HARDLINES
HiQ
HOME IMPROVEMENT QUARTERLY

FIRST QUARTER / 2013

YEAR IN REVIEW
The top stories of 2012 that will affect your business in the year ahead

TIM-BR MART ON TOP
CEO Tim Urquhart talks frankly about the re-org of Canada's largest buying group

PLUS:
- Competing with Menards
- Home Depot steps up pro sales
- Castle dealer innovates
- Preston Hardware: K&B expert
- TRU banner makes news

FEATURE STORY

WHOLESALE DISTRIBUTION

Amidst consolidation and tough competition, is there room for everyone?

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HARDLINES HiQ HOME IMPROVEMENT QUARTERLY

FIRST QUARTER / 2013

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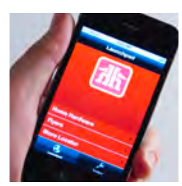

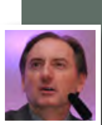

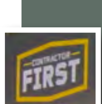

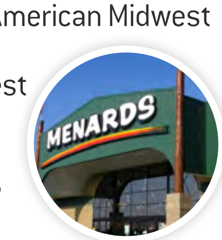

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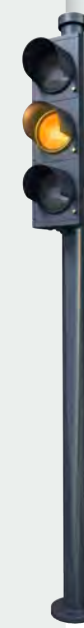


WHAT DOES YOUR COMPETITION LOOK LIKE?

MICHAEL MCLARNEY, EDITOR

Hardware and building materials may be one of the oldest retail segments in this country. Think about it. Your roots are firmly established in the general stores that served Canada's earliest settlers more than a century ago. Today's home improvement dealers are the modern generalists. You sell stuff that goes into building and furnishing a house, and depending on your niche, into accessorizing and outfitting that home.

Because of that generalization, however, you have lots of competitors. And as your business has evolved, so have your competitors'. So, what does your competition look like today?

Your competition certainly looks like the specialty retailers that have encroached on your business over the years: existing retailers like Ikea and the Williams Sonoma and Benjamin Moore that have found home enhancement products to fit in with their own assortments. It also looks like the growing ranks of newcomers, including banners coming up from the U.S. like Lumber Liquidators, West Elm, and Target.

Your newest and perhaps most challenging competition come from the online players. Amazon.ca, Indigo.ca, Shop.ca, and myriad others don't have the overheads of bricks and mortar. With cost advantages that often span the borders, these new competitors are real threats to traditional dealers. Can you compete online?

If you've a strong niche in your store, then chances are you can carve that niche online, as well. I met a dealer recently who did more than $100,000 in LBM sales online. No one was more surprised by this success than he was.

Your competition also looks like U.S. retailers that attract Canadian customers. Cross-border shopping is a perennial draw for consumer dollars, made more so by recent federal rules that have raised daily shopping limits considerably. Companies like Menards are making it easier than ever for Canucks to shop south of the border. They regularly flood cross-border markets such as Sault Ste. Marie, ON, and Southern Manitoba with weekly flyers, and will deliver the order, once it clears customs, right to the customer's door.

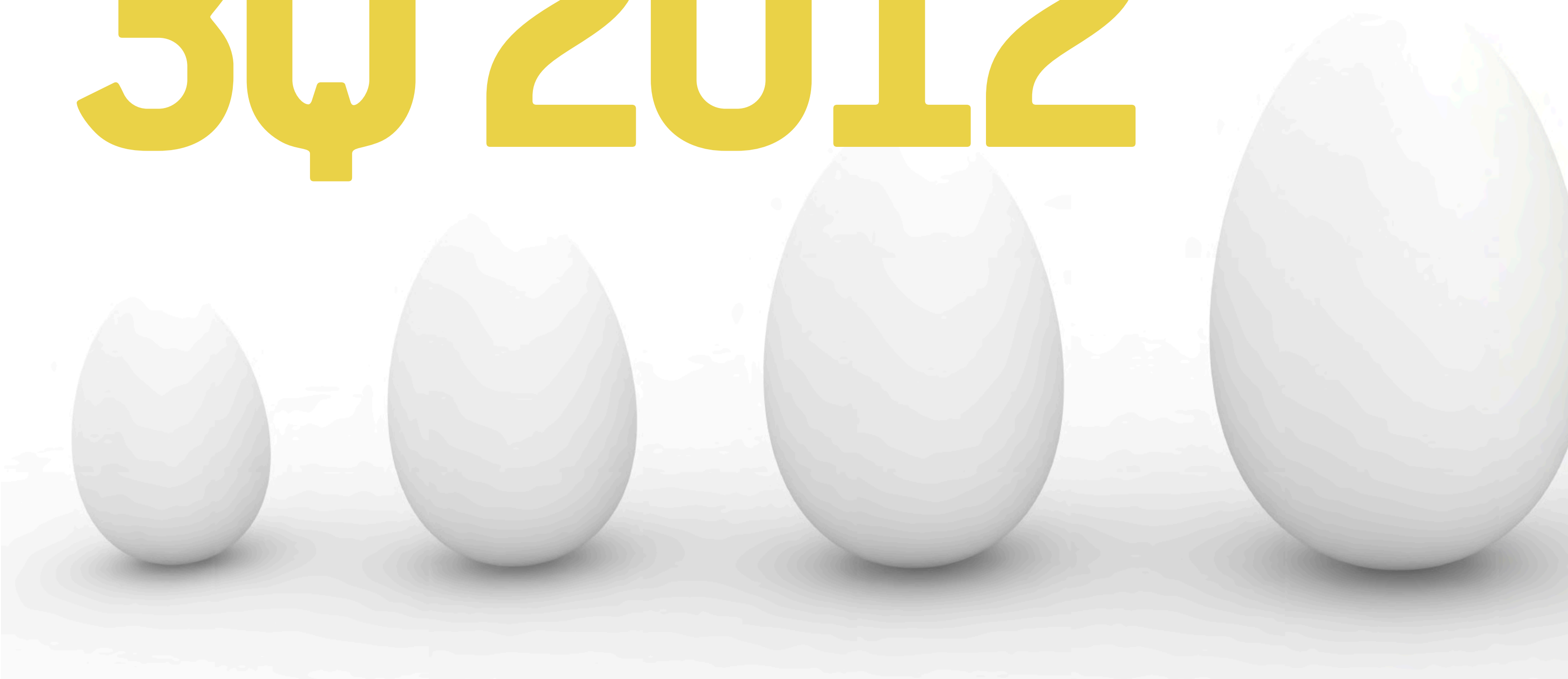
Your competition has many other faces, of course—ranging from modular home builders to some vendors that sell direct to your builder and contractor customers.

It's important to recognize your competitors. But it's more important to understand—and exploit—the strengths of your own business. Then all these competitors, wherever they might come from, will have less of an impact, and hardware and building materials dealers will continue flourish into the next century.

mike@hardlines.ca

QUARTERLY BUSINESS CONDITIONS

RETAIL CONDITIONS – 3Q 2012



Confidence among dealers responding to our third-quarter Business Conditions Survey reflects a stabilized economy with expectations of long-term growth.

Passing the halfway point in 2012, retailers and vendors both experienced a leveling out of the downturn they faced during the recession and then the optimism that followed, according to the HARDLINES Business Conditions Survey, done in conjunction with NRHA Canada.

STAFFING

Changes in employees are a great bellwether of overall economic conditions. In 2Q 2012, we saw increases in the number of employees for both retailers and vendors, showing the optimistic recovery expectation after many quarters with decreasing staff. For 3Q, staff increases slowed. A year ago, 14.6 percent of vendors and 7.4 percent of dealers expected increases in the number of employees, and by the last quarter (2Q 2012), these expectations had increased to 33 percent for vendors and 37 percent for retailers.

However, in the third quarter of 2012, a majority of vendors (63.6 percent) and retailers (67.4 percent) were expecting their number of employees to remain the same, with only 22.2 percent of vendors and 18.6 percent of retailers expecting no changes in their number of employees. The employment increases from last quarter slowing down shows that the market is stabilizing.

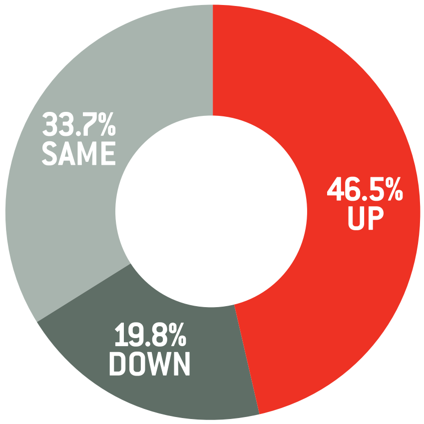
The importance of staffing can be seen in what issues retailers identify as the most salient. For the first three quarters of 2012, staffing has consistently topped the dealers list of issues and this quarter is no different, with 21.4 percent of retailers identifying staffing as their top issue.

OUTLOOK FOR THE COMING YEAR

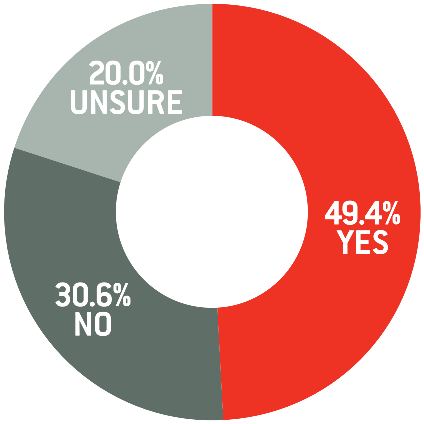
When compared to last year, vendors' expectations for improvement have increased significantly, with 68.4 percent expecting sales to increase in the next six months and 78.4 percent expecting sales to rise over the next 12 months. However, when compared to the second quarter of 2012, sales expectations have risen in the short term since 56 percent expected increases in the next six months in the second quarter.

For dealers, business conditions have stabilized compared to last year, and they appear more optimistic about their sales increasing in the long term, as 61.6 percent expect an increase in the next 12 months versus 49.4 percent expecting an increase within the next six months. That marks a definite improvement from last year in the third quarter, when 34.3 percent of retailers expected an increase in sales in six months and 57.5 percent in 12 months.

RETAILERS: 3Q sales 2012 VS. 2011



RETAILERS: Do you expect sales to increase during the next 6 months?



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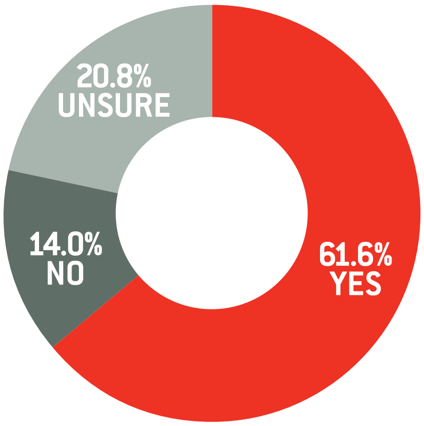
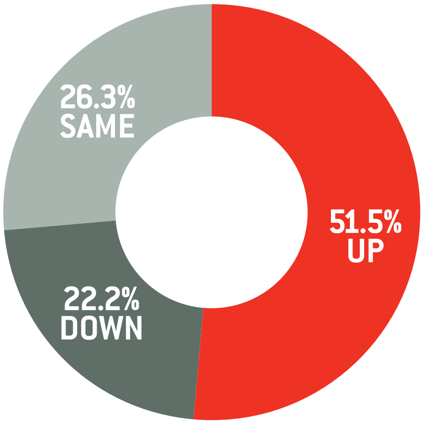
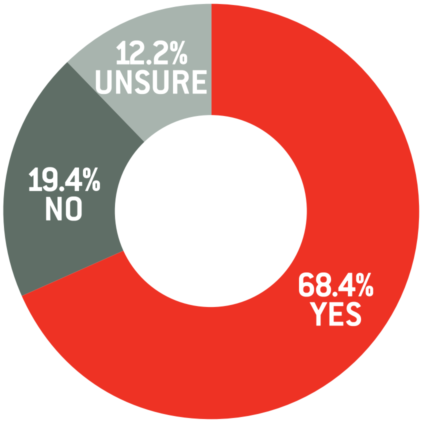


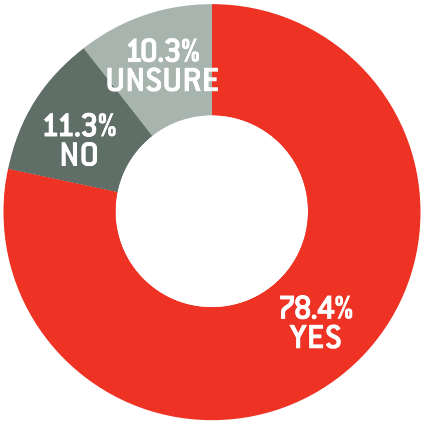
VENDORS: 3Q sales 2012 VS. 2011



VENDORS: Do you expect sales to increase during the next 6 months?



VENDORS: Do you expect sales to increase during the next 12 months?



Source: HARDLINES Quarterly Business Conditions Survey

VENDORS: Top issues in the third quarter

Increased raw material/shipping costs	29.8%
Increased retailer demands	29.8%
Falling consumer confidence	19.9%
Housing market	20.5%

RETAILERS: Top issues in the third quarter

Staffing	22.3%
Increased competition	20.1%
Customer retention	15.5%
Training	14.4%
Expanding products	10.4%
Succession	8.6%
Adding new services	8.6%

NEW PRODUCTS

Retailers are offering more new products this quarter (60.5 percent), up from last quarter (57.4 percent) but down from 3Q 2011 (64.8 percent). Vendors have consistently increased their offerings with 67.4 percent offering new products this quarter up from 63.5 percent last year and 65.4 percent last quarter.

CONCERNS

When asked what both retailers and vendors were concerned about, both groups identified the rise of online retailing as one of their biggest concern. With 20.3 percent of vendors and 27.9 percent of dealers concerned, the hot button issue of switching to online has clearly impacted the entire industry. With Lowe's, Home Hardware, and RONA all improving their online presence and even developing apps for easier shopping, it's no wonder that online retailing tops the list of concerns.

Vendors identified higher raw material and shipping costs and increased retailer demands as their top issues, with 29.8 percent of those surveyed identifying each issue as their top concern. Other issues include falling consumer confidence (25.5 percent) and the housing market (20.8 percent).

COMPETITION SOUTH OF THE BORDER

Both vendors and retailers identified competition from south of the border as a major concern. Throughout 2012, there have been many American companies entering or expanding closer to Canada (see *The Year in Review* in this issue). Walmart had an unprecedented rate of openings in October, Lowe's tried to buy RONA, and Menards continues to encroach on the Canadian border. These are just some of the examples of why both vendors and retailers are worried about the presence of American retailers. For 3Q, 25.7 percent of vendors and 21.9 percent of retailers identified the increase presence of U.S. retailers as their biggest concern.

CONCLUSION

Most of the top issues and concerns have remained consistent for much of 2012. Growth increases in the next 12 months are expected as the economy continues to normalize. The housing sector has had high sales (mostly of condominiums) throughout 2012 but this is expected to slow in the coming years. However, more families deciding to stay in their current dwelling and renovate could increase sales for retailers and vendors. Compared to the third quarter of 2011, modest growth is apparent, not just in this quarter but throughout 2012 thus far.

INDUSTRY GROWTH EXPECTED TO STAY SLOW

While 2012 was a year of positive but relatively slow growth for most dealers, the year ahead promises continued growth, but at a slower rate.

Conditions in 2012 got off to a healthy start with housing starts recovering and weather co-operating to drive sales. However, conditions did not remain consistently robust across the country through the remainder of the year. According to Canada Mortgage and Housing Corp., the country faces a "moderating" trend in housing starts over the final quarter of 2012 and into 2013. Forecasted starts for 2012 will be 213,700, dropping to 193,600 in 2013.

Therefore, HARDLINES has forecast overall growth of two percent in 2012 and slower growth of less than 1.5 percent in 2013, reflecting slowing in housing starts and mixed consumer confidence as Canada's employment level grows slowly.

HOUSING MARKETS SLOW

After the middle of the year, single starts began to slow. For 2012, they are expected to sit at 83,600, and drop further to 82,500 in 2013. Through to the end of the third quarter of 2012, housing starts had been driven by multiple starts, many based on pre-sales from as far back as 2010. Multiple starts are forecast to be up a healthy 16.6 percent for the year. However, given that the number of pre-sales in 2012 has dropped, a lower output of large, multi-unit projects is expected in 2013.

Sales of existing homes through the Multiple Listings Service peaked in the first quarter of 2012 and slowed down in the second quarter. On an annual basis, however, existing home sales are expected to drop slightly in 2012 to 457,400, rising by less than one percent to 461,500 in 2013.

RENOVATION SPENDING

Following the recession, consumers continue to focus on smaller home improvement projects. Alterations and improvements, as opposed to maintenance and repairs, continued to account for a large portion of renovation projects in 2012, especially among DIY customers. After a good start to 2012, activity is mixed across the country. And because housing starts are forecast to decrease in 2013, and sales of existing homes will remain almost flat, renovation growth is not expected to increase much next year.

In addition, an anticipated improvement in unemployment levels, forecast to be up 1.1 percent in 2012 and up 1.9 percent in 2013, will become increasingly supportive of some improvement in renovation spending in 2013.

HOW RETAILERS ARE COPING

Faced with continued slow growth, large retailers have slowed their expansion plans. In addition, the industry has witnessed a focus on smaller stores.

Home Depot Canada has not opened any new stores in two years. RONA has decided that the big box format has reached its zenith, and is now focusing on smaller "proximity" stores (35,000 square feet), while closing or downsizing almost two dozen of its big boxes outside of Quebec. The only chain that is actively opening stores is Lowe's Canada, and even it is feeling the pinch of "over-storing," as seen by its attempt last year to buy RONA. Lowe's originally planned to open up to 10 stores annually. While it opened seven stores in 2011, it only opened one in calendar 2012.

Appearing to buck the trend, many Home Hardware dealers in recent years have been building large destination stores, typically on the edge of the local town, replacing, displacing, or, in some cases, working together with a smaller Home Hardware in the centre of town. Stores in Gananoque and Picton, ON, are examples of this trend.

Forecasts for housing activity in 2012 & 2013

	2010 Actual	2011 Actual	2012 Forecasts	2013 Forecasts
Total Housing Starts (units)	189,930	193,950	213,700	193,600
Forecast Ranges			210,800-216,600	177,300-209,900
Total Single-detached Houses	92,554	82,392	83,600	82,500
Forecast Ranges			82,200-85,000	75,100-89,900
Total Multiple Housing Units	97,376	111,558	130,100	111,100
Forecast Ranges			128,600-131,600	102,200-120,000
Residential Resales	446,485	457,958	457,400	461,500
Forecast Ranges			449,200-465,600	433,300-489,700
Average Residential Resale Price	339,060	364,514	365,100	370,500

Source: Canada Mortgage and Housing Corp.

Industry growth forecasts for 2012 & 2013

Year	2006	2007	2008	2009	2010	2011	2012 (fc)	2013 (fc)
Sales	$39.08	$40.92	$40.29	$39.12	$39.18	$40.01	$40.81	$41.38
y-o-y change	6.3%	4.7%	-1.5%	-2.9%	0.2%	2.4%	2.0%	1.4%

Source: Hardlines Retail Report 2012-2013

CONCLUSION

Regional prosperity, supported by natural resources, has buoyed markets in Northern British Columbia, Alberta's oil patch and Saskatchewan's potash fields in the west, and Newfoundland's economy is thriving in the east. But other markets, especially Ontario, which accounts for almost one-third of the retail home improvement industry, and Quebec, which makes up about one-quarter, continue to grow at a much more moderate rate.

With housing activity expected to be softer in 2013, and job uncertainty and the slow-to-recover economy of the U.S., consumer confidence is further expected to remain tentative. These factors all support our forecast of modest industry growth in 2013 of less than 1.5 percent.

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The news of Robert Dutton's departure came just days after RONA turned in weak third-quarter results and followed a battle to ward off a takeover by Lowe's Cos.

DUTTON'S DEPARTURE MARKS END OF AN ERA FOR RONA

Robert Dutton, president and CEO of RONA since 1992, left the company abruptly in November. The news of his departure came just days after RONA turned in weak third-quarter results and followed a battle to ward off a takeover by Lowe's Cos.

Dominique Boies, executive vice president and CFO, has stepped in as acting CEO. The board has hired the firm Korn/Ferry International to find a successor to Dutton.

Dutton joined RONA in 1977. And even by the time he became CEO in 1992, he could not speak a word of English. But that was just one of the obstacles he overcame as he pushed his dream to build Canada's largest home improvement retailer, one that, in his own words, would provide Canadians with jobs, and one that would become a role model for corporate sustainability.

Under his direction, RONA expanded beyond its original Quebec market, and became the largest home improvement retailer in the country, with combined sales from all points of sale exceeding $6 billion. RONA's consolidated sales during that time increased from $450 million to more than $4.8 billion and RONA's network of stores grew from fewer than 500 affiliated dealers to more than 900 outlets that range from corporately-owned and franchised to affiliated independents.

When RONA went public in 2002, Dutton found his dedication to his dealers and their customers tested by a commitment to raise value for shareholders. This divided loyalty came to a head when Lowe's made a bid for RONA's shares. While a tempting offer for shareholders, Dutton perceived that ownership by Lowe's would threaten the solidity of RONA's Canadian infrastructure, a notion that he abhorred.

Just weeks after Dutton's departure, RONA issued an update to its strategic priorities, emphasizing a focus on core competencies. These include the disposal of "non-core assets" to free up cash. These could include some of its big boxes and other under-performing locations.

RONA's three priorities are: to leverage the strengths of its core businesses; grow key customer segments through a more compelling value proposition; and unlock the profit potential of a simplified business model.

According to Boies, the acting president and CEO, "RONA has grown through a series of strategic acquisitions to expand its footprint, consolidated the market to introduce scale, and developed various store formats to support its leading position in Canada." That growth, however, meant putting a lot of different companies together that have different operating platforms, inventory systems, and even SKU numbers. These new strategic priorities are expected to address those issues.

TRUSERV GARNERS NEWSMAKER AWARD FOR NEW BANNER

When TruServ Canada launched the TRU banner for hardware and home improvement dealers, it backed the brand with a full program of support services.

And it earned the company this year's Newsmaker of the Year Award. The award was presented at the 17th annual Hardlines Conference in Toronto in October.

Under new ownership by RONA, Winnipeg-based TruServ Canada decided a year ago to re-focus as a truly Canadian company serving the independent dealer. It started by ending its license agreement with the True Value Company in the U.S. Then, a series of focus groups and discussions with its dealers helped TruServ pinpoint their values and priorities. With the combined resources of RONA and TruServ's marketing teams behind it, the company re-emerged with the TRU banner.

TRU has been further supported by new websites for each retail format, but TruServ also developed a range of support services for all independent dealers, regardless of their affiliation. These range from affordable flyer programs to enhanced, customized online services.

TruServ's sales territories were redefined and assigned to existing district managers who were already taking care of TRU bannered dealers. They are now charged with dropping in on RONA affiliate dealers as well to explain the range of products and services available to independents.

Those services include new e-catalogues, enhanced websites by both RONA and TruServ, round-the-clock tech support, and access by independents to RONA's in-store sales reporting support—"all kinds of things that give dealers the opportunity to access information when they need to."

On accepting the award, TruServ Canada president Bill Morrison spoke proudly of TruServ Canada's achievements, and its distinctly Canadian heritage. "We value community and partnerships. At TRU, we treat our partners the way we want to be treated."

Under new ownership by RONA, Winnipeg-based TruServ Canada decided a year ago to re-focus as a truly Canadian company serving the independent dealer.

PHOTO: CALLUM PINKNEY

BRIEFLY

CANADIAN TIRE STORES UP SLIGHTLY IN THIRD QUARTER

The acquisition last year of **Forzani Group** has been good to Canadian Tire. Consolidated sales for the giant retailer in its third quarter were up 8.0 percent and consolidated revenue increased 4.6 percent to $2.8 billion in the quarter as a result of the inclusion of revenue from FGL Sports, while Marks, financial services, and petroleum all helped the numbers, as well. Sales at Canadian Tire Retail increased 0.3 percent while same-store sales declined by 0.2 percent in the quarter.

RONA'S THIRD-QUARTER REFLECTS TOUGH CONDITIONS

RONA recorded Q3 net income of $33.1 million before unusual and non-recurring items, down from $47.8 million a year earlier. The $14.7 million drop was attributed to lower margins on building materials, "and to the deterioration in the renovation and construction market across the country." Consolidated revenues for the third quarter were $1.34 billion, down 0.8 percent. For the nine-month year-to-date, consolidated revenues rose to $3.69 million, up 1.5 percent over 2011.

CANAC JOINS TORBSA

The dealer-owned buying group TORBSA has added the giant Quebec chain Canac to its membership. The move will expand significantly the group's presence in Quebec.

CHALIFOUR GIVES ACE BRAND A BIG PUSH

Randy Martin of Chalifour Canada says they now have 8,000-plus Ace SKUs to make sure their dealers don't have to go anywhere else for what they want.

The Ace brand continues to get a big push by Chalifour Canada, as evidenced by the presence of some 2,500 Ace SKUs at the latest Chalifour Retailer Buying Expo, held in Montreal at the end of October.

"We've now got 8,000-plus SKUs to fill the gaps in our inventory and make sure our dealers don't have to go anywhere else for what they want," says Randy Martin, vice president of merchandise for Chalifour Canada.

Andrew Allen, senior vice president of Chalifour Canada, says the Ace brand is in growth mode, one that reflects the long-term supply arrangements Chalifour holds with Ace in the U.S. through its Global Sourcing division in Shanghai. He adds that there are now 133 fully branded Ace dealers in this country, in addition to 340 fully branded TIM-BR MART dealers.

HOME DEPOT'S FIRST RDC PLANNED FOR EARLY 2013

Home Depot Canada is building its first "Rapid Deployment Centre." These RDCs, as they're called for short, already play an integral part in the retailer's supply chain in the U.S. There, they've been replacing smaller distribution centres, but with a twist—they don't warehouse product.

Instead, RDCs act as flow-through facilities to get product sorted and forwarded directly to the stores. Home Depot Canada sees the new structure as an important way to reduce the costs of getting products from suppliers to store shelves.

Home Depot has 18 RDCs in the U.S. and the two planned for Canada would complete the network. The first will open in Vaughan, ON, north of Toronto. A second site is being planned for Western Canada.

The new Vaughan location is expected to open by January 2014. It will be 657,600 square feet in size, the equivalent of about 12 football fields. It will house more than 200 shipping and receiving doors and process 400,000 cartons per week.

NEARING 50TH, CASTLE SAYS RECRUITMENT PAYING DIVIDENDS

Castle Building Centres has been on an aggressive recruitment campaign to attract dealers that align with the group's mandate—to support independents and their own banners rather than a national brand.

The campaign, launched in the third quarter of this year, has been paying dividends, says the group, which reports that online traffic to Castle's recruitment site has increased 300 percent as a result of promotional and advertising efforts. The campaign has touted Castle's three tenets: transparency, freedom, and profits.

As it prepares to celebrate 50 years in existence in 2013, Castle is also reaching record numbers. Where historically its membership hovered around 225, its ranks have swelled to almost 300. "I think 2013 will be our most successful year," says Ken Jenkins, president of Castle Building Centres. That success, he notes, will be measured, "in terms of new member traction, purchase volume increases, total member growth, and rebate payments."

Those purchases, by the way, are expected to be up by 14 percent over 2011. "Despite a flattening of the industry mid-year, Castle kept growing thanks to dealer recruitment."

RONA WILL ROLL OUT FIRST CONTRACTOR STORES LATER THIS YEAR

RONA's new-format store that focuses on its contractor customers may only be in the test stage right now, but the company sees room for up to 60 locations for the new concept.

Called "Contractor First by RONA," the new store format is being launched in two versions, as a stand-alone outlet and as a store-within-a-store in select big boxes. Two pilot stores, in Calgary and in Edmonton, were to have soft openings in December, with grand openings planned for March 2013.

Stores that have been identified to switch to the new banner will get support from RONA's head office, and be paired with a dedicated marketing program to support the new pro network.

The two "Contractor First by RONA" pilot stores, in Calgary and in Edmonton, have grand openings planned for March 2013.

BRIEFLY

HBC FLOATS IPO

Hudson's Bay Company set a share price for its initial public offering, but it's lower than originally stated. The company will float almost 21.5 million common shares at $17 per share worth about $365 million. That falls short of the company's original target of $400 million. The offering will consist of 14.7 million common shares, which aims to raise about $250 million. That will be used by HBC to lower debt. A secondary offering will float almost 6.8 million common shares, worth about $115 million. Based on the offering price, the company's market capitalization will be $2.04 billion.

SEARS CUTS LOSSES IN THIRD QUARTER

Despite a drop in sales, **Sears Canada Inc.** did manage to cut its loss in half for the first three quarters of 2012. The mass merchant reported total revenues for the third quarter of $1.04 billion, down 6.8 percent from $1.11 billion a year earlier. Same-store sales dropped by 5.7 percent. But it did manage to cut its net loss for the quarter in half, to $21.9 million. Total revenues for the 39-week year-to-date were $3.00 billion, down 7.7 percent. Same-store sales decreased by 6.4 percent. Net earnings for the nine months reached $61.3 million, a turnaround from a net loss of $91.3 million.

PRAIRIE SHOWCASE TO MOVE TO CALGARY IN 2015

The Prairie Showcase and Convention, which has been in Saskatoon since its inception, will try out the new location and new facility—the BMO Centre—to accommodate the growth of the event.

The Western Retail Lumber Association has announced it will move its venerable buying show, the Prairie Showcase and Convention, to Calgary in 2015, 2016, and 2017. The show, which has been in Saskatoon since its inception, will try out the new location and new facility—the BMO Centre—to accommodate the growth of the event.

One of the largest shows of its kind in Canada, it features some 650 booths and more than 265 exhibiting companies. However, the show's booth space is regularly sold out, leaving a waiting list of vendors that wish to get in.

"As this event continues to expand, not only in size but in relevance and scope, it made sense to bring it to Calgary," said Gary Hamilton, president of the WRLA. "This event is an integral part of the WRLA and enables our members to effectively compete and grow their business in a rapidly changing business environment."

HOME HARDWARE PROGRAM SUPPORTS YOUNG DEALERS

A group of Home Hardware dealers, all under the age of 40, returned recently from a leadership and management retreat in Las Vegas. The 32 participants in the Young Leaders group, who came from Home Hardware stores across the country, spent two days in the classroom with Kevin Graff of Oakville, ON-based Graff Retail, a retail-training agency.

Graff customized a leadership and management program for the delegates' own stores. Outside of the classroom, the group spent time in social and team building events.

The Young Leaders program was an initiative conceived within Home's training and education department. This is the second year that the group has gone on a retreat.

BRIEFLY

PEOPLE ON THE MOVE

John Jobin, vice president of merchandising for Canadian Tire's "Fixing and Playing" business, is no longer with the company. Before he left, he had been working on the reorganization of Canadian Tire's hardlines businesses and a recent re-positioning of the company's key proprietary brand, Mastercraft, as part of the company's efforts in 2012 to fortify what it believes are its core competencies.

TORBSA Limited has hired **Ken Pompey** as business development manager. The move marks an important evolution of the building materials buying group, which has historically been content to keep a low profile — and a limited membership. With Pompey on board, the group joins the ranks of many other groups and banners in Canada that see active dealer recruitment as vital to long-term growth.

Daniel Rioux's role at TIM-BR MART GROUP has been expanded to include Ontario sales management. He is now responsible for sales management in both Quebec and Ontario. The Quebec and Ontario territory managers, Ontario sales support specialists, and Quebec inside sales will all report to him.

Product SPOTLIGHT

BY JON STOLLER

Bosch PR011 Plunge Base

Designed to expand the versatility of the popular Bosch Colt Palm Router. The smooth plunge action lends precision and control, and a clear sub-base allows woodworkers to see their cuts at all times. Ideal for slot cuts, decorative band, wood inlay cuts, and more.

Coswick Hardwax Oil

Coswick Hardwood Inc. claims its new flooring finish is organic, eco-friendly, and hypoallergenic. Made from wax of the Carnauba palm tree and other natural components, Hardwax Oil is a natural flooring solution. Also resistant to moisture and temperature fluctuations.

Task Autorewind Cable Reel

Task Tools has introduced an electrical accessories program called Task by Designcord. One product is the Autorewind Cable Reel, which can store an extension cord without tangles. Rather than mounting the cable reel on a rotating hub that can get tangled when devices are still plugged in, the Autorewind CableReel has patented fixed sockets that don't rotate when unwinding.

Paramount Gel Fuel

This ethanol-based formula from JR Home Products is EcoLogo certified for environmental leadership. Paramount Gel Fuel burns with no smoke or soot, making it suitable for indoor and outdoor use. Organic, and free of contaminates such as lead, petroleum, and harmful chemicals.

MAAX Adjustable Shower Door

When walls aren't plumb or a mistake's been made in measuring, the Olympia Pentangle Shower Kit from MAAX accommodates those mistakes with a patented adjustable shower-door hinge that can be adjusted to fit the shower entrance.

SBC Cedar Shingle Installation Tool

The SBC tool helps speed up installation of both eastern white cedar shingles and western red cedar shingles. The tool eliminates the need for nailed boards that can damage shingles.

A. Richard Sanding Tool

The A. Richard No-Dust Sanding Kit eliminates dust from surfaces during sanding. The kit includes a no-dust sanding tool, a hose to connect to the vacuum, and a sanding sponge with a pivot adaptor.

Delta Kitchen Faucets

Five new designs offer a sleek style for the modern kitchen, and expanded functionality for today's home chefs. The Touch2O Technology turns the faucet on or off with a touch from a hand or arm, helping to conserve water, and keeping it free from dirty fingers.

AMIDST BIG CHANGES, RONA BOARD FACES NEW CHALLENGES

With its long-time CEO gone, RONA is trying to re-invent its business with new store formats and careful marketing to a new generation of consumer. But that consumer remains reluctant to spend—and RONA's shareholders are far from unanimous in their support of the board.

The departure of long-time CEO Robert Dutton from the helm of RONA inc. came after a number of executive changes over the previous two years. Pierre Dandoy was executive vice president of retail operations until the end of 2010. Jean-Luc Meunier, formerly senior vice president of business development, left exactly a year later. Claude Bernier, considered by many to be Dutton's right-hand, retired as head of marketing and innovations and bought a chain of bicycle shops. And Normand Dumont, who had headed up RONA's buying team since 2004, stepped aside in August to take the impressive, if somewhat vague, title of vice president, sustainable development.

With Dutton gone, the board turned to relative newcomer Dominique Boies, who had joined as executive vice president and CFO barely a year earlier, to serve as interim CEO as well.

He's certainly got his hands full. Ever since the shakeup, some shareholders have been demanding even more changes. RONA's second-largest shareholder is calling for a brand new slate of directors to replace the company's current board after disappointing third-quarter results and an aborted takeover bid by Lowe's Cos. Invesco, a Toronto investment firm, welcomed Dutton's ouster but wants to take the transition further in a special shareholders' meeting.

But RONA's board of directors made a pre-emptive strike by announcing the date for its May annual general meeting six months out. Since directors will face re-election at the AGM, the move by law precludes any other meeting before that for the same purpose, according to RONA.

> “Lowe's has said it believes that a combination of Lowe's and RONA makes business sense and would create significant value for all stakeholders.”

Despite this manoeuvring, the issue continues to pit the company's ambitions as a public company against its popularity with its merchants, who remain generally favourable to Dutton's leadership and supportive of the existing board. Invesco is still outflanked in shares by Caisse de depot, Quebec's public pension group, which has around 15 percent of the company's stake, while member merchants more or less match Invesco for shares at just over 10 percent.

LOWE'S WANTS TO ACCELERATE CANADIAN EXPANSION

Even as fallout from the unsuccessful Lowe's bid continues to reverberate through the ranks of RONA's shareholders, the rebuffed Mooresville, NC-based retailer remains keen to expand in Canada.

Chairman and CEO Robert Niblock has stated publicly that the big box retailer would like to create critical mass here by adding new stores, including different formats, as well as through acquisition. While he would not comment specifically on another RONA bid, he did say his company would wait until debate dies down around the removal of the RONA board.

Lowe's has already told HARDLINES that it is working on a small-store format for Canada, as it looks for ways to increase its presence in markets that would not necessarily support a full-sized box store. While it indicated that the rollout of such a store is imminent, Lowe's would not give an exact date for the launch.

Lowe's has also said it is interested in developing dealer-owned stores, as it has done in Australia. There, it is building big boxes of its own, but has also purchased, through a joint venture with Australian retail giant Woolworths, a smaller wholesaler with affiliated dealers of its own. The parallels to a potential RONA acquisition are undoubtedly compelling to Lowe's—and only add more credence to continued interest in a future RONA takeover.

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CANADIAN DISTRIBUTORS FACE SLIMMER MARGINS AND TOUGHER COMPETITION THAN EVER BEFORE. IS THERE ROOM FOR EVERYBODY?

BY JOHN CAULFIELD

Distribution

Competitive alliances forged by Canadian distributors and buying groups in recent years appear now to be paying major dividends. Those arrangements—which included RONA's purchase of TruServ Canada, TIM-BR MARTS' acquisition of Chalifour Hardware, and Castle Building Centres' partnership with Memphis, TN-based Orgill Inc., accentuated the inclination toward consolidation that continues to be the abiding dynamic within North America's distribution sector.

Mergers and alliances also give the companies involved a foundation for growth at a time when business conditions in Canada are expected to level off in 2013, as uncertainties about rising domestic inflation, cooling homebuilding activities, and lagging economies in the U.S. and China make Canada's own prospects harder to predict.

"RONA's acquisition of TruServ really started to play out positively this year," says Bill Morrison, president of Winnipeg-based TruServ Canada. The positive current between the two companies has flowed both ways, as TruServ dealers increased their purchases in several building materials categories, "particularly decks, fencing and flooring," says Morrison. At the same time, RONA dealers "have taken advantage of our strengths" in such categories as housewares and farm and feed.

In addition, both companies are benefiting mutually from improvements in logistics and distribution.

This trend held true as well for TIM-BR MARTS Ltd., whose members across Canada are "absolutely supporting Chalifour," says Tim Urquhart, TIM-BR MARTS' president and CEO, who spoke with HARDLINES in late October. During that conversation, Urquhart noted that because they have ownership in the business, dealers have a greater incentive to step up their ordering through Chalifour, which saw its sales to TIM-BR MART dealers rise by double-digit percentages in 2012.

And because these dealers can also buy hardlines directly through TIM-BR MARTS' relationship with the Spancan buying group, they have "the best of both worlds," says Urquhart. Particularly those dealers that, as market conditions have remained volatile and competitive, are keeping a closer watch on their stores' inventories by relying more on wholesalers.

INFLATION DRIVES PRICE INCREASES FOR LBM

As the housing market in the U.S. is finally healing after five years of recession, inflation was inevitable in certain building products whose manufacturers have been holding the line on prices out of competitive necessity.

"Inflation is coming," cautions Bill Morrison, president of TruServ Canada, and it's already arrived in categories like lumber and roofing.

Even as Canada's national inflation rate in 2012 was running below two percent in 2012, according to the Bank of Canada, Cam White, CEO of Taiga Building Products, notes that lumber prices in Canada have been rising, in part because China is currently absorbing about 25 percent of the country's production.

However, he also acknowledges that prices for some building products are still 25 to 30 percent below what they were a few years ago, "so it will take a while for them to recover."

Since it struck its partnership with Castle in late 2010, Orgill, the largest independent hardlines distributor in the U.S., has been shipping to the buying group's dealers in 10 provinces and one territory, either directly to the stores and yards, via a third-party carrier or the dealer's own truck fleet. It now claims to make available 35,000 hardlines items to Castle's membership across Canada.

> "RONA's acquisition of TruServ really started to play out positively this year."

Orgill doesn't break out its Canadian sales, which are lumped together with its distribution business in the U.S. But its total sales in 2012 were running between nine and 11 percent above the previous year, "when we also saw double-digit growth," says Ron Beal, Orgill's president. "We've exceeded our initial plan" in Canada, where "we're as busy as we can be right now taking care of Castle dealers."

Orgill's relationship with Castle is not exclusive to that buying group and leaves the door open for the American company to explore other business opportunities in Canada. That's why dealers of all stripes have made their way to Orgill's markets in the U.S. to check out the assortments and programs available.

Orgill doesn't sell under its own banner, choosing instead to support independents who promote their own local brands. However, "we've certainly tried to get our story out there," says Beal, primarily through trade advertising and presence at trade shows, often in partnership with Castle. "Our name recognition with Canadian dealers seems to be really good."

Other American distributors have come to Canada only to exit quietly a few years later, frustrated by their inability to figure out Canada's logistical challenges. Nevertheless, Beal believes his company has shown its staying power. "I think we've gotten past that," he says.

He says Orgill has learned so far that the Canadian market is not that much different from the U.S. "As there is no 'U.S. market,' just a lot of regional and local preferences, that's true in Canada as well."

INFLATION LOOMS FOR LBM DISTRIBUTORS

On the whole, distributors that sell into the home improvement arenas report that 2012 was a pretty good year for their companies. "Steady and decent," is how CanWel Broadleaf's CEO Amar Doman described his company's performance, echoing how other executives characterized the year. And sales weren't always the impetus.

Take Taiga Building Products, the Calgary-based distributor with 16 distribution centres and five reload centres in North America. Through six months ended September 30, Taiga's net income jumped 39.4 percent to $9.7 million on revenue that increased 15.5 percent to $625.4 million. Cam White, Taiga's CEO, attributes at least part of that sales gain to "price appreciation" in commodities.

Three of Taiga's DCs are in the U.S. and the distributor is looking to add another in California. It is also doing business "in places we thought we'd never be," says White, including China and South America. However, White is reserving judgment on Taiga's prospects in 2013, primarily because he thinks the recovery of the U.S. housing market "is going to be a long haul." Consequently, he'd be satisfied "if we had a '13 that's like '12."

Through the first nine months of 2012, CanWel's revenue inched up by only one percent to $560.2 million. But net income increased more than eightfold, to $9.4 million, and a lot of that improvement can be attributed to a nearly $9 million reduction in the company's distribution, selling, and administrative costs. "We've done our job reducing and consolidating our distribution," explains Doman. "Our DCs' utilization capacity is way up."

CanWel is hopeful it can eventually expand into the U.S. through acquisition. But Doman doesn't envision much growth for his company in 2013, and what it does achieve is likely to come from existing customers. "We're not getting carried away talking about growth; 2013 will be flat. That's what reality is telling us."

"We're not getting carried away talking about growth; 2013 will be flat. That's what reality is telling us."

DIFFERENTIATING BY BRAND

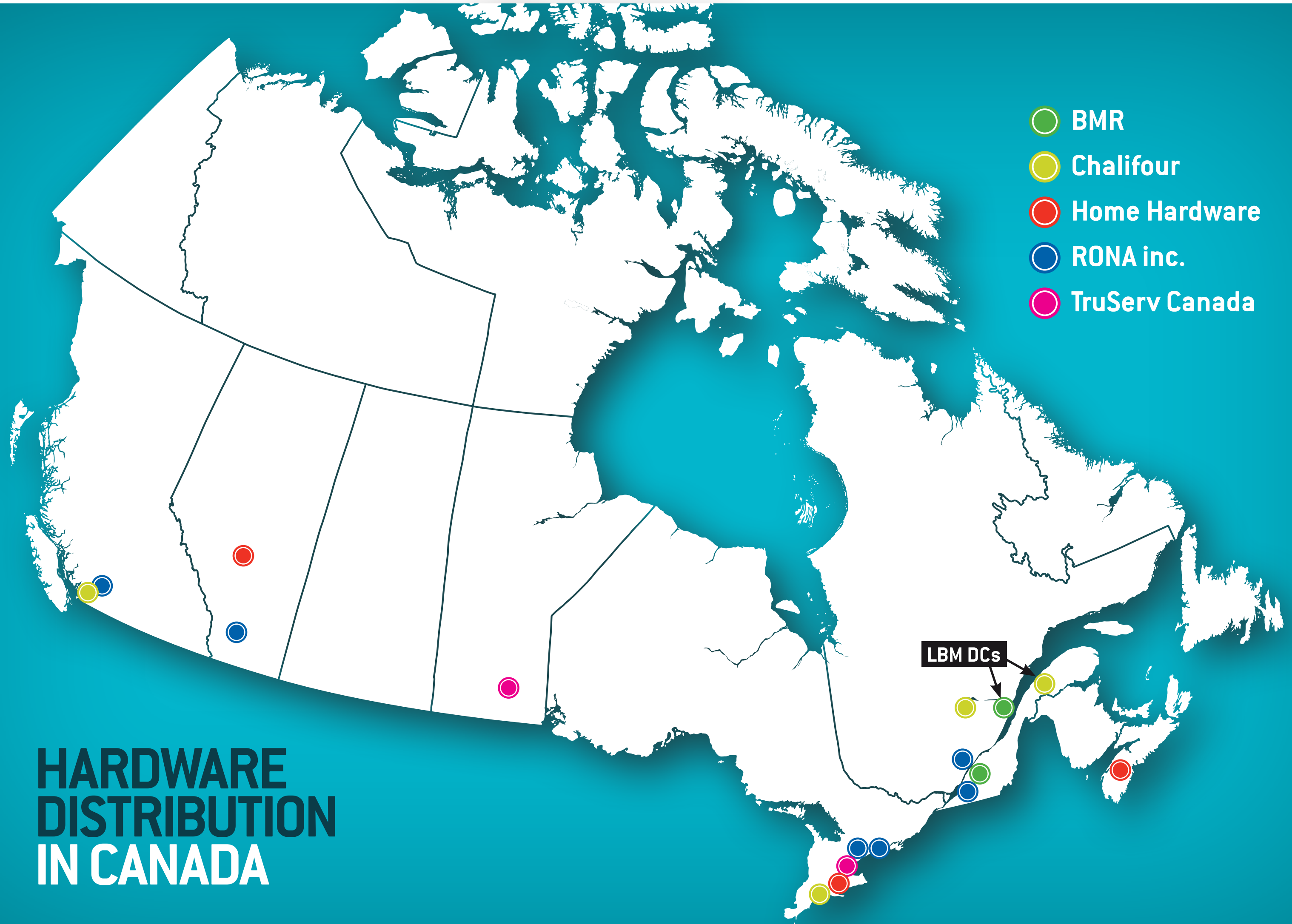
Part of CanWel's strategy entails keeping its inventory fresh. The company typically adds one or two major lines per year, and most recently it brought on engineered lumber from Boise Cascade, which Doman anticipates will become a bigger category for his company. CanWel also rolled out WALLDesign, a Canadian manufacturer of interior wall solutions.

Indeed, distributors in general are using branded lines to differentiate themselves competitively. For example, in late October, Guardian Building Products signed a distribution agreement with Fiberon, which makes composite and PVC decking, to carry and distribute its products from its 50-plus locations in North America, including Guardian's dozen distribution centres in Canada.

A few weeks earlier, Bolton, ON-based AFA Forest Products, with 14 DCs in Canada, agreed to be the first national distributor to offer Azek Building Products' full line of trim, moulding, porches, rails, and decking. "Azek products are closely aligned with our goal to provide unmatched service in the distribution industry," said John Joubert, AFA's allied regional sales manager for Western Canada.

AFA's financial numbers "were all up appreciably" when it ended its fiscal year on Sept. 30, says CEO Al Jack. His company benefited from having its DCs in Kelowna, BC, and Saskatoon, SK, open for a full year. AFA is looking to open two more DCs in 2013, although Jack wouldn't reveal where.

Jack foresees some challenges ahead, though, not the least of which being product availability, given how many lumber and ply-



HARDWARE DISTRIBUTION IN CANADA

wood plants have closed over the past several years. He's also concerned that the distribution sector is going through a dry spell during which "virtually no younger people have come in" as employees. "So we're always on the lookout for young people to hire."

THINK GLOBALLY, ACT LOCALLY

AFA's future prosperity is also likely to hinge on the recovery of the U.S. market, he says. "That's going to have a big play in Canada," especially with housing starts in Canada projected to drop by as much as nine percent in 2013.

China and the U.S. certainly loom large in the minds of most LBM wholesalers trying to figure out how Canada's economy will fare. But TruServ's Morrison—who is "cautiously optimistic" about 2013—also identifies three factors that his hardware distribution company can actually control to propel its growth.

One is making sure that the products made available to TruServ dealers are competitively priced. A second is the "heavy investment" that TruServ has been making in e-commerce and internet selling. And the third is dealer support. In 2012, TruServ doubled the number of dealer reps it has in the field, to provide what Morrison calls "a combination of high tech and high personal touch."

When he spoke with HARDLINES in November, Morrison said TruServ's dealer count grew by 50 to a total of 750 in 2012. He's confident that there's still plenty of room for further consolidation among distributors in Canada, and that his company's customer and sales growth "are just beginning."

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BY MICHAEL McLARNEY

KEEPING IT SIMPLE

Tim Urquhart heads up TIM-BR MARTS, Canada's largest buying group. And it owns Chalifour Canada, the hardlines wholesaler. We asked Tim how he makes all the pieces fit.

Try figuring out how TIM-BR MARTS Ltd. is organized. It's the buying group within a holding company that owns its own hardware distribution company, with other divisions that manage dealer services, banner development, and LBM purchases. But to Tim Urquhart, president and CEO of TIM-BR MARTS, it's actually pretty simple. "Our company is really a buying group with distribution," he says. "And the opportunity exists to do business with dealers that don't have distribution."

He's quick to acknowledge that there are other options out there, that RONA and Home Hardware are integrated full-service wholesalers supplying their own network of dealers. But it's that integration that made him believe his buying group needed their own distribution too, as a way to provide an alternative for independents.

And because Chalifour is owned by the TIM-BR MART dealers, there's a payback for supporting the company. Urquhart says that's just what his members are getting. "TIM-BR MART dealers are absolutely supporting Chalifour, so we're having double-digit increases."

But those numbers aren't only due to Chalifour's integration. Urquhart says those increases started before the acquisition of the distribution company. "It began with Spancan [the umbrella hardlines buying group]," he says. "We've been doing that for quite a while. So the front end has been part of the dealers' growth for some time now."

In addition, growth has come from Chalifour's evolution as a full-line distributor and from growing acceptance among dealers. "We are now able to offer product that replaces a lot of regional distributors over time."

HOLDING ITS OWN

Chalifour's growth is also attributable in part to keeping non-member dealers as customers. And that means facing head-on the challenges from a highly competitive marketplace. While TruServ Canada now has the benefit of being part of RONA, and Orgill has its partnership with Castle to help it build critical mass here, Chalifour has access to a strong pool of dealers through TIM-BR MARTS' membership in the Spancan hardware buying group.

Tim Urquhart, president and CEO of TIM-BR MARTS Ltd.

Spancan's equal members are TIM-BR MARTS, La Coop fédérée in Quebec, Federated Co-operatives in Saskatoon, and Independent Lumber Dealers Co-operative (ILDC). ILDC in turn is something of a "supergroup." Its core of about 20 members represent some of the industry's most successful independent chains, including Kent, Central, and McMunn & Yates. But it also includes in its membership Federated Co-operatives Ltd. and La Coop fédérée as well.

At the heart of it sits Chalifour, as the hardware supplier of choice for these groups, along with direct ship deals. Urquhart says the arrangement works well for Chalifour. "It's a natural for Chalifour to be a partner, so that's working well."

But like any wholesaler, despite their apparently competitive affiliations, Chalifour needs to attract business from outside the TIM-BR MARTS—and Spancan—membership. For example, even though Sexton Group and Delroc Industries both left ILDC back in June (and in turn were no longer part of Spancan), the dealers in those groups remain important to Urquhart.

But, he notes, "We need to earn the business every day—whether they're shareholders or not."

Another group of dealers he wants to keep working with is the Castle members, he says. However, those relationships remain at the individual dealer level, as Castle's head office is tied with Orgill.

GETTING ITS DISTRIBUTION BUSINESS IN ORDER

While sales may be on the rise, the profitability of Chalifour has been questioned by the industry since it was in the hands of CanWel. But once again, Urquhart is adamant. "Chalifour is profitable. Chalifour was profitable last year and it will be profitable this year."

He also takes the opportunity to clear up some other misperceptions about his wholesale business, including how it's financed—which is not, he points out, on the backs of the members. "Rebates are not used as collateral for the bank. It's owned by the dealers." TIM-BR MARTS went to the bank (HSBC is the lender). "They gave us 100 percent financing, and then the dealers kicked in," giving them some equity in Chalifour, as well. That contribution was a one-time thing, Urquhart notes. "And each new dealer that joins must buy common shares, although some dealers are asking how they can pay more money—because it represents such a solid investment for them," Urquhart adds.

Because TIM-BR MARTS is dealer owned, that decision to get into hardware distribution in the first place had to come from them. According to Urquhart, that's exactly what happened. "The board insisted that we had to get distribution fixed so we bought CanWel Hardware. Every dealer says it was the right move," he insists. "And they said we should have done it sooner."

GROWING THE BUSINESS

While re-organizing and integrating Chalifour with TIM-BR MARTS' overall business has been a priority for president and CEO Tim Urquhart and his team, it reflects just part of what the TIM-BR MART organization stands for.

At the heart of it, the buying group relies on the success of its members to grow, along with the addition of new members. It's made some good inroads with new members of late, including new dealers in British Columbia and six new Ace dealers in Quebec and Atlantic Canada.

But what TIM-BR MARTS is attempting to offer through Chalifour is not restricted to TIM-BR MART members. In fact, he reveals that a new field team has been put in place working out of Chalifour's London, ON, office and distribution centre. This team is not about recruitment, Urquhart points out. Rather, its mandate is to help dealers grow their businesses through a range of available services, including re-merchandising and updating of stores. Nor are these services restricted just to TIM-BR MART dealers, but are available to dealers from other groups, as well. "Quite frankly, we feel if we're doing the right job for the industry, they'll make the right choice.

"It all starts with the retailer," says Urquhart. "Making sure we have the right price, having the right assortment and helping dealers with merchandising."

While vendor negotiations become the arena for securing the right price, and building up the Chalifour logistics network aims to offer the assortments that work for dealers, in-store services out of Chalifour's London, ON, distribution centre have been developed to give dealers more than just product. A model store has been built in the London facility that has become a lab for new merchandising ideas and for developing new planograms.

The products on the shelf are further backed by research. "We're going further doing market analysis. We've been doing that for quite some time," Urquhart adds.

2012 THE YEAR IN REVIEW

COMPILED BY KATHERINE YAGER

And what a year it was. Consolidation, attempted takeovers, executive ousters, and much more made last year one whose effects will be felt for years to come.

After a hard year of falling sales and tough economic conditions, 2012 began with a positive outlook that things were improving. However, by the end of January, things began to slow and retailers began to realize that they were facing a tough year ahead.

EXPANSION

TARGET

The year began with Target announcing its first Canadian locations in January. With plans to open at least 125 stores in Canada in 2013, the looming threat of the American giant retailer foreshadowed much of 2012. By July, Target had confirmed the locations of its first Canadian stores. Each store will cost at least $10 million to remodel and expects to employ between 150 and 200 staff.

KENT

Beginning in February, it was clear that Kent was on an expansion track, adding stores in Atlantic Canada through both new sites and acquisitions. By the spring, a store in New Brunswick and one in Newfoundland had opened, followed a few weeks later by its first dedicated contractor outlet, in St. John's, NL. With almost 40 stores in Atlantic Canada, it continued its expansion plans right up to the end of the year, including a store being built in Prince Edward Island.

LOWE'S COS.

In March, Lowe's announced it was examining the shift in world production and developing a sourcing model that would be less reliant on traditional Chinese suppliers. Canada was considered ideal for experimenting with dedicated distribution and for testing products on a limited basis.

MENARDS

The expansion of Target and the new Lowe's strategy demonstrate that American retailers are continuously playing more of a role in the Canadian market. Menards, the third-largest home improvement retailer in the U.S., is also slowly encroaching on Canada. In June, the privately-owned big box chain entered markets in Michigan and Ohio, a short distance from the Canadian border.

WALMART CANADA

In October, Walmart got aggressive about its presence in Canada as it announced it would embark on the biggest month of grand openings in its history. By the end of the month, the company had completed 30 real estate projects, consisting of two Supercentre conversions and 28 new stores that were former Zellers locations. The 30 projects are part of 73 real estate projects planned for the company's fiscal year, which will add a total of 4.6 million square feet of retail space by Jan. 31, 2013.

TECHNOLOGY

HOME HARDWARE STORES LTD.

In March, Home Hardware introduced a mobile website and new apps for smartphones. The mobile site has a store locator for the banner's nearly 1,100 stores. Customers can also search for some 60,000 products, get local prices, view the current flyer, and create a shopping list—all on their mobile device.

SHOP.CA

This all-Canadian portal went live early in June, giving Canadians the ability to choose from more than 15 million products online. That assortment includes a wide range of garden, housewares, kitchen appliances, and home electronics, plus power tools and lighting.

RONA INC.

In September, RONA unveiled its new website, plus a mobile app. The new www.rona.ca site offers consumers a fresh look and user-friendly interface, while featuring information that will help them in their renovation or decoration projects—all based on their personal interests. The site also allows shoppers to evaluate and comment on some 30,000 products online and share their experiences with other users.

CONSOLIDATION

TIM-BR MARTS LTD.

TIM-BR MARTS' year began with the completion of its previously announced takeover of IRLY Distributors. IRLY's distribution facilities, which had historically served the group's 40-plus members in British Columbia, plus independents as far east as the Prairies, became part of TIM-BR MARTS' own distribution business, Chalifour Canada.

TOTEM

In March, RONA announced that Totem's format is changing. Starting in 2013, the stores will now fly the RONA banner. Totem was one of the few—and one of the canniest—instances of RONA leaving the original company name intact after acquiring it. Totem stores were the testing ground for RONA's new, smaller proximity model.

MILLWORK & BUILDING SUPPLIES

One of Canada's signature independent chains joined RONA inc. in April. In a move reminiscent of the affiliation made by Moffatt & Powell, almost two years later, Millwork, a six-store chain in Southwestern Ontario, became an affiliate member, and began converting all three of its stores in markets east of Toronto to the RONA banner.

CASTLE BUILDING CENTRES GROUP

In May, the national LBM buying group, continued to expand its footprint. Seven new independent dealers, representing 10 locations, had joined in recent months, bringing Castle's total membership to 280 retail, commercial, and specialty dealers. By year's end, that number would grow to more than 290, following a recruitment campaign to attract existing dealers and new entrepreneurs.

ILDC

The departure of two key members of Independent Lumber Dealers Co-operative in July represents an important re-alignment within the industry. The desire of Sexton Group and Delroc to focus their buying on gypsum, insulation, and metal framing products resulted in the creation of a new group, Byco, along with a third member, Calgary-based Allroc. The creation of Byco also coincided with the departure of Sexton and Delroc from ILDC.

LOWE'S AND RONA

In August, Lowe's tried to buy RONA, a move that got the entire country's attention and even had the Quebec government defending RONA as a Canadian entity integral to the fabric of Quebec life. By September, Lowe's formally withdrew its bid but said it continued to believe in the synergies such a takeover would create. In November, with weak third-quarter results, the board of directors decided it was time for a new leader and Robert Dutton, CEO of RONA since 1992, stepped down.

INNOVATION

CANADIAN TIRE

Canadian Tire "money" has been a staple of the retail giant for more than half a century, but in February 2012, customers were given a more high-tech alternative to the paper money with the introduction of a loyalty program that allows members to collect points electronically. The evolution away from paper money was a response to customer research that indicated many consumers wanted a more convenient, electronic option.

TIM-BR MARTS LTD.

In May, TIM-BR MARTS launched its largest marketing campaign ever. The goal was to raise awareness among consumers of TIM-BR MART stores as destinations for home improvement products and renovations, backed by knowledgeable staff. The brand positioning was supported by national television and radio advertising, print ads, in-store POP, and a consumer website.

TRUSERV CANADA

Dealers from across Central and Western Canada who came to Winnipeg to TruServ's dealer market in April got updated on the latest products and programs from the hardware wholesaler. The most significant one was the latest on the wholesaler's new TRU banner, which had already been developed for hardware stores and building centres. This time, TRU was introduced for farm and ranch. Strong categories for this banner included pet supplies and workwear, as well as farm supplies and lawn and garden.

BMR

The new BMR store that opened in May, in the small town of Saint-André-Avellin, QC, between Ottawa and Montreal north of the Ottawa River, drew a lot of attention from both vendors and retailers as a prototype for sustainable design. The store decided to go back to the basics of what home improvement stores sell when they decided to make natural wood the primary architectural feature. It features natural and engineered wood construction, skylights and geothermal climate control, a hot air exchange, and even a living plant wall. The interior is dominated by a wooden ceiling and beams, and the materials throughout the store were chosen for their energy efficiency, green status, and non-toxic properties.

HOME DEPOT

At its 2012 Investor and Analyst Conference in June, Home Depot gave an update on its key strategic priorities and long-term financial targets. They included a focus on customer service, product authority, disciplined capital allocation, productivity and efficiency, and interconnected retail.

RONA INC.

RONA made it on the Maclean's-Sustainalytics 2012 list of the 50 most socially responsible companies in Canada. The retailer was recognized for its partnership with the David Suzuki Foundation, and for its Paper Products Use and Procurement Policy and the Sustainable Packaging Policy. Soon after, Normand Dumont, vice president, sustainable development for RONA inc., was honoured with a Corporate Responsibility Award presented by Green Living. He won individual award in the "Retail, Packaged Goods, Consumer Brands" category.

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BY JON STOLLER

TOTAL RE-TOOL:
How Home Depot is Growing its Pro Business

While contractors do not make up a large percentage of The Home Depot Canada's customers, they outspend DIYers by a good margin, making them a small but important part of the giant retailer's business. And Home Depot wants to make that even bigger.

The days when a big box store could throw open its doors and expect a flood of customers are effectively over. Slow growth, low consumer confidence, and ever-increasing competition (think Target) mean that retailers today have to count on more innovative ideas to drive growth.

Some retailers, such as Lowe's, are making huge investments in technology. RONA is closing or downsizing 23 big-box stores over the next two years, and spending $181 million in a bid to move to smaller, proximity-based store models.

Home Depot has taken a different tack. Under current CEO Frank Blake, the company has moved away from a focus on growth and acquisitions, and set its sights on the professional contractor market. And that strategy is working in Canada, as well.

While only three percent of Home Depot shoppers here are contractors, they visit stores an average of three to five times a week and drive at least 15 percent of sales, a number Home Depot hopes to grow in the coming years.

This means re-invigorating the image of friendly, enthusiastic customer support that helped make Home Depot such a dominant player in the 1990s.

Jamal Hamad, director, commercial and tool rental sales and operations for Home Depot Canada, believes that establishing loyalty with this customer base is all about one-on-one interaction. "This emotional attachment with our contractors is what we want to continue to build on for the next two to three years," he says. "We know that there's a huge opportunity for us to grow there."

Today's contractors, says Hamad, have a wide range of expertise, and want knowledgeable employees who can provide advice on any number of topics. "They're not just contractors who buy lumber and building materials," he says. "Contractors who enter our stores buy everything, and they want to be talked to that way. We are teaching, training, guiding our associates on how to talk to them."

Store managers are expected to know contractors by name, and keep them on speed-dial. "It only takes 10, maybe 15 contractors to give you that good base of business," says Hamad.

Home Depot also throws a party for its contractors three to five times a year, where they give away loyalty points, raffle off trips, and provide in-store discounts. "This facilitates a day where we build relationships," says Hamad, "where we talk one-on-one with our contractors."

ONE-STOP SHOP

Frank Blake, CEO of Atlanta-based Home Depot, once said that, most of the time, customer service comes down to having the product in stock and someone at the cash register. Price is important, but speed and convenience are paramount.

Home Depot has improved a number of existing programs to help bolster its image as a one-stop shop for contractors. Tool rentals, for one, have been expanded recently in some stores to include light industrial equipment, everything from backhoes and pickup trucks to trenchers and trailers. "The tool rental piece of the business is huge when it comes to the contractor," says Hamad. "They come in and they want to purchase product all in one place, so I'm trying to facilitate that type of engagement with that pro."

Hamad believes that young contractors and DIYers represent a huge opportunity for growth in this field. The next generation of professionals, he says, sees the maintenance fees, capital investments, and storage fees associated with owning tools and heavy-duty machinery as unnecessary costs.

THE FASTER THE BETTER

Home Depot has put a major focus on helping contractors get in and out of the store faster. The "First For Pros" initiative, for example, features dedicated checkouts and parking spots, and alternative payment options for contractors.

The company is also rolling out a base of programs, expected to be ready by the end of the year, that will allow contractors to call in or e-mail orders for pick-up. Hamad believes that young contractors and DIYers, who are more tech-savvy than their predecessors, will quickly warm to the speed and convenience this offers.

Like other home improvement retailers, Home Depot is expanding its online presence, but doesn't see internet sales eclipsing the in-store side of the business. In fact, the company says that 25 percent of customers visit the company's website before buying something, but only two percent of sales are actually made online.

THINKING OUTSIDE THE ORANGE BOX

According to Hamad, Home Depot Canada has been building up an external sales team over the last three years to help the retailer connect more effectively with contractors. These people can visit job sites, and facilitate deliveries, such as drywall, directly to the customer.

This goes back to Hamad's philosophy of building one-on-one relationships with customers, wherever they are. "Every time they talk to us they are telling us what they need," he says. "We want to make the most emotional connection we can."

INVENTORY TURNS VS. DIRECT SHIP OR WAREHOUSE

BY BILL WILSON, RETAIL ADVISOR, NRHA CANADA

Bulking up on inventory may seem like a great way to keep your purchasing costs down, but there are many hidden costs associated with holding excess inventory. Those costs can add up to more than 10 percent of the value of the inventory.

In our last issue, we reviewed retail productivity numbers for typical and high-profit stores. One measurement that has definitely declined over the years, according to those numbers, is inventory turnover. Many factors could account for this: low interest rates on loans or more competition from big box and online retailers are just a couple. But changes in the distribution channel have resulted in the dealers' ability to buy more product on direct-ship programs negotiated by the buying groups.

In those cases when competitive pricing in the marketplace dictates and you must buy direct to compete, you should buy A and B products to top up your order. Commodity products also must be bought direct and in truckload quantities to compete in the market place.

Yes, in most cases there are savings on direct buys, but are you looking at all of the costs?

Costs that should be considered before ordering direct:

- Will you sell this inventory in three months, which is equal to four inventory turns annually? Or are you buying slow-moving D-E-F items that will you take you nine to 12 months to sell? If so, that adds additional percentage to the cost. Use your POS system and follow your min-max quantities to help you manage the proper quantities.
- What percentage are you saving landed into your location vs. buying from the appropriate distributor? Depending on the product and the estimated time required to sell the product, you should be saving 10 to 15 percent to buy vendor-direct. In many cases, the only items that you should buy direct from a vendor are the best-selling A and B items to maintain adequate inventory turns. The slower moving products that you need to buy in split cases should be bought through traditional distribution channels.

MORE HIDDEN COSTS

Additional costs of buying direct are: handling costs (how many times will you touch the product before it's sold), extra receiving costs when buying from several manufacturers, higher LTL transportation costs, and—in some cases—pre-paid rates with a defined minimum shipment. Other costs that can add up include insurance, interest or carrying costs, damage and obsolescence costs, and storage.

In most cases, longer lead times are required on vendor-direct orders than from traditional distribution. This requires you to keep on hand sufficient inventory to service your customer, which can add additional costs or could lead to lost sales in the event of an out-of-stock.

If you do make the decision to buy direct, check the vendor's minimum purchase. Try to keep your order close to the minimum, which gives an opportunity to buy more often without affecting turns.

VENDOR-DIRECT COSTS CAN ADD UP

Certainly, buying vendor-direct will look on the face of it like you are buying at substantially lower prices. But when you factor in all of the costs, the savings in many cases are not sufficient to cover your added costs. Just look at what the big box retailers are doing. Home Depot and Lowe's have both been busy setting up a network of "rapid-deployment distribution warehouses. These flow-through facilities don't warehouse product at all, in an effort to keep inventories low and improve customer service.

Remember, buy-direct products can have

special handling requirements. For example, bagged goods bought in pallet loads are best delivered by the vendors, who have the equipment on their trucks required for handling.

While there is a definite need for vendor-direct programs, use them carefully and recognize your true extra costs.

INVENTORY TURNOVER

This key ratio will measure how fast inventory is sold over the year. It is calculated by dividing your cost of goods by average monthly inventory at cost.

	Typical *	High Profit*	Canada
Hardware Store	1.7x	2.1x	3.1x
Home Centre	2.3x	2.6x	2.2 –3.9x
Lumber Outlet	3.3x	5.8x	3.5 - 4.6x

The benefit of one extra inventory turn can be very significant when it comes to improving cash flow, lowering operating loans, and being able to re-allocate assets to other investments.

Imagine a business with $5 million in retail sales and inventory of $1 million. With an extra half an inventory turn, your inventory would be reduced by $90,000. To improve inventory turns, you must review inventory duplication. Remember, good, better, and best is all you need to service the consumer. Run a report on items that you sell two or less per year on. Do you really need them in inventory? In most stores this list will be 800 to 1,000 items on an inventory that consists of 10,000 SKUs. Instead, couldn't you handle this slow-moving product on a special order basis—or only stock one?

Invest in having adequate inventory on the 300 items that should never be out of stock on and the balance of the 25 percent of your SKUs that make up 70 percent of your sales. This will help your sales and inventory turns. Ask your staff for ideas on improving inventory turns. This does not happen without everyone being involved.

Yes, there is a need for vendor-direct programs, but use them carefully and recognize your true extra costs.

**Source: NRHA Cost of Doing Business Survey*

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

CASTLE DEALER WINS FIRST-EVER RETAIL INNOVATION AWARD

BY MICHAEL McLARNEY

Innovate or retire. That was the choice facing owner Vince Cavallo and his cousin, store manager Max Careri, just three years after they moved the family's 40-year-old business to a new location in Brampton, ON. With a RONA big box right across the street, a Canadian Tire two kilometers to the west, and both Lowe's and Home Depot even closer in the other direction, Lumberland North simply had to differentiate—or disappear.

Their efforts to transform their business earned them the first-ever Marc Robichaud Award for Retail Innovation. The award was presented at the 17th annual Hardlines Conference in Toronto. The award was named in honour of Marc Robichaud, a dealer from Meteghan Centre, NS, who was considered a pioneer of innovative retailing. He died last year at the age of 36.

Winning store: Vince Cavallo (2nd from the right), is presented with the Marc Robichaud Award for Retail Innovation at the Annual Hardlines Conference. He is joined by: Beverly Allen, Hardlines; Bruce Holman and Doug Keeling, Castle Building Centres; and Michael McLarney, Hardlines.

PHOTO: CALLUM PINKNEY

Realizing that it could not compete head-to-head with these big box giants, Lumberland North chose instead to focus on selling the complete project. The centre of the store was turned over to kitchen and bath—more than 100 vignettes offering everything from high-end modern sinks to sleek faucets and the tiles and countertops to complete the job.

Vignettes featuring flooring and tile displays line the walls of the store, giving customers a wide range to choose from, reinforcing the store's niche as a destination for these décor lines.

> "Many of the staff have been there for a decade or more."

One side of the store, toward the back, still maintains a traditional focus, but with a narrower breadth of lines. With a RONA big box literally right across the street, don't expect to find power tools at Lumberland North. But the store does carry a core assortment of power tool accessories, understanding full well that this is the kind of convenience product that a pro could need while looking for other materials for their project.

And at the back of the store, lumber, especially moulding and rails, take up about 5,000 of the 45,000 square feet of the store. Out back, a warehouse provides further storage.

Any time of day, the store is likely to be busy with contractors walking the store, talking with the staff, many who have been there for a decade or more.

Lumberland North's specialization is backed by an intense commitment to customer service. In fact, owner Vince and his cousin Max make the same-day deliveries themselves.

It seems they're not ready for retirement just yet.

A limited assortment of food is stocked in the rear to drive traffic through the store (above); while non-warehouse floor, wide aisles, good displays and outstanding housekeeping typify the rest of the store (top).

A FORCE TO BE RECKONED WITH—ON BOTH SIDES OF THE BORDER

BY BOB VEREEN

Menards is a privately owned chain of big boxes in the American Midwest that may prove to be the toughest competitor Canadian retailers have yet to face. And it's never opened a single store here.

Menards has 250-plus big-box home improvement stores throughout the American Midwest. These days, it is building outlets that are as much as 250,000 square feet in size—more than twice as big as the typical Home Depot or Lowe's. And with estimated sales of at least $8 billion, Menards is effectively and powerfully competing head-to-head with both those retail giants.

How does Menards fill those huge stores? By getting into many new merchandise categories such as food and select clothing lines. That puts Menards up against supermarkets, discount houses, and even chain drug stores that have added food items to be a "convenience" for their customers.

A Menards insider says the food items, limited in scope but very competitively priced, are selling well. As everyday necessities, they are positioned near the rear of the stores to drive traffic and expose regular lines of merchandise to shoppers. The stores are also positioning household cleaning supplies and similar items just inside the entrance to emphasize non-traditional lines. The clothing carried is very much work-related or else features odd-ball items that would be impulse-oriented.

Menards stores differ physically in other ways from Home Depot and Lowe's.

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(Clockwise from left): Everyday household items are on display by the store's entrance; aisles are clearly identified and the entire store is well-signed; Menards now carries a limited line of work clothing.

While they have high ceilings, the stores employ many conventional gondola fixtures together with much higher shelved fixtures. Lighting is brighter, while floors are not the bare concrete found in a typical warehouse retailer. Sight-lines through the store are very good and signing is extensive.

In addition, housekeeping is excellent (a far cry from early, messy Menards retail outlets). Stores employ lots of gondola ends with aggressive promotional signing to spark impulse sales or to highlight seasonal products.

EXPANDING ITS REACH

From its base in Western Wisconsin, Menards first concentrated in adjoining Midwestern states, but more recently has been expanding its territory and now is as far east as Ohio and as far west as Wyoming. Stores in Northern Michigan, close to the Canadian border, are attracting Northern Ontario customers, while the one in Grand Forks, ND, is a favourite destination for Winnipeg-area shoppers.

One major feature of the chain's operations is its extensive and aggressive advertising. Menards runs a multi-page circular every week—including heavy distribution into local cross-border markets. These are supplemented by extensive local TV and institutional billboards.

For example, for the 2012 Christmas season, it issued a full-colour 32-page Christmas catalogue containing more than 500 items ranging from toys to clothing and including all the basic departments.

Even without its aggressive promotional program, the chain's pricing is very competitive on a daily basis. Price-checking of competitors by employees seems to indicate that on most items, it undercuts the prices of its two giant competitors. Some hardware retailers who compete with all three chains also testify that Menards is generally the price leader.

One of its newest stores is in Lebanon, IN, a small city about 30 km north of Indianapolis. The town has one other home improvement dealer, a Do it Best home centre on the south side of town. The new Menards is on the north side. Its only other local competition would include Walmart. Other hardware and home improvement stores are almost 10 km away, including a Lowe's in nearby Brownsburg.

BIG STORES, LOW PRICES

While the company has never opened dozens of stores in a single year as Home Depot and Lowe's once did, it is still expanding, whereas the other two have severely curtailed their new-store openings. And, it is expanding the size of many of its existing units.

Retailers who operate in markets where one or two of the leading home improvement giants compete with Menards typically report that Menards is getting more than its share of business—and stands as their toughest competitor.

ALL IN THE FAMILY

BY SIGRID FORBERG

Canada's largest independent hardware retailer keeps traditions while keeping up with trends

Canada's largest independent hardware retailer maintains close ties to the local community. (l-r) owners Sam Giannetti, Mario Giannetti, and Mario Frangione

Mario Giannetti worked part-time at Preston Hardware while making his way through school. When he graduated, he had plans to build a career in instrumentation, his field of study. But then the founders and owners of Preston Hardware, Angelo Locatelli and William Germain, made him an offer he couldn't refuse.

Locatelli and Germain, who had opened the shop in 1945 after returning from the Second World War, wanted Giannetti to purchase and take over Preston Hardware.

"I went to my parents and said, 'this is happening,' " says Giannetti. "They said, 'we can't help you, but it's up to you what you want to do with your life.' So I decided to take their proposal and never looked back."

In December 1973, Gianetti got his brother, Sam Giannetti, and his brother-in-law Mario Frangione on board. Forty years later, the store has grown in every way.

Located in the heart of Ottawa's Little Italy, the brothers have built Preston Hardware into Canada's largest independent hardware retailer. They've managed to keep their ties to the vibrant community while expanding and evolving to meet modern needs. And over the years, they grew the modest 1,700-square-foot store into a combined 92,000-square-foot retail shop, warehouse, and office space.

Within the store, they've also expanded their product inventory to carry everything—including the kitchen sink. A few years after they took over, Giannetti realized that there was a need for kitchen and bathroom products available in Ottawa. In what he viewed as a golden business opportunity, he slowly built up Preston's stock for what he viewed as the most used rooms in the house.

Located in the heart of Ottawa's Little Italy, the brothers have built Preston Hardware into Canada's largest independent hardware retailer.

"That's been the best move we ever made," says Giannetti. "In the late '80s, people started doing more renovations to their kitchens and traveling and seeing products abroad—and we listened—and it's been doing very well since."

It was in the late 1980s that he noticed people really undertaking serious home renos and investing in their kitchens. What started out as a small space for a few items in the store has now grown into its own boutique complete with a show room. As an independent retailer, he says this diversification of Preston's products and adapting to customers' needs has helped them compete with the big boxes and chains.

But the differences go beyond what's on the shelves. The majority of Preston's staff are full-time, meaning they're in the store five out of the six days a week that the store is open—ready to build and maintain relationships and trust with customers. The owners themselves work on the premises and feel that the "owner-in-the-store" policy helps customers feel comfortable spending their money there.

"We hope that the consumer appreciates a local business and, not only that, one with the owners in the store, which gives it a little bit more strength. If you have a problem, you can talk directly to one of us in person," says Giannetti.

While Preston Hardware remains linked to the community and its regular customers in a very traditional way, the store manages to keep up with the newest developments. For Giannetti, that means keeping up with latest products as they come onto the market. As an independent store, he and his team have to do a lot of research and product testing themselves.

They also have to keep finding new ways to get customers to choose Preston Hardware over other options in the city.

"You can only bring so many people into your store on a daily basis; the rest you have to go out and get to promote yourself or develop the programs to sell to others that aren't aware of you," says Giannetti.

More than just the industry, society is changing too. Giannetti observes the world is getting smaller and to keep up with the changes, Preston Hardware now has an e-store that allows customers to make their purchases or do their research over the internet.

While he acknowledges that their online sales are secondary to those they make in-store, he says it's important that Preston maintains a presence there from the consumer's point of view. And he adds that in years to come, and as technology continues to evolve, the demand for online access to their wares will continue to grow. As long as consumer needs change, Giannetti says Preston Hardware will adapt to best serve those needs.

"The world changes so fast and sometimes a lot of us don't want to change," says Giannetti. "I think that's one of the keys that I've learned throughout this—you've got to keep up. A lot of us get comfortable and when that happens, I think you start lagging behind."

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How Canada's buying groups are evolving to meet the needs of today's dealers.

PLUS: Top pro yards share tips on selling to contractors, up close with RONA's Luc Rodier, and how to build your sales with social media!

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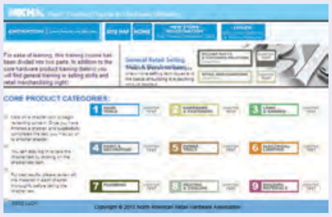

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RETAILING IN THE DIGITAL AGE

BY JON STOLLER

What do today's customers want and why? We asked consumer trends expert Josette Buisson to tell us.

The interconnection of technology is drastically altering the way retailers attract and interact with consumers. Marketing expert Josette Buisson spoke at the Hardlines Conference recently about emerging trends, content delivery, and the changing nature of advertising.

Josette Buisson knows what makes consumers tick. As creative director of Alias Color, she consults for the fashion, automotive, and retail industries, helping clients anticipate what people want—and how they want it delivered—before even they know.

"Why do people gravitate toward something that was, a few years ago, not relevant?" she asks. "It all comes from an idea of liberation, of being original, of being different."

Eventually, the number of people consuming a particular product, or living a certain lifestyle, reaches a "critical mass," and a trend emerges. Buisson says that technology has accelerated this process, because it is so easy for people to reach out and connect with others. "Things are changing so fast," she says. "We are getting into a world where digital is taking over."

Josette Buisson, creative director of Alias Color, speaking at the Hardlines Conference about the changing nature of advertising.

> "Why do people gravitate toward something that was, a few years ago, not relevant?"

Millenials—generally defined as 18 to 30-year-olds—are the driving force behind these changes, because most of them have been immersed in technology their entire lives and instinctively grasp the interconnectedness it provides. Today's teenagers, for example, are in constant conversation through social media platforms like Facebook and Twitter, and the blogosphere.

This represents a huge opportunity for retailers, who need to find ways to join these conversations. A home improvement dealer, for example, could offer a discount to a customer who recommends them to friends on Google Plus, or a store manager could solicit feedback from consumers through his or her blog.

"You have to change the way you approach the customer, you have to change the way you fit in with their life," says Buisson.

Retailers are finding that Millenials are not swayed by traditional advertising and new methods of persuasion have to be found. The key is capturing the attention of consumers through a mix of entertainment, content, and storytelling. "You can't say, 'I'm cool, come and buy my product,'" she says. "You have to wrap it in something that has relevance to them."

As an example, she points to a recent ad campaign by online travel agency Expedia. It told the story of a father coming to terms with his daughter's same-sex marriage while travelling to her wedding. Expedia, in this case, is a connector for the father to experience an emotional moment in his family's life. "This is about taking brands, taking them off the shelves, and re-presenting them in the context of the consumer, where they want it to be."

The availability of branded products need to be seamlessly integrated into consumers' lives, as Millenials want them as quickly and easily as possible. Online shopping and rapid delivery are therefore critical. "The idea behind this is that you are getting in the path of your consumer, not the opposite. The concept of not interrupting is such a revolution."

PHOTO: CALLUM PINKNEY


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"I am definitely a believer in Orgill. Since we have converted to Orgill, I can't say enough good things about them. They see opportunities for our business that we might not have even seen ahead of time."

Brent Perry
Alf Curtis Home Improvements
Peterborough, Ontario

Alf Curtis Home Improvements

Alf Curtis Home Improvements is a third-generation family business that operates two lumber and building materials facilities with locations in Peterborough and Lindsay, Ontario.

The company primarily services contractors and tradesmen but has begun to expand its operation to meet the needs of more walk-in D-I-Y traffic.

Alf Curtis' Peterborough facility sits on approximately 18 acres and includes a 1,400-square-foot showroom, a 42,000-square-foot of warehouse space and a 17-acre yard.

The Lindsay facility, which was opened in 2005 is a 4-½ acre site with 25,000 square feet of warehouse space, a 1,400-square-foot store and a 3-½+ acre storage yard.

Expanding Your Market

"We are a pro yard, but we are slowly trying to build our retail trade. Since we started our relationship with Orgill, there is no doubt that we have been able to improve our walk-in traffic."

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"Throughout our entire remerchandising process, Orgill was heavily involved. They had a whole team of people that made the process go so smoothly."

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"One of the biggest differences between Orgill and our old supplier is the fill rates. With Orgill, fill rates are just fantastic."

Presenting Options

"Since we started working with Orgill we have returned to and expanded a number of categories because we can be competitive, even with 11 competitors in our market, which has a population base of only about 80,000 people."

"If I could say one thing to other dealers about doing business with Orgill it would be—do it yesterday!"

—Brent Perry