

HARDLINES

HIQ

HOME IMPROVEMENT QUARTERLY

FOURTH QUARTER / 2014

PLUS:

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- RONA partners with giant U.S. retailer
- Learn from the best: ORA winners
- Time to face the tough questions
- New ideas for small stores

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FOURTH QUARTER / 2014

VOLUME 4, NO. 4

416-489-3396

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Hardlines Home Improvement Quarterly is published four times a year by Hardlines Inc., 528 Queen Street East, Toronto, ON M5A 1V2. \$25 per issue or \$90 per year for Canada. Subscriptions to the Continental United States: \$105 per year and \$35 per issue. All other countries: \$130 per year. (Air mail \$60 per year additional)

Subscriber Services: To subscribe, renew your subscription, or change your address or contact information, please contact our Circulation Department at 289-997-5408; hardlines@circlink.ca.

Canadian Publications Mail Agreement
42175020

POSTMASTER: Send address changes to Hardlines Home Improvement Quarterly, 528 Queen Street East, Toronto, ON M5A 1V2.

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HHIQ IS ONE FACET OF THE HARDLINES INFORMATION NETWORK. SINCE 1995, WE'VE BEEN DELIVERING THE MOST UP-TO-DATE INFORMATION DIRECTLY TO YOU.

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Woburn and Lac-Mégantic, QC



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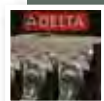


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Andrew Battagliotti to retire from ILDC, McCusker to step in

Home Depot adds security, but Canadians must wait until 2015

Canac chain in Quebec to open 24th store

CANADA'S LBM BUYING GROUPS

BUYING GROUPS FIND NEW WAYS TO GROW

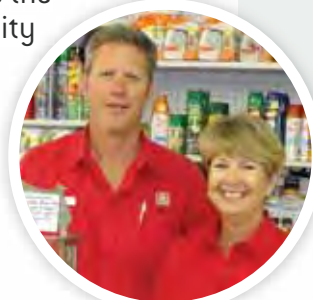
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MARC ROBICHAUD COMMUNITY LEADER AWARD

WELLINGTON HOME HARDWARE

44 Dating back to 1905, this store is a large part of the glue that holds the small community of Wellington together.



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WHAT WILL YOU DO DIFFERENTLY IN 2015?

**It's getting harder and harder to find market share.
So why not try doing something brand new?**

MICHAEL McLARNEY, EDITOR

“The challenge to re-invent applies to retailers of every size.”

In his Store Management column in this issue (see page 46), Bill Wilson poses some tough questions about how you should run your business. Most importantly, he asks: “What are you doing that’s different?” This is a question every dealer should be asking themselves. In today’s slower economic climate, you will have a tough time growing your business without doing at least one of two things: stealing market share or adding something new.

Let’s leave the discussion about market share for another day. For now, let’s examine the value of doing something new, starting with new products. According to Bill, 20 percent of your business in 2015 should come from new products that you’ve added to your store.

But “new” can also mean adding a completely new category or business to your existing operation. Just look at some of the largest retail chains in our industry: the members of Independent Lumber Dealers Co-operative are tight-knit group of dealers who share more than purchasing power (see page 22). Their ranks are filled with examples of innovative growth: new manufacturing production at Matério Laurentiens, a store devoted exclusively to contractors created by Kent, acquisitions for McMunn & Yates, and a new store for the Patrick Morin chain.

Other independents have developed tools for their members, as well. Add-on businesses

such as installed sales and rentals are just two of the many options that groups like Home Hardware and Castle have implemented for their members.

Canadian Tire has introduced its first-ever stand-alone showroom store, while Lowe’s Canada implemented a wholesale redesign of its contractor desks. RONA has introduced nothing less than a new retail brand for its dealers thanks to a partnership with Ace Hardware.

The challenge to re-invent applies to retailers of every size. One TRU dealer I spoke with recently, from a town of just 500 in Manitoba, said he has added the Sears catalogue business. “It’s just another way to get people in—and it serves the community,” he told me. I’m sure both of those reasons are good incentives for any dealer, especially when they reflect ways that independents can re-invent themselves and prosper.

So ask yourself the tough questions about your business for 2015, and make sure the question at the top of that list is: “What am I doing that’s different?”

mike@hardlines.ca

SECOND QUARTER 2014

As the industry waited out poor weather for the first part of the year, both retailers and vendors continued to be affected by slower sales through the first half of 2014. Despite that, retailers are optimistic about the upcoming six months (and good weather in the latter part of the summer may help them realize that positive

outlook). However, they remain cautious about next year.

Vendors are more optimistic about 2014 when comparing sales to last year and their six-month outlook. This quarter, we are seeing an increasing divergence of responses, with vendors and retailers experiencing either negative or positive

sales, and fewer responses of sales being flat or staying the same.

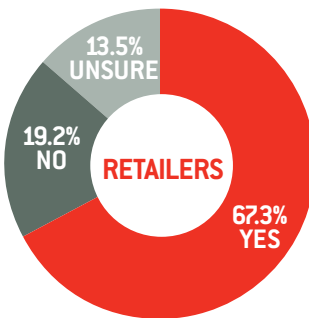
Long-term, retailer and vendor forecasts of business conditions are cautious. However, with the good weather of the latter part of the summer and seasonal fall weather, increased sales could significantly improve the outlook for both vendors and retailers.

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



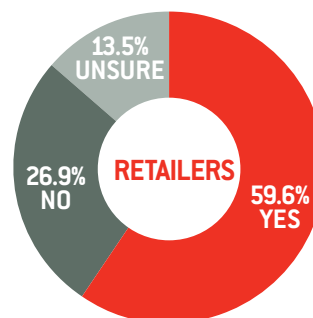
Year-over-year, the percentage of retailers experiencing better sales than last year is up almost 10 percentage points from Q2 2013, when only 49.1 percent of retailers reported increased sales.

Do you expect your sales to increase over the next six months?



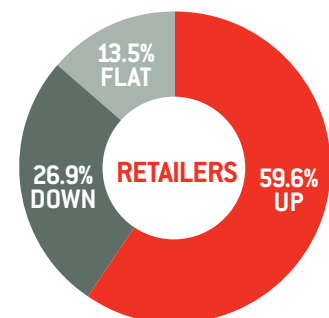
The percentage of retailers expecting sales to increase in the next six months is up from 62.7 percent in Q2 2014, revealing positive expectations for the remainder of 2014.

Do you expect your sales to increase over the next 12 months?

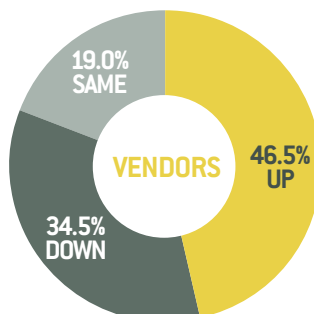


Retailers' outlook for positive sales for the next 12 months is down almost five percentage points, from 65.5 percent in Q2 2013.

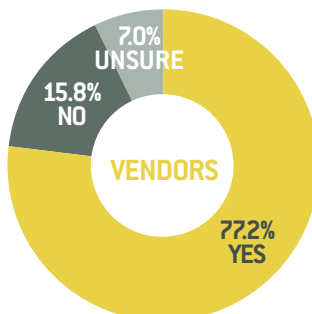
At year-end 2014, how do you expect sales for this year to have gone?



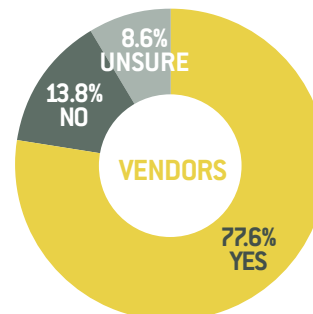
Retailers are expecting sales to pick up over the remainder of 2014, ending the year with increased sales.



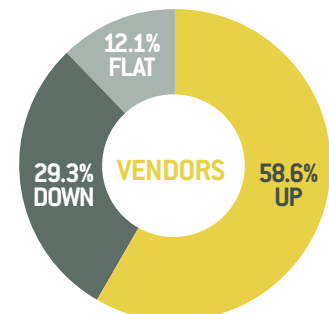
The number of vendors experiencing better sales than last year is up just more than 10 percentage points from Q2 2013, while 33.3 percent of vendors reported increased sales.



The amount of vendors expecting no increases in the next six months has decreased from 23.6 percent in Q2 2013. More than three-quarters are optimistic about the next six months, up from 59.6 percent.

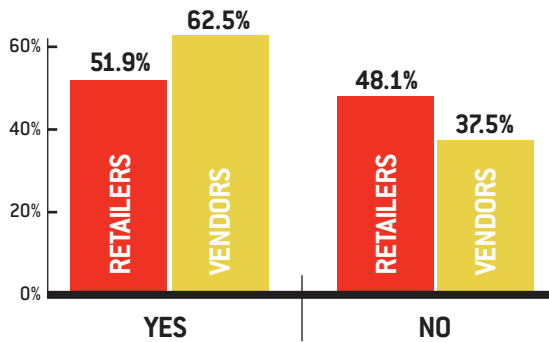


Responses here are consistent with last year's, within a margin of two or three percentage points.



Overall, the majority of vendors are expecting to end 2014 in the black, but the number of vendors expecting falling sales has also been increasing.

Did you offer new products/services in Q2 to better compete?



RETAILERS

In Q2 2013, 67.2 percent of retailers offered new products/services to better compete. Year-over-year, the number of retailers offering new products/services is down almost 20 percent in Q2 2014.

VENDORS

Year-over-year, vendors offering new products/services is down more than 15 percentage points from 78.8 percent increasing their offerings in Q2 2013.

RETAILERS:

Top issues in second quarter

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

VENDORS:

Top issues in second quarter

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

VENDORS:

Top concerns in second quarter

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

RETAILERS:

Top concerns in second quarter

1. Keeping pace with technology
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3. Rising mortgage interest rates
4. Parity with U.S. dollar
5. Increased presence of U.S. retailers

Source: HARDLINES Quarterly Business Conditions Survey

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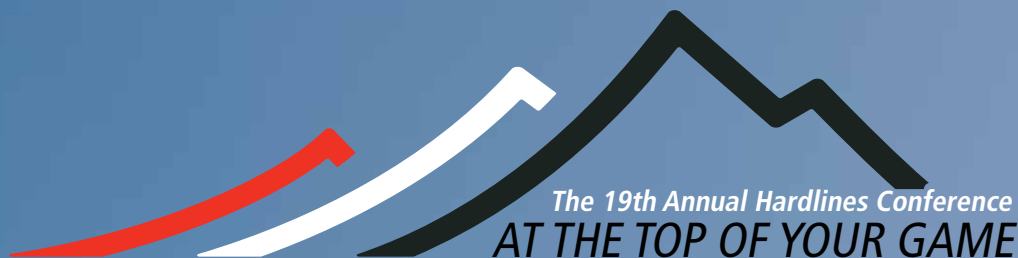
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AT THE TOP

TUESDAY NIGHT

RONA PUB NIGHT AT THE OLIO LOUNGE 6:30 – 9:00

DAY ONE

VISION CRITICAL: THE STRAIGHT GOODS ON HOW TO DEFINE YOUR FUTURE AND IMPROVE YOUR BOTTOM LINE

Donald Cooper, *Donald Cooper Corp.*

GET THE BEST FROM RETAIL BRANDING

Greg Hicks, *Canadian Tire*

AN UPDATE ON CANADA'S CHANGING HOUSING MARKET

Ted Tsiakopoulos, *CMHC*

INTEGRATING E-COMMERCE WITH BRICKS AND MORTAR

Mark Thomas, *Quinju.com*

A VIEW FROM THE FRONT LINES OF HOME IMPROVEMENT RETAILING

Vicki Hagel, *Castle Dealer & Past Chair of Castle Building Centres*

MEETING THE CHALLENGE OF TODAY'S OMNI-CHANNEL CONSUMER

Robert Howard, *Kurt Salmon*

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"Each time I have attended I have come away inspired. As an independent, the conference gives me the understanding that whether we are a one-store operator or a big-box chain we all face the same challenges and reap the same rewards. I love to learn and the conference certainly provided me with that opportunity."

— Frances Sologuk, Owner, Osoyoos Home Hardware

FOR THE HOME IMPROVEMENT INDUSTRY

OF YOUR GAME

DAY TWO

PROFILES IN LEADERSHIP: CREATING A WINNING STRATEGY

Paul Beeston, *Toronto Blue Jays*

A FRESH LOOK AT AN ENDURING ALTERNATIVE FOR INDEPENDENTS IN CANADA

Robert Moschorak, *ACE Hardware International*

RETAIL TRENDS THAT INSPIRE: A GLOBAL TOUR

Jo Rossman, *Association for Retail Environments*

YOUNG LEADERS PANEL

Issues facing retailers today: A fresh perspective

A SLEEPING GIANT AWAKES: HOW FCL IS TRANSFORMING HOME IMPROVEMENT RETAIL

Tony Steier, *Federated Co-operatives Limited*



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CHALIFOUR'S NEW WESTERN DC WILL CARRY SOME HARDWARE

Chalifour Canada held the grand opening last month of its recently relocated West Coast distribution centre. The facility, still in Surrey, B.C., serves Western TIM-BR MART members and other independents with lumber and building materials and a select assortment of hardware.

Chalifour Canada Ltd. is the hardware distribution business owned by TIM-BR MART Group. The new DC was up and running at the end of May.

To more effectively tie in with Chalifour's main distribution centre in London, Ont., the new, smaller Surrey facility has cross-dock functionality designed to speed up delivery times to dealers and make deliveries of hardware products from London more seamless. With the adoption of a cross-dock system, Chalifour has re-allocated much of its hardware, including builders' hardware, from Surrey to London. According to the company, everyday hardware products that essentially represent 95 percent of members' sales will still be stored in the Surrey DC.

"Our hardware distribution out West has now been consolidated into Chalifour's London warehouse, which will allow us to offer our members a hardware product selection of more than 35,000 SKUs," says Chalifour's general manager, Bret Walters.

Western dealers had been concerned by an earlier announcement that all hard-



To more effectively tie in with Chalifour's main distribution centre in London, Ont., the new, smaller Surrey, B.C. facility has cross-dock functionality designed to speed up delivery times to dealers and make deliveries of hardware products from London more seamless.

ware distribution would be moved out of the Surrey DC to London. Chalifour soon reversed its stand, assuring dealers it would maintain an inventory of hardware in the new Surrey DC. The cross-dock function is aimed at keeping a timely

flow of product to Western dealers, even for hardware products coming out of London.

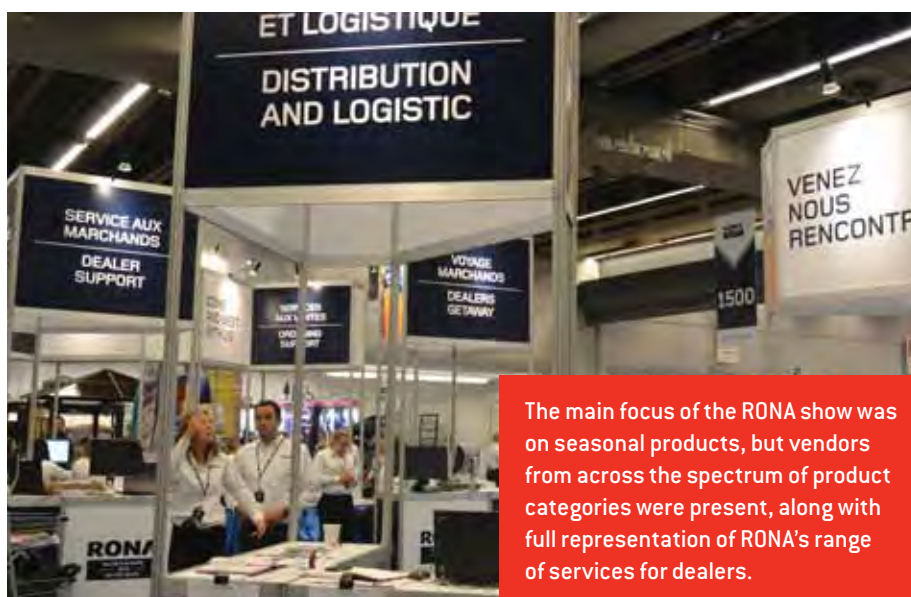
"The Surrey facility is more than just a warehouse; it's an important hub for our Western members," Walters adds.

LATEST RONA SHOW FOCUSES ON INDEPENDENTS AND SMALLER STORES

The latest show held by RONA inc. continues to establish a renewed commitment to its independent dealer base. The show marks the first time that RONA has mounted a true buying show. In the past, the shows have presented the latest products and merchandising on behalf of its corporate stores. This time, 250 vendors participated in a more conventional way, with booths of their own offering a wider range of products.

The main focus of the show was on seasonal products, but vendors from across the spectrum of product categories were present, including a broader representation by LBM vendors than at past RONA shows. The show also featured a new product section, merchandising ideas, and “power buys.” New product categories included a range of pet foods and the introduction of a confectionery program.

The show ties in with a commitment internally to refocus RONA on its wholesaler roots, with a team in place that offers products, pricing, and support tailored for independent and affiliate dealers, as well as corporately owned proximity stores. Dealers and managers interviewed at the show were unanimously positive about its new look.



The main focus of the RONA show was on seasonal products, but vendors from across the spectrum of product categories were present, along with full representation of RONA's range of services for dealers.

BRIEFLY

TITAN ON A BUYING SPREE

WSB Titan Inc., the giant gypsum supply dealer group based in Vaughan, Ont., has been on the acquisition trail. Earlier this year, it completed the purchase of Commercial Construction Supply's branch in Coquitlam, B.C. Next, it set its sights on Slegg Construction Materials. Slegg, currently a member of TIM-BR MART Group, is the dominant player on Vancouver Island, with 10 locations plus a flooring centre. The two firms have reached a deal that will allow Titan to close the acquisition by year's end. Titan currently has 22 locations across the country and total estimated sales of close to \$500 million. The addition of Slegg is expected to add another \$150 million in sales.

HOME HARDWARE SPONSORS CURLING

Home Hardware Stores Ltd. has signed on for a three-year deal to be the title sponsor of the Canada Cup of Curling, beginning with the opening event of the 2014-15 Season of Champions in Camrose, Alta., December 3-7. Home is stepping up its support, after being the exclusive home improvement retailer and a National Supplier for the Season of Champions last season.

CANADIAN TIRE SALES UP IN Q2

Canadian Tire Corp. reported consolidated revenue for the second quarter of \$3.2 billion, up 4.8 percent from the same time last year. Retail sales for the quarter were also up 4.8 percent, to \$3.7 billion. Retail sales at Canadian Tire-bannered stores were up 3.4 percent and same store sales increased 2.8 percent. The company reported “solid sales across key seasonal and non-seasonal categories.” Retail segment revenue increased 4.7 percent or \$129.9 million to \$2.9 billion in the quarter.

NEWEST TIMBER MART STORE A FLAGSHIP FOR THE BANNER

A new TIMBER MART store that opened in Musquodoboit Harbour, N.S., this summer is not only six times larger than the one it replaced, but it's a showcase for the latest merchandising, branding, and marketing initiatives available from TIM-BR MART Group.

Robert Taylor, president of Taylor Lumber Co., and his family have been serving Nova Scotia's Eastern Shore for almost three decades. When Taylor decided to expand the operation, he turned to TIM-BR MART Group for full support to make the change.

"This store really highlights what TIM-BR MART can offer for a dealer, in terms of merchandising and marketing," says John Morrissey, vice president, building materials for TIM-BR MART Group. He works out of TIM-BR MART's office in Dartmouth, N.S. "We redesigned our merchandising team and this was a chance for that team to work in a co-ordinated fashion.

"This is one of the nicest stores in Canada—period," he adds.



Taylor Lumber Co., owned and operated by Robert Taylor, has been a fixture on Nova Scotia's Eastern Shore for five generations. The new 18,000-square-foot store is six times larger than its predecessor.

CANADIAN TIRE SHOWROOM FEATURES FIRST DRIVE-THROUGH

Canadian Tire opened a one-of-a-kind retail "showroom" store in the spring, at its Laird and Eglinton location in Toronto, which will provide an opportunity to showcase seasonal assortments.

The 20,000-square-foot showroom here was born of necessity; the existing store

across the parking lot was "bursting at the seams," says David Hicks, senior vice-president, store operations and dealer relations for Canadian Tire. But he also notes that the model is being watched by head office, "to see if it can be used in other stores."

While the showroom is being viewed by head office as a one-off, one aspect of this space is definitely getting a lot of attention. It has a drive-through pick-up area. "I think this drive-through is something we've learned from—expect to see it in other environments," Hicks adds.

UFA TO EXPAND ITS HARDWARE BUSINESS WITH NEW STORE

Farm co-op UFA Co-operative Limited will open a new Farm & Ranch Supply store and Petroleum bulk fuel and cardlock in Airdrie, Alta., in early 2015.

The plan includes an expanded retail footprint of approximately 9,000 square feet with additional warehousing to support animal husbandry and crop management. The store itself will represent UFA's newest design carrying the rural products required to support agricultural production, staffed by experts needed to support its membership. UFA has

38 Farm & Ranch Supply stores already, all in Alberta, plus a building centre in Fort McMurray.

UFA Co-operative's newest Farm & Ranch Supply store in Airdrie, Alta., is expected to open in early 2015.



ANDREW BATTAGLIOTTI TO RETIRE FROM ILDC, McCUSKER TO STEP IN

Andrew Battagliotti, general manager of Independent Lumber Dealers Co-operative, will retire at the end of this year. He has been with the giant buying group, whose members include some of Canada's largest independent chains, for the past 17 years. Before that, he was director of merchandise services at Beaver Lumber.

Gord McCusker has been appointed as his replacement, effective January 1, 2015. McCusker comes to ILDC after starting in the industry in 2003 as the vice president of finance at Euramax Canada (formerly GSW Building Products), where he spent the last six years leading the company as its business manager.

BRIEFLY

RONA RESULTS SWING TO A PROFIT IN Q2

RONA reported net income of \$42 million in the second quarter, compared to a net loss of \$144.7 million during the same period last year. Second quarter revenues stood at \$1.19 billion in 2014 versus \$1.25 billion in 2013. Consolidated revenues from continuing operations amounted to \$1.19 billion, down 4.4 percent from \$1.25 billion for the second quarter of 2013. Same-store sales in the retail segment were down 0.7 percent, narrowing the margin from negative 3.4 percent same-store sales in Q1. This latest quarter also marks the first time since 2010 that the company has reported positive same-store sales for its corporate stores across the country.

U.S. BIG BOX GIANTS SEE Q2 SALES AND PROFITS CLIMB

Lowe's Cos. has reported net earnings of \$1.04 billion for the second quarter, an increase of 10.4 percent over the same period a year ago. Sales increased 5.7 percent to \$16.6 billion. Comparable sales increased 4.4 percent and year-to-date comps are up 2.8 percent. In Canada, Lowe's delivered its fifth consecutive quarter of double-digit comps.

Home Depot also reported strong Q2 results, with profits up a healthy 14 percent on sales of \$23.8 billion, which were up 5.7 percent. Comparable store sales were slightly ahead of Lowe's, up 5.8 percent, and comp sales for U.S. stores were positive 6.4 percent. Home Depot's Canadian business had positive comps for the 11th consecutive quarter.

HOME DEPOT ADDS SECURITY, BUT CANADIANS MUST WAIT UNTIL 2015

The Home Depot spent the latter half of the summer repairing its online security—and its reputation. The company was hacked, resulting in malware that attacked its customer database in both the U.S. and Canada. While the retailer worked quickly to plug the security holes, the cyber-attack is estimated to have put payment card information at risk for approximately 56 million payment cards.

The company has completed a major payment security project that provides enhanced encryption of payment data at point of sale in the company's U.S. stores, offering added protection for customers.

Canadian customers, however, will have to wait until early 2015 for the new encryption. But the company notes that its stores here are already enabled with EMV "Chip and PIN" technology, which is the industry standard, replacing magnetic stripe technology in older credit and debit cards.

Just weeks after Home Depot said the problem was solved, fraudulent transac-



Home Depot notes that its stores here are already enabled with EMV "Chip and PIN" technology, which is the industry standard.

tions began turning up across the U.S. and Canada, as thieves were using the stolen credit information for their own gains. Customers have found their bank accounts drained and exorbitant charges appearing on their credit cards.

CANAC CHAIN IN QUEBEC TO OPEN 24TH STORE

Canac, the giant building centre chain headquartered here, is building a new store in Rimouski that is slated to open this fall. The store will have 60,000 square feet in size, with 25,000 square feet of retail space. It is being built at a cost of \$5 million and will employ 80 people.

This will be Canac's 24th store, all of which are in Quebec. With estimated sales in 2013 of \$307.5 million, it's one of the country's largest independent home improvement retailers. While the company's roots—and the majority of its stores—are in the Quebec City area, its reach extends as far south as Cowansville on Montreal's south shore.

BRIEFLY

TORBSA IN GROWTH MODE

The **TORBSA** buying group has announced the addition of a new independent member location. Crown Building Supplies in Surrey, B.C., is owned and operated by Gary and Gurpreet Sangha, who each bring several years of industry experience, and operate on a similar business model to other TORBSA shareholders. TORBSA has also added Bob Hill as business development manager of the member-owned group, which has some 30 members throughout Canada.

KENT CONTINUES TO RAMP UP AIR MILES INITIATIVE

The adoption of Air Miles by Saint John, N.B.-based **Kent Building Supplies** over the summer took other Air Miles partners by surprise, according to sources contacted by **HARDLINES**. **TIM-BR MART** dealers throughout Atlantic Canada expressed their dismay, noting that the exclusivity of Air Miles as an offering for their customers was an important part of their decision to join **TIM-BR MART** Group in the first place. Then, just days after Kent began promoting Air Miles in its stores, **RONA** announced it would continue its own partnership with Air Miles in a multi-year deal.

IN MEMORIAM: TOM ROSS

Tom Ross, who headed the Canadian Retail Hardware Association for 33 years, died June 26 at the age of 83. In 1989, the Canadian Society of Association Executives honoured him with its Pinnacle Award. Inducted into the Industry Hall of Fame in 1999, his citation noted that he fostered close relations with the associations' overseas counterparts and took part in market research projects aimed at increasing the profitability of independent dealers. He is survived by his wife Marg, their three children, and four grandchildren.

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ProductSPOTLIGHT

BY GEOFFREY McLARNEY

Napoleon's Large Surface Grill ▶

Napoleon Gourmet Grills introduces the TravelQ, with a 285-square-inch cooking surface, large enough for family cooking, but compact enough to take on the road. It's perfect for tailgate parties, family picnics, and camping trips, thanks to the TravelQ's fixed scissor cart design. Its dual stainless steel burners and signature ignition system make it suitable for a variety of weather conditions.

napoleongrills.com



◀ Euramax's Flex-a-Spout System

This unique system for gutters prevents residential foundation damage by keeping rainwater away. It allows users to combine two or more components and extensions to customize their protection. The latest components to be released are the Flex-a-Spout extension, adapters, and splash blocks, along with the Low Profile extender. The components are mutually compatible, and designed for easy installation with no special tools. The splash block and extender can be hidden under light ground cover.

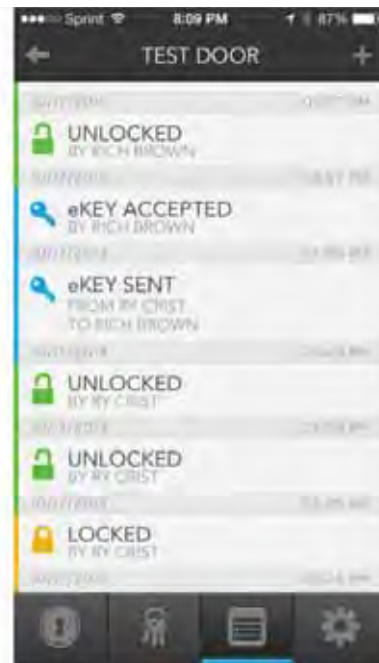
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Weiser's Upgraded Electronic Locks ▶

Weiser has upgraded its Kevo smartlocks, giving users the ability to send free and unlimited guest electronic keys (eKeys) to recipients and, with a Scheduled eKey, set day and time constraints for regular house guests such as babysitters, dog-walkers, and contractors. Kevo owners can update their Kevo mobile app and lock firmware to enable these new types of eKeys. With Guest eKeys, users can give recipients unrestricted access for a 24-hour period and delete the Guest eKeys at any time before the 24-hour access expires.

weiserlock.com



◀ All Weather Windows' PVC window frame film

All Weather Windows introduces Renolit Exofol FX, described as a high-performance acrylic-based film that permanently bonds to the PVC window frame. The weather- and UV-resistant film comes with a 10-year warranty. Currently available in five colours, Renolit EXOFOL FX adds colour to PVC windows and is designed to outlast paint and beat metal cladding for cost. The film also features a contemporary stipple embossed finish that pairs well with modern home exteriors. Its low surface tension means that it can be wiped clean easily and it has a strong resistance to chalking, cracking, and fading.

allweatherwindows.com

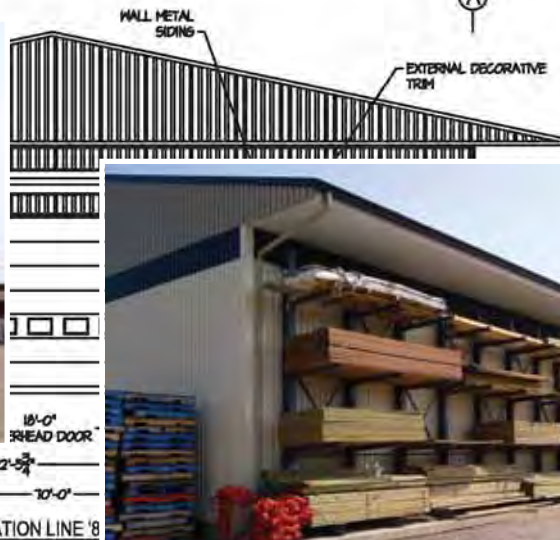




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QUEBEC HOME IMPROVEMENT CHAINS MOVE CLOSER TO CONSOLIDATION

When La Coop fédérée went looking for ways to keep supporting its hardware and building supply members, it turned to BMR, purchasing a minority interest in the buying group cum wholesale supplier. But that was just the beginning.

Changes are afoot in the Quebec market, as two of RONA's biggest competitors forge strategic alliances of their own. The acquisition of 20 percent of Le Groupe BMR by La Coop fédérée was announced a year ago and finalized at the beginning of 2014. The partnership was aimed at combining the strengths of BMR and its 180 building centres with La Coop's hardware and building centre stores to forge a stronger entity. Relying on BMR's larger presence in the industry, the combined entity was to be led by BMR's president and CEO Yves Gagnon.

However, the plan met a hurdle at the end of the summer, when Gagnon stepped down unexpectedly for health reasons. Pascal Houle, who came over from La Coop fédérée in March 2014 as executive vice president of BMR, is now in charge.

But consolidation plans between the two groups were already well under way by then. In recent months, product buying functions have been relocated to BMR's own offices. Now, La Coop fédérée has confirmed the closure date for its hardware and LBM distribution centre in Trois-Rivières, Que. The closure, first announced back in February, will be completed by January 16, 2015.

The move to buy into BMR, whose member-owned stores compete against La Coop's own Unimat banner, was driven by increased competition in the marketplace, says Claude Sénéchal, general manager of La Coop's hardware and farm machinery division. However, the hardware and



With the closure of La Coop fédérée's hardware distribution centre early next year, all of La Coop's Unimat hardware and home improvement stores will be supplied by BMR's own distribution facilities.

building materials sector is still a priority for its members and "La Coop intends to remain as a full player in its own right."

That competition comes from all sides. RONA, still the dominant player in Quebec, continues to get its house in order under president and CEO Robert Sawyer who, with a new executive team, has made a renewed commitment to build its network of independent and affiliated dealers. Meanwhile, independents such as Canac and Patrick Morin continue to expand by adding stores of their own. And while Lowe's Canada has not hinted at any immediate plans to expand into French Canada, the U.S.-based big box giant will be hard pressed to overlook Canada's second-largest home improvement market for long.

"BMR is already serving about 20 Coop stores and it's working very well," Sénéchal continues. "One hundred and twenty-five



stores are still served out of Trois-Rivières. With this closing, BMR will be able to take those stores."

He doesn't expect the new combined entity to consolidate banners, however, especially considering the fact that many communities in Quebec have both a BMR store and a Unimat. "For many years, we marketed the Unimat banner with some success. But to be really successful, we need to be allied with a larger banner," Sénéchal says. "There's room for the Unimat banner to co-exist with BMR."

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BY JOHN CAULFIELD

BAND OF BROTHERS

With some of the country's most powerful independents in its ranks, ILDC chooses to maintain an air of exclusivity.

Celebrating its 50th anniversary this year, Independent Lumber Dealers Co-operative (ILDC), the Ajax, Ont.-based buying group, can look back with satisfaction at a tumultuous era for the home improvement industry. It has survived consolidation, competitive poaching, and the occasional separations from what turned out to be less-than-perfect marriages.

At each crossroad, ILDC managed to bounce back and replenish its membership. Even as it has shrunk in terms of its dealers' aggregate annual revenues, the group wields enviable leverage with suppliers thanks to a simple strategy. It sticks to its longstanding operational formula whose main ingredient is its members' total commitment to the purchasing deals that the group strikes with select vendors.

It's now starting its next half-century with a newly hired general manager and an eye toward increasing its membership. But a big question for ILDC is whether there are enough companies out there that can meet its criteria and want to become part of what several current members refer to as a "brotherhood."

Notoriously reticent about their group's inner workings, several of ILDC's 21 members opened up recently to discuss how their affiliation benefits their respective companies. What emerged from those conversations was the loyalty and allegiance that ILDC engenders in its members, as well as their unshakeable belief that ILDC can continue to be exceptional among Canada's buying groups in providing purchasing solutions that allow their stores to compete profitably with the retail giants in their respective markets.

"There's a Home Depot right in my face, about 1,000 feet away, and we also compete with Réno Dépôt and RONA's warehouses," says Pierre Arseneault, co-owner of L. Villeneuve & Cie, whose single yard, with 100,000 square feet of storage space, is

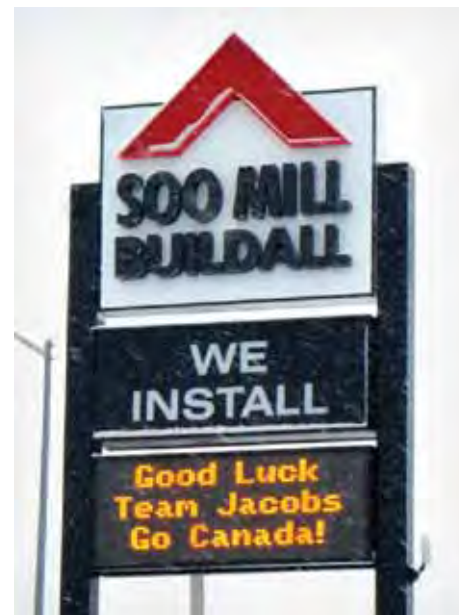


Soo Mill & Lumber in Sault Ste. Marie, Ont., has been an ILDC member since 1984.



located in the heart of Montreal. "The only reason we're still here is ILDC."

Villeneuve, which dates back to 1875 when it was a lumber supplier, is ILDC's oldest current member, having joined the group a year after its formation. The dealer is also the group's smallest member, with limited prospects for physical expansion because city streets hem in its facility. Consequently, being part of an organization whose members are mostly high-volume operators gives Villeneuve cachet with vendors it could never achieve on its own or, as Arseneault believes, as a member of another buying group, an option he's never felt compelled to explore.



NEGOTIATING FROM THE TOP

Members point to several factors they claim separate ILDC from other buying groups and keep their companies on the competitive edge. One is the group's low overhead. It currently operates with only five employees, who are supported by the members' involvement in various committees that negotiate purchasing agreements with suppliers.



Kent Building Supplies, based in Saint John, N.B., is an ILDC member that caters to both DIYers and contractors. It has also been growing rapidly, buying competitors and adding new stores of its own in recent years.



“We can shift business when we have to, and we can recruit members who share our values,” says Lynn Hollingsworth, president of Soo Mill & Lumber in Sault Ste. Marie, Ont., which has been an ILDC member since 1984.

ILDC is also unique in that its membership runs the gamut from pro-oriented dealers with two yards like Soo Mill, to consumer-oriented multi-province retailers like Kent Building Supplies; from the co-op wholesaler Federated Co-operatives to specialists like United Building Products, which focuses on drywall, ceilings, and insulation.

But why, one might reasonably ask, does Kent or Federated or McMunn & Yates, with 20 locations, even need a buying group? Couldn't these larger independents

exert the same purchasing pressure on suppliers on their own?

Peter Turkstra doesn't think so. His company, the 11-yard Turkstra Lumber based in Hamilton, Ont., may be a significant player in its markets, but that doesn't necessarily translate into buying power, he explains, “unless you want to spend a lot of time negotiating for every [product] category.”

Turkstra sits on ILDC's purchasing committees for trim and doors, lumber, and decking. All told, the group has about 15 such purchasing committees whose members meet four times a year. The group mandates that each committee has at least one dealer from Atlantic Canada, Quebec, Ontario, and a Western province.

“One of the great disciplines of ILDC is that it has the owners at the table” with

suppliers, says the president of one former member, who notes that each committee's chairman has “tremendous” authority within the group about which vendors and deals it goes with.

Tony Steier, Federated Co-op's home and building supplies director, says the decision to join ILDC in January 2009 “has significantly improved our company on the building materials side. We had been splitting our purchases in a number of different ways. And while it was difficult to change our culture, when you consolidate your volume, the benefits will come.” Steier adds that buying this way has also helped Federated refine its marketing.

Marc Latreille, president of the Nepean, Ont.-based United, says his company switched to ILDC from Allroc last year for the “product diversity” it offers. Latreille is referring specifically to ILDC's co-ownership (along with TIM-BR MART and Federated Co-op) of Spancan, the buying group and distributor of hardlines and tools. ILDC's purchasing committee for Spancan typically consists of consumer-oriented dealers that have more experience than their pro-oriented confederates in buying and pricing these items.

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When United signed on with ILDC, it didn't need to switch drywall vendors because, says Latreille, the co-op "already was a big supporter" of United's primary supplier CGC. But in order to get in line with ILDC's existing purchasing agreement for fibreglass insulation, United—which was buying from CertainTeed—had to accept Owens Corning as its main source.

This solidarity is why "ILDC is able to direct volume" to certain vendors "better than any other buying group," asserts Steven Copp, president of Copp Building Materials in London, Ont., and an ILDC member since 1984. In exchange for that group commitment, members confirm that they receive attractive pricing terms from those chosen suppliers. That in turn allows the dealers' locations to compete aggressively for consumers and pros alike against big chains such as Home Depot and Canadian Tire in both urban and rural markets.

The knock against this setup has been that it's not flexible enough to account for regional and local product preferences and nuances.

Steier at Federated rejects that criticism. "We are open for business and analyze the programs for every product we buy on a regular basis."

Steve Smith, president of Nova Scotia-based Central Home Improvement Inc., and ILDC's current president, goes even further, saying it's not a fair comment. "We have only a small number of programs that are mandatory, out of a total of more than 400 programs." If a dealer wants to source local products, he adds, "they're welcome to do it."

Jason Yates, president of Manitoba-based McMunn & Yates Building Supplies, an ILDC member since early 2002, notes that members understand going into any negotiation that the group's success rests on its ability to identify and cut deals with select vendors that provide the greatest benefit to the majority of its dealers.

PLUCKING A NEW GM FROM SUPPLIER RANKS

ILDC's general manager is responsible for making sure the members follow those purchasing agreements to the letter. "It's a tricky job," says Turkstra. "Unlike a top-down organization, we're a true co-op, so the GM's job is to facilitate the strategies that the dealers decide." Copp adds that the general manager is, essentially, "herding a lot of Type A personalities" toward a common goal.

In August, Gord McCusker took over as ILDC's general manager, replacing Andrew Battagliotti, who had been in that post for 17 years. One of several candidates the buying group reportedly considered, McCusker joins ILDC from Euramax Canada, a leading supplier of metal and vinyl rain systems, where he was its business manager. McCusker holds an MBA from the University of Western Ontario and is a certified management accountant.

Smith at Central Home Improvement notes that the buying group chose McCusker for "his background in management ... [and] as someone who is knowledgeable about the industry's players." Yates adds that while the GM position requires leadership qualities, "they don't need to be on the buy side."

WHERE WILL NEW MEMBERS COME FROM?

Member compliance to its purchasing decisions reflects the camaraderie and loyalty that dealers feel toward the group and their colleagues. Smith speaks about how the members "act as one," and of the unspoken "open-door policy" among members about sharing ideas and best practices, as well as extending helping hands.

Prior to joining ILDC in 1993, Turkstra Lumber was unaffiliated. Its then-president, Carl Turkstra, told his son, Peter, that he decided to join ILDC for its purchasing power but also because "he enjoyed meeting the members, who are a pretty select group." Turkstra says his father was "taken aback" by the group's "transparency" and willingness among members to share information.

This dealer affinity manifests itself in different ways. Turkstra says that he's had other members' children work at his stores. And Latreille says he now directs customers who also do business outside of United's trading area to ILDC members operating in other provinces, such as Kent in Newfoundland.



The 11-yard **Turkstra Lumber** is based in Hamilton, Ont.

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Central Home Improvement's Steve Smith is ILDC's current president: "When we welcome new members, their buying power goes up while their cost of doing business goes down."



ILDC, though, is not for everyone. Throughout its history, the buying group has been extremely picky about which dealers or distributors it lets in. "It's never been about numbers," explains Copp about the co-op's growth. "We could have gotten bigger but we decided not to." Yates adds that, historically, dealers have approached ILDC about joining, not the other way around. "That's worked out pretty well."

ILDC looks at a lot of factors before admitting new members, including how long they've been in business, their financial stability, and their market position. Smith confirms that each year existing members must renew their memberships,

which includes submitting financial information to ILDC's auditor. While this might simply be a formality—Smith couldn't recall any dealer getting kicked out of the group because it missed some performance targets—the exercise illustrates the importance ILDC places on the financial and operational integrity of its members.

The group's auditor also sends out a questionnaire annually to all members about their costs for such line items as marketing and delivery, which the auditor then compiles into a report that members use to benchmark their companies against other members within the group and dealers in the industry.

CAREFUL GROWTH

Over the years, members have come and gone for various reasons, as happens with every buying group. But ILDC has had some high-profile defections lately, as when RONA poached Moffatt & Powell in 2010. Next, Sexton Group and Delroc exited in 2012, and La Coop fédérée left last year when it acquired a minority stake in BMR, which is a competitor to a number of ILDC members in Quebec.

"It was the right decision at the time for us, and we left on good terms," says Nancy Powell-Quinn, Moffatt & Powell's president. She says her company switched to RONA for its hardlines distribution, dealer support, and national banner.

However, ILDC has never been as concerned about signing new dealers as some other buying groups might be, partly because current membership includes several companies that continue to expand. Smith at Central points specifically to McMunn & Yates, Federated, and Patrick Morin in Quebec as examples.

"We are open to new members that want to keep their independence and be profitable. We have some of the most profitable companies in the industry," he says, adding that Central is a perfect example. Without ILDC, "We'd be a much smaller company today." The group, too, is open to inclusion, and last year signed United along with Fries Tallman Lumber, which has two units in Saskatchewan. Latreille thinks that high-volume specialists like United could be the kinds of dealers that ILDC pursues in the future.

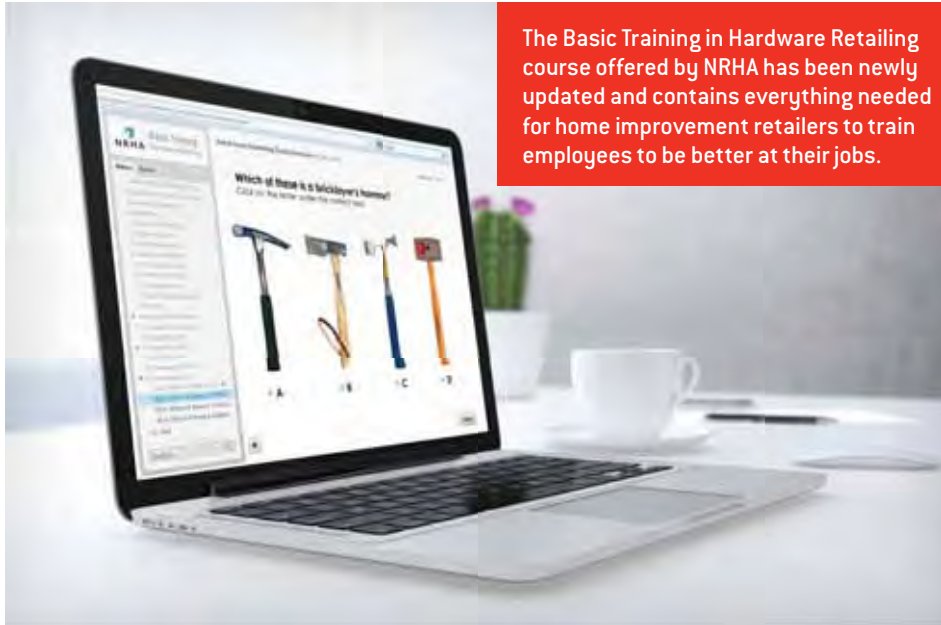
Without naming names, Smith estimates there could be as many as 20 other dealers in Canada that would fit nicely into ILDC's mould. Current members also believe that ILDC will eventually fill the void in British Columbia, where it has no representation at the moment.

"There are regions the buying group can still penetrate, as well as individual dealers it can pick up," says Yates. 

NEW ONLINE TRAINING FOR YOUR STAFF

The best way to grow your business is to keep customers coming back, a responsibility that rests largely in the hands of your employees. That grip on customer service is best enhanced by training in product knowledge and sales skills.

BY KATHERINE YAGER



Armed with product knowledge and the confidence to close a sale, your team can make a direct impact on your top line with step-up selling, add-on sales, and the concept of selling the whole project. All these skills can be acquired through online training programs available to any dealer or manager.

NEW TRAINING MODULES

The Basic Training in Hardware Retailing course offered by the North American Retail Hardware Association (NRHA) has been newly updated and contains everything needed for home improvement retailers to train employees to be better at their jobs. Features of the course, which has just been updated and revised this year, include interactive modules that cover product knowledge, selling skills, and customer interaction

tips for eight core hardlines departments.

The course includes all testing and grading functions to make sure your employees retain this information and can apply it. And staff can take the course—and do the tests—online, either in the store or on their own time at home.

To help your employees to get the most out of training, NRHA's new basic training course offers comprehensive product knowledge training programs that include coursework, testing, instant grading feedback, and a complete progress report for each student enrolled from your business. You get a fully administered training program up and running very easily.

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- "Project Pro: Project Sales Training for Home Improvement Retailers" helps staff learn how to complete and sell the most common DIY projects.
- NRHA's Loss Prevention series is a thorough review of how shrinkage and theft can erode your bottom line.

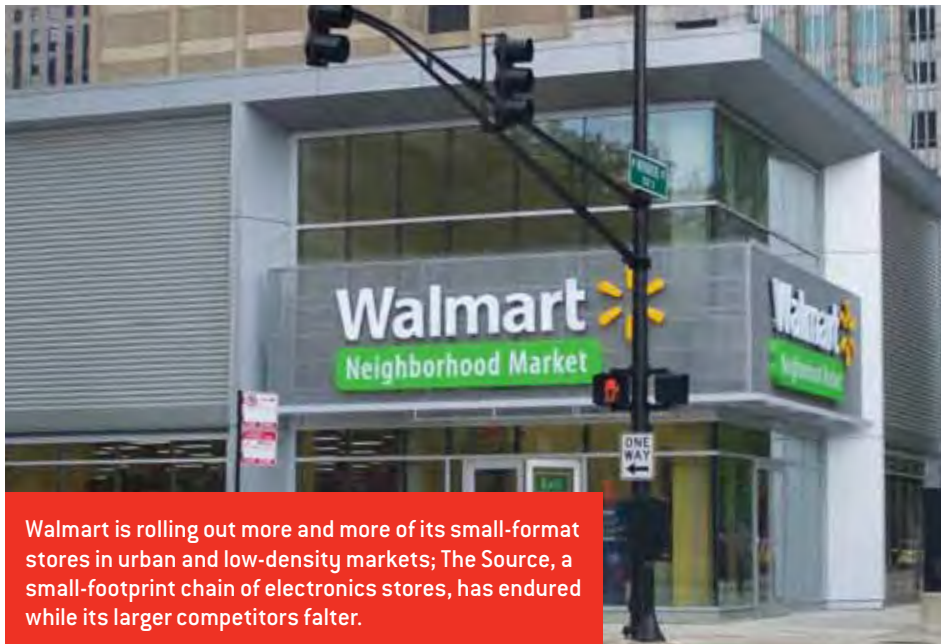
For your customers, NRHA has created a consumer website, PlanitDIY.com, a home repair and maintenance site filled with how-to videos and project materials lists to help DIYers complete their projects.

To get the most out of your employees, training is a crucial part of ensuring that your employees are doing the best job possible. 

SMALLER FORMATS STEP OUT OF THE SHADOW OF BIG BOXES

BY GEOFFREY McLARNEY

DIY shoppers love the big box. The large-scale, one-stop-shop format is a fixture of the industry unlikely to go anywhere soon. But as companies look for more creative ways to make use of their real estate, it's increasingly being complemented by alternative formats.



Walmart is rolling out more and more of its small-format stores in urban and low-density markets; The Source, a small-footprint chain of electronics stores, has endured while its larger competitors falter.



traditional Home Depot, will be open 24/7 to serve the needs of Pinewood Studios in Fayette County.

The retailer has also been experimenting with using its stores as showrooms for online purchases. In the spring, Home Depot Canada upgraded merchandise at 56 locations to showcase products, including a line of patio furniture, available only online.

This strategy is part of a broader move to combine the power of the big box with ever-important online sales. “Buy online, ship to store” and “buy online, pick up in store” solutions allow customers to browse and select purchases online, while getting the in-store customer service experience when they retrieve their items. Almost one-third of Home Depot’s online sales are now completed in store.

BACK TO BASICS

While diversifying formats is one way retailers are making the most of their space, the big box itself hasn’t been immune to changes either. Witness RONA’s recent overhaul of its 16 Réno-Dépôt stores in Quebec. The stores are still big boxes, but their new look is designed to appeal to

The big box format is at a crossroads. Even the biggest of big boxes is eyeing smaller formats as a way to boost sales: Walmart CEO Bill Simon noted in a recent Reuters interview that an improving job market in the U.S. has yet to translate into better sales numbers. As a result, the retail giant is poised to double down its efforts in the Neighborhood Market, Walmart to Go, and Express banners in order to penetrate urban and isolated markets not fully reached by its traditional big boxes.

At the same time, some smaller stores are happy to remain where they are and let the industry catch up with them. The Source president Charles Brown said last fall that the chain, formerly Radio Shack, is “lucky

in that we are what everybody wants to be these days—our heritage is the small-box store,” even as department stores are scaling back their consumer electronics lines and specialty retailers such as Best Buy are closing stores.

Urban areas are a particular hot spot for experimentation with smaller formats, with more compact mixed-use developments seeking out the city-dwelling shopper who may not be reached by the traditional mall store.

HOME DEPOT TRIES NEW

For Home Depot, it was the opening a film studio’s new facility on the retailer’s home turf of Georgia that provided a window of opportunity. A new 45,000-square-foot store, significantly smaller than a



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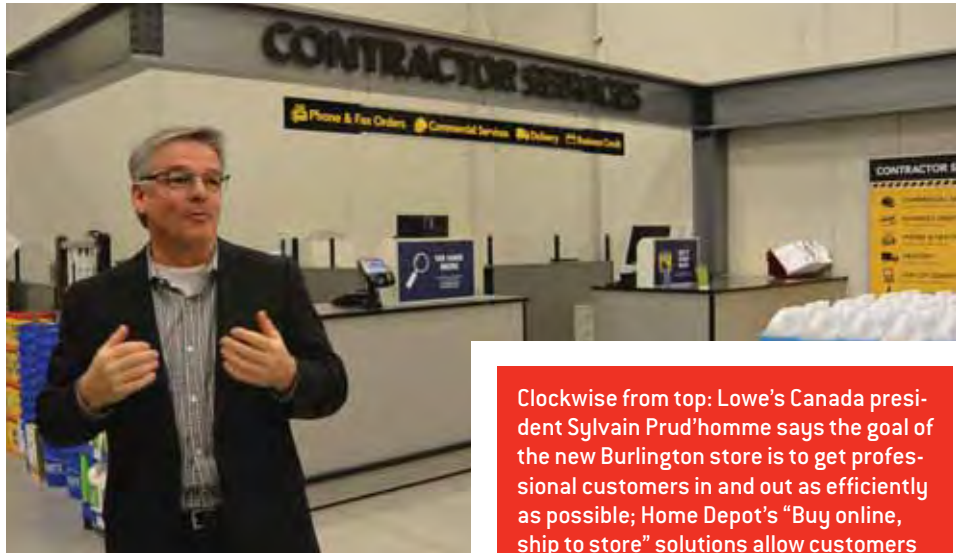


contractors with a focus on brand-name products, a new procurement policy to ensure that products remain in stock, better signage and more staff, and a redesign of the store's interior to widen aisles and lower sight lines.

Lowe's is taking similar steps to work within the big box model to reach contractors and professionals. Two new South-Central Ontario stores, in Cambridge and Burlington, opened this year with the goal of getting professional customers in and out as efficiently as possible, while meeting all their equipment needs. The new stores are part of Lowe's Canada president Sylvain Prud'homme's drive to reduce the gap between the 37-outlet banner and its more numerous competitors.

On the other hand, at least one traditionally smaller banner is branching out with a larger format. With more demand for home décor and design lines, a number of Home Hardware Building Centres have expanded into full-fledged home centres. In an interview published in the previous edition of *HHIQ*, Home Hardware CEO Terry Davis discussed the increasing consolidation of Home Hardwares (hardware) and Home Building Centres (lumberyards) into a more full-service home centre format under the co-op's Home Hardware Building Centre banner.

One of the largest Home Hardware Building Centres in the country is located in Gananoque, Ont. Owner Ken O'Connor is unfazed by the trend toward smaller footprints. Instead, he's taken over an 84,000-square-foot building in the heart of town. "What it's done is preserve our market," he says, noting that local market conditions in the smaller city are favourable to a single one-stop shop for home improvement needs. The small-store rush makes competition on O'Connor's terms even less likely. The proximity of the TransCanada Highway and the strategy of "putting all our bells and whistles into one location" have also helped, he adds.



Clockwise from top: Lowe's Canada president Sylvain Prud'homme says the goal of the new Burlington store is to get professional customers in and out as efficiently as possible; Home Depot's "Buy online, ship to store" solutions allow customers to browse online, while getting the in-store experience; Réno-Dépôt's new look is designed to appeal to contractors with a focus on brand-name products.




A NATURAL EVOLUTION

Marketing consultant Anthony Stokan calls the smaller footprint trend "the natural evolution and convergence of retail on a decade-by-decade basis." He notes that as the big-box market approaches saturation, retailers will look to integrate real estate growth into the still-burgeoning condo boom. That will mean more small stores embedded into residential developments, with more focus on the home décor needs of the urban shopper than on traditional DIY hardlines.

"It always takes retail a little longer to catch up with those opportunities," says Stokan, but the writing is on the wall,

and his vision is already showing signs of coming true. In June, Sears Canada, which shed several properties in an effort to shore up profitability, announced a deal with Concordia Pacific Group to develop the Sears site at Calgary's North Hill Shopping Centre. The planned project includes a residential high-rise with a potential retail component adjacent to Sears' North Hill store.

The big box is far from dead, but industry watchers see it increasingly sharing the limelight with its smaller counterparts. As retailers look more and more at unlocking the power of their real estate holdings, boutique and mixed-use locations can only loom larger on the home improvement scene. 



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BY JOHN CAULFIELD

BUYING GROUPS FIND NEW WAYS TO GROW THEIR RANKS

Canada's LBM buying groups are taking growth where they can find it.

After an uncharacteristically tumultuous 2013 in their sector, lumber and building materials buying groups are probing the competitive terrain for penetrable soft spots that are increasingly fewer and farther between.

"Let's face it, there aren't a lot of [unaffiliated] dealers left in the marketplace, and most people are pretty happy where they are," says Bob Holmes, general manager for TORBSA, which last year hired its first outside salesperson, whose job "is to knock on doors and tell our story."

TORBSA managed to recruit five new members in 2013, some in markets where it previously didn't have much presence, such as Quebec City and Halifax. Those additions include one dealer that specializes in spray foam insulation, and another that specializes in ceilings. Holmes says TORBSA's selling points are its "transparency" with members, and its reputation as a low-cost operator.

The buying group's efforts to attract new dealers, says Holmes, have been enhanced by a three-year-old strategic partnership with Castle Building Centres Group. Within the umbrella group, Epic Alliance, the two groups jointly negotiate purchases and prices with suppliers.

Canada's distribution sector received some jolts last year, of which the long-range competitive impact has yet to be fully determined. For one, Le Coop fédérée's acquisition of a 20 percent stake in Le Groupe BMR last November created a partnership whose combined dealer network consists of 360 locations flying the BMR or Unimat banners and represents \$2 billion in annual retail sales.

The groups explained their reason for merging as their response to "the arrival of foreign competitors." La Coop's strength in hardlines merchandising is expected to complement BMR's LBM expertise. And, of course, the merger theoretically gives the buying groups greater purchasing leverage. But it didn't take long before the management reshuffling began. In February, Claude Lafleur, La Coop's CEO since 2005, submitted his resignation, which became effective in May. BMR's

president and CEO, Yves Gagnon, who was to lead the combined entity through to 2016, has since resigned as well.

Management disruptions of a more seismic nature have been shaking up TIM-BR MART Group since February 2013, when

at Chalifour Canada, the buying group's hardlines distribution division.

TIM-BR MART also recently created regional director of member services positions, with an eye towards fortifying its dealers' confidence in its operations. "By

“Members now have one point of contact, eliminating any confusion of who to talk to when in need of assistance.”

its longtime chairman Ron Slegg resigned. Five months later, Tim Urquhart, TIM-BR MART's CEO since 2003, and executive vice president and COO Barb Hopper were forced to step aside. In November, the buying group appointed Bernie Owens, a former CertainTeed Canada executive, as president. Since then, Owens has been rebuilding a management team that includes Mark Finucane—another CertainTeed vet—as vice president-commercial; Randy Martin in a new role as TIM-BR MART's vice president of business development; and Lou Valeriati (formerly of Jeld-Wen) as vice president of operations

realigning our team, we have placed experienced liaisons between our membership and Chalifour Canada, vendors and all internal resources," said Owens. "Members now have one point of contact, eliminating any confusion of who to talk to when in need of assistance."

Owens said he remains committed to sustaining TIM-BR MART's values and strengths, which he identified as "our national critical mass combined with our ability to act regionally." The recent decision to combine Chalifour's and TIM-BR MART's buying shows into one event next year was made in response to dealer



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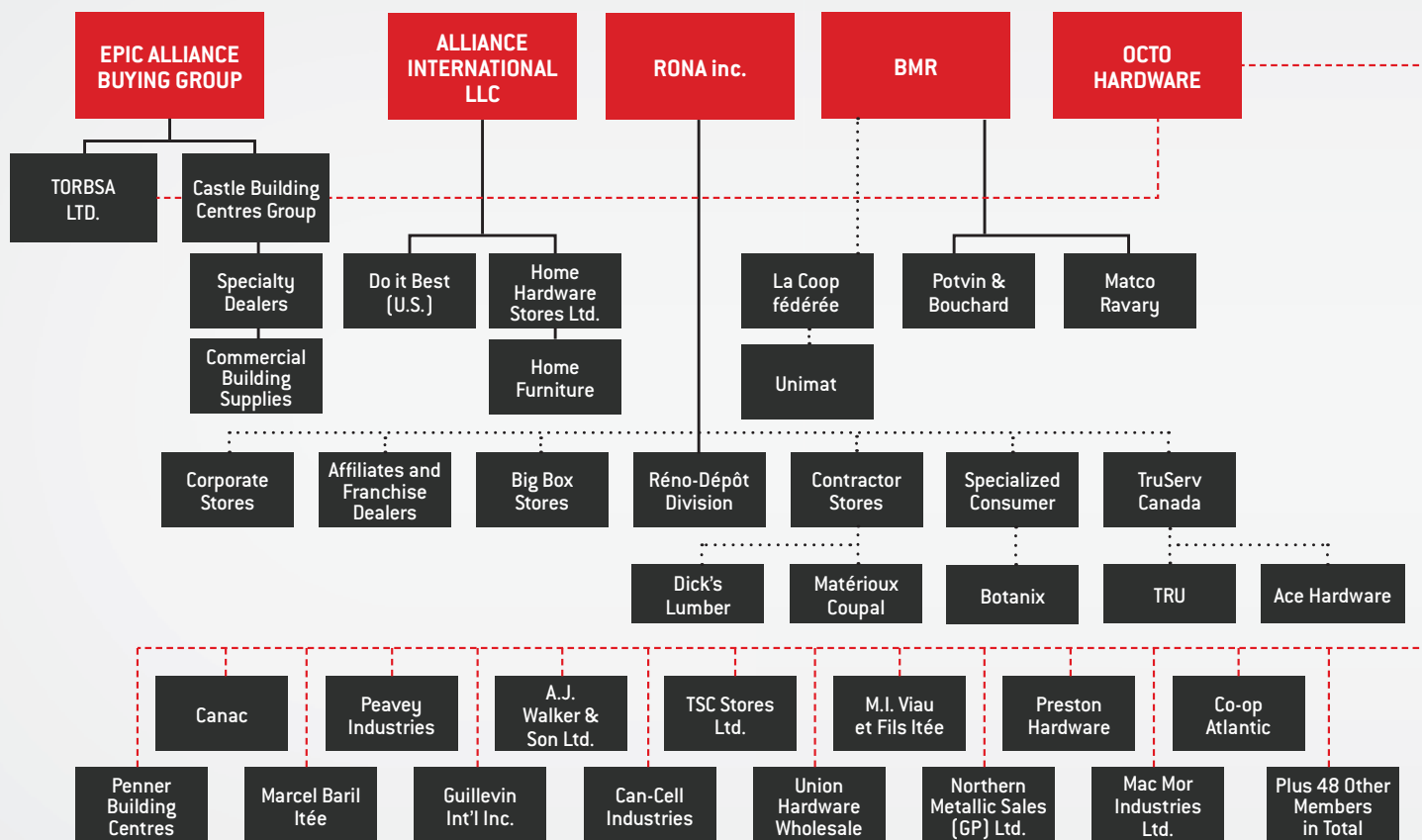





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HOW THE BUYING GROUPS ARE ORGANIZED:



requests. And the launch, in early 2014, of a new electronic catalogue, offering 30,000-plus SKUS, supports the buying group's "customer-centric values," said Owens, who added that future releases for this program would, among other things, streamline the order-entry process.

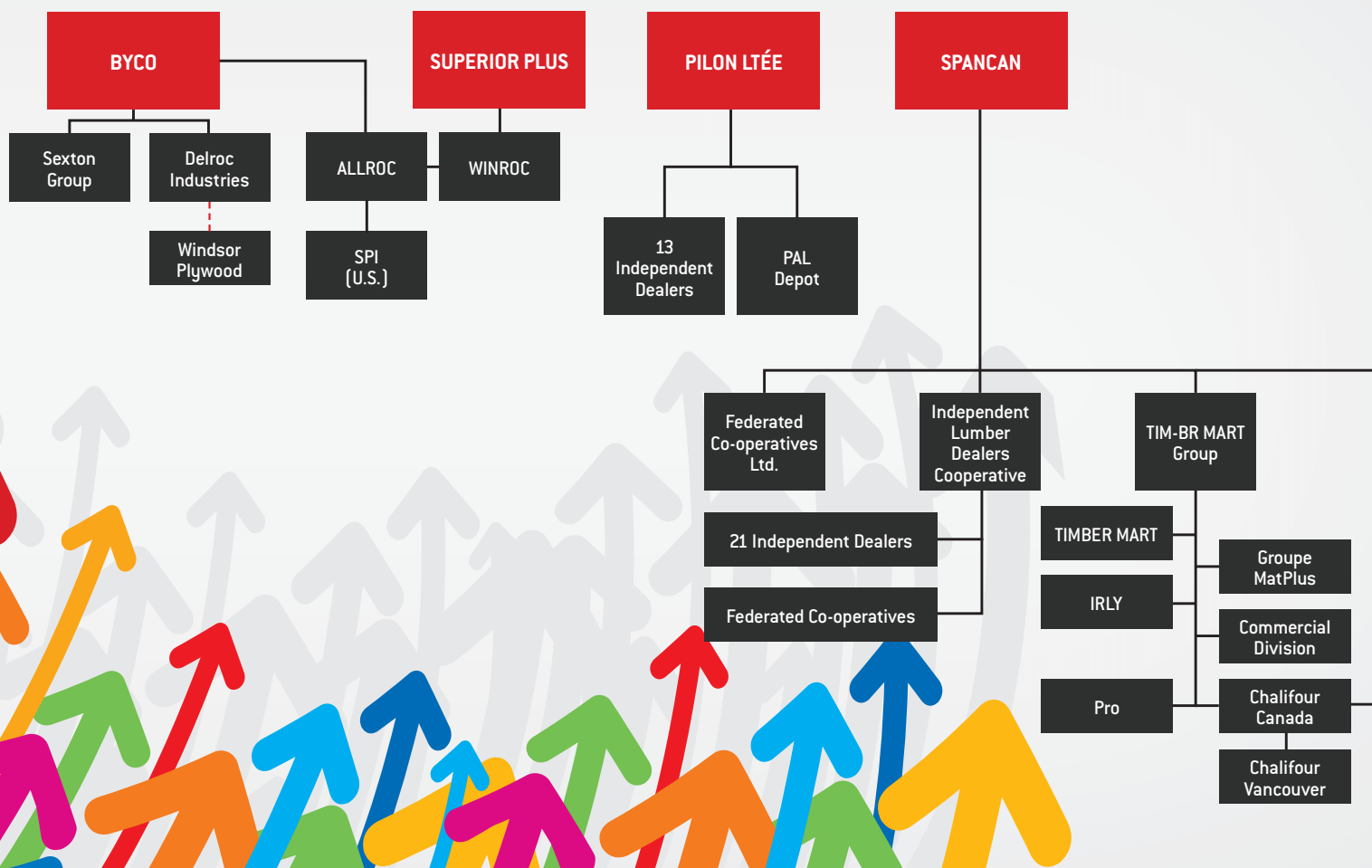
LBM buying groups like TIM-BR MART are leaning heavier on technology at a time when the internet is altering the playing field for dealers and their suppliers and customers. Several of Canada's largest home-improvement retailers have layered online shopping options onto their buying and selling platforms. And distributors are

searching for ways to communicate with dealers and customers as well as allow them to order product however they choose.

Sexton Group's online strategy, which has been in place since early 2013, includes a revamped website and a consistent presence on social media like Twitter and Facebook. The goal is to make it easier for its members to reach customers, suppliers, and the buying group itself. "We are fundamentally focused on purchasing to drive the best deal for suppliers and deliver growth to them so our members get better pricing," says Steve Buckle, who was promoted to president in January 2014.

In 2013, Sexton added 24 members, and overall, its dealers purchased product through the buying group at a record pace that continued through the first half of 2014.

The fact that 70 percent of Sexton's membership operates yards in booming Western Canada has certainly contributed to its success. But Buckle thinks that growth is also the direct result of Sexton's members being "business people who understand what it takes to service contractors." He's also noticed that "Sexton's membership has gotten a lot younger" in recent years. "So they still want to grow." And he still sees opportunities for Sexton to expand. "Our strategy is to know



every building supply dealer in Canada and to have a relationship with them.”

That appears to be Castle’s goal, too. The buying group, which celebrated its 50th anniversary in 2013, is expanding by including in its targeted list of dealer prospects independent specialists in such categories as flooring and millwork. For example, in March, Castle welcomed Moulding Warehouse Ltd., a manufacturer and retailer of doors, mouldings, and décor serving the Halifax market.


This kind of specialization is typical of the kinds of recruitment that many groups are pursuing. It’s both expanding the base

for these groups and pushing out the limits of what a “typical” LBM dealer represents.

Castle’s alliance with the U.S.-based wholesaler Orgill is also attracting independent dealers across the country that want develop a greater hardware presence in their markets. Orgill’s ability to service Canada took a step forward in March 2013 when it opened a distribution centre in Mississauga, Ont. And Orgill’s recent Fall Dealer Market in Chicago featured a 14,000-square-foot hardware store that, according to company officials, included the most comprehensive assortment—some 50,000 SKUs—of “Canadian-compliant”

products ever displayed at an Orgill event.

More than 100 Canadian dealers attended the Market.

The groups continue to show strong growth year-over-year, largely due to the addition of new members. However, movement between groups is ultimately a net-sum game. The net growth in membership comes from the degree to which those groups are finding new members to accept into their ranks beyond the range of the traditional home improvement dealer. This is one of the key ways the overall size of the industry is growing even in an economy that remains less than buoyant. 

CHANGING PARTNERS: ACE HARDWARE IN CANADA

Ace Hardware is the largest co-op home improvement retailer in the world. Its reach extends to more than 60 countries, but its presence in Canada has always been challenging. And recent developments have been nothing short of tumultuous.

It all started when TIM-BR MART Group announced to its members that it would no longer support the Ace banner program. According to letters sent out to its dealers on June 19 by TIM-BR MART president Bernie Owens, the move came from dissatisfaction with Ace International, through which the partnership had long been structured.

But it turns out there was dissatisfaction on both sides. Ace, which is based in Oak Brook, Ill., had actually made the first move, sending a notice to terminate the commercial relationship with TIM-BR MART a couple of weeks earlier. TIM-BR MART in turn issued a notice to rescind and cancel the deal from its end.

“For some time we have been unhappy with that relationship,” said Owens in the letters to the dealers. “Efforts to make it more functional have been unsuccessful.”

Through the partnership, TIM-BR MART dealers received product from Ace International, which handles all Ace dealers outside the U.S. After establishing a distribution centre in Shanghai in 2006, it began shipping product to TIM-BR MART dealers in Canada, as well as serving Ace dealers in more than 60 countries worldwide. More than 100 TIM-BR MART dealers in Canada, many of them in Quebec, carry the Ace banner, either by itself or in tandem with the TIMBER MART brand.



A new team for Ace in Canada: RONA's Martin Provencher, Robert Moschorak of Ace International, and TruServ Canada president Bill Morrison introduced Ace to Canadian dealers at the TruServ Canada Fall Market last month.

Ace lost no time trying to pick up the slack. In a statement to HARDLINES, Robert Moschorak, president of Ace Hardware International, made clear the company's intention to find a new partner in Canada. “Ace intends to play an important role in the Canadian home improvement market and we look forward to the exciting ‘next chapter’ in

making Ace a premier brand in Canada,” Moschorak said.

LEGAL ACTION AGAINST TIM-BR MART

That next chapter turned out to be a new partnership with RONA inc. The giant Quebec-based retailer and wholesaler was keen to add another banner—and beef up

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“This agreement will enable us to improve our offering to small dealers across the country, to leverage our existing distribution infrastructure, and to strengthen our portfolio of banners.”

its range of services to independent dealers—with the deal.

But first, Ace filed an emergency injunction against TIM-BR MART Group, through TIM-BR MART's parent company, TBM Holdco Ltd. That injunction claimed TIM-BR MART failed to act in good faith by attempting to recruit its Ace dealers to an alternative source of hardware supply, even though many Ace dealers are also members of TIM-BR MART Group.

TIM-BR MART quickly challenged that claim. “Ace sought an emergency order to require TBM to do what we had already said we would do—co-operate to complete the wind-down process as amicably, orderly, and efficiently as possible and maintain the status quo until the main arbitration is heard.”

Owens says the very act of seeking an “emergency” order was a tactic to proclaim

that TBM had acted badly. “Our only concern is for all our members,” Owens says. “They are free to carry on with Ace or not. It's their choice. If any of our members want to team up with Ace's new partner, RONA, we'll co-operate. Either way, TBM remains fully committed to serving the interests of all its members.”

What was surprising about Ace's legal action was that it included a two-year non-compete on TIM-BR MART. “TBM may not solicit the Ace Stores to sell them any home improvement goods competitive with hardware or home improvement goods available from Ace.”

That clause takes direct aim at TIM-BR MART's own wholesale hardware business, Chalifour Canada, which would be the likely replacement for a source of hardware supply to those Ace dealers.

A NEW DEAL WITH RONA

RONA concluded a master license agreement with Ace Hardware even before the deal with TIM-BR MART had expired. The new, long-term agreement gives RONA the rights to the Ace brand and lets it tap into Ace's retail operating systems and web portals.

But the partnership doesn't end there. RONA has also signed a long-term distribution agreement with Ace's international division, giving RONA access to a range of Ace products. “This agreement will enable us to improve our offering to small dealers across the country, to leverage our existing distribution infrastructure, and to strengthen our portfolio of banners,” said Robert Sawyer, president and CEO of RONA.

The Ace brand will complement the existing RONA and TRU brands and help with recruitment of dealers in areas of the country where RONA has a limited presence, he added.

WINNIPEG TEAM TO SPEARHEAD ACE PORTFOLIO

On a North American basis, given the proximity of RONA's TruServ Canada DC in Winnipeg, Man., to Ace's Chicago-area operations, much of the emphasis on Ace from RONA's side will come out of the TruServ division.

To make the Ace initiative truly national, RONA will also have a team working out of its Boucherville, Que., head office dedicated full time to the Ace program, in addition to Winnipeg.

According to Luc Rodier, senior vice president of RONA, about half of the Ace-bannered dealers are strictly hardware stores, giving RONA the opportunity to move in and convert those dealers without interruption to their own store's brand.

The introduction of Ace at TruServ's Fall Market last month help generate awareness and interest among dealers in attendance. It also affirmed that RONA is committed to bringing Ace to Canada in a big way. The fact that many of the dealers outside of Quebec are also building supply dealers—and most of those are TIMBER MART dealers as well—could pose a challenge to RONA's conversion efforts. Nevertheless, the Ace brand gives RONA another alternative in Canada's ever-narrowing retail field—and an important tool for beefing up its support of the independent dealer base.



TIM-BR MART's Bernie Owens: unhappy with the Ace relationship.



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l-r: Robert Boulanger, Key Account Manager for Techniseal, sponsor of the Young Retailer of the Year award; Chad Sonnenburg, RONA Dealer and winner of the award, with his wife Amy; Beverly Allen, publisher of Hardlines, which hosts the Outstanding Retailer Awards; and Lee Harney, Director of Market Development for RONA.

CHAD SONNENBURG, OWNER OF SONNENBURG RONA BUILDING CENTRE

YOUNG RETAILER OF THE YEAR

After years away from his hometown of Massey, Ont., Chad Sonnenburg decided to return to open a hardware store with his father, Gary, who had previously owned the Home Hardware in town before retiring in 1998. Gary decided to go back to work, and took over a building centre with Chad in nearby Spanish, Ont.

But this time they wanted to differentiate the new store, so they opened under the RONA banner in 2003. By 2008, Gary Sonnenburg retired again, this time for good, and Chad became the sole owner of Sonnenburg RONA.

At just 29 years old, he became one of the youngest owners in the RONA family.

Only a year later, Chad opened another store an hour west in Elliot Lake, establishing Sonnenburg RONA as the leader for building supplies in the area. Three years later, he made another bold strategic move: he relocated the original store from Spanish to his hometown of Massey.



COMPETITION

Sonnenburg's nearest competitors are Home Depot and Lowe's in Sudbury and Sault Ste. Marie. However, Chad doesn't think that either has adversely affected his business. He believes in fact that they have even assisted in his growth, because his store offers a full range of services and individual attention that the big boxes don't offer.

The Massey store is close to a Home Hardware Building Centre and the Elliot Lake location competes with Soo Mill Lumber, but what really differentiates the business and keeps customers coming back is its customer service, which remains the very basis of his operations.


THE STORE

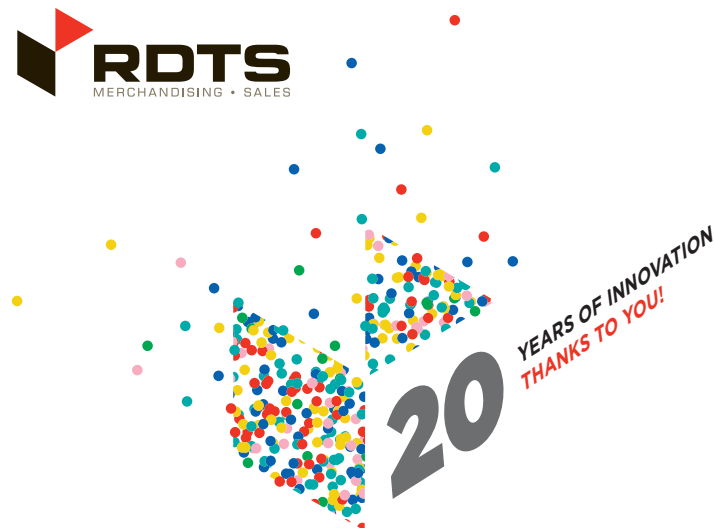
Chad trains his employees to go above and beyond for every customer because he recognizes that service is the only thing separating Sonnenburg from the intense competition. He has figured out how to market effectively to his customers to keep them

coming all year round so he doesn't have to lay off staff during the slower months. This includes giving out gift cards in February for spring projects—then storing the products until the customers are ready for them.

Sonnenburg RONA also put its staff first by offering full family benefits and generous vacation allowances to full-time employees. Chad recognizes that building a team environment in his stores is good for business and the staff actively work together as a team.

In the community, Chad has never turned down a community group looking for a donation or assistance. He says that any community event that involves children or the elderly is at the top of his list.

Chad Sonnenburg has built and expanded his business with bold expansion steps, exceptional customer service, helping the local communities—and successfully becoming an integral part of those communities. 



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I-r: Evan Nash, Ted and Donna Nash, and Tom Nash of Wellington Home Hardware, winners of the Marc Robichaud Community Leader Award; Erik Schlaud and Myron Boswell of Orgill, sponsors of the award; and Michael McLarney, Editor of Hardlines, which hosts the awards.

WELLINGTON HOME HARDWARE

MARC ROBICHAUD COMMUNITY LEADER AWARD

The Nash family has owned Wellington Home Hardware, located on Main Street in Wellington, Ont., for more than 100 years, dating back to 1905. Now in its fifth generation, the store is a large part of the glue that holds the small community of Wellington together. That glue became even stronger when Evan Nash returned to Wellington to help his parents, Ted and Donna, run the business in 2012.

THE STORE

Wellington Home Hardware occupies 3,800 square feet of retail space and approximately 1,500 square feet of storage, including a neighbour's garage. Even though the store could relocate to a bigger site, the Nashes know their store is one of the reasons that the main street of Wellington continues to thrive.

COMMUNITY

The Nashes' store fills a role unlike any other business in town. It's the place tourists come to when they've forgotten things, where cottagers and second homeowners come in for products to fix-up their homes, and it's where the locals do all their hardware shopping. But this is also the place where people go to ask which wineries to




community, from fundraising for the local Food Bank to promoting the Movember cancer drive. And the store is known for events of its own, such as hosting movie nights in the park to celebrate the end of school for the kids in town. That desire to be community leaders “was bred into us,” says Evan Nash.

COMPETITION

Wellington Home Hardware operates in a unique environment where most businesses in town would rather send a

customer to a competitor than have them go outside the community to shop. There’s an overwhelming anti-big box sentiment in Wellington.

Their biggest competition is another Home Hardware, just 15 minutes away in Picton. However, Wellington Home Hardware’s customers have remained loyal because going to the store is as much a social experience as a shopping trip.

The Nashes truly embody the philosophy that business, family and community are intertwined. 

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visit, what beaches are the best, or just to kill time on a rainy day.

To get a sense of the vital role Wellington Home Hardware plays, when the power goes out the Nashes immediately head to the store to make sure everyone has what they need and no one is left in the dark. The store is also a social hub, fielding calls about how the local hockey team did the night before or even queries about the phone number of the pizza place down the street.

Outside of store hours, the staff are actively engaged in every event held in the



PLANNING FOR **NEXT YEAR**

Start planning your business strategy now to maximize growth in 2015.

BY BILL WILSON, RETAIL ADVISOR, NRHA CANADA

There are many areas besides just numbers to think about when you start planning for next year. Think “SWOT”—the process of determining your company’s strengths, weaknesses, opportunities, and threats. Ask yourself: “What are my company’s strengths and weakness and how do we improve on them? Where are the opportunities and how can we strengthen them; and, what threats will I face now and in the future?”

WHAT ARE YOUR PLANS FOR IMPROVING?

Get your staff together and do a SWOT analysis. Encourage everyone on your senior team to identify your strengths, weakness, opportunities, and threats. Then, define a plan to ensure you don’t lose ground on your strengths while enabling you to grow your opportunities, minimize or eliminate

your weaknesses, and overcome or mitigate the threats to growth in the coming year.

Set a monetary objective for each part of your SWOT analysis with a time frame for implementation.

WHAT ARE YOU PLANNING ON DOING “NEW” FOR YOUR BUSINESS?

- New drives sales: up to 20 percent of your sales should come from new products added in the last 12 months.
- New services: installed sales, rental department, how-to videos for your customers linked to your website.
- New categories: kitchen and bath department, work clothes, pet foods. Are there unique or non-traditional segments you could introduce?
- New special-order programs to counter online sales: your distributors carry many thousands more SKUs than you could ever carry in your store. Can these be linked to your website?

Key Profitability And Productivity Measurements

	LUMBER OUTLETS		
	Typical*	High Profit*	Canada**
Gross Margin After Rebate	27.6%	25.6%	21-35%
Operating Expenses (including payroll)	25.1%	19.8%	23-27%
Total Payroll	15.6%	12.9%	9.0-22%
Inventory Turnover	4.0x	3.9x	2.5-4.6x
Average Collection Period (Days)	27.6	30.1	63-65
Sales per Full Time Equivalent Employee	\$308,988	\$333,060	
Sales per Customer	\$141	\$152	\$55-\$150
Consumer Sales	30%	35%	10-80%
Return on Assets (Pre Tax)	6.00%	17.10%	
Return on Net Worth (Pre Tax) (owners' equity)	11.4%	29.80%	4.4-17.4%
Profit Before Taxes	2.40%	7.40%	

*The industry average numbers shown are from the NRHA Cost of Doing Business Survey 2013

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

*** Source LBMAO Retail Business Survey 2014

- Special promotions only for your store: buy-local programs tied in with other businesses in your community, e.g., contractor lunches, charity barbecues.

TIME TO FORECAST YOUR BUDGET FOR 2015

Forecasting your sales for 2015. In 2014, hardware stores saw their sales drop by 4.5 percent while building centres were up two percent. If you have been averaging one to two percent annual growth over the past six years, and unless you have found ways to cut costs, your net profit has declined. Develop a plan for growth with a five percent minimum increase.

Forecasting your gross margin and rebates. This number can and will vary depending on the percentage of lumber sold. If you were diligent in increasing retail prices when known, you should have seen a spike in margin in recent months. Review each category and see how it compares to other years.

Total payroll costs. Sales per full-time equivalent employee should be in the \$300,000 range. Total payroll including owner's salary and benefits should range from 13 to 16 percent. Payroll costs with changes in minimum wage will have increases as other employees will be expecting an increase.

Operating expenses including payroll should be in the range of 20 to 25 percent. With the exception of payroll costs, it's difficult to reduce costs. Review other costs, as this is often a bottomless pit and expenses get lost.

Return on net worth. Pre-tax, your business should earn an adequate return to satisfy your needs. A good target is 20 percent return on net worth and minimum should be 10 percent.

Year-end planning is a process that many put off, but is a valuable tool to help you run your business. It works—if you follow up monthly with financial

reports to measure against your objectives and adjust as necessary to make certain you hit the bottom lines required in today's business environment. All portions of your plan should be documented and reviewed regularly to measure your progress.



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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**Wholesaling in Canada:
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Ken Arlen Orchestra



Paul Brandt

Schedule of Events

Wednesday, January 21
Opening Night at the WRLA Saloon
Hyatt Regency
7:00pm - 11:00pm

Thursday, January 22
Show: 8:00am - 4:30pm, AGM: 12:00 - 1:00pm
125th Anniversary Celebration
Hyatt Regency
7:00pm - 11:00pm
Featuring the Ken Arlen Orchestra

Friday, January 23
Show: 8:00am - 3:30pm
Closing Night Party - Telus Centre
7:00pm - 11:00pm
Featuring Paul Brandt



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ORGILL DEVELOPS “MINI-STORE” CONCEPT

The low margins and high overhead demands of extensive inventory make the viability of small hardware stores more challenging than ever before, especially in high-rent urban markets. One wholesaler has come up with an answer.

BY MICHAEL McLARNEY

Orgill’s fall buying show was held in August—right in the middle of the busiest trading time for most dealers—but that didn’t stop about 100 Canadian independents from heading to Chicago, Ill., to attend the event. Held at McCormick Place, the Dealer Market spanned 865,000 square feet, making it the largest show floor in Orgill’s history.

One highlight of the show was “One Stop Hardware,” one of three model stores set up right on the show floor. This one featured a full assortment merchandised for stores with limited square footage. The “store” filled only 4,700 square feet, but used a number of space-saving systems, such as pull-out drawers, sliding shelves, wing panels on endcaps, and overlapping displays.

“If you took all of this product and merchandised it in a traditional way, it would take up 8,000 square feet,” says Jim Parker, a field marketing manager for Orgill.

“A good hardware store needs 8,000-10,000 square feet, but many dealers just don’t have the space,” he adds, pointing out some of the features of the model store. “Note the 84-inch height on the gondolas, so you can use the outer walls for stock and free up the floor for retail.”

Traditional space-saving features, such as sliding racks, were combined with innovative ideas to maximize the environment’s space. Other features included endcaps that are only two feet wide to leave room for “wings” that display more merchandise. In the garden section, where rakes and brooms hang from the ceiling, a lower rack overlaps the hanging products to use valuable space below waist level.



Orgill’s Jim Parker demonstrates space-saving features that can maximize square footage for stores with limited space.

As consumers look for more convenience than ever before, the importance of the traditional hardware store will play an important role. Merchandising ideas like those found at the latest Orgill market provide important tools for helping hardware stores endure. 





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