

THIRD QUARTER / 2016

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HOME IMPROVEMENT QUARTERLY

RONA ACQUISITION

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An ORA judge weighs in on the formula for success.

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HOME IMPROVEMENT QUARTERLY

THIRD QUARTER / 2016 • VOLUME 6, NO. 3

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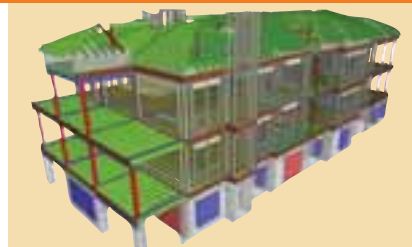
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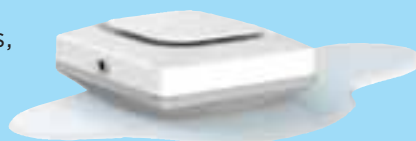
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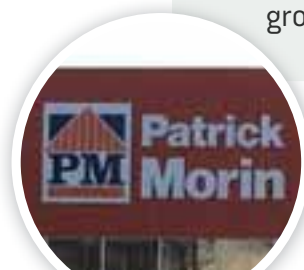
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BEHIND THE SCENES AT HARDLINES, ONE DEADLINE LOOMS LARGE.

Like most things in an editor's life, it starts with a deadline. But it ends up as a key piece of research that aims to help the entire industry measure its performance better. And it darn near kills me.

MICHAEL McLARNEY, EDITOR

“By the time we’re done, we’ve created a PowerPoint report with almost 200 slides... and just about everything we know about this industry.”

How big is the retail home improvement industry? How much has it grown year over year? What is the market share of each buying group, and have they gotten bigger or shrunk their ranks—and their sales—since last year? These are the questions we get the answers to in our biggest piece of research we do each year. It’s called the *Hardlines Retail Report*. It started almost 20 years ago, when we realized nobody knew how big this industry was. Nobody really knew who the biggest players were, who was growing, and who was losing sales.

So every year we get busy finding out all that and more. All with an eye to that deadline. First, we send surveys out to the leading retailers and buying groups. We begin analyzing annual reports and analysts’ reports. We start making “off-the-record” phone calls as we round up details of store counts, company sales, and more. Then we send out another survey, our Business Conditions Survey, to you, our readers, to help us gauge how business is going in your market. Then we resend the surveys, because everyone is busy and needs a gentle reminder.

Next, we start feeding data into a huge database (around here we call it the Big Kahuna). How big is this database? If we printed the whole thing out it would cover an entire wall in most buying group board

rooms. But, guess what, we still have lots of gaps in our data, so we resend the surveys another time.

By the time we’re done, we’ve created a PowerPoint report with almost 200 slides, dozens of charts and graphs, and just about everything we know about this industry. The Report can tell you how many stores each group has, which province they’re in, whether those stores are building centres, hardware stores, or big boxes, and what their average sales are. It’s a monster of a report.

Why do we do it? Peter Drucker, business guru and co-author of the seminal business book, *In Search of Excellence*, said, “If you can’t measure it, you can’t manage it.” We firmly believe this industry can only get better if we can better understand the players and the dynamics that drive the business. And we are firmly committed to delivering that insight to help you manage better.

So enjoy some highlights in this issue’s Top 20 Report (even if you *didn’t* send in that survey). As for me, I’m taking a few days off to rest up!

mike@hardlines.ca

QUARTERLY BUSINESS CONDITIONS

FIRST QUARTER 2016

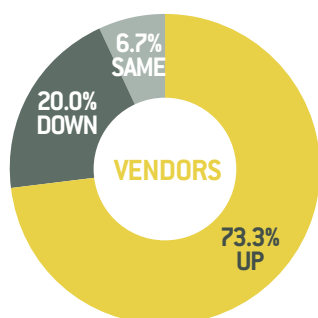
After a mild winter, both retailers and vendors agree that Q1 has started 2016 on a positive note. Having experienced a modest increase of three percentage points in sales compared to Q1 2015 for retailers, and a huge jump for vendors of more than 25 percentage points, both groups are optimistic about the coming year.

We asked retailers if they felt the effects of showrooming in their stores and 64.3 percent indicated yes—which is down from 72.1 percent in Q1 2015. For vendors, 73.3 reported that they plan to invest in buildings, machinery, or equipment over the next 12 months—nearly 40 percentage points higher than 31.3 percent in Q1 2015.

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

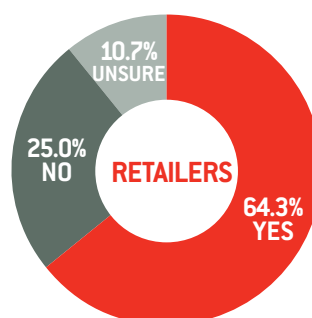


Year-over-year, the percentage of retailers experiencing better sales than last year is up three percentage points from Q1 2015, when 54.6 percent of retailers reported increased sales.

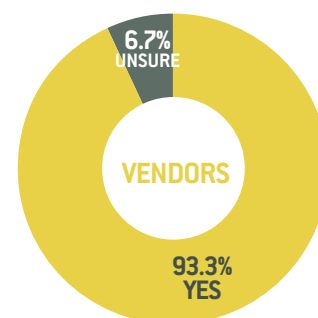


Year-over-year, the percentage of vendors experiencing better sales than last year is up more than 25 percentage points from Q1 2015, when 46.9 percent of vendors reported increased sales.

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



The percentage of retailers expecting sales to increase over the next six months has gone up slightly from 61.4 percent in Q1 2015. And the percentage of retailers unsure about sales increases has greatly lowered from 20.4 percent in Q1 2015.

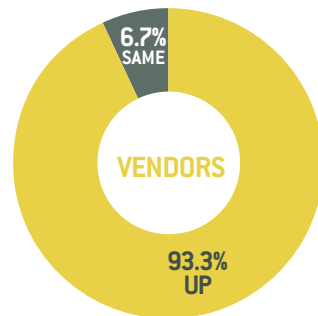


The percentage of vendors expecting increases in the next six months has jumped nearly 20 percentage points from 71.9 percent in Q1 2015, and the number of vendors uncertain about sales increases also decreased 12 percentage points from 18.7 percent in Q1 2015.

At year-end 2016, how do you expect sales for this year to have gone?

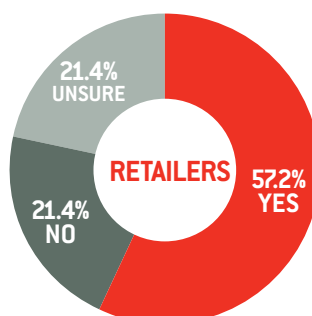


The percentage of retailers that predict sales will go up this year stayed pretty much the same from 65.9 percent in Q1 2015, but the percentage expecting sales to remain flat was four percentage points down from 25.0 percent in Q1 2015.

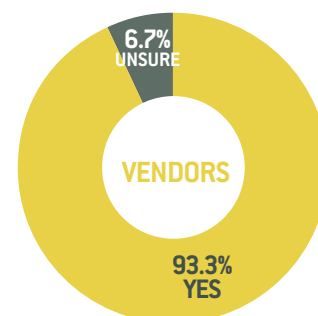


The percentage of vendors that predict sales to go up increased more than 30 percentage points since Q1 2015, and the percentage expecting sales to go down dropped to zero from 9.4 percent in Q1 2015.

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



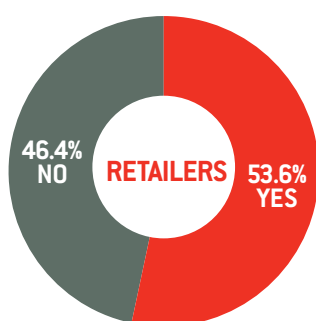
The percentage of retailers expecting increased sales rose 0.4 percentage points from a year ago. In Q1 2015, 56.6 percent of retailers were expecting sales increases throughout the year.



Vendors are optimistic about the coming year. Year-over-year, the percentage of vendors predicting increased sales is up from 78.1 percent in Q1 2015. And the number of those uncertain about the future is down from 12.5 percent in Q1 2015.

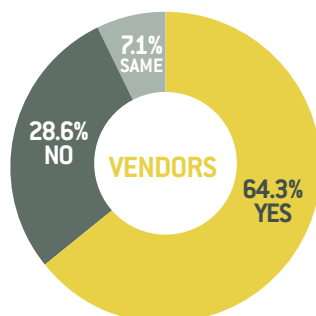
Did you offer new products/services in Q1 to better compete?

Compared to Q1 2015's 50/ 50 split, more retailers are offering new products/services to better compete this year.



Did you receive more orders in Q1 2016 than in Q1 2015?

Year-over-year, the level of vendors receiving new orders has increased significantly, compared to 31.3 percent in Q1 2015.



RETAILERS: Top issues in first quarter

1. Staffing
2. Customer retention
3. Decreasing margins
3. Exchange rate with U.S. dollar
5. Increased competition
6. Supplier consolidation
6. Training
8. Adding new services
9. Succession
9. Expanding products
11. E-commerce challenges

VENDORS: Top issues in first quarter

1. Exchange rate with U.S. dollar
2. Retail consolidation
3. Higher raw material/shipping costs
4. Competition from Asian sourcing
5. In-store merchandising and replenishment
5. Housing market
7. Increased presence of U.S. retailers
7. E-commerce challenges
9. Cross-border shopping

Source: HARDLINES Quarterly Business Conditions Survey

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A united front working toward a pan-Canadian organization (from West-East): Brad McCluskie and Thomas Foreman from BSIA; Gary Hamilton, Mark Westrum, and Tom Bell from WRLA; Ron Schell, Ken Forbes, and David W. Campbell from LBMAO; Richard Darveau and Nicolas Couture from AQMAT; Chris Deveau and Denis Melanson from ABSDA.

REGIONAL ASSOCIATIONS TO ALIGN MORE CLOSELY UNDER NATIONAL UMBRELLA

In a small inn at the mouth of the Credit River in Southern Ontario, executives of the five regional retail building materials associations held a special meeting in April. There, they voted in favour of changes to their relationship. Those changes mark a turning point in the representation of 2,400 Canadian dealers and their suppliers.

The groups agreed to codify the role and position of their umbrella association, the Canadian Retail Building Supply Council (CRBSC), which has in the past provided a forum for the member organizations to informally exchange ideas, information, and practices. Now, the members have developed a rationale to have the CRBSC represent the industry more visibly, especially at the federal level, while proactively addressing national issues.

“Founded in the mid-1980s, the umbrella organization established its mission without taking into account the means of achieving it,” says Council President Richard Darveau, who is also president and CEO of the Quebec industry association, AQMAT.


The first decision was to incorporate the CRBSC in accordance with the Canada

Not-for-profit Corporations Act. The second decision was to establish the organization’s headquarters in Ottawa, with five regional offices represented by the respective associations: the Building Supply Industry Association of British Columbia (BSIA) in Surrey, B.C.; the Western Retail Lumber Association (WRLA) in Winnipeg; the Lumber and Building Materials Association of Ontario (LBMAO), based in Mississauga, Ont.; the Quebec Hardware and Building Association (AQMAT) in Longueuil, Que.; and the Atlantic Building Supply Association (ABSDA), headquartered in Dieppe, N.B.

A key mandate of the newly strengthened CRBSC will be to document the effectiveness of past federal renovation tax credits in terms of their impact on society, the economy, and public finances. Other initiatives will be

raising the awareness of home improvement retail as a career option, with concrete tools to select employees, and a national hiring campaign. Also: online training for renovation and construction project quoting will also be available starting this fall.

The fourth key decision by the CRBSC and its five founding associations was to give their official endorsement to the annual Hardlines Conference so the Canadian industry will enjoy an event that is worthy of both its vitality and scale. Therefore, changes in image and organization of this conference are expected beginning with the 22nd edition in the fall of 2017.

CRBSC will hold two meetings per year, the next one on October 19 and 20 in conjunction with the Hardlines Conference in Niagara Falls, Ont. 

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The company began fine-tuning the look of its stores with its Strathmore, Alta., location.



PEAVEY MART'S 35TH STORE TO OPEN IN HIGH PRAIRIE, ALTA.

Amidst the gloom of the Alberta economy, farm and hardware retailing is shining a bright light on High Prairie, Alta., where Peavey Mart will open its 35th store this fall.

Peavey Mart stores, which are part of Peavey Industries, feature a range of farm, hardware, pet, workwear, outdoor living, and automotive across Western Canada. The newest location will be about 16,000 square feet and create 12 jobs. The store and adjoining greenhouse will be the anchor tenant of the first phase of the East Gate

retail development, which will eventually cover five acres.

"High Prairie is a central hub for a large trade area of about 30,000 people," says Peavey Industries President Doug Anderson. "The farming history and solid trades sector attracted us, because we have a unique mix of items to serve the people of the area."

Peavey was designated as one of Canada's Top 10 Corporate Cultures in 2015. Besides offering traditional farming, hardware, trades and housewares products, stores offer niche items such as honey bees and

chicks, and a free electric car-charging service. The company began fine-tuning the look of its stores last year in Strathmore, Alta. The High Prairie store will be modeled after that one, albeit slightly smaller.

Peavey Mart already has stores in Northern Alberta, in Grande Prairie and Westlock. According to Anderson, they have provided years of experience there for the retailer. "We feel High Prairie and the surrounding area are a perfect fit for Peavey Mart, and we are a perfect fit for the community."

TITAN LOOKING AT ACQUISITION OPPORTUNITIES

WSB Titan, the giant commercial drywall operation headquartered just north of Toronto, is on the acquisition trail again, thanks to a partnership with a new investment group.

According to Doug Skrepnek, one of the principals of WSB Titan, and president of Watson Building Supplies, “We were dealing with conventional banking. But we’ve been expanding at an extremely rapid rate over the past four to five years.” The bank, he says, was happy with Watson’s current status and did not want to provide money for further growth. However, Skrepnek says he has his eye on at least two more acquisitions, “so we went to the street.”

WSB Titan (WSB stands for Watson-Shoemaker-Beauchesne), is the result of a

merger of some of Canada’s largest gypsum supply dealers (GSDs) and represents almost 40 locations across the country. Nor is the company a stranger to big deals. In 2014, Titan acquired Slegg Lumber, the leading dealer on Vancouver Island. Last year it became an equity partner in BC Ceiling Systems, a West Coast distributor with locations in Vancouver, Richmond, and Langley, B.C., and in Calgary.

Skrepnek won’t put a timeline on the next big deal, but expects to see something happen over the next few months. Nor would he name the potential candidates for acquisition, but he did narrow down the geographic possibilities. “We see opportunities in B.C. We’re definitely looking in B.C. That’s our number-one priority.”

CASTLE SEES GROWTH WITH INDEPENDENTS IN ATLANTIC MARKET

With two recent additions to its dealer network in Atlantic Canada, Castle Building Centres Group sees the region as a good one for growth.

Recently, a new specialty dealer, Window World in Moncton, N.B., signed on under General Manager Jay Milton, who has been in the home improvement industry for more than 15 years. This latest recruit underscores how important the Atlantic market is for Castle. Not long before that, Castle added a member in Newfoundland and Labrador, B.W. Powell in Charlottetown, Labrador. Owned by Marie and Irving Powell, children of founder Ben Powell, it’s a broad-line

general store supplying the town’s LBM and hardware, along with groceries and gasoline.

Bruce Holman, director of business development for Castle, admits that the group is strong in Atlantic markets—and especially in Newfoundland and Labrador. There, he counts 142 stores in total selling hardware and building materials, of which fully 40 are Castle members.

He’s proud of the gains Castle has made there, attributing them in part to Castle’s business model, which doesn’t require an independent to join a banner. A lot of these dealers, many of them smaller operators in discrete markets, don’t need the sophisticated offerings of some banners, he says.

“They are true entrepreneurs that want simplicity. They don’t want to be told how to run their business.”

BRIEFLY

HOME HARDWARE TO CARRY “CANADA 150” TULIP

To celebrate Canada’s 150th anniversary in 2017, Home Hardware Stores Limited has joined the National Capital Commission, Kingdom of the Netherlands, and Communities in Bloom to be the exclusive carrier of the “Canada 150” tulip. The tulip is white with red flames, the colours of the Canadian flag. Customers will be able to purchase the bulbs at Home stores across Canada this fall.

OWENS CORNING CANADA RECOGNIZED

Owens Corning Canada was awarded recently for contributions to energy efficient housing. Andy Goyda, Canadian builder lead and market development manager for Owens Corning Canada, has been inaugurated into the EnerQuality Hall of Fame. EnerQuality, which certifies energy efficient homes in Canada, holds the awards annually to recognize the residential construction industry’s leading innovators. Goyda was recognized for his impact on energy efficiency and green building in the housing industry—an honour that is typically given to a builder, not a manufacturer. The awards audience also voted Owens Corning Canada in for the Industry Partner Award.

CERTAINTEED ACQUIRES MATTERHORN ROOFING BRAND

CertainTeed has acquired the Matterhorn metal roofing brand from Michigan-based metal roofing manufacturer Quality Edge, Inc. The purchase expands CertainTeed’s roofing portfolio and ability to serve distributors and contractors throughout North America with a consolidated source of asphalt shingles and metal roofing products.

ACE CANADA OPENS STORES ACROSS THE COUNTRY



The new Caledon Ace store has a year-round garden centre, equine supplies, farm supply, bulk mulch, and aggregates.

The Ace banner continues to gain traction across Canada with the opening of a new Ace Hardware store in April in Sundre, Alta. The store opened with the help of owners Tom and Marty Mennear and the store's manager, Barkley Carrier.

Nestled in the foothills of the Rocky Mountains north of Calgary, the store has been designed to reflect the needs of this community, offering everything from home maintenance to categories such as paint and lawn and garden.

The banner opened two more stores soon after, one in Saskatchewan and one in Ontario. Ace Peel Hardware & Supply in Caledon, Ont., is a 20,000-square-foot location owned by Bill Hewson, Joe Gray, and Bill Woodill; the general manager is Brent Bowen. In Leask, Sask., a new, 3,000-square-foot Ace Hardware store at 11



Ace opened a new store in Sundre, Alta., in April.

Main Street is managed by Bill McDonald. Both stores offer a range of products typical of a local hardware store, including paint, hardware, and electrical. In addition, the Caledon store has a year-round garden centre, equine supplies, farm supply, bulk mulch, and aggregates.

The Ace banner, which is licensed in Canada by Lowe's Canada, following the takeover of RONA, is proving a good fit for many dealers. Ace Canada has signed or converted 60 dealers in the past year.

HOME HARDWARE'S NEW VP REINFORCES BRANDING MESSAGE

While new products and new vendors were the main draw at the latest Home Hardware Market, held at its head office and distribution centre in St. Jacobs, Ont., in April, Home's culture and values were reinforced, as well.

That included an overview of marketing initiatives to boost the Home Hardware brand, courtesy of Rob Wallace, director, marketing at Home Hardware Stores Limited. He noted that promotion and advertising, including TV ads featuring dealers themselves, help reinforce that Home Hardware dealer-owners are part of the fabric of Canadian life. The ads are an important part of the messaging, "to keep the Home Hardware brand front and centre with Canadian consumers."

Also new for Home is its vice president of marketing and sales, Rick McNabb, who was introduced to the dealers at a rally on the second day of the show. McNabb

joined the co-op effective March 7 of this year, after working at the food service company Cara Foods, most recently as COO of Harvey's-Swiss Chalet.

"I've obviously got a lot to learn about this category, because it is different," McNabb admitted. But, he added, he grew up in the home improvement business: his dad worked for Aikenhead's Hardware, which was owned by the same group that owned Beaver Lumber, and he worked at Beaver during school. More recently, he helped out his brother, Gary McNabb, who owns the Home Hardware store in Gravenhurst, Ont.

"Our aim is clear," he noted. "We're here to serve the needs of our dealers."

Rick McNabb, Home Hardware's new vice president of marketing and sales, stressed the importance of serving the needs of Home dealers.



BRIEFLY

LOWE'S CANADA OPENS ITS 43RD STORE

Lowe's opened its 43rd store in Canada in May, in Cornwall, Ont. The grand opening ceremonies took place May 5; the mayor of Cornwall was on hand, and so was Gregor Stuart, VP of supply chain and logistics for Lowe's Canada. The company spent \$16 million on the store, which will employ up to 140 people, plus seasonal workers.

HOME HARDWARE DEALER WINS NRHA YOUNG RETAILER AWARD

Dan Moulton, dealer-owner of Alliston Home Hardware Building Centre and Hanover Home Hardware Building Centre, in Alliston and Hanover, Ont., was named one of the National Hardware Retail Association's eight Young Retailers for 2016. Moulton, the only Canadian retailer of the group, won in the multiple stores category.

CANADIAN TIRE BRINGS BACK PRINT CATALOGUE

Canadian Tire has brought back its catalogue after a 10-year hiatus. Called the "Wow Guide," the 200-page publication is an adjunct to the retailer's online catalogue, and even features "hover and discover" capability for shoppers to connect to the products online with their mobile devices.

CORRECTION

Canadian Stores	Lowe's/ RONA	Home Depot Canada
Sales (\$ billions)	\$6.6	\$7.2
Store Count	542	182
No. of Employees	28,000	32,000

The information in this chart appeared incorrectly in the last issue. Those numbers have been corrected here. We apologize for the error.

DISAPPOINTED WITH SALES, CANADIAN TIRE PULLS URBAN TEST STORE

Canadian Tire has closed a prototype “urban” Express store, located in the Greektown neighbourhood of Toronto’s east end. The store, which was being watched by head office as a possible prototype for further locations, had been tailored specifically to the home maintenance needs of the inner-city customer when it was installed in 2013. Canadian Tire originally planned to open up to six such stores over the following year, including one in Ottawa, but none materialized.

The associate dealer of the Express store was Peter Oliver, who also operates a full-sized Canadian Tire a few kilometres south. Faced with high rent typical of an inner-city retail space, the smaller test store was designed utilizing two levels, with an emphasis on convenience and décor over building materials.



Canadian Tire has closed its Toronto “urban” Express store on one of the city’s busiest streets.

The store sat on one of Toronto’s busiest streets, renowned for its shops and restaurants. However, a combination of those

reportedly high costs and the failure of the store’s lower level to draw traffic led to the experiment being terminated.

ATLANTIC BUYING SHOW WILL MOVE TO HALIFAX IN 2017

After more than 30 years in Moncton, the Atlantic Building Supply Dealers Association (ABSDA) announced its annual trade show will be moving to Halifax next year.

Denis Melanson, president of the ABSDA, made the announcement to more than 700 members and sponsors at the annual gala dinner in March. After experiencing a steady decline in attendance over the last few years, Melanson asked everyone—dealers and vendors alike—to commit to bringing the show back to its past glory.

“We can’t sit here and say there’s less and less people here every year and not do anything about it,” he said. He especially called on the vendors to emphasize the buying aspect of the event by offering show-exclusive deals and inviting their customers to attend. Melanson estimated they could see a 25 to 30 percent increase in attendance if everyone committed to the effort.

Melanson concluded his remarks with a call to arms, encouraging attendees to work on attracting more people, not just to the buying show, but to the industry as a whole. “This industry is changing and evolving and we have to provide more value and more services. And we have to



After 30 years in Moncton, ABSDA’s annual trade show will move to Halifax.

stop talking about jobs, and make people aware of the careers they can have in this industry.”

Gettin down to business
at the



Calgary, AB

For complete details visit
www.wrla.org/buying_show/schedule/ to exhibit
contact Caren at ckelly@wrla.org

ProductSPOTLIGHT

BY GEOFFREY McLARNEY



No More Nails Wet Grab ▶

No More Nails Wet Grab is the newest construction adhesive by LePage. Specially formulated to work on wet surfaces, it remains waterproof after curing. The solution works on a wide range of substrates, both porous and non-porous surfaces including newly evolving building materials. Like all adhesives in the No More Nails line, Wet Grab uses LePage's Instant Grab technology, reducing the need for nails, screws, clamps, and tapes.

www.lepage.ca



◀ Ply Gem's Design Series Metal Clad Vinyl windows

Ply Gem's Design Series Metal Clad Vinyl windows combine the look of metal cladding with the durability of vinyl. Constructed with an aluminum-clad exterior and vinyl interior, this "hybrid" window requires little upkeep. Homeowners and builders can play with different looks by combining awning, casement, picture and fixed, slider and single-hung operational styles in 12 exterior-cladding colours. Formulated to withstand harsh climates, the Design Series Metal Clad Vinyl window features a continuous head and sill design for a watertight frame and improved structural rigidity. Customers can enhance thermal performance by adding double or triple glazing and ECO Glass.

www.plygem.ca

CertainTeed NoiseReducer insulation ▶

CertainTeed NoiseReducer batts are 3-1/2-inch thick fiber glass batts designed to effectively reduce sound transmission as well as to provide thermal insulation. The batts are lightweight, flexible and easy to handle and fabricate on the job site and conform to irregular surfaces. CertainTeed NoiseReducer insulation resists mould and mildew and will not rot or deteriorate. It's in demand for homeowners with media or music rooms, teenagers who like loud music, and for those looking for a quieter bedroom for a good night's sleep.

www.certainteed.com



◀ Task Tools' One-Piece Steel Hammers

Task Tools' new One-Piece Steel Hammers are made of forged steel for a lightweight, balanced design. New shock-absorbing grips reduce fatigue and enhance comfort for increased production. Other features include a magnetic nail starter and comfortable rubber grip to absorb vibration. Both a 16 oz. Claw Hammer and a 22 oz. Framing Hammer are available, the latter with an angled, milled face that helps drive nails straight without slippage.

www.task-tools.com

Milwaukee M18 FUEL Finish Nailer ▶

Milwaukee touts its M18 FUEL Finish Nailers as the first cordless tools on the market with the power to consistently seat nails sub-flush to hardwood surfaces with no ramp-up time and no gas cartridges. Equipped with a Powerstate brushless motor, the M18 needs no cleaning, and is designed for durability and reliability with little maintenance. The ergonomic design features smaller size and length for a better overall “feel.”

www.milwaukeeetool.ca



◀ Weiser keyway-less touchscreen deadbolt

Weiser has unveiled its first keyway-less touchscreen deadbolt. The unobtrusive touchscreen is the centrepiece of several new residential door locks being introduced in Canada this year. The company says eliminating the keyway has allowed it to create a touchscreen deadbolt that combines style and security for residential door locks by merging a sleek and modern exterior, a small all-metal interior, and advanced mechanical and electronic security features. The removal of the keyway also takes away the threat of “lock-picking” and “lock bumping.” In the event that the four AA batteries run out of power, backup power can be supplied via a 9V battery.

www.weiserlock.com

Epicor's BisTrack 5.0 business management software

Epicor Software has released BisTrack 5.0, an update to its popular business management software for North American dealers and distributors of lumber, building materials, and construction supplies. The update builds on the industry-specific functionality of the Epicor BisTrack system with new features designed to simplify and streamline the increasingly diverse LBM business, and maximize sales opportunities with existing customers. New features include automated processing for supplier invoices and a subscription-based service for managing tax information across multiple states or provinces.

www.epicor.com

Register

Purchase order:
 Sell order:
 Job type:

Supplier:
 Status:

Date:
 Invoice:
 Due:

Order ref:
 Options:

Invoice totals

Goods total: \$
 Discount:

Tax:
 New date:

Total amount:

Total weight:
 Terms:

Report

Purchase order:
 Lines for:

Item No.	Date Received	Qty	Product	Qty Inv	Qty Rec	Qty On	Qty On	Qty On	Unit Price	Invoice Unit Cost	Unit Price	Invoice Unit Cost	Total Weight	Expected Unit Cost	Expected Unit Cost
11/24/12	11/24/12	2250	Seafood - Seafood	2250	2250	0	2250	0	15.56	15.56	15.56	15.56	0.0	15.56	15.56
			Seafood - Seafood	2250	2250	0	2250	0	15.56	15.56	15.56	15.56	0.0	15.56	15.56
			Seafood - Seafood	2250	2250	0	2250	0	15.56	15.56	15.56	15.56	0.0	15.56	15.56



LOWE'S OVERCOMES FINAL HURDLES OF RONA DEAL, PLANS "GRADUAL EVOLUTION"

The biggest deal in the history of Canadian home improvement retailing, and one that has been in the works in one form or another for the past five years, has finally closed.

BY MICHAEL McLARNEY

Lowe's Cos. completed the acquisition of RONA inc. in a deal worth \$3.2 billion on May 20. After securing shareholder support at the end of March, the deal got the final approval it needed on May 13 when the Canadian Competition Bureau deemed that the takeover will not limit consumer choice.

Lowe's made a friendly, albeit controversial, takeover bid for RONA back in 2012 that was worth \$1.8 billion. But that offer was made just ahead of a provincial election in Quebec, and got a lot of resistance from the Quebec government, which perplexed the executives at Lowe's.

Sylvain Prud'homme, president and CEO of Lowe's Canada, told *HHIQ* shortly after the deal closed that there were still many

questions that didn't have answers yet. "There's a lot we need to figure out in the first 30 days," he says. That included deciding what the Lowe's office in Toronto will look like, who will stay, and who would replace him personally to run the Lowe's business there. For now, Prud'homme has told the organization that he needs time

to analyze the RONA business before making decisions about leadership, structure, and buying teams.

And in the wake of the announcement that Luc Rodier, former executive vice

president of retail at RONA, had left the company, there have been many questions about staffing changes. Other than CEO Robert Sawyer and CFO Dominique Boies, whose departures had been

“It's not a consolidation.
It's a co-ordination.”

Sylvain Prud'homme, president of Lowe's Canada, says Lowe's plans to maintain the RONA network, including its existing banners and formats, without disruption.

planned in advance of the deal closing, Rodier is the only other senior person to leave the company.

Christian Proulx, senior vice president of human resources for RONA, says one of the key messages being conveyed to RONA employees is that this is a deal based on growth. "We're definitely in the process of looking at the business and creating a model for having these two businesses work together," he says.

Nor is the Lowe's team in a rush to make any big decisions. Prud'homme has stated that the consolidation process will be a gradual one, and while consumers will likely see some minor changes right away, it will be a while before they notice anything drastic.

For the time being, the company will focus on building brand awareness in the Canadian market and retaining the existing RONA banners. These include Dick's Lumber in Burnaby, B.C., Marcil and Reno-Depot in Quebec, and the Ace brand nationally, to which Lowe's holds the license in Canada. The latter will be part of a strategy to continue supporting independent dealers across the country.

And while there were some questions about what Lowe's will be doing with the Ace brand, several Lowe's executives recently visited Ace Canada headquarters to reaffirm their support for independent. According to one source, Prud'homme told the Winnipeg team, "We bought the network, because we want the network. Ace fits that network."

Heading into the deal, both Lowe's and RONA had aggressive expansion plans: Lowe's bought up 12 former Target stores, plus its distribution centre in Milton, Ont., in May 2015 and is working hard to convert those outlets to Lowe's. In addition, it is continuing to develop greenfields sites of its own. At the same time, RONA has been spending the last four years getting its financial house in order. This included acquiring 17 big box stores in Quebec, all of which were owned by independent, or franchise, dealers. The company has also been active working with its independent dealers to help them grow their respective businesses.

The market can expect both sides of the business to continue parallel expansion strategies—at least for the near term. "We're tackling the future retail network," says Prud'homme, "and growth is important." But, he adds, the integration will not be a one-size-fits-all approach. "It's not a consolidation. It's a co-ordination."

With the multiple Lowe's-RONA banners in use and enhanced distribution services to independent dealers planned, the result



of this deal will be Canada's number-two home improvement retailer after Home Depot Canada, with revenues expected to exceed \$6 billion.

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COMPILED BY THE EDITORS OF *HHIQ*

CANADA'S TOP 20



HARDLINES' definitive annual report on the top players in hardware and home improvement retailing.

U sing sales and statistics from the companies themselves in most cases, combined with competitive intelligence—much of it proprietary—HARDLINES has tracked the growth of the retail home improvement industry in Canada since 1997. Sales and store counts for each company are as of year-end 2015, and based on company data and/or HARDLINES estimates.

The industry, as measured by HARDLINES, comprises sales at retail by all hardware stores, building centres, and home centres in Canada, including related hardware and home improvement sales by Canadian Tire, club stores, co-ops, and mass merchants.

All data drawn from the 2016-2017 Hardlines Retail Report by the Editors of HARDLINES. Go to hardlines.ca and click on “Publications & Reports” for more information.

1. HOME DEPOT CANADA

Toronto, Ont.

2015 Dealer Sales: \$7,195,000,000

2015 Points of Sale: 182

For the second year in a row, Home Depot Canada tops our list. The company opened its 182nd store in this country in April 2015. Home Depot Canada has distribution centres in Surrey, B.C., Calgary, Edmonton, two in Milton, Ont., and two rapid deployment centres in Vaughan, Ont., and Calgary, aimed at helping the retailer fulfill online sales and reduce logistics costs.

In Q1 2016, the division reported its 18th consecutive quarter of positive same-store sales.

The company is especially focusing on its online presence, using the “buy online pick up in-store” approach. Nearly half of its online orders are picked up in-store. Online sales company-wide increased 21.5 percent in Q1 2016 and Home Depot was ranked number 10 in Internet Retailer’s Top 500 Guide for 2015. The company is now working to expand those initiatives, but has been challenged by the demand for home delivery.

2. LOWE’S CANADA

Boucherville, Que.

2015 Dealer Sales: \$6,600,000,000

2015 Points of Sale: 601 (including RONA)

Lowe’s Canada came in at number 10 in our list last year, but following the acquisition of RONA inc, when its sales are combined with RONA’s, it now places second, coming in at \$6.6 billion in annualized sales.

When Lowe’s first arrived in Canada, its stated goal was to open 100 stores within 10 years. Just one year after opening its first stores here, the worldwide recession hit, affecting economies—and retailers—everywhere. Big boxes in Canada were especially hard hit. Then, as Lowe’s was getting back on track, another American retailer, Target, announced it would take over the leases of more than 200 Zellers locations. This in turn spurred its chief rival, Walmart,

to step up expansion plans of its own. The result was a tight supply of large-surface retail real estate, putting pressure on Lowe’s own “pipeline” of store sites it was trying to develop. Next came a “friendly” takeover bid for RONA inc., in the same week that *la belle province* announced provincial elections. RONA became a hot potato politically, and Lowe’s retreated from its offer. With the now-approved acquisition of RONA, Lowe’s is looking at every opportunity for growth in this country.

3. HOME HARDWARE STORES LTD.

St. Jacobs, Ont.

2015 Dealer Sales: \$5,865,000,000

2015 Points of Sale: 1,050

Home Hardware Stores Limited is a dealer-owned co-operative wholesaler that supplies paint, hardware, housewares, and building supplies to a network of 1,050 stores, located mainly in small-town and rural Canada. It’s considered one of the best-known brands in the country.

Home experiences steady growth year over year, as it invests in the operations and retail execution at the store level among its existing member dealers, and actively recruits new members. Thanks to a strong corporate culture, the commitment from its dealers remains solid, while the company delivers a comprehensive program of best practices to those dealers.

The company is now tightening up its best practices and standards of operation for its dealers, reflecting its desire to establish conformity among its stores to match the expectations created by the company’s aggressive advertising across Canada. In addition to meeting customer expectations, the closer management of the member stores’ operations is part of an effort to maximize the growth of Home’s existing dealer network. As a result, the co-op has become more selective about the types of dealers it will attempt to recruit—or retain. And there’s a focus on growth in the province of Quebec.

4. CANADIAN TIRE RETAIL

Toronto, Ont.

2015 Dealer Sales: \$5,435,000,000

2015 Points of Sale: 498

Canadian Tire Retail, a division of Canadian Tire Corp., is a hardlines mass merchant serving communities of all sizes in Canada. Its Canadian Tire Retail division consists of 498 Canadian Tire-branded hardlines mass merchants in every province and territory except for Nunavut. These stores are independently operated and co-owned by Canadian Tire’s franchise, or associate, dealers. The dealers own the fixtures, equipment, and inventory while head office owns the real estate. Retail selling space ranges in size from 3,155 square feet to 134,020 square feet, equalling about 20.9 million square feet of retail. The company offers more than 150,000 SKUs in five categories: Living, Fixing, Playing, Automotive, and Seasonal & Gardening.

Canadian Tire has finally rolled out online sales, with about 80 percent of its products now available through its website, through a system of buying online and picking up the order in-store. Last fall, it also launched a mobile payments app called Canadian Tire Pay & Play. It’s an exclusive for holders of Canadian Tire’s Options MasterCard that allows users to make payments and track their banking information and e-Canadian Tire “money” rewards.

5. TIMBER MART

Calgary, Alta.

2015 Dealer Sales: \$2,840,000,000

2015 Points of Sale: 660

With its head office in Calgary, Alta., the group consists of an estimated 660 stores in 11 provinces and territories. TIMBER MART’s estimated annual sales through all its dealers reached an estimated \$2.8 billion in 2015.

The average size of its members’ stores is about 8,000 square feet and they typically sell to a combination of retail and contractor customers, with 70 percent of sales coming from contractors. The company has also

Collective growth of the Top 20 increased by almost 20 percent in 2015 thanks to the consolidation of two important players, Lowe's Canada and RONA inc. and organic growth from groups like Home Hardware and Castle.

been bolstering its ranks of commercial dealers, strategically expanding in that category across the country.

Under president Bernie Owens, who took over in October 2013, the management team at TIMBER MART has been fine-tuned, and a number of its dealer development lieutenants were promoted to senior regional director of member services (RDMS) roles across the country. And in August 2015, the company announced the sale of Chalifour Canada to Orgill. As a result, Orgill formed a new company, Orgill Canada Hardlines. TIMBER MART will rely on the group's membership in the Spancan buying group, as well as Orgill Canada, for its hardware needs.

6. INDEPENDENT LUMBER DEALERS CO-OPERATIVE (ILDC)

Ajax, Ont.

2015 Dealer Sales: \$2,650,000,000

2015 Points of Sale: 379

This building materials buying co-operative has a core of 21 independent chain members, comprising 379 outlets, with sales of \$2.65 billion. These retailers, many of them multi-outlet, family-owned operations, represent some of the leading dealers in their respective markets.

Despite the size of its members, the group has one of the smallest operating offices of the groups, reflecting its focus purely on negotiating the best pricing for commodities, and through the Spancan buying group, its hardware product needs. ILDC's members meet regularly, both to negotiate with vendors and to compare notes on best practices and commercial intelligence. NOTE: As of press time, ILDC added Groupe BMR to its membership, making it the largest buying group in terms of sales.

COMBINED TOP 20 GROUPS (\$MILLIONS)

RANK	COMPANY	2014	2015	CHANGE
1	Home Depot Canada	\$6,932	\$7,195	3.8%
2	Lowe's Canada	\$1,100	\$6,600	500.0%
3	Home Hardware Stores	\$5,488	\$5,865	6.9%
4	Canadian Tire Retail	\$5,264	\$5,435	3.2%
5	TIMBER MART Group	\$3,000	\$2,840	-5.3%
6	ILDC	\$2,613	\$2,650	1.4%
7	Sexton Group	\$1,800	\$1,836	2.0%
8	Castle	\$1,720	\$1,875	9.0%
9	Groupe BMR	\$1,700	\$1,700	0.0%
10	Kent Building Materials*	\$749	\$769	2.7%
11	Delroc	\$700	\$750	7.1%
12	Federated Co-operatives*	\$540	\$554	2.6%
13	Canac	\$525	\$540	2.9%
14	WSB Titan	\$500	\$511	2.2%
15	Allroc	\$500	\$500	0.0%
16	UFA Ltd.**	\$400	\$392	-2.0%
17	TORBSA	\$400	\$350	-12.5%
18	Patrick Morin*	\$290	\$304	4.8%
19	TSC	\$250	\$243	-2.8%
20	Windsor Plywood***	\$225	\$230	2.2%
TOTAL		\$32,532	\$38,951	19.7%

*Kent, Patrick Morin, and FCL are included with ILDC, so their sales have been backed out of the total to avoid double-counting.

**UFA is included with Sexton, so its sales have been backed out of the total to avoid double-counting.

***Windsor Plywood is included with Delroc, so its sales have been backed out of total to avoid double-counting.

7. SEXTON GROUP

Winnipeg, Man.

2015 Dealer Sales: \$1,836,000,000

2015 Points of Sale: 392

This Winnipeg-based group had annual sales of \$1.9 billion last year from 392 dealer locations. Although these stores are across the country, the buying group's presence is

strongest in the West and has a solid presence in Ontario, but fewer members in Quebec and Atlantic Canada. It has earned a reputation as a low-cost group that allows members the freedom to operate in their respective marketplaces as they see fit.

Its members are mainly traditional yards, but recent growth has been with



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non-traditional dealers, especially factory-built and modular home makers. Ten new members already joined Sexton during the first quarter of 2016, with more lined up in the following months. And in early spring, Sexton Group invited more than 350 vendor representatives in Moncton, N.B., and Toronto to learn more about the group and its Eastern Canada-based members. The vendor sales representative meeting established that Sexton Group is ambitious for continued growth for both members and suppliers. To that end, the group is committed to keeping both sides well connected at the local level.

8. CASTLE BUILDING CENTRES GROUP

Mississauga, Ont.

2015 Dealer Sales: \$1,875,000,000

2015 Points of Sale: 300

Castle had estimated annual sales at the end of 2015 of \$1.85 billion, achieved through both aggressive dealer recruitment and same-store sales growth. The group, with dealers across Canada, is pursuing growth on a controlled basis, relying on increasing volumes from existing members.

The company continues to grow its commercial division, called Commercial Building Supplies (CBS), and the Castle Specialty Dealer program, designed for kitchen suppliers and window and door shops. Castle members rely largely on Orgill, the Memphis-based hardware distributor, which it has had a preferred partnership with for a few years now, for their hardware needs.

9. GROUPE BMR

Boucherville, Que.

2015 Dealer Sales: \$1,700,000,000

2015 Points of Sale: 326

La Coop fédérée is a Quebec farm co-operative, but also has a significant presence in hardware and home improvement, through Groupe BMR.

In February 2014, La Coop fédérée acquired all of the assets of Groupe BMR,

Canada has more than 80 retailers, co-ops, mass merchants, wholesalers, and buying groups in the home improvement channel, but only 20 of that number account for nearly 90 percent of the market.

creating a combined entity that brings BMR stores together with La Coop's own Unimat banner under one business unit. The combined partnership represents 326 retail outlets in Quebec, Ontario, and the Maritimes. All hardware and LBM business for La Coop has been moved to BMR's offices in Boucherville, Que.

Effective July 11, 2016, BMR appointed Pierre Nolet as senior director, business development. Nolet will focus on the development of the hardware and LBM market and on the business relationships with BMR's current dealers.

10. KENT BUILDING SUPPLIES

St. John, N.B.

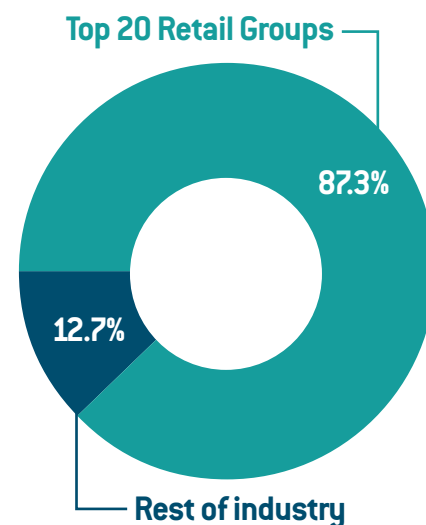
2015 Dealer Sales: \$769,000,000

2015 Points of Sale: 43

This major player in the home improvement retail scene in Atlantic Canada is also the Independent Lumber Dealer's Co-operative's (ILDC) largest member. Based in Saint John, N.B., with additional distribution in Moncton, N.B., this chain is a business unit of J.D. Irving Ltd., a private holding company whose interests include retail, gas stations, and natural resources.

Kent has 43 stores, with estimated sales of more than \$768 million in 2015. It also has three truss plants and a drywall facility. The company erected seven big box stores in the early '90s to head off the incursion of Home Depot. It then abandoned further big box expansion in favour of a more traditional building format. In 2013, Kent erected a new 400,000-square-foot distribution centre in Moncton, N.B. In August of that year, it opened its first big-box store in many years in Charlottetown, P.E.I.,

TOP 20 RETAILERS VERSUS THE REST OF THE INDUSTRY



which is approximately 100,000 square feet in size.

11. DELROC INDUSTRIES

Langley, B.C.

2015 Dealer Sales: \$750,000,000

2015 Points of Sale: 132

Delroc, a buying group for building materials, serves 132 gypsum supply dealers (GSDs) and building supply dealers, mostly in British Columbia and Alberta. Based in Langley, B.C., Delroc Industries had \$750 million in sales in 2015. Its largest member is Windsor Plywood, also based in Langley, which specializes in moulding and millwork. It has about 60 outlets and more than \$200 million in sales.

Over the years, Delroc has expanded its product offerings from wall and ceiling products to include a broader range of building materials and hardware SKUs. But for the most part, this buying group stays focused on LBM purchases: buying as effectively as possible while offering a competitive rebate program, a full product offering, and low overhead.

While some groups were up in 2015, others lost members and thus showed a loss in sales. Note also that BMR's growth now includes combined sales with Unimat dealers from La Coop, which acquired BMR in 2015.

12. FEDERATED CO-OPERATIVES LTD.

Saskatoon, Sask.

2015 Dealer Sales: \$554,000,000

2015 Points of Sale: 232

FCL is a Saskatoon-based dealer-owned co-op farm, feed, fuel, and retail hardware and grocery store wholesaler with a network of retail co-op members of 105 home centres and 134 agro centres throughout Western Canada. Holdings include petroleum, propane distribution, a lumber mill, and feed plants. The hardware and building supply stores that are included in our metrics fall under FCL's home and building supplies department. Sales from its industry related stores within the home and building supplies department totalled \$554 million in 2015.

FCL has lately been undertaking refurbishments to its home improvement stores, which began in 2010 and have been refined with a new generation of farm and ranch stores. Last year, it restructured its Home Office and Regional teams and added a category development manager for building materials and hardware. More resources have also been added to bolster support in marketing, training, technology, and procurement.

13. CANAC

L'Ancienne-Lorette, Que.

2015 Dealer Sales: \$540,000,000

2015 Points of Sale: 23

While Canac has a reputation as a low-cost operator, it offers a full home centre assortment that includes hardware, plumbing and electric, paint, floorcoverings, and seasonal products. The company's sales in 2015 were \$540 million.

2015 TOTAL BUYING GROUP SALES (\$MILLIONS)

BUYING GROUP	2014	2015	% CHANGE
Allroc	\$500	\$506	1.2%
Groupe BMR	\$1,700	\$1,700	0.0%
Castle	\$1,720	\$1,875	9.0%
Delroc	\$700	\$750	7.1%
Home Hardware*	\$3,568	\$3,930	10.1%
ILDC	\$2,613	\$2,650	1.4%
Sexton Group	\$1,800	\$1,885	4.7%
TIMBER MART	\$3,000	\$2,800	-6.7%
TORBSA	\$400	\$360	-10.0%
TOTAL	\$16,001	\$16,456	2.8%

* Home Hardware's home centre and building centre dealers only.

Headquartered in L'Ancienne-Lorette, a suburb of Quebec City, Canac is the major home improvement retailer in the Quebec City region and the largest independent in the province. That market is served by 24 building supply outlets, 12 of them in the Quebec City area. However, over the next five years, Canac will be pouring \$100 million into expanding its reach in the suburbs of Montreal. It has even hired a public relations firm, Turbulences, to boost the launch of its first Montreal-area store in Beauharnois, Que. And last summer, the company broke ground on a distribution centre in Drummondville, Que., on 650,000 square feet of land, at an estimated cost of \$4.5 million, giving it even more access to the large Montreal market.

14. WSB TITAN

Vaughan, Ont.

2015 Dealer Sales: \$511,000,000

2015 Points of Sale: 36

WSB Titan is a commercial dealer group, consisting of a union of three dominant regional gypsum supply dealers (GSDs): Watson in Ontario, Shoemaker in Alberta, and Beauchesne in Quebec. The company

owns one traditional building centre chain, Slegg Lumber, a leading dealer on Vancouver Island. That chain has strong contractor sales, but also caters to DIYers.

Last year, Titan became an equity partner in BC Ceiling Systems, a West Coast distributor with locations in Vancouver, Richmond, and Langley, B.C., and in Calgary. Doug Skrepnek, principal at WSB Titan, and head of Watson, based in Vaughan, Ont., says the group continues to look for acquisition opportunities, with more locations in British Columbia considered a priority.

15. ALLROC

Calgary, Alta.

2015 Dealer Sales: \$500,000,000

2015 Points of Sale: 32

This no-frills buying group keeps a low profile serving mainly gypsum supply dealers. Its core products are wall and ceiling products, drywall, insulation, roofing, and steel studs. It also has a wholesale tool division, selling hand and power tools, fasteners and related products to professionals. The group's membership now consists primarily of the GSD chain Winroc. It represents

GROUPS VS. TOTAL MARKET (\$MILLIONS)

	2014	2015	% CHANGE
Total Industry	\$43,764	\$44,620	2.0%
Buying Groups	\$16,001	\$16,456	2.8%

Dealers operating within LBM buying groups showed growth that is ahead of the industry average in 2015.

estimated annual sales of \$500 million in 2015 from 31 outlets.

Allroc is part of the 113-branch Construction Products Distribution (CPD) division of the energy holding company Superior Plus LP. As part of a restructuring of CPD, which included focusing on the U.S. market, CPD's head office was relocated to Dallas, Tex., from Calgary. Superior recently sold off the business to California-based Foundation Building Materials.

16. UFA LTD.

Calgary, Alta.

2015 Dealer Sales: \$392,000,000

2015 Points of Sale: 39

This Calgary-based co-op business has 39 "UFA Farm and Ranch Supply" stores throughout Alberta, plus one building centre, Spruceland Lumber, in Fort McMurray. These stores specialize in farm supplies, hardware, and lumber and generated estimated sales in 2015 of \$392 million. UFA's combined agriculture, petroleum, construction, and retail businesses generate almost \$2 billion in sales. It also has 25 sporting goods stores called "Wholesale Sports." It successfully tested four agro concept stores in 2011 and implemented a more regionalized merchandise assortment in its Farm and Ranch stores, helping turn that business around.

17. TORBSA

Bolton, Ont.

2015 Dealer Sales: \$350,000,000

2015 Points of Sale: 40

TORBSA Ltd. is a buying group focusing on commercial yards and gypsum supply dealers whose dealers cater to a clientele made up of builders and contractors.

TORBSA operates as a pure buying group, and resists offering its members any extras outside of the buying function. Each dealer operates under their own banner and carries commodities and national brand products.

Most of its members are in Ontario, with one member in British Columbia. This B.C. dealer reflects an initiative over the past couple of years by TORBSA to get more proactive about recruitment and expand beyond its regional roots in Central Canada. TORBSA Ltd. had estimated annual sales in 2015 of \$350 million.

18. PATRICK MORIN

Saint-Paul-de-Joliette, Que.

2015 Dealer Sales: \$304,000,000

2015 Points of Sale: 21

Patrick Morin is one of the leading retail home improvement chains in Quebec, and one of the largest family-owned dealer groups in the country. A member of ILDC, it generates estimated sales of about \$300 million from 21 stores. The company recently announced plans to add more stores, especially in the Montreal area, with a planned \$25 million investment in near-term growth. Patrick Morin will also look for more opportunities for greenfields expansion, and has stated it would consider acquisitions, as well, to keep growing.

19. TSC STORES

London, Ont.

2015 Dealer Sales: \$243,000,000

2015 Points of Sale: 51

TSC Stores is a farm and hardware chain owned by a Toronto-based capital venture group, Birch Hill. Based in London, Ont., it was originally fashioned after Tractor

Supply Company in the U.S., which originally owned the chain (hence the name). It has 51 mid-sized hardware stores that average 16,000 square feet in size. Most of them are in Ontario and one is in Manitoba. TSC generated \$243 million in sales in 2015.

The company is now looking to new ways to target its core "rural lifestyle and agriculture" customer. Initiatives include an expanded presence on the web, to a community of almost 50,000 customers. The site currently features SKUs that aren't available in its stores, with expanded core categories, such as equipment for agriculture, ranging from animal health to higher-end pet foods and supplies. Other products getting a push online include power tools and outdoor power equipment.

20. WINDSOR PLYWOOD

Surrey, B.C.

2015 Dealer Sales: \$230,000,000

2015 Points of Sale: 60

Windsor Plywood specializes in hard-to-source interior and exterior finishes and imports them from around the world. Founded in 1969 in Vancouver, the company has stayed focused on this specialty through the years, backed by strong customer service. The family-owned business generates estimated sales of \$230 million from 60 stores in Western Canada, including one in Northern Ontario. Five are located in the U.S. Pacific Northwest. A key member of the Delroc buying group and one of the most powerful family-owned regional banners, Windsor Plywood outlets average 10,000 square feet in size and carry about 12,000 SKUs, mainly of lumber and building materials, as well as flooring, hardware, and paint and décor. Customers are split evenly between contractors and DIYers.

FOR LEE VALLEY TOOLS, GROWTH COMES FROM ALL CHANNELS

After years of making a name for itself as an online catalogue, Ottawa-based Lee Valley Tools is looking closer at its bricks-and-mortar side to grow its specialty tool and hardware business.

Lee Valley Tools may have been founded as a catalogue business, but it has always had a retail presence across the country. Starting with its first store in Ottawa in 1978, Lee Valley Tools has gradually rolled out more retail locations and now has 16 stores.

Since last year, however, the company has been stepping up its expansion plans. The first store to open in this latest wave of growth was in Kingston, Ont., last October, followed by another location in Kelowna, B.C., in April. Another dozen locations are on the go, “based on real estate and availability,” says President Robin Lee, who is also the son of company founder Leonard Lee. Robin Lee grew up in the business—he built the showroom for that first store back in 1978—and has been at the helm since 2002.

CATERING TO THE CUSTOMER

While once known only as the go-to place for serious woodworkers, Lee Valley Tools has expanded its product lines through the years. It now features lawn and garden products, cabinet hardware, toys and puzzles, and just plain cool stuff for grownups. “As the product lineup grew, it became possible to open stores in new locations that can accommodate Lee Valley’s greater range of products,” says Lee.

The chain’s Kingston location is a perfect example. “It’s a smaller store, but it has a larger showroom,” Lee explains. “We’re being more open with the layout to create a more customer-friendly space.” That includes a network of wooden, glass-topped

showcases that form the centrepiece of the store and help manage customer flow.

Lee Valley specializes in quality products, another thing that makes the stores attractive, he says. “We have a product line that means we don’t have to compete only on price. Price is no longer the sole determinant that it was just a few years ago—and customers have had it with cheap products.”

People want to come into the stores to see and touch that quality and benefit first-hand from the staff expertise. “With tools especially, you have to get your hands on them. You have to pick them up,” Lee adds. “You add value through information and storytelling.”



Lee Valley’s Kingston store, which opened last October, was the first store to open in the company’s latest wave of growth



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BIG BOX REPORT

The big box players had a strong start to the year. Their plans to grow in Canada include more online sales and more focus on contractors, two reasons why every independent should be on alert.

BY MICHAEL McLARNEY

U.S. BIG GUYS POST STRONG YEAR-END RESULTS

Both Lowe's and Home Depot are riding the wave of the recovering economy and surging housing market in the U.S., with strong year-end results. That includes 17 consecutive quarters for Home Depot Canada of positive same-store sales growth and double-digit same-store growth by Lowe's in Canada for the third year in a row.

Home Depot turned in a nine percent rise in first-quarter sales, with revenue of \$22.76 billion. Same-store sales were up 6.5 percent; and up 7.4 percent for U.S. stores. The company's net income rose to \$1.80 billion, or \$1.44 per share, from \$1.58 billion, or \$1.21 per share, a year earlier. Home Depot's Canadian business posted mid-single digit comps in local currency, experiencing pressure from Western Canadian markets, particularly Alberta.

Lowe's posted results that lagged behind Home Depot's, but were still strong: first-quarter net earnings were up 31.4 percent to \$884 million, on sales of \$5.2 billion that were up a healthy 7.8 percent. Same-store sales for the quarter increased 7.3 percent, with comp sales for the U.S. up 7.5 percent.

REPOSITIONING OF THE PLAYERS

Lowe's in Canada is counting on its acquisition of RONA to help drive growth in North America. Those opportunities include leveraging its omnichannel strategy, applying its expertise in categories such as appliances, and driving increased profitability through shared supplier relationships.

In anticipation of the takeover, RONA kept busy getting its fiscal house in order, and year-end 2015 results showed that those efforts paid off. RONA saw same-store sales rise 3.1 percent in fiscal 2015, while adjusted net income for Q4 rose to \$21.2 million from \$17.3 million a year before. Consolidated revenues for the year amounted to \$4.23 billion, up 3.3 percent compared to \$4.1 billion in fiscal 2014.

Lowe's itself began getting serious about understanding the Quebec market it was about to acquire almost 30 percent of. It held a meeting in November 2015 with a group of 80 Quebec home improvement vendors in Montreal that was organized by the Bureau of Quebec in Toronto. While Lowe's already had more than



Home Depot Canada's seasonal products are now reflecting a more upscale aesthetic.



Toronto's newest Lowe's location features a wide array of heavy appliances with some very high-end price points.



Lowe's Canada President and CEO Sylvain Prud'homme has singled out RONA's Reno-Depot banner as a winner.

40 stores in Canada, none of them were in Quebec. The event gave Lowe's the chance to meet and begin doing business with Quebec companies and understand Quebec tastes better.

WILL HOME DEPOT HOLD THE COURSE?

A new leader at Home Depot Canada may indicate some shift in that company's approach. Jeff Kinnaird, a 19-year veteran of Home Depot Canada, assumed the role of president effective February 1.

“We are going to make sure that we have the proper big box store in Quebec.”
—Sylvain Prud’homme, president and CEO of Lowe’s Canada

He was formerly vice president of merchandising there. Pamela O’Rourke, senior director of merchandising, strategy, planning, and sourcing, replaced Kinnaid as VP merchandising.

Kinnaid, who has been with the company since 1996, started out as a store associate at the Home Depot store in Richmond, B.C., at the age of 22. He moved up through the ranks, getting his executive MBA along the way, and eventually becoming regional vice president.

While he may bring a more Canadian tone to the division, which had been helmed by an American, Bill Lennie, for the previous four years, Kinnaid is expected to adhere to corporate direction from Atlanta, promoting the brand aggressively here and aiming to step up online sales.

BIG BOXES POSITION FOR GROWTH

Canada’s big box retailers each have distinct strategies for growing, though they share many similarities that are common to all retailers. Lowe’s tends to focus on rapid expansion, investing in big boxes under the Lowe’s and RONA/Reno-Depot banners, high-tech offerings like the holeroom, which is now available in 19 stores across the U.S., multiple store formats like Ace, and capitalizing on the omnichannel approach.

Meanwhile, Home Depot is anxious to grow the company’s online business, and sees its exclusive range of products, as well as rapid delivery times, as keys to that success. Its goal is to be able to deliver products within two days to about 90 percent of the population for the majority of SKUs offered online. In Canada, the stores are being positioned as showrooms and pick-up points for online sales. Despite an opening in Vaughan, Ont., in 2015, new stores do not figure strongly in Home Depot Canada’s growth plans.

In anticipation of the Lowe’s takeover, RONA spent the last four years getting its financial house in order. This included acquiring 17 big box stores in Quebec, all of which were owned by independent, or franchise, dealers. The company has also been active working with its independent dealers to help them grow their respective businesses.

Sylvain Prud’homme, president and CEO of Lowe’s Canada, is keen to see more big boxes in Quebec. He says RONA is doing a lot of things right already with its big box stores, and cites the Reno-Depot banner as a winner. Three openings of this banner are in the works for Quebec—in Boucherville, Trois-Rivières, and Valleyfield. With the addition of the three new stores, the number of Reno-Depot locations will increase to 22. However, these latest ones will be smaller than the big box footprint of the original Reno-Depot concept. The 70,000-square-foot Boucherville store was to have

opened its doors in July. The two other Reno-Depot stores will each occupy 50,000 square feet. As for its RONA L’Entrepôt stores, the company is working on some new ideas for these big boxes, with a test store in Anjou being readied for a reboot.

“We are going to make sure that we have the proper big box store in Quebec,” said Prud’homme. “It doesn’t mean at this point that they will be branded Lowe’s.” In fact, he doesn’t think the Lowe’s name will even be rolled out at all in Quebec.

Both Lowe’s and Home Depot have carved out a strong place in the Canadian market for the big box format. Home Depot is using that format as a springboard for online and pro sales, while Lowe’s acquisition of RONA is part of a wider strategy to develop stores of all sizes in marketplaces across Canada. Count on both chains to keep carving out more market share as they invest heavily in their respective brands to consumers and pros alike. 

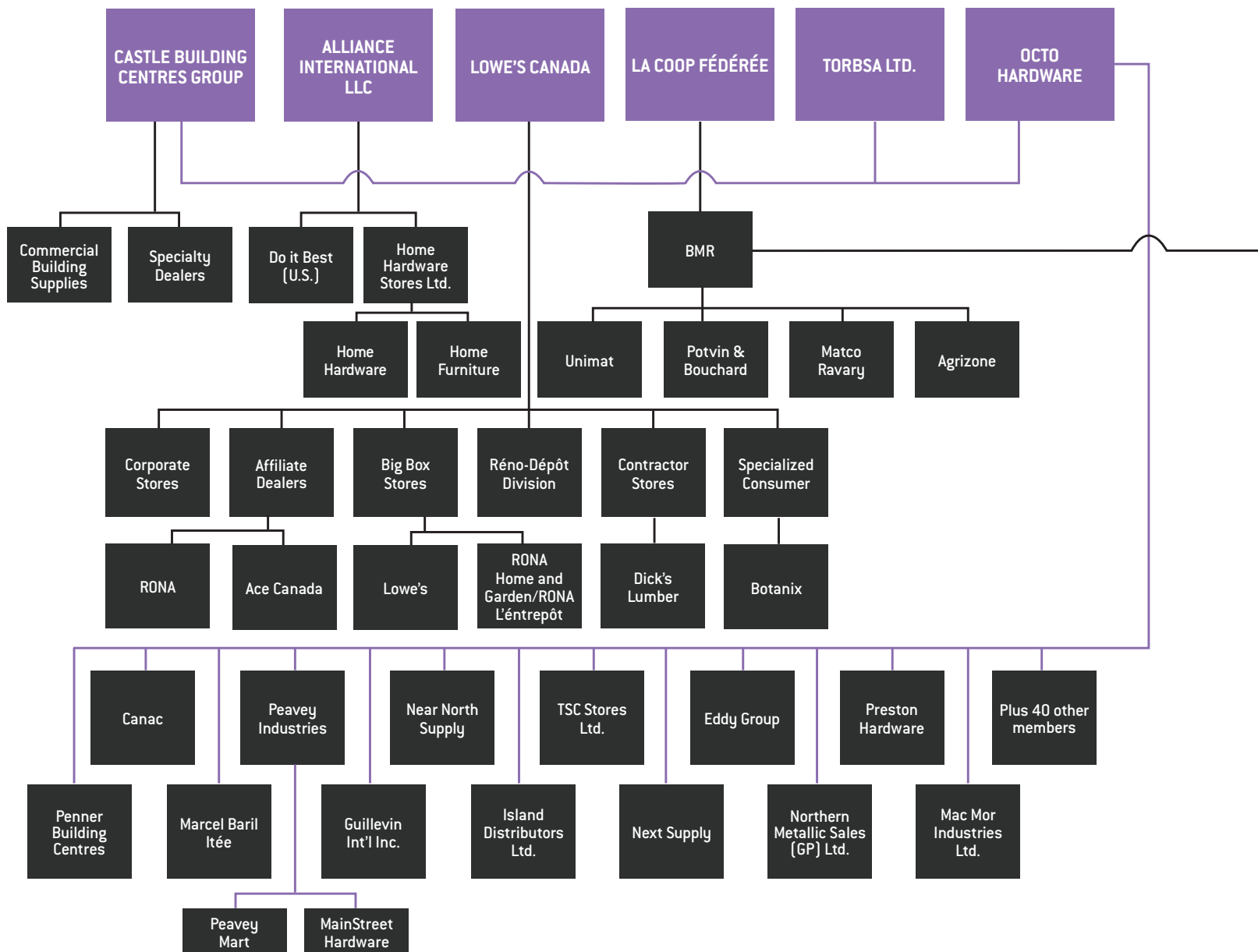


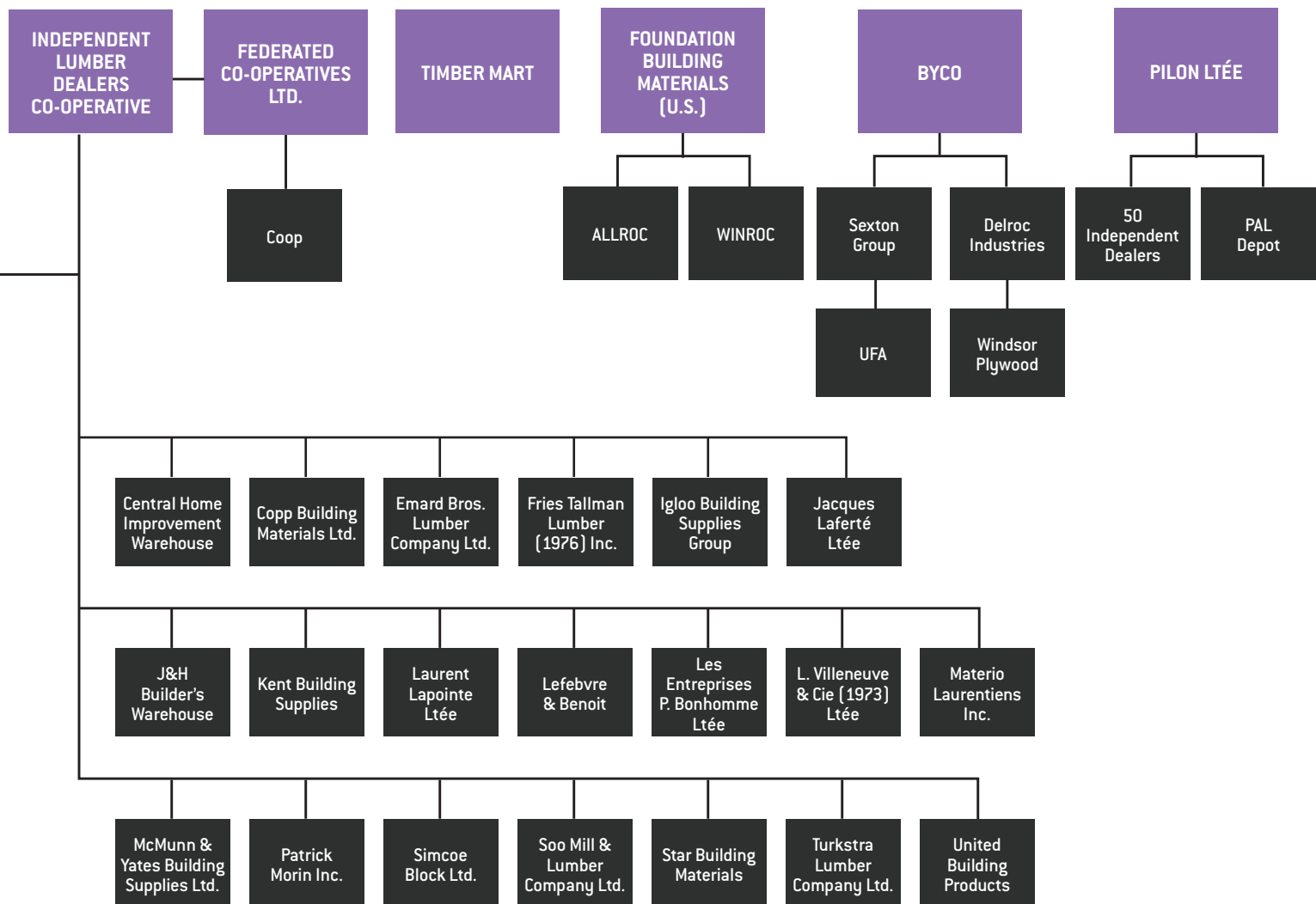
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CANADIANS CONNECT WITH THE WORLD IN COLOGNE AT INTERNATIONAL HARDWARE FAIR

For about a dozen Canadian companies that braved the overseas travel—and attached costs—to attend Eisenwarenmesse, the International Hardware Fair, the results paid off with often surprising effectiveness.

The International Hardware Fair took place in early March, attracting buyers from more than 50 countries, and giving Canucks in attendance a bonanza of potential new home improvement customers. Not only that, but Canadian buyers were well represented, as well.

Vendors included veterans of the event, such as Pierre Filiatrault of Montreal-based Cobra Anchors. “For us it is a very, very busy show,” he said, noting that the last time he was at the show he managed to secure German DIY retailer Bauhaus as a customer. His company sells wall anchors that are compatible with drywall, a technology that is slowly catching on in Europe. This, he says, puts his company in a good position to pitch to European buyers. Halfway through day one, he’d already seen representatives from Leroy Merlin and Castorama, in addition to buyers from Turkey, China, France, and Eastern Europe. “We sell all over the place,” he added.

Other Canadian companies were also excited about their presence at the Cologne Fair. Representatives from Yardlock, a Mississauga, Ont.-based company with an innovative DIY gate lock, managed to pick up customers from six new countries on the first day alone.

1. For the first time, North American vendors were featured in a product showcase with information on where to find their booths; **2.** Megapro Tools, based in Langley, B.C., was on hand, showcasing its colourful screwdrivers.





3. The sheer size of the booths at the International Hardware Fair has no North American equivalent; **4.** Cobra Anchors, from Montreal, had a busy show, drawing interest from buyers from Turkey to Eastern Europe; **5.** The aisles were packed as buyers from more than 50 countries walked the floor; **6.** The merchandising and displays at the Cologne show are always impressive.

Dave Martin of Home Hardware Stores Ltd. shared that, as the tool buyer, it made sense for him to represent his company at this show. “I’m always surprised at the potential suppliers you meet from countries you wouldn’t expect to see,” he observed, adding that the surprise factor is part of the appeal of the show. “Whether a meeting materializes into a solid connection remains to be seen,”

but he added that he’d seen some interesting products. Even one good new vendor makes the trip worthwhile, Martin added.

An important aspect of the Hardware Fair for Canadians is the Canada Night International Reception, held at the end of day one of the fair. The event, hosted by HARDLINES and sponsored by the show’s organizers, Koelnmesse, attracted about 75

people. Manufacturers included Task Tools and Swift Green Filters from Vancouver, Cobra Anchors of Montreal, Ben-Mor from Saint-Hyacinthe, Que., Ingersoll Products from Ingersoll, Ont., and TC Tools out of Edmonton, who all got the chance to drink some German beer and meet buyers from Canadian Tire, Sears Canada, True Value, and Home Hardware.

CANUCK VENDORS STAYED BUSY AT THE NATIONAL HARDWARE SHOW

The National Hardware Show, spread over 600,000 square feet, played host to 2,700 vendors in early May. Feedback overall from the event was positive, with most Canadian vendors pleased with the attendance by key buyers from the Canadian retail groups.

Canadian companies used this year's National Hardware Show as a venue for showcasing, or even launching, new products. Names like Task Tools, EAB, and Nour were there in force, and Duschene et fils was exhibiting for the first time. Andrew Pantiledes of Regal Ideas explained that his company owns its own factory in China, so everything is made right there, and to spec exclusively for Telesteps products. Asher Peres and Jennifer Cave of Toolway Industries kept busy showing the Goldblatt brand to Canadian buyers.

Industry veteran Christian Nadeau was exhibiting with his company, CTM, showing a new line of hardwood countertops for kitchens. "This is something no one is doing right now," he said enthusiastically. His enthusiasm was shared by the many visitors in the booth, including a representative from HGTV, who wanted more information about the 60 species of wood that are available.

Rammie Kamal, general manager of Dover Finishing, was promoting a line of wood treating products. Response, he noted, was very positive. "It's way up over last year. Whether it's Home Hardware or Home Depot or Canadian Tire, everyone is coming in and they're all asking about our new offerings."

Newcomer SciCorp International from Barrie, Ont., reported similar good results. The company introduced an odour-eliminating spray for compost bins licensing the WM/Waste Management name. "We launched yesterday," said Bill Waters, director of marketing. "Ace Hardware wants us in immediately. True Value wants us in every one of their stores. Kent wants us in every one of their stores."



Gardena's new robotic mower was one of leading-edge technologies on display at the show.

But not all exhibitors were on the show floor. Ames/Garant went with a private meeting room in the upper mezzanine, rather than a traditional booth on the show floor. There, the company was able to showcase a full range of new lines for its brands. Product Manager Laurie-Ann Boivin pointed out a heavy-duty push-broom line for pros, which will be available to Canadian dealers in August.

At the Gardena booth, Jay Sterling showed a robotic mower the size of a canister vacuum cleaner. It will operate non-stop all summer to keep a lawn trim. Sensors keep it safe around pets and children.

Other companies, like knife and flashlight maker Coast, are keen to grow their business north of the border. Marty




Andrew Pantiledes (left), of Regal Ideas, says the Telesteps products are made to spec at the company's own factory.



Rammie Kamal, of Dover Finishing, shows off his company's new products.

Reardon, Coast's national sales manager for Canada, said business is growing in this country, with both Canadian Tire and Lowe's Canada doubling their SKUs.

Vendors overall found the show successful, as it let them connect with both existing Canadian customers and potential new customers from the U.S. "It reminds me of Chicago," said Bob Shaw, VP of sales and marketing for Nour Painting Tools, referring to the halcyon days of the show at its former location. "Busy, busy, busy all day." 

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DRIVING UP THE AVERAGE TICKET

Upping your store's average sale is one of the best ways to increase your top-line sales. The average dollars spent per transaction can be a reflection of a lot of things done right or wrong in your store. Here are some tips to up your average ticket.

BY ROB WILBRINK

IF YOU DON'T HAVE IT, THEY CAN'T BUY IT

A recent survey determined that North American retailers lose \$129.5 billion in sales annually due to out-of-stocks. That's equivalent to 4.1 percent of sales. Since that field includes many highly sophisticated chains with high-tech inventory systems, we have to assume that the percentage of lost sales for independents is likely much higher.

Home improvement retailers should think in terms of projects, since that's the way customers shop. That means stocking all the products customers will need to complete identifiable projects in the appropriate quantities. Alternatively, you

risk losing the entire sale or at least the opportunity of profitable add-on sales.

ITEMS MUST BE SEEN TO BE SOLD

An impulse purchase is any purchase a customer makes that wasn't pre-planned or "on their list." A 2012 Bank of Montreal study found that the average Canadian spends more than \$3,700 on impulse purchases a year. Impulse products should be prominently displayed in a main aisle, clip-stripped, adjacent to related categories, and visible at service areas or the cash. Ideal items are high-margin products priced under \$10. I know of one hardware dealer who pulls over a million dollars a year in sales from main-aisle impulse items. And an eight-store

chain in the United States added sidewinders to all of its end caps and filled them with "A" items already merchandised in the store. The average margin on these items was 10 percent higher than the store average. Sales of these items increased on average 180 percent.

ATTENTIVE SALES STAFF

Well-trained staff can have a huge impact on the average ticket. Armed with product knowledge, they should learn more about the projects customers are working on and suggest complementary add-on items. One of the best categories for this is paint. A good salesperson can make suggestions for useful sundries while the paint is mixing. This can double the sale at margins exceed-

ing 60 percent and leave the customer confident they have the tools to do the job right.


BASKETS AND BUGGIES

Customers can't buy what they can't carry and will head straight for the cash when they start dropping items. A seven-store hardware chain in Florida increased the number of baskets available at the front of the store and in several other strategic

dirty, and 29 percent said they'd get in and out as fast as they could. This starts with spotless bathrooms, which say a lot about how a business is run. Clear aisles, polished floors, faced-up and dust-free merchandise all set the right tone. Adding non-intrusive background music is easy and does a lot to raise the spirits of staff and customers. Make sure your signage is crisp, clear, and looks professional.

time customers have to spend in the store is most productive. That means proper directional signage and well-thought out product adjacencies to encourage a more complete sale.

PRICING

In 1999, at the height of increasing competition from Home Depot, Toronto-based Lansing Buildall staff were gun shy about pricing and the impact of the Depot's price guarantee. After a thorough price check, employees quickly realized that beyond the top items, a wide range of SKUs were actually priced lower. So prices were increased to match on several thousand SKUs. No customers seemed to notice, and Lansing's overall margin increased by almost two points, raising both the average ticket and the bottom line. 

“Costco puts its fresh food at the back of the store for a reason, as customers need to pass a wide array of tempting merchandise on the way in and again on the way out.”

locations. Employees were asked to offer baskets to customers entering the store. This simple change increased the average tickets in all seven stores by a range of 10 to 30 percent.

AMBIENCE

The longer a customer stays in the store, the more they'll see, and the more they'll buy. A recent study determined 14 percent of consumers would avoid a store they considered

STORE LAYOUT

Expose customers to as much merchandise as possible. That means moving service desks farther back into the store and running as many aisles perpendicular to the main traffic areas as possible. Costco puts its fresh food at the back of the store for a reason, as customers need to pass a wide array of tempting merchandise on the way in and again on the way out. Make sure products are easy to find so the

Rob Wilbrink is the president and CEO of Burlington Merchandising and Fixtures (BMF). BMF provides a full range of services for independent dealers, including category strategy development, store layout and design, assortment planning, project management, design, supply and installation of store fixturing and signage, carpentry, and merchandising.



REGIONAL ROUNDUP OF BUSINESS CONDITIONS

In this regular column, the heads of each regional dealer association share the business conditions and challenges their members currently face.



DAVE CAMPBELL
PRESIDENT, LUMBER AND BUILDING
MATERIALS ASSOCIATION OF ONTARIO

The recently announced acquisitions of RONA by Lowe's and Orgill's takeover of the distribution warehouse owned by TIMBER MART in London, Ont., will have a profound effect on the industry in Ontario. With another distributor at a national presence, there will be more competition and access to hardline inventories for retailers.

Orgill will certainly expand its Canadian presence with a full distribution centre in London. With a customer base already in place, the company will build on those relationships, but also focus on Home Hardware stores, which, in my opinion will be the target group for significant growth. Home has significant brand recognition in Canada and their members are very loyal to their company since they are the shareholders. Orgill won't replace that relationship, but Home stores have significant retail space devoted to hardlines and related products and those categories are Orgill's bread and butter.

In my opinion, Orgill will focus on being a secondary supplier to Home Hardware stores. It will pitch Home dealers on filling out of stocks, products that can't be sourced through Home, and competitive pricing.

We no longer can—nor should we—restrict the presence of international companies,

provided they meet the provisions of the *Competition Act*. Fair and equitable competition is always good and these two American companies acquiring Canadian businesses can only mean benefits for both consumers and retailers. The only losers will be those businesses that haven't been able to adapt to the changing market.

All indications are for a busy summer and provided that the weather is agreeable, those home renovation projects that are on the books and have been quoted will start to generate strong sales and a busy summer. The low interest rates will also help to stimulate consumer demand for the products and services our members provide.



GARY HAMILTON
PRESIDENT, WESTERN RETAIL
LUMBER ASSOCIATION

Business started to ramp up early this year across our territory due to an unseasonably mild winter, followed by a warmer and drier spring. Our consumers were ready to get a head start on their renovations and the contractors and builders were also able to gain access to properties that would usually be frozen or under water.

But the good news was short lived. About 90,000 people were evacuated from Fort McMurray due to a massive and uncontrollable forest fire. Approximately 20 percent of the homes and many businesses and critical infrastructure were either damaged or destroyed. Fortunately, our members' businesses were

located in areas away from the devastation and only forced to close due to the evacuation notice. However, many of the staff members lost their homes and personal belongings. The situation was relieved in the short term as neighbouring communities banded together and donations of clothing, food, and money came from across the country.

The challenge will come when it's time to rebuild. Our industry will be there to assist, but it will require a co-ordinated effort in other areas such as product availability, transportation, government and financial institutions, insurance companies, skilled trades, and temporary housing. Our thoughts go out to all affected members and their friends and families and our thanks to the members helping in the relief effort.

In April, WRLA representatives met with our industry partner associations to open up a new chapter in our relationships. As a result, we'll be in a better position to address industry issues both regionally and nationally. We're already working on some exciting initiatives.



RICHARD DARVEAU
PRESIDENT & CEO, QUEBEC HARDWARE
AND BUILDING MATERIALS ASSOCIATION

The Quebec market is undergoing more upheaval than ever before. Its local pride, RONA, has been taken over by Lowe's. While other banners schedule multiple meetings with RONA store owners, the CEO of Lowe's Canada has relocated to Quebec, and confirmed to the media all his promises, and yet

seems to thin the payroll at the company's upper levels.

Canac has pretensions that extend it beyond a regional player. Its equivalent in the greater Montreal area, Patrick Morin, isn't resting either with the announced investment of \$25 million. Both very independent banners are a presence nobody can ignore anymore, each with ambitious distribution centres and close to 50 stores between them.

La Coop fédérée, according to rumours, will decrease from 100 affiliated organizations to 30 or even 20, while there are still 350 stores to manage. Such a re-engineering could result in a few closures and many more conversions from Unimat and BMR.

Meanwhile, in AQMAT's office, we're focusing on two structural projects that will affect all our members. The first is our certified training. The association received a grant of \$200,000 to institute courses so that staff can advise clients better and sell more.

Our second priority is writing a study report on the impacts of tax credits, a mandate we received from our national organization, CRBSC. Our goal is to give the federal government pre-budget in-camera consultations this fall with an economic rationale to influence Parliament in favour of the establishment of a permanent tax credit.



DENIS MELANSON
PRESIDENT, ATLANTIC BUILDING
SUPPLY DEALERS ASSOCIATION

ABSDA members have had a little more to be optimistic about in 2016, compared to where we were 12 months ago. A mild winter and relatively early break to spring have led to more retail activity in most parts of the region, with the exception of Newfoundland

and Labrador. We must keep in mind that we are making comparisons to a timeframe where sales were not particularly stellar.

In our Business Conditions Survey covering Q1 2016, 75 percent of our members reported a sales volume increase over the same period in 2015. The only part of the region that didn't follow this trend was Newfoundland and Labrador, where 66 percent of members reported a decrease. Indicators over the last couple of months have pointed to increased activity across the region through April and May.

While yard activity has been promising as of late, the *Second Quarter CMHC New Home Construction Forecasts* calls for a small decline in starts across the region. Keeping this in mind, many members have been reporting an increase in activity in the area of quotations. This has most paying close attention to inventory levels.

On another front, MLS Activity has been somewhat stronger in 2016. This is a great indicator as it usually leads to increased renovation activity, as sellers prepare their homes for potential buyers.

In a recent report by the Conference Board of Canada, real GDP is expected to grow slightly in Nova Scotia, Prince Edward Island, and New Brunswick. Newfoundland and Labrador's economy is expected to shrink slightly in 2016 as a result of low oil and mineral prices. ABSDA will be closely monitoring economic conditions as we enter the third quarter of the year.



THOMAS FOREMAN
PRESIDENT, BUILDING SUPPLY
INDUSTRY ASSOCIATION OF B.C.

As you know, our association is many things to many people. We're often asked

by prospective or current members what value we bring to our members. We do say we're the "voice of our industry" and if you're looking for a direct link to our provincial government, we have the appropriate contacts in most of the key provincial departments we can help you access.


We're proud of our new education programs offering some really interesting hands-on training in estimating, plumbing, electrical, moulding, windows, and doors. We also added a computer lab series offering training in PowerPoint and Excel for those of us who missed out on formal training. These courses keep our classrooms filled and busy with members learning new things to help them be more effective in their work.

Recently, a new member signed up with our credit card processing partner, which will result in a \$17,000 annual savings. Another member bought a Mercedes Sprinter and saved \$5,000 as a result of being a member of the BSIA.

We're pleased to host many social events allowing members and their families to get together to be part of our BSIA family and industry. Our lives are enriched by the connections we make through our events.

Our bi-monthly magazine keeps people in the loop on new products, current events, and what's happening in our industry. It also allows us to showcase our Affinity Partners who offer tangible savings for group health plans, commercial property insurance, group RRSPs, hotel and rental car discounts, etc.

At the end of the day, your support or involvement in your industry association is up to you. What value you get comes with your willingness to get involved. As we work together to better ourselves and our industry, we become part of something bigger.

This year, the Canadian industry associations pulled together to rekindle the Canadian Retail Building Supply Council (CRBSC) to provide even more benefits for our members and our industry. These are exciting times I am pleased to be part of. 

BY JOHN CAULFIELD

SENDING PRODUCTS, AND A MESSAGE



Delivery is a valuable way for dealers to cultivate loyal customers, but can get expensive and must be managed.

Delivery is one of those can't-do-without services for most home-improvement retailers. "Over the years, it has become one of the top reasons contractors and retail customers enjoy shopping with us," says Felicia Hyra, COO with McMunn & Yates Building Supplies, the Manitoba-based dealer with 19 locations in three provinces.

Three-fifths of the annual sales generated by six Moffatt & Powell stores based in London, Ont., are delivered to pros and homeowners, says branch manager Jason Sims. Five trucks with dedicated drivers deliver within a 200-kilometre radius of those stores, "but

depending on the customer and the size of the order, we'll deliver anywhere," he says.

Sims is quick to note that delivery services are "a huge expense" that fuel surcharges and other fees rarely cover in full. "It's to my advantage not to deliver," says Albert Pike, owner of Pike's Building Centre, a 30,000-square-foot store and warehouse on two acres in Burin, Nfld. When customers pick up products themselves, it's less wear and tear on Pike's four trucks. And this dealer doesn't have dedicated drivers, so when employees are delivering product, they aren't at the yard doing their everyday job.

Still, Pike's delivers 30 percent of its annual sales, and its trucks travel throughout the Burin Peninsula. Like other dealers, Pike's often waives delivery charges when orders are substantial or customers are regulars. "It's a good way for us to get business from our competitors," says Pike.

BOOMING, IN MORE WAYS THAN ONE

Dealers are reconciled to the fact that, while delivery may be a loss leader, their stores probably wouldn't get business from a lot of customers without the service.



1.

Hanna Building Supply in Hanna, Alta., includes an ag and chemicals business for which delivery is critical, explains owner Dale Crowle. Some of the biggest specialty suppliers won't ship direct, and farmers don't like to pick up stuff at the store themselves.

"We deal with the majority of the big builders in our market, and a lot has to do with service," says Craig Geerlink, vice president of sales for Geerlinks Home Hardware Building Centre in St. Thomas, Ont., which generally doesn't charge its big pro customers for delivery.

Half of Geerlinks' business comes from pros, and the dealer, which operates a 50,000-square-foot retail store on seven acres, delivers between 20 and 25 percent of total purchases. Its radius is typically within 75 kilometres, "but we'll go anywhere, within reason," says Geerlink, noting that several pro customers are expanding to new markets.

Its fleet includes two boom trucks, a truck-mounted forklift, two five-ton trucks, two one-ton trucks, a cube van, and three pickups. The dealer has a total of six full-time and two part-time drivers, three of whom are licensed to operate a boom.

Boom services are a competitive differentiator for some dealers. McMunn & Yates will boom gypsum and other building materials up to six storeys, says Hyra. Geerlinks will boom up product to the second floor of buildings, and also booms trusses. However, boom services aren't free: Geerlinks charges \$250 per hour, which it includes on the purchase invoice.



2.

1. Home Depot Canada is working on delivery options from its web store where all customers can buy online and have product delivered directly. ; 2. Moffatt & Powell have five trucks with dedicated drivers to deliver within a 200-kilometre radius of their six stores; 3. Home Hardware currently processes online orders and ships product from its warehouse to the store nearest the customer's home.

Centre De Renovation FDS, a 15,000-square-foot store in Saguenay-Jonquiere, Que., charges \$45 per delivery if a boom is needed at all, says store manager Philippe Verreault.

THE CHALLENGES OF DELIVERING ONLINE PURCHASES

Dealers are less forgiving when it comes to charging homeowners for delivery, and fees can range from \$15 to a couple hundred dollars, depending on the product and distance.

Verreault says this is "kind of an issue" for Home Hardware dealers because the co-op currently processes online orders and ships product from its warehouse to the store nearest the customer's home. When the customer wants that product delivered directly, "we can do that, but for a fee," says Verreault, "which the customer doesn't like."

For the Home Depot Canada, there's a big emphasis on creating an interconnected shopping experience. Customers who shop in-store can still choose the traditional delivery service, but the company is working on expanding its delivery options for its web store.

"Whether someone is shopping in-store or ordering online, we are working on new ways to create a frictionless



3.

customer experience end-to-end," says Chris DaCosta, manager of Home Depot Canada's connected retail operations. "Whether they are a DIY dabbler or a pro contractor, we offer the option to buy online and deliver directly to home, office, or job site."

Home Depot Canada's main mode of transport is standard ground shipping by courier for most deliveries less than 150 lbs. Some orders are shipped by common carrier due to weight, size, and destination. And for the Territories, where ground shipping is inaccessible, the company uses air transportation for its deliveries.

Another issue with online orders is customer complaints that the product or quantity delivered differs from what was ordered. Fixing the problem to the buyer's satisfaction is the abiding solution, but dealers also need to protect themselves against abuse.

Earlier this year, Moffatt & Powell's drivers, who are equipped with smartphones, started taking pictures of shipments they deliver. Those images get uploaded to the stores' computers, which helps verify that orders were delivered correctly. "If a customer claims he got the wrong amount, I can immediately check the number of sticks on a lift truck in the photo," says Sims. "You wouldn't believe how much this has reduced problems."



BY BILL WILSON, RETAIL ADVISOR, NRHA CANADA

THE MAKINGS OF A WINNING RETAILER

Last year's Outstanding Retail Award winners have more going for them than just a great-looking store.

Outstanding Retail Award (ORA) winners stand for more than just a great-looking store. Every year, the judges look for the full retail experience in each category, and while the award winners share some common threads, they have brought new ideas and structure into their business that helps set them apart. Find out how to make your store award-winning.

ORA winners generally start with a new, expanded, or updated store, using the signage and décor package from their banner affiliation on both the exterior and interior of the store. In their planning, the retailer has made decisions on category assortments as to breadth and depth of inventory. They've also looked at how they can differentiate their business with unique (dominant) categories that make them leaders in their community.

A recent winner, W. Filsinger & Sons, in Guelph, Ont., established a building project

centre to showcase exterior sidings, windows, interior and exterior doors, and a large indoor decking display. The owner, Wayne Filsinger, also created a boutique approach with the largest bath design showroom in its local market, a one-stop shop for all the products a consumer needs to renovate or build a bathroom.

Merchandising in the categories is important. Make sure you maximize your space and make it easy for the consumer to find similar product. General cleanliness, good traffic flow, department definition, power

aisles, and promotional merchandising that has been designed into the floor plan all help the consumer shop with ease.

CUSTOMER SERVICE

Winning retailers have thought about the customer experience they want to portray at store level. The customer experience includes all of the touch points a customer has with your business and brand: phone, face to face, online, visual, consumed, and experienced. All staff engaging with the consumer need to be hired for their

PHOTO: CALLUM PINKNEY

attitude, be well trained, and be well treated. Many companies are very good at certain segments of customer service, but fall short when it comes to the total customer experience.

The enhancement of the store experience continues to be an important one, considered by some to be the greatest counter-offensive to online retailing—and to other competitors in general. One recent ORA winner noted that they don't have an answering service—when customers call the store, they're greeted by a real person.

GROWING YOUR BUSINESS

Business growth is a very important segment in which most ORA winners excel. Without growth and continued profitability, you cannot be successful long term. What does it take to grow in this competitive environment?

- Above average customer service with well-trained employees and experts on product knowledge and specialists in key categories and services;
- Managers empowered to make customer decisions at the store level;
- Good product selection relevant to your customer base with an in-stock position;
- Price-sensitive items that are priced competitively, using variable pricing where possible;
- Ability to communicate in all media: digital, social media, mobile for ordering and reference, email, flyer advertising, etc.;
- Great store housekeeping: one ORA store owner regularly walks each store department with the department manager, reviewing cleanliness, merchandising, product facing, looking for out of stocks, signage for promotions, and promotional merchandising. In doing so, he's able to keep his store consistently clean;
- Promotional merchandising for impulse buying, clip strips, dump bins, constantly updating and maintaining feature ends and promotional events.



1.

1. Activities like participating in the Big Bike Ride are how ORA winner Josh Beusekom, from TRU Hardware Fort Macleod in Fort Macleod, Alta., engages with the community. 2. W. Filsinger & Sons, a 2015 ORA winner, created a boutique approach with the largest bath design showroom in its local market.

COMMUNITY OUTREACH

Community involvement is an important segment in successful retailing. ORA participants have shown leadership in many of the events shown below:

- Charitable donations are important, but your donations don't have to be just financial: many get involved in organizing events, having store associates heavily involved in running the event, and using the store parking lot for the event;
- Sports team sponsorship, golf tournament sponsorship, and employee involvement in supporting events and coaching local teams;
- Chamber of Commerce membership and active participation in local business groups;
- Participation in the volunteer fire department;
- Customer parties during local events and festivals;

2.



- Support of co-op student programs, food banks, Santa Claus parade, etc.

ORA winners, you'll note, are using practices that many successful retailers have been using for years. However, they're consistent and continue to update their strategies with the ever-changing marketplace and competitive environment.



Bill Wilson is Retail Advisor for the North American Retail Hardware Association Canada and an ORA judge. 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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PATRICK MORIN INVESTS IN GROWTH IN QUEBEC MARKET

BY GEOFFREY McLARNEY

At a time when many retailers are struggling to hold their share in the Quebec market, family-owned banner Groupe Patrick Morin has announced a bold plan to invest \$25 million in strengthening its position through new stores—and possible acquisitions.



The project will expand the footprint of the company's Saint-Paul-de-Joliette distribution centre by 50,000 square feet, as well as creating a new 300,000-square-foot DC for higher-tech materials. The expanded distribution network will serve the increased number of stores the company has planned, with its 21st store opening in Saint-Eustache next year, and more in the works.

Patrick Morin founded the family business in 1960 when he acquired two sawmills and a small hardware store in Saint-Marcelline, a municipality in the Lanaudière region of Quebec. But Morin and his wife, Denise Benny, weren't content to rest on those successes. Their small lumber yard grew into a full-fledged building and renovation centre, and as the couple's children joined the business, the company continued to expand. Over the last 50 years, Groupe Patrick Morin has firmly rooted itself in the province's business fabric.

As the company continues to grow, General Manager Daniel Lampron says, "the distribution centre we have now will be

too small." He notes that the management team still sees opportunities for growth in Quebec. "For us, business is going well in a market that is not easy," Lampron adds. "We're still growing our piece of the pie. Our business model, our customer service—these are all things that help us."

“We’re still growing our piece of the pie. Our business model, our customer service—these are all things that help us.”

External factors also contribute to Patrick Morin's positive outlook. With Lowe's takeover of RONA, Lampron points to "confusion" in the market that is leaving merchants "a little bit scared." The climate could be favourable for new acquisitions, in addition to the opening of new stores, he says.

The incentive to grow is as much stick as carrot: Canac, a similarly sized company, and Patrick Morin's closest competitor, is expanding its regional reach. "There are a lot of regions in Quebec where we aren't yet," Lampron acknowledges. "Canac is

coming closer to the Montreal region; we see opportunities there, as well."

The banner, a member of the Independent Lumber Dealers Co-operative, has been expanding its product offerings in an effort to keep a new generation of customers coming into stores as online competition

continues to heat up. As its expansion strategy was announced, Lampron stated that Patrick Morin would be checking with other ILDC members to see how potential new inventory is selling before considering taking it on.

Last fall, Lampron and President Denis Morin hit back against reports that the banner was facing a takeover, reiterating the company's growth strategy. For now, Lampron says the group is doing its bit for Quebec's economy by adding 100 new jobs by the end of this year—with more to come. 

NEW OPPORTUNITIES

Orgill's product selection helps us meet our customers' needs in an increasingly competitive market!



Competing With Bigger Businesses

"We're a family business, but our competitors are bigger and continuing to become more corporate. Orgill helps us compete with those guys. Everyone I've spoken with at Orgill is committed to businesses like ours."

Programs That Help Us

"We use Orgill's Market Specific Pricing, Door Busters and other programs. Orgill's pricing and programs mean better costs and margin opportunities for us."

Trying Something New

"At the Dealer Markets, we buy specific items to advertise in our circulars. And we love seeing the model stores. Orgill knows so much about retail, and we can take these ideas and use them in our business."

—Nicolas Couture,
Couture Timber Mart
Couture Timber Mart has four stores throughout Quebec and has been an Orgill customer since 2014.



For more information about how Orgill can help you grow your business, contact us today!

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Linda & Brian
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