SELLING GIFTWARE TO CANADIAN HARDWARE RETAILERS

BY IAN GORDON
Convergence Management Consultants Ltd.

This article is the first in a series of profiles of retail sectors of interest to CGTA's members. The focus here is on hardware retailers in Canada.

It was 1830 when George Ridout opened Ridout's Hardware Store at King and Yonge Streets in Toronto. That inauspicious beginning started the circuitous path that eventually resulted in Home Depot Canada and its 155 stores.

Here is the path: in 1868, James Aikenhead joined Ridout and later his son Thomas did the same. In 1893, Thomas bought and renamed the business Aikenhead Hardware Co. By 1930, Aikenheads had six floors of merchandise at its main Toronto store and branches in Toronto, Burlington, St. Catharines, Kitchener, Dundas, Markham and Sudbury. In 1965, Aikenheads bought Russell Hardware Company Limited, a chain of hardware stores[1]. In 1991, Molson Cos. Ltd. re-invigorated the Aikenheads brand by focusing on home improvement warehouses. In 1994, Aikenheads was bought by The Home Depot.

1 Trent University Archives, Fonds Level Description: *Aikenhead Hardware Company, Est. 1830.*

The history of this one company illustrates the evolution of Canadian hardware retailing as a whole. The industry has shifted from locally-owned independent hardware retailers[2], to regional and then national chains of retailers, and more recently to big-box hardware stores that are much larger than the local independents they are displacing, and may be international in scope and ownership. Retailers trying to compete in the face of these competitive pressures have often joined hardware store co-operatives with common banners, and buying groups.

HARDWARE RETAILING

There are four main types of Canadian retail hardware stores that differ according to their relative store sizes and the extent of their focus on hardware. These are as follows:

- Big-box hardware outlets, including home improvement and do-it-yourself (DIY) stores such as Home Depot and RONA[3];
- Department and mass-merchandise stores, such as Sears and Wal-Mart;
- Large format and discount hardware stores, including chains such as Canadian Tire; and
- Smaller format and independently owned hardware stores, including chains and networks such as Home Hardware and RONA[4]. Although not "big box" stores, some of the retailers in this category are not necessarily small. For example, Home Hardware stores can range in size from 10,000 to 35,000 sq. ft.

In addition, hardware is sold in a variety of other retail formats, such as co-op stores, warehouse club stores and stores that sell lumber and building products, and in distribution channels other than retail, such as online sales.

Retail sales for hardware and home centres were $20.4 billion in 2006. Sales have been increasing by an average of 16% per year between 2002 and 2006[5].

HARDWARE STORES CATER TO THREE MAIN MARKET SEGMENTS:

- Do-It-Yourself (DIY) customers who buy what they need from hardware retailers and then do the work themselves.
- Do-It-For-Me (DIFM) customers who arrange for contractors from hardware stores to undertake projects such as re-roofing and siding installations.
- Contractors who buy products from hardware stores and undertake a wide variety of repair, building and remodeling projects on their own account.

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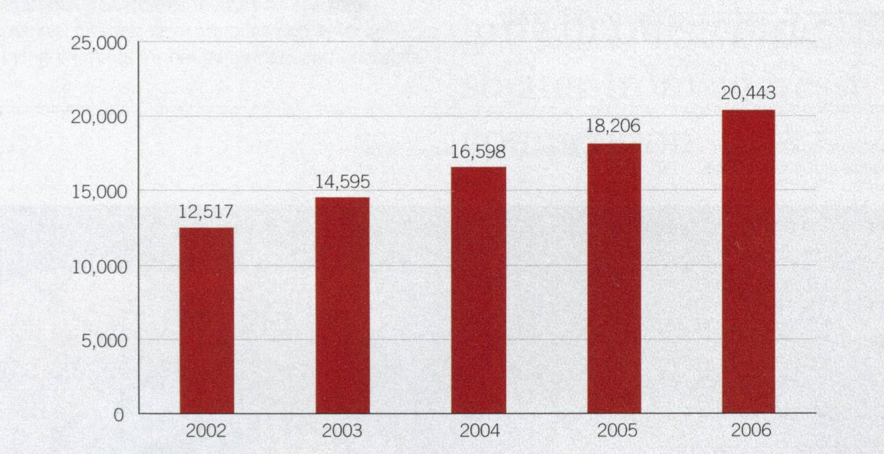
CHART 1: HOME CENTRES AND HARDWARE STORES



SOURCE: STATISTICS CANADA

2 The term "dealer" is used interchangeably with "retailer" in this article, as most hardware retail companies also do not distinguish between the two terms.

3 RONA operates a network of franchised, affiliated and corporate stores of various sizes and formats, including large big-box stores and typically smaller, franchised stores.

4 Ibid.

5 Statistics Canada, CANSIM, table 080-0014 and Catalogue no. 63-005-X. This figure excludes the $4.7 billion (2006) in retail sales by building supply and garden stores, some of which would also be potential retailers of certain types of giftware.

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INDUSTRY STRUCTURE AND CONCENTRATION

The hardware retailing sector is highly concentrated. Four retail chains - Canadian Tire, Home Depot, Home Hardware and RONA - have combined annual sales of more than $18.7 billion[6]. Given the enormous revenues of these retailers and their aggregate share of the Canadian marketplace, the revenue opportunity for supplying giftware to retailers other than these is much smaller. On the other hand, these smaller hardware retailers may be very interested in giftware if they want to use this category to aid their differentiation from the major chains. In addition, smaller retailers are numerous in aggregate and purchasing can be at the local store level. While the four largest hardware retailers already mentioned comprise about 2,100 stores, the next 46 largest retailers have approximately 1,100 stores[7]. As such, independents may still represent a significant opportunity for retailing of some giftware products.

Buying groups supply a large number of stores principally in the lumber and building products sector. The 14 largest such buying groups – such as ILDC, Castle Building Centres Group, Sexton Group, Tim-BR-Marts, BMR Group and Allroc Building Products – supply about 2,700 dealers[8].

Distributors also supply retailers, including many hardware stores. Some of the largest distributors are companies such as Weyerhauser, Taiga Forest Products, Can-Wel (which now also owns Sodisco-Howden), Goodfellow and BMR.

COMPANY ORGANIZATION

Each of the four major hardware retailers has a different business structure, as outlined below:

- Home Depot Canada operates from Toronto and is corporately owned, by Home Depot in Atlanta, GA.
- RONA has three ownership models – corporate, affiliate and franchise stores – and three retail formats – big-box, traditional and specialized stores. It is headquartered in Boucherville, Quebec.
- Canadian Tire is essentially a corporately owned network of associate dealers, and has its head office in Toronto.
- Home Hardware is based in St. Jacobs, Ontario and is a cooperative of dealer-owned and operated independent hardware, lumber and building materials and furniture stores under the Home Hardware, Home Building Centre, Home Hardware Building Centre and Home Furniture banners.

A firm wanting to supply giftware and housewares to major chains such as those mentioned above should expect to deal primarily with their head office purchasing functions. This applies both to vendors targeting big-box chains as well as smaller stores that operate under a common banner, such as Home Hardware dealers and RONA's franchised retailers. Still, local Home Hardware stores are able to buy directly from vendors as well as through the corporate purchasing system, although direct purchasing that by-passes centralized procurement is not encouraged. In the case of RONA, a small percentage of products are also bought locally and independent of corporate purchasing.

KEY TRENDS

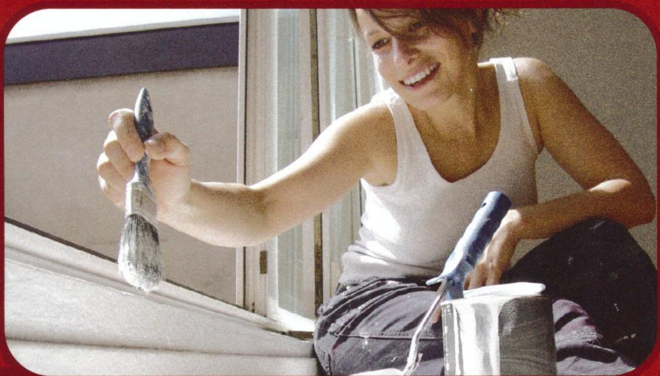
There are a number of key trends which will continue to affect retailing store formats in Canada:

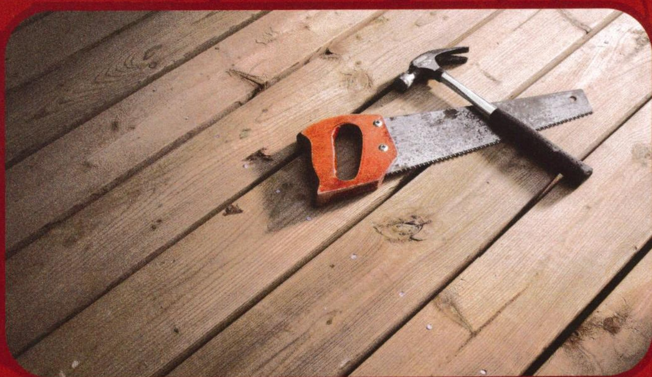
- Continued expansion by the four largest market participants will have the effect of concentrating ownership as more independents and chains join or are acquired by these firms;
- The largest retailers are growing the store formats where they have historically not participated or been as strong. For example, Canadian Tire is building larger stores, The Home Depot is building smaller ones and Sears Canada has opened stand-alone hardware stores. RONA has multiple thrusts by store format and type of ownership;
- New entrants will make the marketplace yet more competitive. Lowe's is entering the Canadian marketplace in 2007 with its big-box stores, a move that is sure to place yet more pressure on the independent and local or regional chain. There are also rumblings that Target (which has hardware in its US stores) and others may enter the Canadian marketplace. Canada is clearly on the strategic agenda of international companies wanting to expand their reach without incurring major new risks;
- Competing retailers want to broaden their market appeal. For example, Wal-Mart wants to cater to upscale customers and will focus more of its product and service mix, and customer experience to this end, perhaps partly out of concern that Target will enter Canada, as mentioned above.

6 Annual revenue figures for Canadian Tire and RONA are from their respective 2005 financial filings, and Home Depot and Home Hardware information is from *Hardware Merchandising*, July/August, 2005.

7 *Hardware Merchandising*, July/August, 2005.

8 Ibid.





- As part of broadening market appeal, retailers are increasingly carrying non-traditional merchandise and can devote substantial areas of their stores for this. For example, local Home Hardware dealers perceive that the inclusion of housewares in their merchandise mix draws female customers into their stores. Many Home Hardware dealers have implemented a "Home Expressions" department to provide customers with decor items. RONA caters to home accessories in their "Ambiance Boutique", a signature banner of about 1500 square feet within many existing RONA stores.
- When the allocation of space within a store to non-traditional merchandise is very large indeed, there is a blurring of the lines between formerly distinct store types. For example, lumber yards and hardware stores are blurring, a phenomenon seen in other retail sectors, too – such as Wal-Mart's entry into grocery retailing.
- Buying groups are merging as they try to build scale and banner momentum, and enter non-traditional markets. Calgary-based TIM-BR Marts merged with Ontario-based Homecare Building Centres in one such example. However, one of the challenges buying groups face is the need to bring their members more than aggregating purchases and improving bargaining power with suppliers.
- Some smaller banners have shown they actually can compete against the big chains. One approach is to build on the regional strength of their banners and focus on service, which Kent does in Eastern Canada, for example. Others compete by concentrating on markets that are less well served by big-box competitors. For example, TSC Stores focuses on the rural market, offering farm supplies and outdoor living products for hobby farmers and cottagers.

CONCLUDING COMMENTS

Canada's hardware customers have increasing choice in a marketplace that is becoming more cluttered with major suppliers and stores. This rapidly changing industry landscape is also fast growing, but growth offers little shelter from aggressive competition. Independents and local chains will have to find the right combination of market focus, service, assortment, quality and value to create a value proposition consumers will want. Some among these retailers might well find giftware an interesting category to expand and compete more effectively with the big boxes and department stores. For example, small-town hardware retailers might find giftware keeps customers who would otherwise seek these products in larger stores located in another town. And, although gifts-for-men have been a focus for some hardware retailers, few focus on gifts-for-women. This may change with the entry of Lowe's into Canada, because they have paid much attention to female customers in their US stores. Still, opportunities likely remain to use giftware to help Canadian hardware retailers compete, particularly where it appeals to consumers' lifestyles, values and needs.

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ADDITIONAL RESOURCES

For additional reading on the subject, the reader may wish to review sources such as the following:

ASSOCIATIONS

- The North American Retail Hardware Association **nrha.org**
- The Canadian Hardware & Housewares Manufacturers Association **chhma.ca**

PUBLICATIONS

- Hardware Merchandising Magazine **hardwaremerch.com**
- Home Improvement Retailing **hirmagazine.com**
- Hardlines **hardlines.ca**

Ian Gordon is a management consultant and President, Convergence Management Consultants Ltd. (converge.on.ca). He conducts strategy, marketing and channel engagements to help companies accelerate revenue growth in competitive marketplaces and build valuable customer relationships. He is the author of 3 books - Relationship Marketing, Competitor Targeting and Beat the Competition – as well as many articles for the Ivey Business Journal and CGTA's Market Monitor. He conducted a landmark study of the competitiveness of Canadian distribution channels compared with US channels for consumer durables, semi-durables and non-durables. (Email: igordon@converge.on.ca)