

What Does Today's Store Look Like?

A CATEGORY-BY-CATEGORY GLIMPSE AT THE CURRENT RETAIL ENVIRONMENT

As you begin reading this story, take a moment and think about how your store has changed over the last few years. What departments are bigger? Which ones are smaller? Which ones drive the most profit? Which ones struggle for a place in the market?

THAT'S EXACTLY WHAT WE SET out to do with this article, but instead of thinking about one or two stores, we examined the whole industry to determine what merchandising trends had emerged over the last several years.

To do this, we sent out surveys to more than 3,000 retailers and combined the responses we received with information from the North American Retail Hardware Association's (NRHA) Cost of Doing Business Survey, which is conducted every year.

We then compared these findings to a study NRHA conducted a decade ago that asked many of the same questions.

The results paint a picture of a changing industry. An industry where the ebb and flow of national competition drives merchandising decisions

for independent retailers and where factors such as global sourcing and consolidating brands have changed the playing field.

We found that categories such as lawn and garden and power tools are playing a larger role in hardware store's sales-floors today than they were a decade ago, while categories such as hand tools and hardware are experiencing departmental consolidation.

Our findings in this story are primarily research based but the analysis is rooted in Hardware Retailing editors' visits to stores, face-to-face interviews and analysis of store formats.

In general, what we have found is that today's independent retailers are running more efficient operations than they were a decade ago. The strong have survived



through a combination of aggressive variable pricing, creative merchandising and thoughtful assortment planning.

"There is kind of a Darwinian element to this business," says Gary Petz, co-owner of Discovery Based Retail, a retail consulting firm that helps retailers find profit through training, store design and



Tom Stichman of S Bar S Building Center relaxes in his lawn and garden department, just one area of his store where he has increased the size of his assortment and sales.

space management. “You either make the category productive and address those issues, or you don’t and you don’t exist anymore.”

Take for example Tom Stichman, at S Bar S Building Center in Billings, Montana. Stichman’s store is an exact representation of what our research revealed. In the past two years, Stichman has increased the amount of his sales floor dedicated to the lawn and garden and power tool categories. In

fact, in the past year, sales in both lawn and garden and power tools have increased at S Bar S, even given the current economy.

When Stichman and his team built their new 20,000-square-foot store two years ago the three growth categories his team identified were paint, power tools and lawn and garden—all directly in line with what our research shows.

Ten years ago, the thought of an independent outlet increasing floor space for these two highly competitive categories may have seemed unthinkable, but today it is just another example of how the retail paradigm has shifted.

We hope this information will prove useful to you when developing your own category strategies and provide you with benchmarks to measure your store’s performance against the industry averages.

“This study is a great reminder that your store is only going to be as successful as you make it,” says Petz.

So read on to find out how today’s hardware stores have changed their category makeup and how a changing industry has made an impact at the retail level.

For more information about this research project, please contact Dan Tratensek at (317) 275-9407 or DanT@nrha.org.

Power Tools & Accessories

What's Old is New Again

The Story

About a decade ago, independent retailers couldn't run away from this category fast enough. The conventional wisdom suggested that the big boxes were able to dominate this highly price sensitive category.

Today however, the power tool and accessory category appears to have made a strong comeback at independent retailers. The category now delivers a higher percentage of overall sales and commands a greater space presence on the salesfloor.

Why?

This renewed category commitment appears to be a direct result of changes in big box merchandising strategies. As the boxes have trimmed the number of brand-name power tools they offer in favor of captured-brand heavy assortments, independent retailers have identified an opportunity for a niche in the category by focusing on brand-focused offerings.

"If you were to walk into any hardware store in 1996, what you saw were consumer power tools and a reluctance to get into a contractor/commercial grade of tools," says Petz. "Today, independent retailers have gotten more aggressive and have found ways to compete with the contractor grade power tools and have found ways to survive on slimmer margins."

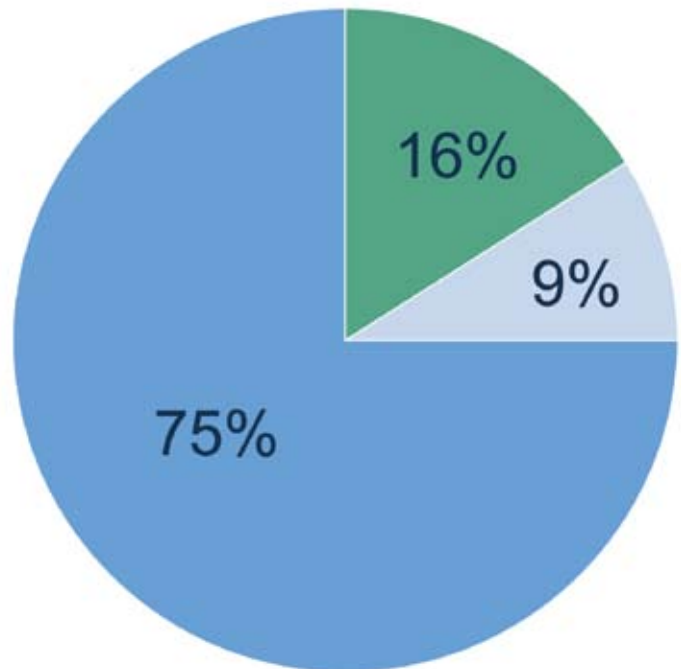
Also, independent retailers have managed to drive category productivity through their ability to offset the lower margins offered on power tools by selling more and better accessories for those tools.

Keys to Success in this Category

- Know your market and plan your assortment around their needs. This means understanding what brands your customers want. Or if price and assortment are the key drivers of your customers' needs.
- Don't shy away from "owning" the category. Many retailers have expanded their power tool and accessory departments to become the dominant source in the market.
- Heavily promote add-on sales with accessories. Accessories will drive your margins in this area so make sure every employee knows how to add-on sell in this department. A selection of diverse and quality accessories also offers opportunities to increase overall ticket size.

Category Data	2009	1996
% of Sales	8.52%	5.90%
\$ sales	\$121,954	
% of Salesfloor	8.11%	7.30%
Avg. Sq. Ft.	860	
% of Inventory	7.48%	7.00%
Inventory Investment	\$31,502	
Productivity Ratios		
Sales to Inventory	3.87	3.02
Gross Margin	26.3	25.9
GMROI	\$1.02	\$.78
Space Productivity Index	\$1.05	\$.93
Inventory Productivity Index	\$1.14	\$.97

Source: NRHA/Hardware Retailing ©.



Over the Next 12 Months this Department's Size Will...

- Increase
- Decrease
- Remain Unchanged

Source: NRHA/Hardware Retailing ©.

Hand Tools

Consolidation Driving Commitment

While the hand tool department is still a key staple to a hardware store's offering, our research suggests that independent retailers have reduced the amount of the salesfloor they are committing to this category. Retailers have also seen their percentage of sales from the hand tool category slip. Overall, however, in the last decade retailers have managed to push their margin up in the hand tools category by nearly seven basis points.

"There are a couple of things going on," adds Petz. "There is a lot more competition out there for hand tools than there ever has been. I think some of the space lost over the past 12 years in hand tools has been given back to power tools. When you assort a store it's an opportunity cost equation, and the departments that are doing well are going to get more space because you're getting more production out of that space. If you look at lawn and garden and power tools, maybe they need even more space."

Why?

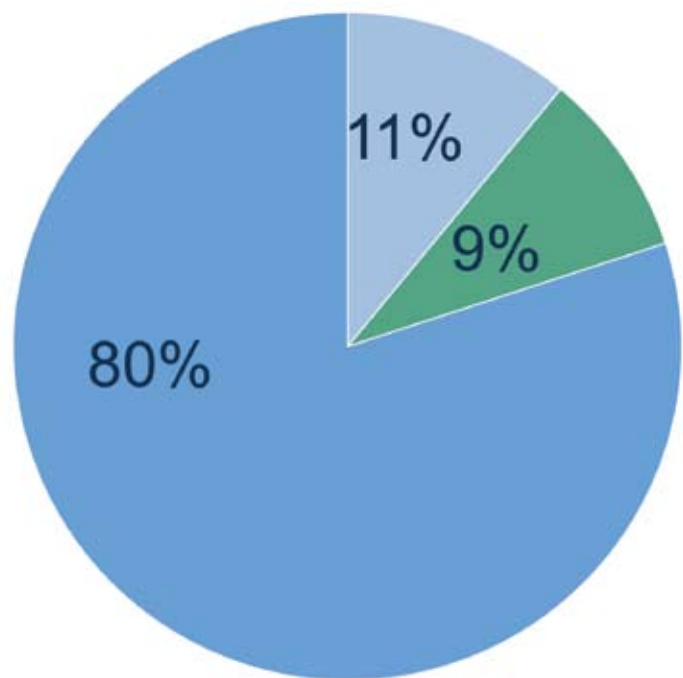
One of the main reasons salesfloor commitment to the category appears to be declining is that retailers are consolidating their hand tool selection—with many opting to go for a better/best hand tool offering. The trend seems to be toward offering a brand name option as the "best" selection and filling in at the "better" level with a captured brand product. This thoughtful integration of private-label products has helped drive margins in the category, though it also makes retailers more vulnerable to loss of sales to big boxes and mass-merchants whose selections are rife with captured brands.

Keys to Success in the Category

- Like most core categories, a committed retailer can still own this market. However, most retailers opt to go with a strong selection and focus on mid- to higher-level quality tools.
- Throw away, entry price point tools can be an important impulse offering for independent retailers that can drive ticket size, but there is a danger in offering too many lower-quality tools. You don't want to become known as the store for "cheap stuff."
- There are also opportunities in this category for offering specialized tools, whether it be for the professional shopper or for specialized hobbyists, etc.

Category Data	2009	1996
% of Sales	5.24%	8.30%
\$ sales	\$75,004	
% of Salesfloor	8.51%	10.50%
Avg. Sq. Ft.	902	
% of Inventory	7.33%	10.20%
Inventory Investment	\$30,883	
Productivity Ratios		
Sales to Inventory	2.43	2.89
Gross Margin	39.5	33.6
GMROI	\$.96	\$.97
Space Productivity Index	\$.62	\$.91
Inventory Productivity Index	\$.71	\$.94

Source: NRHA/Hardware Retailing ©.



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Builders' Hardware A Department in Transition

Despite our research, the builders' hardware category still remains difficult to define, while the numbers in our research suggest that there is a mass exodus from the category, anecdotal evidence would suggest differently.

One reason for the apparent discrepancies in our current numbers and those from a decade ago may likely be that retailers have a hard time getting their hands around exactly what the hardware category is. Some may measure it by their fastener assortment and a small selection of gate and door hardware, while others include cabinet pulls, fashion hardware, etc.

So we would caution that the reduction in percentage of sales and salesfloor commitment in this category is not as dramatic as the number may suggest. However, this category does appear to be one area where retailers are seeing some gross margin erosion, which may give some insight into why commitments and contributions are off (by however much).

Why?

In many markets it seems as if retailers have been able, with the help of manufacturers, consolidate the size of their builders' hardware assortments. Manufacturer displays have come a long way in the last decade and allow retailers to do more in the category with less square footage.

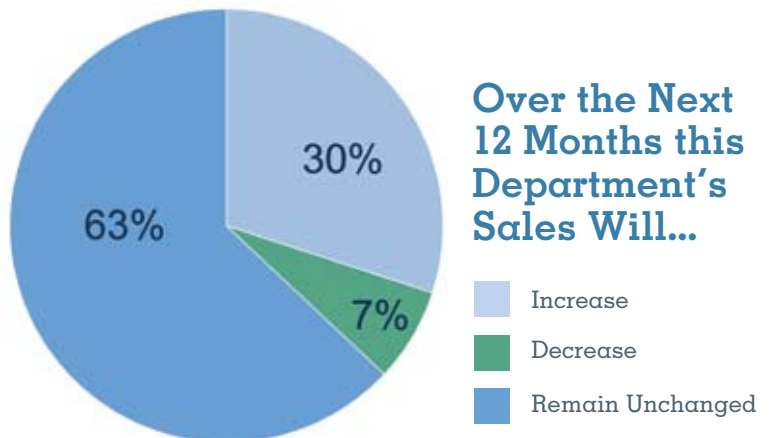
But while these efficiencies may account for a reduction in square footage they don't account for the drop in percentage of sales our research seems to indicate. This drop may be more due to the continued presence of big boxes in the category. And the fact that hardware may just be one of the areas some retailers are choosing to trim in favor of higher-margin non-core categories.

Keys to Success in the Category

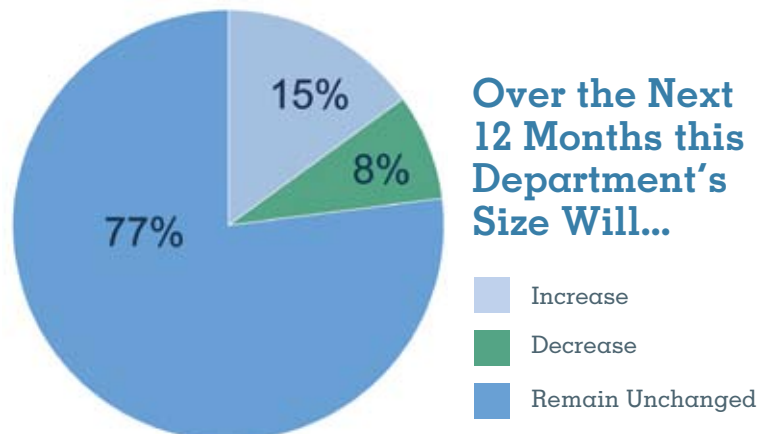
- Like other core categories, nearly every consumer expects at least a basic assortment of hardware in a hardware store, so retailers must deliver on this.
- There are many areas within the builders' hardware category that a retailer can specialize in—commercial hardware, stainless steel or specialty fasteners or the softer side of the category with fashion drawer pulls and cabinet knobs.
- Fashion hardware seems to be a large growth category because many cash-strapped consumers are opting to dress up their cabinetry with new pulls rather than remodel their kitchens.

Category Data	2009	1996
% of Sales	12.20%	20.10%
\$ sales	\$174,629	
% of Salesfloor	13.80%	23.40%
Avg. Sq. Ft.	1463	
% of Inventory	12.60%	23.40%
Inventory Investment	\$53,087	
Productivity Ratios		
Sales to Inventory	3.29	3.07
Gross Margin	41.7	44.3
GMROI	\$1.37	\$1.36
Space Productivity Index	\$.88	\$1.01
Inventory Productivity Index	\$.97	\$.99

Source: NRHA/Hardware Retailing ©.



Source: NRHA/Hardware Retailing ©.



Source: NRHA/Hardware Retailing ©.

Plumbing

A Strong Backbone

According to our research, the plumbing department offers among the largest margin opportunities in the store. Nearly half of the retailers we surveyed also indicated they feel sales in the department will increase over the next year.

Overall, the numbers from plumbing weren't dramatically different from what was posted a decade ago, in fact percentage of salesfloor dedicated to the department is down slightly as is percentage of inventory investment.

Yet, the retailers we surveyed are confident about their presence in plumbing and about the potential the category holds.

Why?

Independent retailers have learned how to merchandise, price and assort the plumbing category effectively. Because the category offers a good mix of blind items and fast movers it also offers a great opportunity for retailers to drive traffic and sales productivity.

Retailers have also discovered that they have the ability to offer a broader selection of plumbing items than many big boxes if they target their focus. While they may not have the space to compete on the fashion side of the business in all cases, they can offer a diverse selection of fittings and rough-plumbing items that rivals what larger stores can offer.

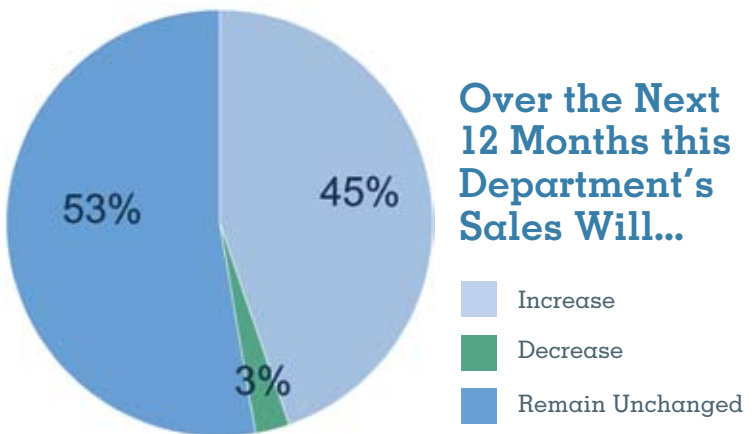
Also, do not discount the importance of service in this category.

Keys to Success in the Category

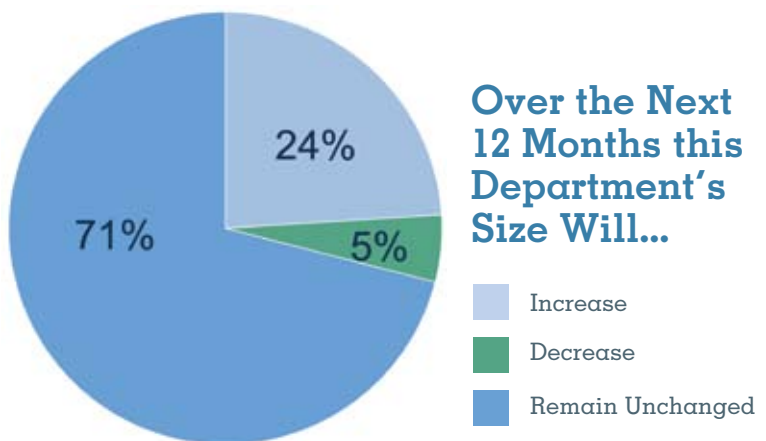
- You have to be sharp on price and utilize aggressive variable pricing to take advantage of the opportunities available in plumbing.
- Successful retailers make sure they offer a complete assortment of items that target the specific needs of their market. That doesn't mean they have to dedicate a lot of square footage to the category, however. A thoughtfully merchandised department with supporting back stock can do the trick.
- Whether serving consumers or professional customers, product knowledge is also key for successful plumbing retailers. To provide support to customers who are fixing a leaky sink or plumbing an apartment complex takes employees who know what they are talking about.

Category Data	2009	1996
% of Sales	16.03%	15.00%
\$ sales	\$229,452	
% of Salesfloor	16.37%	17.60%
Avg. Sq. Ft.	1735	
% of Inventory	16.04%	17.40%
Inventory Investment	\$67,581	
Productivity Ratios		
Sales to Inventory	3.40	3.07
Gross Margin	43.08	40.3
GMROI	\$1.46	\$ 1.21
Space Productivity Index	\$.98	\$.98
Inventory Productivity Index	\$1.00	\$.99

Source: NRHA/Hardware Retailing ©.



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Electrical Charging Ahead

Like plumbing, independent retailers see great potential to grow sales in the electrical department. Forty percent of our respondents indicate that they feel sales in the category will grow in the next 12 months.

One reason for this seems to be that many independent retailers have focused more on maintenance and repair items and pulled back a little from trying to compete so heavily on the fashion end of the category, which requires a larger space commitment.

That is not to suggest that all independent retailers shy away from fashion electrical. In fact, many more independents are tackling that department and using service to drive sales.

Why?

Again, similar to the plumbing category, independent retailers have done a very good job at assorting, pricing and merchandising their electrical assortments in ways that drive greater sales and traffic out of less inventory and square footage.

One factor that you can't discount for re-energizing sales in the category is the green movement. Consumers are more aware of the financial and eco-friendly benefits of energy saving products and this has created traffic in the category.

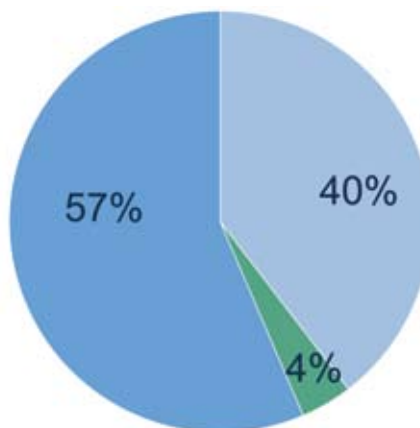
Another factor that has emerged post-9/11 is consumers' desire for greater safety in the home. This has spurred sales of items such as lighting timers, smoke and CO detectors, motion sensor lights, etc.

Keys to Success in the Category

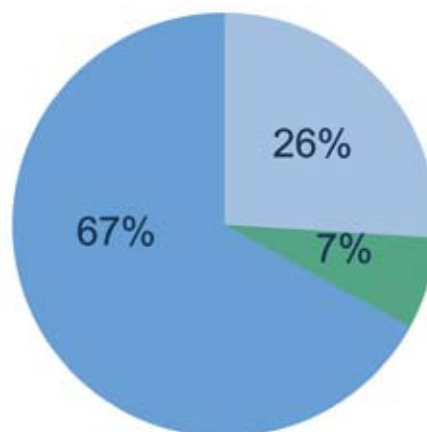
- Help make the green sales in this category with feature/benefit signs and employee training.
- Use thoughtful merchandising and displays to package like products and cross-merchandise. Never forget to put batteries in a prime traffic area or place extension cords alongside outdoor lawn equipment or seasonal items.
- Think in terms of "buying occasion" and put safety items or green items together on one display to spur add-on sales.
- Again, product knowledge is a key factor to driving sales in electrical. Electrical projects require that employees be confident and definitive in their customer support, more so than any other area of the store.
- Retailers who delve into the fashion side of the business have done a good job of concentrating their assortments and offering fulfillment through special order. Customers shopping for just the right porch lights or wall sconces don't mind the special order process.

Category Data	2009	1996
% of Sales	11.88%	11.70%
\$ sales	\$170,049	
% of Salesfloor	11.74%	12.40%
Avg. Sq. Ft.	1244	
% of Inventory	10.68%	13.20%
Inventory Investment	\$44,998	
Productivity Ratios		
Sales to Inventory	3.78	3.15
Gross Margin	37.9	37.1
GMROI	\$1.43	\$1.17
Space Productivity Index	\$1.01	\$1.09
Inventory Productivity Index	\$1.11	\$1.02

Source: NRHA/Hardware Retailing ©.



Source: NRHA/Hardware Retailing ©.



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Paint & Sundries

Store Within a Store

Our research suggests that independent retailers are seeing increases across the board in the paint and sundries department with percent of sales, percent of salesfloor and percent of inventory investment all up.

This is good news particularly because gross margins and GMROI are also up within this category meaning that independents have found ways to drive productivity from the department.

The greatest percentage of retailers in our study said that they see more potential for growth in this category.

Why?

Once again it is the personal touch craved by consumers that has allowed independent retailers to grow productivity in this category and that same craving that bodes well for this core category moving forward.

Retailers also appear to be banking on the economy to continue to drive paint sales going forward. As larger remodeling and building projects are put on hold, homeowners know they can make a big difference in their homes with a little paint.

“If someone is going to redo their kitchen cabinets and countertops, color is a big part of that. It’s so critical to any project that it should be front and center,” adds Petz. “A lot of retailers have gone that extra step and have put in a nice paint counter to differentiate them between just having paint and being an expert.”

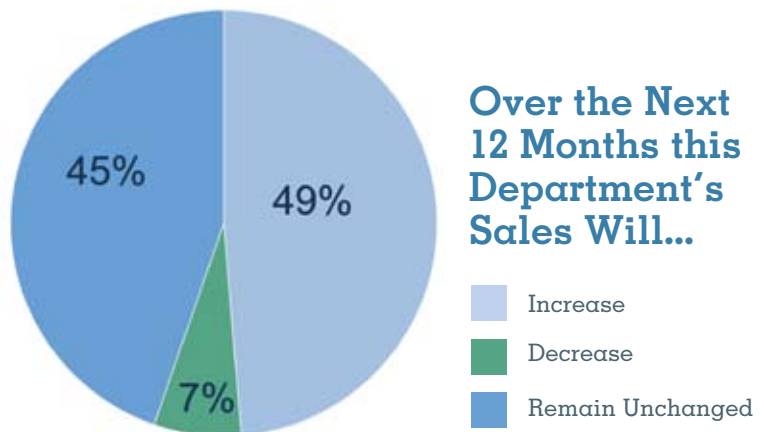
Also, facilities and apartment maintenance operations appear to be emerging as a potentially lucrative market in this category as more individuals move into apartments and multi-family dwellings.

Keys to Success in the Category

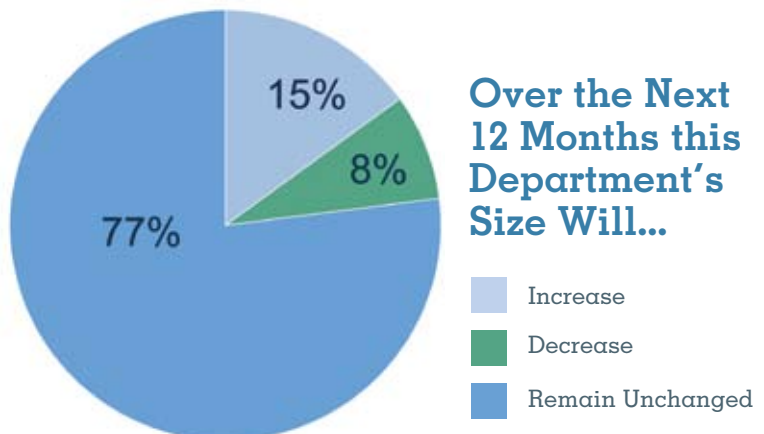
- The store-within-a-store concept seems to be the standard approach among successful retailers today with a paint service counter, color matching and mixing equipment all in one location front and center on the salesfloor.
- Retailers should be equipped to meet customers’ color needs with accurate and efficient color-matching technology at their disposal.
- Don’t discount the commercial opportunities in paint and sundries. That doesn’t mean you have to stock a lot of five-gallon buckets on the floor. Keep this in the warehouse, but make sure to have it on hand.

Category Data	2009	1996
% of Sales	14.30%	13.00%
\$ sales	\$204,689	
% of Salesfloor	16.23%	14.20%
Avg. Sq. Ft.	1720	
% of Inventory	15.10%	14.40%
Inventory Investment	\$63,621	
Productivity Ratios		
Sales to Inventory	3.22	3.22
Gross Margin	37.71	34.8
GMROI	\$1.21	\$ 1.12
Space Productivity Index	\$.88	\$1.05
Inventory Productivity Index	\$.95	\$1.04

Source: NRHA/Hardware Retailing ©.



Source: NRHA/Hardware Retailing ©.



Source: NRHA/Hardware Retailing ©.

Lawn & Garden A Growing Opportunity

Industry research suggests that consumer nesting is driving new sales in lawn and garden and our research suggests that independent retailers are capitalizing on that surge.

While the numbers indicate that independents' commitment to the category hasn't grown as dramatically in lawn and garden as in some other areas, the productivity of the category has increased.

Average margins are up about 6 points and GMROI is up as well. All of this in one of the most competitive categories, with everyone from grocery stores to gas stations selling some kind of lawn and garden products.

Why?

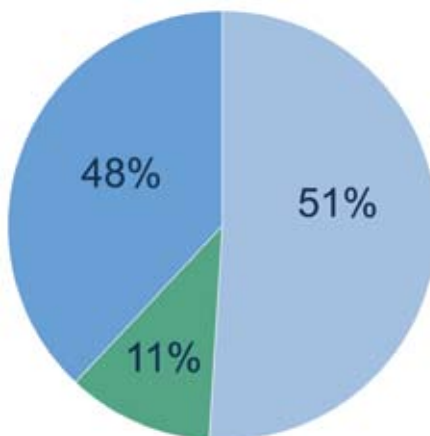
As consumers have become more concerned about their lawn and garden projects, they also want more than just a plant and some mulch—they want advice on how to get the best results—a perfect situation for independent retailers. And despite the competitive nature of the category independent retailers have stepped up to the plate to offer increasingly impressive presentations of live goods, augmented by service and support in the chemical and tool areas of the category. This equates to a one-stop shopping solution for consumers.

Keys to Success in the Category

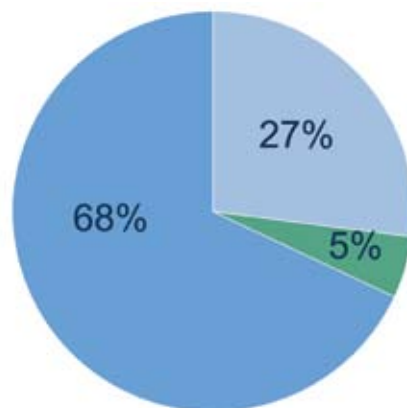
- Many consumers consider lawn and garden a year-round hobby so the best-in-class retailers know when it is time to pump up the selection but they also know that a year-round offering can be important.
- Green offerings also can help drive traffic in this category with everything from seed sales and canning items to eco-friendly herbicides and pesticides.
- Also don't discount the aesthetic importance of the category. Gardeners are always on the lookout for new plants, accessories, decorative items and tools to make their hobby and the fruits of their labor more enjoyable. ➡

Category Data	2009	1996
% of Sales	14.00%	12.90%
\$ sales	\$200,395	
% of Salesfloor	15.60%	15.10%
Avg. Sq. Ft.	1654	
% of Inventory	14.90%	14.40%
Inventory Investment	\$62,778	
Productivity Ratios		
Sales to Inventory	3.19	3.18
Gross Margin	38.3	32.5
GMROI	\$1.22	\$1.03
Space Productivity Index	\$.90	\$.85
Inventory Productivity Index	\$.94	\$.89

Source: NRHA/Hardware Retailing ©.



Source: NRHA/Hardware Retailing ©.



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