



# Market Measure

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**T**hough there has been a lot of hushed talk in recent months about the R-word looming on our economic horizon, economist opinions are certainly split about whether a recession may be headed our way.

While market watchers continue to debate the meaning of current economic indicators and the state of the housing market, all the signs we look at point to slower economic growth for the home improvement industry over the next several years.

Similar to 2018, unemployment is low, wages are up and home prices have been on the rise.

Since the last recession, home improvement spending and investment in housing and remodeling have all seen steady growth. This growth has helped sales through home improvement retailers outpace overall retail growth for years.

However, in 2019, we saw signs that the strength of the home improvement retail market may be slowing.

After getting year-end results for 2018, we revised our year-over-year growth predictions from 2017-2018 down to 4.8 percent (from 5.5 percent).

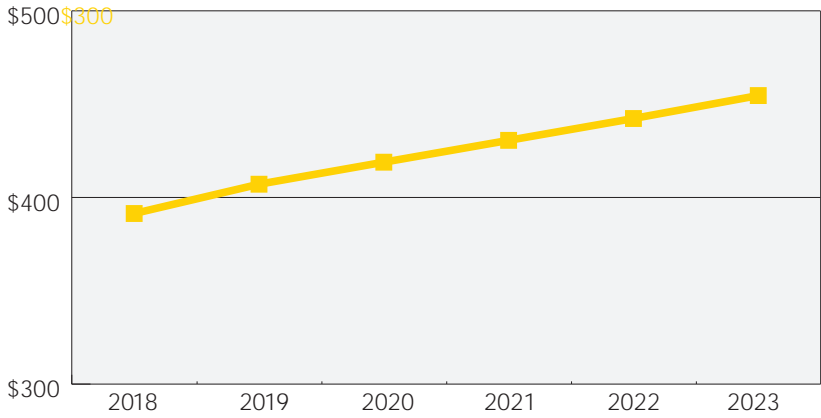
We saw growth throttle back in 2019 and are currently predicting the year will end with sales of \$407.1 billion for the industry, with year-over-year growth in 2020 of about 3 percent.

### Market Expectations

Looking ahead to year-end results and beyond, the slightly grim news is that we see 2019 being the best growth year for the industry in our five-year forecast. We expect compound annual growth from 2018-2023 to run only at slightly more than 3 percent, well below the 4 to 5 percent we saw in the recent past.

An article in the Oct. 25 edition of [Housing Wire](#) uses data from the Joint Center for Housing Studies of Harvard University to sum up rather well some of the challenges the home improvement industry is facing.

“Following years of 5 percent to 7 percent growth in spending  
sy ayovecn t 6.371 results and beyond, the slightly grim



**2.3%**  
Home Depot's  
projected total sales  
growth for 2019

Source: Home Depot report, August 2019



Percent of independent  
retailers who expected  
sales to increase  
moderately or significantly  
by the end of 2019  
(at midyear)

Source: 2019 NRHA Midyear Review research

**2%**  
Lowe's overall  
projected sales  
growth for 2019

Source: Lowe's report, August 2019

2018-2023 Sales by Type of Store ( \$ m)

	Total	Hardware Stores	Home Centers	Lumberyards
2018	\$391.4	\$49.7	\$244.0	\$97.7
2019	\$407.1	\$51.8	\$251.7	\$103.6
2020	\$418.9	\$52.1	\$259.1	\$107.7
2021	\$430.6	\$53.2	\$266.0	\$111.4
2022	\$442.3	\$55.5	\$272.7	\$114.1
2023	\$454.6	\$57.8	\$281.6	\$115.2
2018-2023 CAGR	3.0%	3.1%	2.9%	3.4%

**Top Chains: Industry Share**

**Top Chains: Combined Performance**

	<b>Sales</b> ( s % t t . st . )	<b>No. of Stores</b> ( s % t t . st . )		<b>Net Sales</b> ( s )	<b>No. of Stores</b>
<b>2014*</b>	49.4%	16.1%	<b>2014*</b>	\$159.4	6,308

**F**or more than a century, the North American

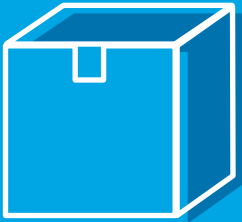
## Training Hours Per Employee



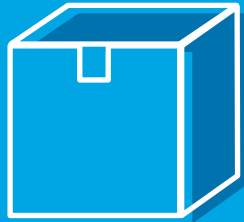
Average Hours

Median Hours

## Percent of Unsold Inventory (Last 24 Months)



Average Inventory



Median Inventory

## Total Sales Increases (Year Over Year)

## Shrink Expense as a Percent of Sales



Average Shrink



Median Shrink

# Overall 2018 Business Performance

The following data from the 2019 C *B* is divided into three sections so retailers can compare their businesses' performance with home improvement operations similar to theirs. NRHA divides the numbers by three types of retail outlets—hardware stores, home centers and lumberyards. The complete study, which also includes financial overviews of U.S. paint stores, is available at [nrha.org](http://nrha.org) and is free to study participants.

### Hardware Stores

Overall, 2018 appears to have been a strong year for hardware stores, which reported the highest-ever sales per location with an average of \$2,193,172. This record-setting level enabled hardware store owners to achieve higher profits before taxes at 4.1 percent. In addition, sales per customer in 2018 rose to the highest level ever recorded at \$24.

These higher profits were motivated by a range of factors, including trends like increased transaction sizes, customer counts which rose by 4.1 percent, and the highest inventory per square foot figure ever recorded.

Respondents to the 2019 C *B* seemed to wring additional profit by utilizing better expense controls than in previous study iterations. The average payroll expense was the lowest level reported in more than two decades, and the average occupancy cost of 6.6 percent was the lowest figure in a decade.

It appears gross margin impeded overall profitability. The typical hardware store experienced a decline of 160 basis points from the previous year. This year's gross margin after rebate was the lowest level for hardware stores since 2001.

### Home Centers

Home centers showed remarkable stability in key performance indicators year over year, with a trio of encouraging developments.

The average home center recorded sales per location of \$3.6 million, one of the highest figures of the last decade. For respondents who submitted data for both 2017 and 2018, revenue rose by 6.4 percent.

In addition, all home center respondents saw some of the highest average sales of the past decade. Furthermore, the average home center reported some of the highest customer counts since 2011.

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**The average cost of payroll for hardware stores was 20.4 percent of sales, which was the lowest level owners reported to NRHA in more than two decades.**

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While sales for this group were up, the average profit before taxes was down 20 basis points from the prior year, dropping to 2.9 percent.

To understand why higher sales would be accompanied by lower profits for the average respondent, it's important to consider total operating costs were up to 32.3 percent, the highest figure in the past three years.

### Lumberyards

Lumberyards that participated in the most current C *B* report all-time highs in several critical metrics: sales per store, inventory turnover, GMROI, sales per square foot, gross margin per square foot, inventory per square foot and sales per employee.

These higher sales could be attributed to a number of factors. One reason may be because lumberyard reported their highest customer counts since 2014 at 45,939 shoppers in total. It is also important to note the number of lumberyards participating in the C *B* has a major effect on annual results.

Lumberyard operators who offered data for both 2017 and 2018 saw sales increase by 9.8 percent on average. However, overall profitability was eroded by a drop in average net profit to 3 percent in 2018, down from last year's figure of 3.8 percent. This loss is partly explained by the uptick in average payroll expense reported from respondents at 16.2 percent, the highest figure since 2013. ➔





	Home Depot	Lowe's Cos.
<b>Operating and Productivity Profile</b>		
Number of Stores (at end of 2018)	2,287*	2,015*
Average Size of Selling Area (sq. ft.)	104,000	112,000
Total Sales	\$108.2	\$71.3
Total Asset Investment	\$44.0	\$34.5
Total Inventory	\$13.9	\$12.6
Sales Per Square Foot	\$446.86	\$341.15
Inventory Turnover	5.1	3.9
Net Sales to Inventory	7.8	5.7
Total Sales Per Employee	\$261,985	\$291,020
Average Size of Transaction	\$65.74	\$75.79
Gross Margin Return on Inventory	267.6%	182.4%
<b>Income Statement</b>		
Cost of Goods Sold	65.7%	67.9%
Gross Margin	34.3%	32.1%
<b>Net Sales</b>	<b>100.0%</b>	<b>100.0%</b>
Total Operating Expenses	20.0%	26.5%
Net Income (Before Taxes)	13.5%	4.8%
<b>Balance Sheet</b>		
Cash	4.1%	1.5%
Receivables	4.3%	0.6%
Inventory	31.6%	36.4%
Other	1.9%	2.7%
<b>Total Current Assets</b>	<b>42.0%</b>	<b>41.2%</b>

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	Ace Hardware Corp.	Do it Best Corp.	Orgill Inc.	True Value Co.
<b>Number of Distribution Centers</b>	17*	8	7	13
<b>Current Number of Stores Served</b>	5,298	3,800	N/A	4,500+
<b>Dollar Volume Most Recent Fiscal Year</b>	\$5.7	\$3.5 **	\$2.5	N/A
<b>% Sales Out of Warehouse</b>	80.0%	32.0%	N/A	N/A
<b>% Sales Direct-Drop Ship</b>	20.0%	68.0%	N/A	N/A
<b>% Sales in LBM</b>	0.0%	24.0%	N/A	N/A
<b>Number of Employees</b>	8,700	1,528	N/A	2,500
<b>Avg. Number of SKUs in Warehouse</b>	117,000	67,000	N/A	90,000
<b>Sales/Inventory Ratio for 2018</b>	6.1	11.9	N/A	N/A
<b>2018 Member Rebate Distributed</b>	\$141.8	\$114	N/A	N/A
<b>% Cash</b>	40.0%	77.0%	N/A	N/A
<b>% Stock</b>	34.0%	23.0%	N/A	N/A
<b>% Other</b>	26.0%	0.0%	N/A	N/A

Sources: NRHA distributor surveys

\*17 domestic and 13 international. \*\*Fiscal year ended June 29, 2019.

N/A in this chart represents data the companies did not provide. 0.0%

# A 2019 Retrospective

**F**irst, let's take a look at the year in review. The industry has seen significant changes, particularly in the hardware retailing sector. For more news, visit [TheRedT.com/2019-news](https://www.TheRedT.com/2019-news).

## December (2018)

### True Value and Carter Lumber Announce Partnership

The partnership between True Value and Carter Lumber is expected to create a new leader in the hardware retailing industry. The combined entity will have over 140 stores across 12 states.

## January

### Hardware Distribution Warehouses Closes Distribution Facilities

Hardware Distribution Warehouses (HDW) has announced the closure of its distribution facilities in four states, including California, Texas, and Florida. The company is focusing on its core markets.

## February

### Orgill, Unilog Announce New E-Commerce Offering

Orgill and Unilog have announced a new e-commerce offering, aimed at providing a more seamless shopping experience for their customers. The offering includes a range of hardware and home improvement products.

## March

### House-Hasson Invests \$10M in Inventory, Warehouse Expansion

House-Hasson has invested \$10 million in inventory and warehouse expansion. The investment is part of the company's strategy to improve its supply chain and customer service.

## April

### Ace Hardware Begins E-Commerce Delivery Service

Ace Hardware has launched its e-commerce delivery service, allowing customers to order online and have their purchases delivered to their homes. The service is available in select markets.

## May

### Do it Best Names New Director of International Sales

Do it Best has named a new director of international sales. The new director will be responsible for expanding the company's global reach and increasing international sales.

## June

### Orgill Announces Plans for New York Distribution Center

Orgill has announced plans to build a new distribution center in New York. The center is expected to be completed in late 2019 and will serve the Northeast region.

## July

### Ace Names Benjamin Moore Its Preferred Paint Supplier

Ace Hardware has named Benjamin Moore as its preferred paint supplier. The partnership is expected to provide Ace customers with a wider range of paint options and better pricing.

## August

### Lowe's Lays Off Thousands of Employees

Lowe's has announced the layoff of thousands of employees across several states. The layoffs are part of the company's cost-cutting measures to improve operational efficiency.

## September

### Ace Acquires Home Repair Franchise

Ace Hardware has acquired a home repair franchise, expanding its service offerings. The franchise will allow Ace to provide professional home repair services to its customers.

## October

### United Hardware Names New CEO

United Hardware has named a new CEO. The new CEO will be responsible for leading the company's strategic initiatives and driving growth.

## November

### True Value Confirms Opening of New Distribution Center

True Value has confirmed the opening of a new distribution center. The center is located in a strategic location and will serve a large number of stores.



**February**

## Amazon Changes HQ2

Amazon announced that it will move its second headquarters from Arlington, Virginia to a new location in Northern Virginia. The new location is expected to be completed by 2022.



**August**

## FedEx Ends Amazon Contract

FedEx announced that it will end its contract with Amazon to transport packages from Amazon's fulfillment centers. The contract was set to expire in 2021.



**March**

## Target Sets New Climate Goals

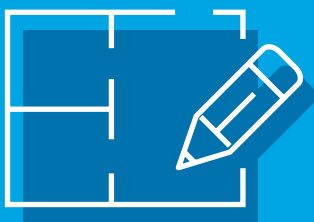
Target announced that it will set new climate goals for 2030, including reducing greenhouse gas emissions by 30% compared to 2017 levels.



**September**

## Do it Best Launches New Website

Do it Best announced that it will launch a new website, which will provide customers with a more streamlined and user-friendly shopping experience.



**May**

## Ace Expands Texas DC

Ace Hardware announced that it will expand its Texas Distribution Center (DC) by 450,000 square feet, increasing its total capacity to 1,450,000 square feet.



**November**

## Sears to Close Nearly 100 More Stores

Sears announced that it will close nearly 100 more stores across the United States, as part of its ongoing restructuring efforts.

**G**ay Cororaton, a senior economist with the National Association of Realtors, offered  magazine insight on the housing market in 2019 and also shared her expectations for 2020.

**Hardware Retailing: What key trends are you seeing in the current housing market?**

**Ga** **C** **a** **(GC):** Existing home sales have rebounded

### HR: Are there other reasons people are remodeling?

**GC:** If you want to sell your house, you do some remodeling so you can sell it for a higher price. For some people who are buying, especially for millennials, they want to buy a move-in ready house right away. If you're a seller, you want to remodel to make it more attractive for homebuyers and definitely homebuyers just want to get places that are move-in ready. Most people, when they sell their home, want to get as much as possible out of that sale, so they remodel to make it more attractive.

About 90 percent of homes being sold in the U.S. are existing homes. The supply that's out there is existing homes. New homes are more expensive than existing homes. In the

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# Insight Into Economic Concerns of 2019

To better understand the factors influencing the U.S. and global economies, I spoke to Frank Steemers, associate economist of The Conference Board, a research association that monitors how trade, manufacturing, retail and other factors shape economic conditions.

Learn Steemers' perspective on 2019's prevailing economic trends and what your business can do to anticipate future economic shifts.

### **Hardware Retailing (HR):** What are some of the biggest economic trends The Conference Board has observed in 2019?

**Frank Steemers, Ph.D. (FS):** Last year (2018) was an especially strong year for economic growth, but about a year ago there were many stock market sell-offs, which prompted some fears that we were at the end of a strong global economic cycle. I think most of these fears were overblown, but we have seen some market volatility.

With 2018 being an especially strong year for economic and employment growth, we expected 2019 would see a gradual slowdown and that is what occurred. We've also seen that slowdown in the global economy, which has affected the U.S. economy. Albeit slower than in 2018, growth in 2019 has been solid so far but it's more around its long-term potential of 2 percent.

We see a very healthy labor market—employment growth is still strong. One of the major trends we've observed is that employers who hire blue collar workers are having a hard time finding qualified workers, putting pressure on them to raise wages which may ultimately affect profits.

### **HR:** Your organization releases the monthly Consumer Confidence Index. What did that reveal about the U.S. economy?

**FS:** At the end of 2018, we saw a very big decline related to the big stock market sell-off that caught the attention of a lot of people, but these fears faded away relatively quickly. While we see some volatility, compared to historical averages, the index is especially high at the moment. With a strong labor market, we see that disposable incomes and consumption spending are rising. So it's clear that at the moment the consumer is driving economic growth in the U.S.



### **HR:** Has your organization taken note of any specific retail trends that have stood out to you in 2019?

**FS:** It's no surprise that the retail industry has been through a lot of changes over the last couple of years. We've seen negative growth in retail employment since 2017, and that continued through 2019 as well.

On the other hand, businesses related to housing may have also benefitted, like home improvement stores with garden centers. Part of the improvements in the housing sector are related to a decline in mortgage interest rates. Lower interest rates provide some incentive to start looking for a home, which means that there is more demand for home goods and services.







