.6 percent margin increase with same sales as this year represents an additional \$80,000 in sales.

Payroll Costs: Total payroll costs should be 12.5 to 15 percent.

The chart above draws from a retail survey showing averages from the North American Retail Hardware Association's *Cost of Doing Business Study*. (Note: an Interactive Cost of Doing Business module is on the NRHA site and available to all NRHA members. You can input your income statement and balance sheet with your own company's numbers. This tool could be very beneficial in creating your next year's budget.)



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.

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The **2013/2014 Hardlines Retail Report** is a **comprehensive overview and analysis of the retail home improvement industry in Canada**. With more than 150 PowerPoint slides filled with charts and graphs, it's the only tool for measuring the growth and market shares of the key sectors and retail companies available in this industry.

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- Market share by store format
- Market share by province
- Top 20 retailers ranked by sales
- RONA's expansion strategy
- Home Hardware's initiatives for growth
- Market shares of the Top Four retailers
- Who are the big boxes
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BY KATHERINE YAGER

SHOWROOMING: COMING TO A STORE NEAR YOU

Showrooming is the practice of examining merchandise in a traditional bricks-and-mortar retail environment without purchasing it, but then shopping online to find the same item at a lower price. This practice can be costly to retailers—and may be occurring in your store.

Just under 50 percent of North American shoppers admit to having showroomed. Most the time, the customer is looking for a lower price or checking reviews of the item they're considering purchasing. Sometimes it even occurs because the customer would rather have a product delivered to their door by an online seller than carry it home.

Currently, showrooming is most prevalent in consumer electronics and apparel, but as more and more items are sold online with low or no shipping costs, it's just a matter of time before this trend expands to tools and hardware as well.

WHAT CAN YOU DO TO COMBAT SHOWROOMING?

Is showrooming really a threat or is it also an opportunity? After all, the customer has to come into your store to be able to showroom. Likewise, does showrooming take sales away from your bricks-and-mortar business only to increase traffic at your online store?

Different retailers have different opinions on the severity of the threat of showrooming—or whether it's even a threat at all.

Genevieve Gagnon, CEO of Le groupe Yves Gagnon, represents a group of building

centres in Quebec. When asked about showrooming, she starts with a much-echoed belief that, for now at least, showrooming is rare in this industry. When asked whether showrooming in hardware and home improvement is a threat or opportunity, Gagnon responds, "It's an opportunity, because the stores have a lot of lifestyle displays and employees that have the technical knowledge and can help DIY customers." It's that interaction and personal advice that you can't get from buying an item online that is the defining characteristic between opportunity and threat.

Customer service came up over and over in discussions about showrooming. Vincent Power is divisional vice president, corporate affairs and communication with Sears Canada. He explains that if the customer is showrooming, then they also likely are talking to a staff member about the product. It's at this moment that the customer could be converted into a loyal customer. Due to the nature of what's being sold, in Sears' case for example, large appliances, customers tend to want to come into the store to try out the product. But they also want to buy from a retailer that offers a warranty and can provide customer service.

In contrast, Kim Emmerson, president of Emmerson Lumber in Haliburton, Ont., meets the trend by focusing his building supply business on its core strengths. "As a retailer, you can't be everything to everybody and you can't have everything," he explains. "So we sell what we think our customers want and try to do the best job possible."

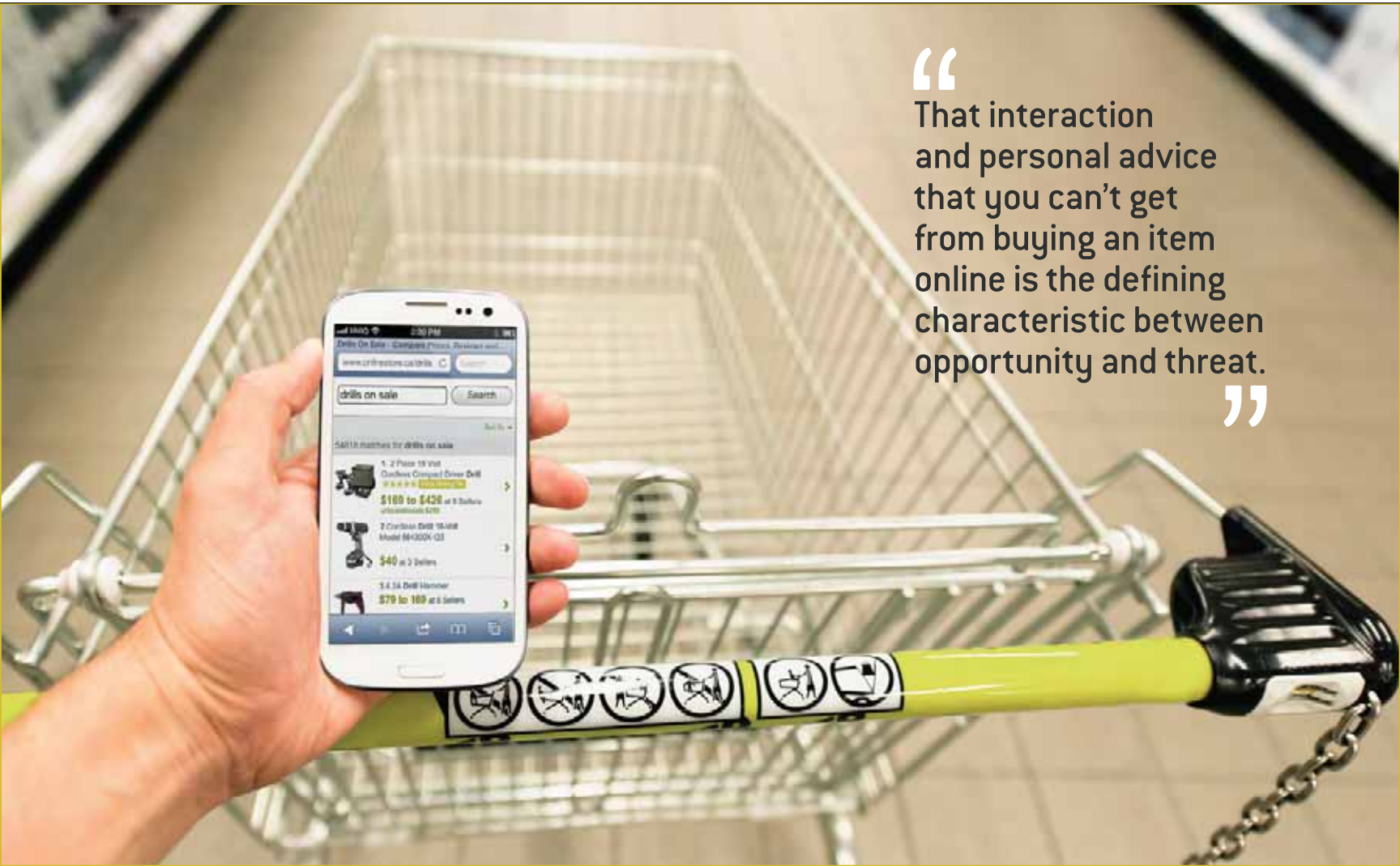
A TREND THAT'S COMING NORTH?

Showrooming is currently more prevalent south of the border, especially for items that are sold solely on price.

Gina Schaefer, owner of a chain of Ace Hardware stores in the Washington, D.C., area, says that showrooming has never been brought to her attention by her staff, but admits that may be the nature of her stores. They are in dense urban locations and customers usually come in with immediate demands, not to buy high-end items. Furthermore, she believes that customer service and convenience turn showrooming into an opportunity at her store.

When asked if she felt that showrooming was a threat to her business, Schaefer says, "We've been talking about showrooming for two years now but I haven't noticed it."

“That interaction and personal advice that you can’t get from buying an item online is the defining characteristic between opportunity and threat.”



Showrooming will still grow but we do not see it as a threat and have no plans to specifically address it.”

REVERSE SHOWROOMING

Kimberley Wotherspoon, manager of online sales at UJ Robichaud TIMBER MART, maintains a very active online store, an extension of the two bricks-and-mortar outlets the company operates in Nova Scotia. She says that she actually sees the reverse of online showrooming often through her website, where customers go to other stores to look at items and then buy from her store online.

Power at Sears uses the same “reverse showrooming” terminology when discussing


Sears’ situation. He explains that, due to his company’s online presence, he finds that customers look online for product reviews and various sites for information, then come into the store to talk with someone when they are ready to make a decision.

CONCLUSION

Although rampant in sectors like electronics and apparel, showrooming has yet to become widespread in hardware and home improvement retailing. However, even as it gains in popularity, the showrooming phenomenon can be turned into an opportunity if your employees are trained and knowledgeable. By responding effectively to customers while they are still in your store,

your staff has the best opportunity to convert a showroomer into a loyal customer.

An active and up-to-date website also helps curb showrooming. This trend is most prevalent for items that are sold solely on price with little need for customer service. DIYers and those looking to buy big-ticket items will become loyal customers, if given the right amount of attention and useful advice from staff. An up-to-date and competitive online website is one of the ways to get in front of showrooming.

By maintaining great customer service and awareness about what showrooming entails, there is huge potential for hardware and home improvement dealers to turn this trend into an opportunity. 

WHY IT PAYS TO ENHANCE THE GREEN IN YOUR STORE

BY KATHERINE YAGER

Selling flowers and investing in a garden centre will improve your business and profitability. It's as simple as that, says this European garden centre operator.

Marco Orlandelli knows about flowers. He is a third-generation floriculturist running his family's business in Northern Italy, and he loves to talk about the importance—and profitability—of garden centres. He spoke at the first-ever Global Home Improvement Conference, held during the National Hardware Show.

The goal of a garden centre, Orlandelli said frankly, is to make your business a destination where your customers will want to spend their money. The question is how to achieve this.

To have a great garden centre, there needs to be more understanding about the positive effects of plants. Orlandelli explains: "People love plants and flowers, but for the moment they are not aware of the effects on life quality. There is a new green culture waiting and if we understand this and we educate our consumers, we will build a huge new market that nobody has seen before." Orlandelli's presentation explained how to harness the power of green culture through fundamentally changing how one thinks of a garden centre.

The Orlandellis have all the aspects of lawn and garden covered with their company, which is divided into four businesses: the garden centre—"Valle dei Fiori" (in English: Valley of Flowers); a landscaping company, "Giardini Valle dei Fiori", a consulting company for other home and garden centres; and "Organizzazione Orlandelli", which manufactures trolleys and carts specifically designed for the logistic needs, display, and exhibition solutions for flowers and plants.



A PASSION FOR FLOWERS

However, what really defines Marco Orlandelli and his family's business is a passion for flowers and an understanding of the power of plants and flowers to create happiness.

Orlandelli thinks the formula is very simple: "Consumers spend money to improve their life quality and the life quality of the people they love!" This is demonstrated by how the pet business booms during recessionary times because domestic animals improve quality of life, just as plants do.

Plants and flowers, then, are a must if we want to improve our quality of life. Furthermore, Orlandelli explains that research has confirmed that people have a higher quality of life if they stay close to nature. With all this evidence of the positive



effects of plants and nature, the eco-sustainable megatrend is growing fast—and garden centres are at the centre of this trend.

In the past, plants and garden centres were at the edges of a retailer's merchandising investment, but Orlandelli explained that now is the right moment to start to look at the garden centre in a different way, as a destination in and of itself.

ENHANCE YOUR GARDEN CENTRE'S PRESENTATION

Orlandelli gave some suggestions about how to make the most out of a lawn and garden centre, starting with showing customers that “flowers and plants improve their quality of life.” He challenged his audience to start by imagining that they’ve taught consumers that plants and flowers improve one’s quality of life and they enter your garden centre in hopes of finding new plants for their garden. What do they find? Rows of annuals and perennials aligned in some sort of colour scheme? Garden centre layouts are usually thought of in the same philosophy as a hardware store or building centre and this, he said, is fundamentally wrong.

“I like to use the word ‘garden’ and not ‘garden centre,’ because when the customers are inside they need to have the same feeling as they would in a garden, and not in a commercial area.”

For example, Gianfranco Paghera, one of the most important landscapers in the world, who designed the green areas on the Palm Island in Dubai, says the first step to creating a good atmosphere in a garden is to create three big points of interest, with three big plants or groups of plants: the biggest on the right side, the medium on the left and the third in the middle, if not a little more on the left side. He does this to create automatic proportions and we have to arrange plants this way as well. This idea of purposefully laid out flowers and plants in certain proportions needs to be carried into the garden centre in your store.



CONSUMERS ARE ATTRACTED BY COLOURS

You can do an easy test in your store of the power of flower arrangement, said Orlandelli. Take a display of green plants and put it in front of the entrance and another one with flowering plants and place it just few feet behind the green plants. You will discover that the people go directly to the second, the flowering display. Now try it a different way: put the display with the


and left with the same tables at the same height. As a result, there is a flat presentation with very few emotions attached. It only takes a moment to turn off a client if you don’t distinguish your plants in some way.

Creating emotions with flowers and plants is the second step to improving your garden centre. To obtain the maximum result, he shared two layout secrets: think like a landscaper and play with the heights and colours of plants.

“The eco-sustainable megatrend is growing fast—and garden centres are at the centre of this trend.”

green plants between two flowering displays. You’ll find, he said, that the consumers are most interested in the green one. This demonstrates a rule of contrasts and shows how important garden centre arrangement is.

Finally, there is another important aspect that we normally don’t consider when we prepare the layout of our garden centre: the height of the plants. Flowers and plants are not sold by the pound. Normally the garden centre layout is a corridor in the middle, right

The last and most important aspect of growing your lawn and garden sales is that a well-thought out and landscaped garden area can increase your profits. Essentially, your garden centre is a green market, and a green market can create a profit that will continue to grow. The garden centre, if handled with proper passion and care, will boost your margins and bring more life and new prospects into your store. Your store with a garden centre area will create a better and more welcoming atmosphere. 



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As a member of the North American Retail Hardware Association you have unlimited access to a number of valuable training and information resources provided through the members-only portion of NRHA.org. These include:



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This instructional video course "Three Pennies of Profit" educates your employees on the real impacts of shrinkage, breakage and inventory mistakes on your bottom line. As an added benefit for NRHA members, you can test your employees on what they learned in the video to be sure they retain this valuable information. This is a great tool for staff meetings.

HOW-TO SERIES ONLINE

This series of 71 online printable project brochures shows how to do various popular home improvement projects. Many titles contain animated modules to help both customers and employees better understand these projects. Each title also contains a complete checklist of tools and materials to make sure customers don't leave your store without need to complete the project.

LOSS PREVENTION

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PROJECT SELLING

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Cost of Doing Business Study Benchmark your own financial performance against this annual study that provides industry income statements, balance sheets and various performance ratios for both average and high-performance stores.

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DEFINING THE RETAIL EXPERIENCE

BY MICHAEL McLARNEY

Doug Stephens, Founder of “Retail Prophet” and author of the book *Retail Revival*, shares his big ideas about the future of retail.

THAT WAS THEN

“The retail giants, Target, Walmart, even Home Depot, most of them built a legacy during a unique period in history that began with the peak of the baby boom around 1957. Back then, you were dealing with exponential population growth. You were dealing with a new, higher standard of living during the post-war era.

“Because they had very little information available, consumers relied on trusted brands and retailers to guide their awareness of products and services. At the same time, mass media was coming into its own. You could reach consumers right in their own living rooms. Short of doing something stupid, retailers like Walmart simply couldn’t lose. The deck was stacked in their favour.”

THE TURNING POINT

“Although economic growth doubled between 1980 and 2005, that growth wasn’t evenly distributed. We’ve seen the middle class stagnate, and media has become fragmented and increasingly difficult to use effectively to reach consumers. As a result, the only way for retailers to ‘break through the noise’ is to be exceptional.

“We saw Eaton’s lose out to Walmart—and now even Walmart is feeling the heat from dollar stores at one extreme and more higher-end retailers at the other.

“It’s that nebulous value proposition in the middle that has trouble attracting attention.”

WILL ONLINE MAKE TRADITIONAL RETAIL OBSOLETE?

“Online sales have increased 19 percent year-over-year. Compare that to traditional



Doug Stephens says the importance of retail will not be just to sell things, but to sell experiences.

forms of retail, which remain in the low single digits, and it’s not unlikely that in 10 or 20 years online will account for 50 percent of retail sales.

“But I don’t think we shop only to acquire things. Shopping is, at its roots, a social activity. But given the increasing capacity of consumers to access whatever we want, whenever we want it, we are not going to need retail strictly as a means of accessing products. So, the importance of retail will not be just to sell things, but to sell experiences. Products will come along for the ride.

“This means that in order to survive, retailers have to lead with an awesome experience. Imagine if a store could create such a rich experience for its customers that it could charge admission. In some ways, that’s just what Costco has done with its membership fees, and Amazon Prime, which offers a better experience for a price.”

THE BIG IDEA

“Many people are bemoaning what we’ve gone through in recent years as the death of retail. But quite the contrary, we are coming out of an age of big boxes with concrete floors and huge parking lots to wade through and I think, was that the best we could do?

“I see small- and medium-sized retailers as being on equal ground with their larger counterparts. The technologies out there are scalable and not the sole domain of the Targets and Walmarts of the world. The ability to be effective, say, on Facebook, is even more effective with small retailers.

“We will ultimately be left with less physical retail—but the retail that we’re left with will be infinitely better than what we have today. But understand that you must determine a point of differentiation for your store, then wrap a unique experience around the products you sell.”

PHOTO: BRADY PEEVER



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