





## From the Experts

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### **The Consumer Impact**

In 2020, the unprecedented growth was so unusual that the models we typically use couldn't accommodate the rapid increase, causing us to restate our size of the industry prediction for 2020. When the dust settled, we saw the industry grow by 22.3 percent and final total sales tallied \$497 billion.

Consumers were eager to spend their money at independent retailers in 2020, which led to an increase in market share by about 40 basis points.

Despite demonstrable growth, retailers still had concerns, including the still-broken supply chain, labor challenges and the question of how long home improvement spending would continue.

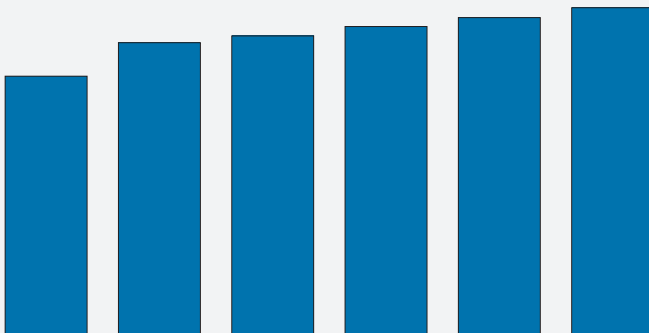
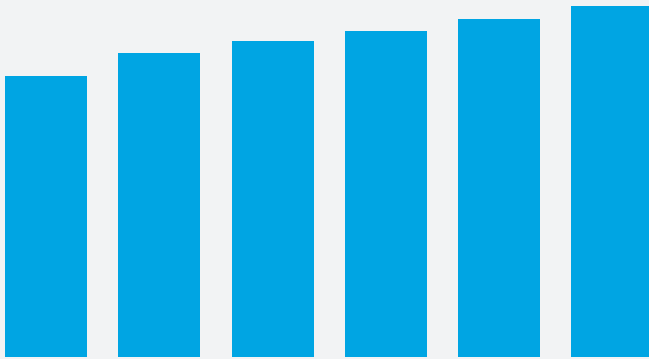
Toward the end of 2020, most retailers were cautious in budgeting for more growth in 2021. We knew the first few months of the year would comp strong because they were measuring against a pre-pandemic Q1 2020. However, most retailers were just hoping they could carry any additional profits from the start of 2021 through the balance of the year.

In fact, when NHPA surveyed independent retailers toward the end of 2020, 80 percent of survey respondents indicated they would be budgeting sales flat or down for 2021.

Our projections for Q1 were accurate,

# U.S. Home Improvement Industry Sales

*North American Hardware and Paint Association Projections*



Source: 2021 Midyear Review, NHPA



## Benchmark Your Business

To get your copy of the *2021 Cost of Doing Business Study* to analyze your operation, visit [YourNHPA.org/codb](https://YourNHPA.org/codb).

### COST OF DOING BUSINESS STUDY

# A Real-World Look at a Retailer's Financial

The *2021 Cost of Doing Business Study* presents the North American Hardware and Paint Association's (NHPA) annual financial and operational profile of independent hardware stores, home centers, lumber and building materials outlets and paint and decorating outlets. (Data for hardware stores, home centers and lumber and building material outlets is not included here. To see those metrics, visit [PDRmag.com/codb-data](https://PDRmag.com/codb-data).)

This study assesses the financial performance of home improvement retailers who graciously submitted confidential financial reports for fiscal year 2020 to NHPA. The study presents composite income statements and balance sheets plus averages for key financial performance ratios.

Retailers can use this data to measure their own performance against industry averages and establish financial plans to improve profitability.

#### Methodology

The annual *Cost of Doing Business Study* is made possible through the cooperation of hardware store, home center, LBM outlet and paint and decorating outlet operators who provide detailed financial and operational information on their individual companies. The analysis in the report is the result of extensive review by NHPA. All individual company responses are completely confidential.

Most of the figures in this report are medians. The median for a particular calculation is the middle number of all values reported when arranged from lowest to highest. The median represents the typical company's results and is not influenced by extremely high or low reports.

To determine high-profit stores, all participating companies were ranked based on net profit before taxes. The high-profit companies in each segment are those that make up the top 25 percent. The figures reported for each of the high-profit segments represent the median for that group.

Each year, the report contains figures from a different sample group of stores, which means overall figures have the potential to vary widely from year to year based on the respondent group of stores participating each year.

In this year's study, 1,115 independent home improvement stores participated, a 6.1 percent increase from the prior year.

Of the total number of respondents, 16 paint companies representing 76 store units participated in this year's survey. Paint and decorating outlet data has been collected for the past three years, so the historical data is not as robust as other sectors.

#### Paint and Decorating Outlet Overview

Comparable paint store sales were up 10.8 percent over 2019, which lagged far behind the rest of the home improvement industry. While customer count rose to the highest level in the three years the study has tracked paint performance, sales per customer stood at \$106, dropping to the lowest level in the three years of analysis. Notably, consumer/retail sales dropped to 10 percent in 2020, indicating paint stores may be losing business to other industry segments.

## How to Use This Study

To get the most out of these selected results from the *2021 Cost of Doing Business Study*, follow these tips.

- **Compare numbers.** Determine your operating expenses as a percentage of sales and calculate your balance sheet as a percentage of total assets. Compare those numbers to the study results for typical and high-profit stores.
- **Look beyond the percentages.** Compare your real-dollar expenditures as well.
- **Consider the results.** If you find your store's individual data veers sharply from what's contained within the study, explore the cause behind the discrepancy and develop a plan to bring your numbers on par with high-profit stores.
- **Participation counts.** Overall figures can vary from year to year based on the group of participating operations. Year-to-year comparisons are helpful for illustrating general trends over time.

Typical Store Results

Profit Margin

8.0%

This metric is the highest level ever recorded since data has been collected for the paint and decorating segment.

Total Operating Expense

34.5%

This metric has been steadily declining by a few points since data was first collected from this segment.

Sales Per Square Foot

\$755

This year was the first time this metric for typical stores was higher than high-profit, which came in at \$620.

Gross Margin Per Employee

\$101,496

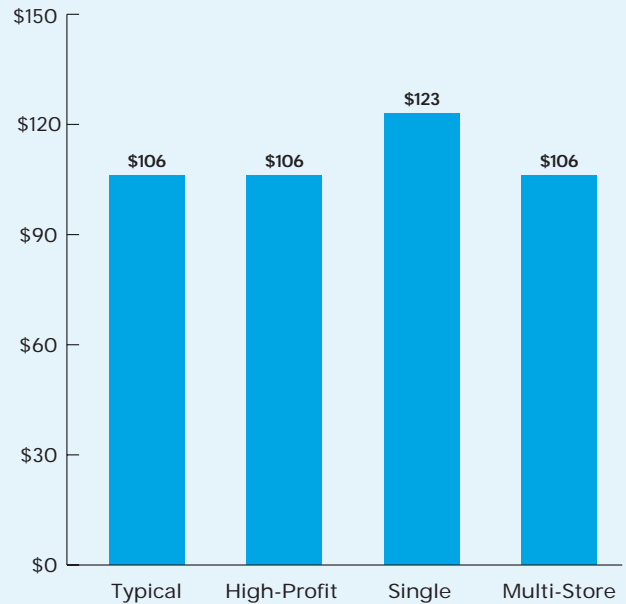
This metric for typical stores was up 58.7% over 2019 even though the total number of full-time employees was the same.

Inventory as a Percent of Assets

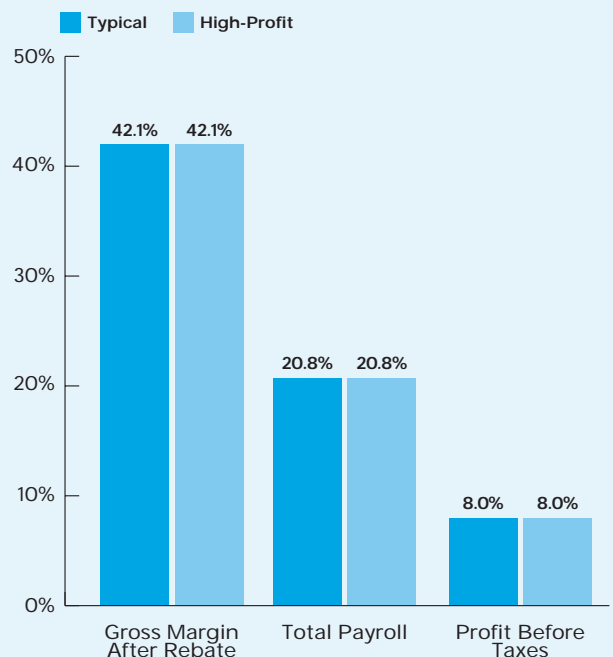
49.4%

This metric is the lowest over the three years data has been collected, down from 52.1% for the 2018 fiscal year.

Sales Per Customer



Key Business Indicators



Source: 2021 Cost of Doing Business Study, NHPA







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**E**ntering 2021, many within the home improvement industry proceeded with caution. Even though 2020 was rife with heartache, turmoil and disruption at a global level, home improvement was one of the few shining stars. Homeowners took their forced time at home and decided to make it productive by tackling home projects and tasks they had been intending to do but had yet to find the time. They also took on unplanned projects in response to their new way of life, health concerns and changing uses of the home. This increased time at home, long project lists and a shift in disposable income led to a surge in DIY home improvement activity and record sales for many within the industry. Led by the surge in consumer spending, the Home Improvement Research Institute (HIRI) noted a 13.3 percent growth in home improvement product sales for 2020, an astounding number considering GDP dropped by nearly 3.5 percent.

With the success of 2020 behind us, many asked not if the other shoe will drop, but how heavy will it drop? Most expected relatively strong continued interest in home improvement and building, but compared to 2020, a modest uptick at best. Looking back at the past year, now we saw 2020 was just the start. In preliminary estimates, many within the industry noted a 13.3 percent increase in home improvement product sales for 2020, an astounding number considering GDP dropped by nearly 3.5 percent. This increased



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**A**s the economy opens up and consumers begin spending money on travel and other sectors, Canadian retailers have a wait-and-see attitude to determine whether spending will detract from home improvement sales. Sales to contractors have been buoyed by the renovation boom that remained a constant throughout the pandemic. However, the housing market shows signs of stabilizing and returning to a more normal pace.

Economic recovery has not been as strong in Canada as in the U.S., which was impacted more severely, and economists anticipate much of the recovery will be pushed into 2022 compared to the U.S.

### **Supply Chain Woes**

The supply chain travails of 2020 were still in effect through 2021. Many retailers reported learning valuable lessons about supply and demand over the last two years. They have been working more closely with their buying groups and key suppliers, and the scramble for products has left many shelves empty. Some retailers had to work with reduced SKUs while bulking up on better-selling items. Prices, which fluctuated wildly in 2020, continued to be unstable through much of 2021. As a result, many retailers have become more strategic to offer a more consistent, reliable source of supply.

Wildfires throughout the country posed a further challenge for supply chains. Ontario and British Columbia were hit hard by wildfires during the summer. At one point, some 300 fires were blazing in western Canada, while northern Ontario had more than 150 wildfires last summer.

### **Consolidation Continues**

According to the 2021

