

Hardware Stores

Industry Overview

Hardware stores sell a variety of products, including hardware, lawn and garden supplies, electrical goods, building supplies, heating/plumbing/cooling supplies, hand and power tools, and housewares. Their primary customer base is comprised of do-it-yourself (DIY) customers, but they also sell to contractors and industrial/commercial accounts (janitorial firms and property maintenance personnel, for example).

Hardware Industry Snapshot

- Average annual customer count: 80,000 per typical store and 89,756 per high-profit store.
- Average annual sales volume per typical store is \$1,439,052 and the average annual sales volume per high-profit store is \$1,695,647.
- Average size of selling area: 9,500 square feet.
- Total inventory value per store: \$468,411.
- Total annual sales per employee: \$147,595.
- Average size of transaction: \$18 at typical stores and \$19 at high-profit stores.
- 60% of sales are derived from hardware, tools, plumbing and electrical supplies.

Sources: *Hardware Retailing*, December 2013; *Hoover's*, a Dun & Bradstreet company, www.hoovers.com.

Regardless of the size, volume, product mix, and other physical characteristics, hardware stores are known for their knowledgeable salespeople and reputation for service. Many stores are identified by the *wholesaler group* under which they operate – Ace Hardware, Sentry Hardware, True Value Hardware* or Do-It-Best.

Hardware stores buy from primary full-line wholesalers; from speciality distributors; and directly from manufacturers. Most stores buy all three ways. Independent family- or locally-owned stores tend to belong to “store identification” programs offered by leading wholesale groups, or *cooperatives* (such as True Value and Ace).

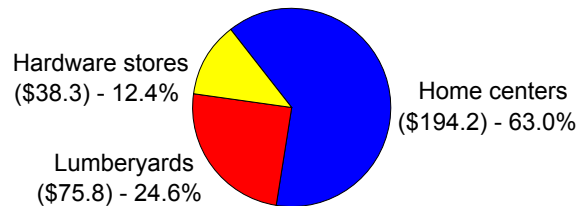
Hardware stores buy about 60% of their merchandise from their primary wholesalers. Although hardware

* True Value, formerly TruServ, is the largest hardware cooperative in the U.S. and was formed when ServiStar merged (Hoover's, a Dun & Bradstreet company, 2013, www.hoovers.com).

stores may identify with the “store program” offered by their primary wholesaler, and thus appear to the public as a chain such as Ace and True Value, most are independent, one-location operations.

One of the biggest challenges to hardware stores in recent decades has come from big-box retailing, supermarket-style stores called *home centers* (of which the largest is The Home Depot). They tend to have lower prices, and they combine and expand on the types of products and materials offered by both hardware stores and lumberyards. The following chart shows that home centers dominate the retail home improvement industry, accounting for nearly two-thirds of industry revenue in 2013.

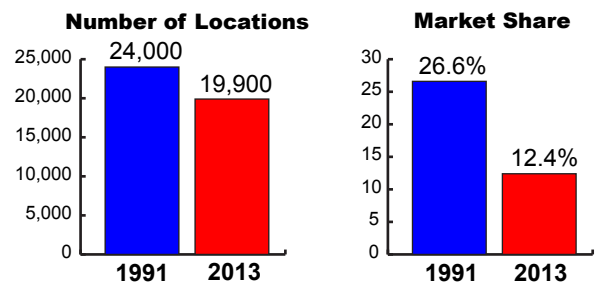
\$308.3 Billion Home Improvement Market* By Type of Store, in Billions of Dollars



Source: *Hardware Retailing*, “2013 Market Measure,” December 2013.
* Estimated revenue for 2013.

During the last 22 years, the number of hardware stores dropped by 17.1%, while their share of the market shrank by 14.2%, as shown in the chart below:

U.S. Hardware Stores - 1991 and 2013



Sources: *Do-It-Yourself Retailing*, “1997 Market Measure”;
Hardware Retailing, “2013 Market Measure,” December 2013.

The North American Retail Hardware Association (NRHA) expects the number of hardware stores to

continue to decline during the next four years, but the decline will be slight, with a projected 0.5% decrease by 2017, or 100 stores (*Hardware Retailing*, December 2013). However, the number of home centers and lumberyards is expected to increase slightly.

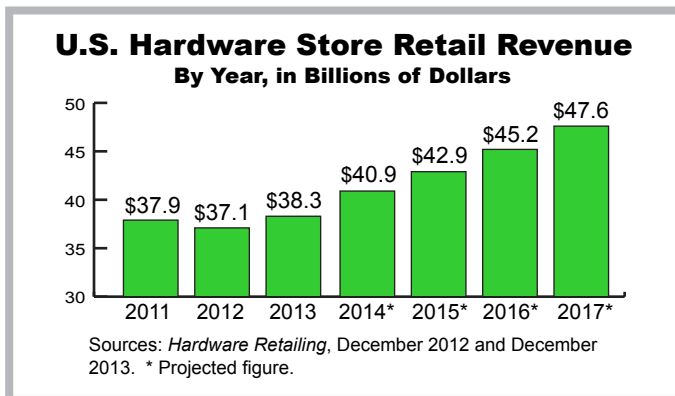
Issues and Trends

According to NRHA’s 2013 annual industry report, hardware stores performed better during the recession than home centers and lumber dealers:

“Because much of hardware store sales are tied to smaller projects and nondiscretionary item sales, these retailers weathered the market’s challenges better than the other two store types.”

In this post-recession period, homeowners are investing in small projects “with an eye toward increasing comfort more than equity.” The NRHA report states, “Gone are the days of pumping money into a home simply to drive its resale value.”

The number of hardware store locations has declined over the years, but industry revenue increased in 2013. Continued growth is expected, as depicted below:



The home remodeling market is an important source of revenue for hardware stores in most regions. The Joint Center for Housing Studies at Harvard University, through its Leading Indicator of Remodeling Activity (LIRA), is forecasting continued growth for the market, though a slowdown in growth is expected by the middle of 2014 (press release, October 17, 2013). Eric S. Belsky, managing director of the Joint Center, describes future growth:

“The soft patch that homebuilding has seen in recent months, coupled with rising financing costs, is expected to be reflected as slower growth in home improvement spending beginning around the middle of next year [2014]. However, even with this projected tapering, remodeling activity should remain at healthy levels.”

According to at least one industry analyst, growth in sales of retail home improvement products would have been stronger had it not been for “self-inflicted economic wounds.” Government policies and a lack of commitment and cooperation on the part of political leaders were impediments to growth, according to *Hardware Retailing*, December 2013.

By the third quarter of 2013, the increase in home improvement spending in 2013 was apparent. A *Bloomberg News* survey revealed that 43% of home owners indicated that they planned to renovate in 2013, in contrast to an average 33% for the past five years for previous surveys (August 8, 2013).

Hardware chains and cooperatives (including Ace Hardware) generally had a good year in 2013. John Venhuizen, president and CEO of ACE, stated that third-quarter, same-store retail sales were up 6.9% and year-to-date sales were up 4.4% (press release, November 2013). Venhuizen touted the success of Ace in terms of retail initiatives it has taken “to help fuel growth for our local owners and that growth, in turn, is propelling the corporation.” One of ACE’s initiatives is a strategic alliance with paint manufacturer Valspar. ACE is transforming paint departments in its stores to significantly increase its share of the paint market.

Independent hardware stores that lack national recognition can grow nonetheless, through creativity and innovation. A few trends follow:

Trends and Opportunities for Hardware Stores

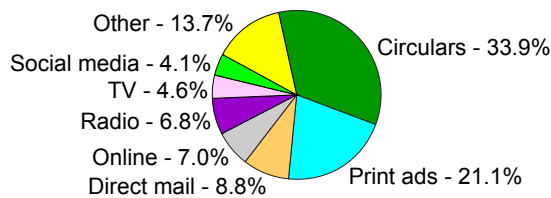
- Products manufactured domestically are increasingly sought after by consumers. In a survey conducted by *Home Channel News*, 61% of home improvement retailers stated that their company intended to more aggressively promote U.S.-made (“Made in the USA Report,” March 2013). Also, 41.4% of retailers stated that their customers are willing to pay more for products that are made in the U.S. Almost half (47%) of hardware retailers are seeing their competitors promote their “Made in the USA” products (but 25% of survey respondents indicated that they will *not* be stepping up their promotional efforts).
- More store owners are growing their businesses by adding rental service. Revenue from tool and equipment rental rose 6% between 2012 and 2013, from \$35.7 billion to \$38 billion (North American Rental Association, “Market Monitor 2013”). The owners of All American Do it Center, with two locations in Wisconsin, suggest that retailers who want to add rentals do the following: Do a market analysis, to see if their market will support rentals; talk to customers to get ideas about what to rent; and be patient and take time to become educated about the rental business (*Hardware Retailing*, November 2013).

Trends and Opportunities, continued

- Hardware stores have the opportunity to increase customer transaction size with home security products, according to *Hardware Retailer* (October 2013). Savvy hardware stores can “help customers find ways to keep their homes and families safe.” For instance, when a customer comes in for lock sets, add-on opportunities can include dead bolts, strike plates and door frames. If a customer comes in for decorative porch lights, add-ons can include landscape lights and motion-sensor lights.
- Another category that is boosting sales for hardware stores is sporting goods. The outdoor recreation market grew about 5% between 2005 and 2011 (Outdoor Industry Association, www.outdoorindustry.org). A real plus for a retailer, in competing against big-box stores, is to “offer firsthand knowledge of outdoor sporting activities” in the local area. In addition to word of mouth, a store can promote its new sporting goods department through ads in local outdoor magazines and through the store’s website (*Hardware Retailing*, December 2013).

Hardware store operators market through both traditional media (such as print ads and TV) and new media (the Internet). The NRHA, in a recent survey, found that hardware stores, on average, spend over half their advertising budgets on circulars and print ads, as shown below:

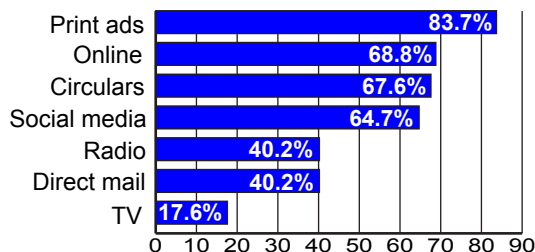
**Hardware Store Advertising Spending
Percentage of Budget Allocated, by Media***



Source: North American Retail Hardware Association (NRHA), “2013 Advertising Practices Survey.”

The NRHA survey also took note of what advertising methods hardware retailers were using:

**Advertising Used by Hardware Stores
Percentage of Stores Using Advertising Form**



Source: North American Retail Hardware Association (NRHA), “2013 Advertising Practices Survey.”

Hardware Retailing reports that “home improvement retailers are striking a balance between traditional media and new media as vehicles for advertising” (September 2013). Retailers are increasing their spending on circulars and on Internet marketing media. The magazine cited statistics that a majority of consumers (82%) see the “circulars in their local newspapers for hardware, home improvement or building supply products.” For online media, “33% of consumers looked at e-mail or websites” for these same products. Online marketing has the advantage of being relatively inexpensive compared with traditional media.

Value of Products and Services in the Industry

Calculating average annual household spending for hardware stores is helpful in estimating market size and market share. Hardware stores in the U.S. are estimated to generate \$38.3 billion* annually (2013 figure). Dividing total spending by 117.5 million households nets an average annual household spending amount of \$325.96. Thus, in a market of 50,000 households, it is fair to estimate that about \$16.3 million is spent at hardware stores. If a hardware store generates \$1.4 million in revenue, its market share would be 8.6%, a baseline that is useful for comparing future performance.

* *Hardware Retailing*, December 2013.

Critical Success Factors

Marketing CSFs for Hardware Stores

- **Create the best first impression possible for visitors to the store’s website**, since most customers check out information about the store with their mobile devices or computers. The website should give a first impression that is consistent with the impression he or she gets when visiting the store.
- **Create a business page on Facebook**, since a large, growing market segment heavily uses Facebook.
- **Appeal to frugal consumers through circulars**. Go beyond using circulars for sales or store promotions; use them for flash sales (a sale limited to a few hours), which creates a sense of urgency.
- **Engage in e-mail marketing campaigns** to reach many people at the same time, and to help the store stay top-of-mind with consumers. Carefully construct a relevant, compelling subject line.

Sources: *Hardware Retailing*, May and December 2013; *Remodeling*, November 2013.

Industry Resources

North American Retail Hardware Association (NRHA), *Hardware Retailing* magazine, www.nrha.org
Home Channel News (HCN), www.homechannelnews.com