



NRHA

North American Retail
Hardware Association

THE CHANGING BIG BOX DYNAMIC

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What We Will Discuss...

- How the recession has impacted the big boxes.
- How the big boxes have responded to the changing market.
- Look at proprietary consumer research to determine how today's shoppers perceive the different boxes.
- Discuss the opportunities and challenges that the big-box formats will face as the market evolves.

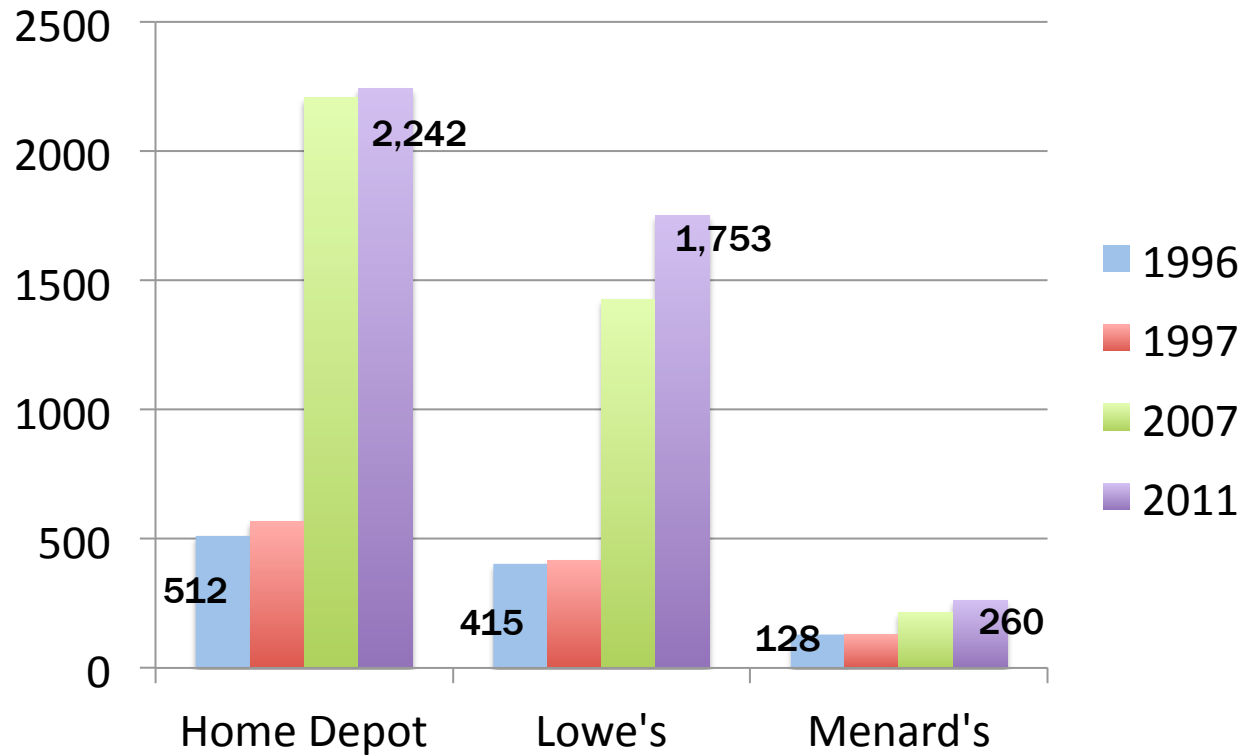
A Short Big-Box History

- The '80s and '90s were the eras of big-box proliferation as consumers embraced the format.
- During these decades there were a number of players in this field including Hechinger, Builder's Square, Home Base and a couple small operators named Home Depot and Lowe's.

A Short Big-Box History

- The late '90s saw a culling of the big-box herd that really left the three major players we still have today: HD, Lowe's and the Maverick of the bunch... Menard's.
- The '90s and early 2000s also saw two of these three formats rapidly expand.

Store Counts



A Short Big-Box History

- In 2011, every man, woman and child in the U.S. had their own, personal 2-square feet of home improvement big-box floor space.
- The saturation point was at hand.
- The question was who would blink first.
- **The recession helped provide the answer.**

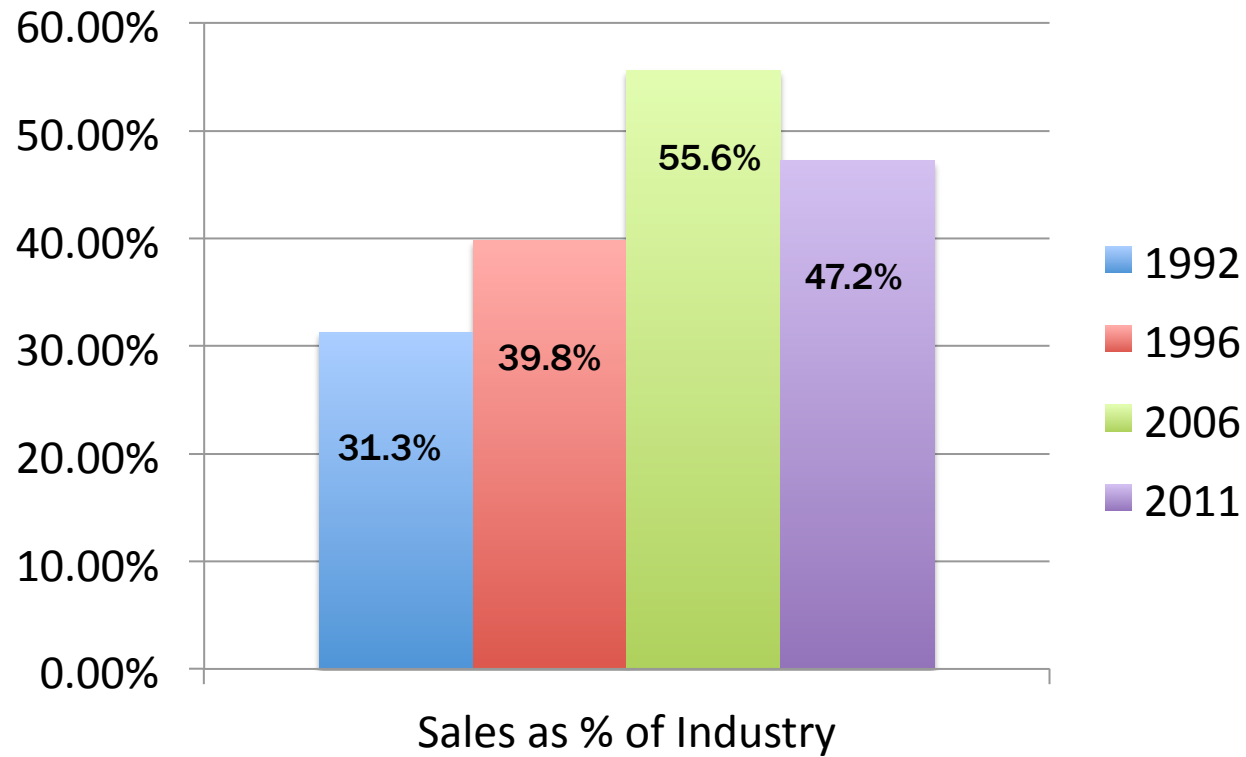
A Short Big-Box History

- The recession brought about new challenges for the big-boxes.
- Operating under-performing stores as a strategic move wasn't as viable.
- Comp-store sales fell, stores were closed, growth plans were scaled back dramatically.

A Short Big-Box History

- Just as a rising tide lifts all boats, a lower tide reveals a lot of hidden debris.
- For the first time the market, not competition with one another was controlling the big-boxes fate and direction.

Industry Growth



Of Top 25 chains

At the Crossroads

Best Buy, the end of big box and the future of retail

By Stacey Higginbotham | Mar. 29, 2012 11:00 AM

An end in sight for big-box stores?

Updated: Friday, 27 Jan 2012, 7:56 AM EST
Published: Friday, 27 Jan 2012, 7:56 AM EST



Alcidis Segui
FOX 13 News

TAMPA - You know the scene: Black Friday at Best Buy, with thousands of people lined up outside waiting to get a great deal.

The store is buzzing. The lines are painstakingly long. But did you know: With millions shopping online, some retail stores reported a decline in December sales, and that has some economists predicting the end of big-box stores, such as Best Buy.

Retail shifts mean the end of the big-box era

March 30, 2012 06:00PM

America's love for the big-box store is waning, Bloomberg News reported. These days, even brands are focusing on



The Era of Big Box Retail Dominance Is Coming to an End

By David Welch, Chris Burritt and Lauren Coleman-Lochner on March 30, 2012

8 Comments



When Best Buy Co. (BBY) (BBY) said yesterday it was closing 50 big stores and opening 100 smaller ones, the world's largest electronics retailer was adjusting to reality: The era of big-box retail dominance is coming to an end.

Companies Mentioned

Company	Symbol	Price (USD)	Change
Best Buy Co. Inc.	BBY	59.54	0.28 1.29%
Wal-Mart Stores Inc.	WMT	59.54	-2.91 -4.89%

The new mantra is small box. While Best Buy, Wal-Mart Stores Inc. (WMT) (WMT) and Target Corp. (TGT) (TGT) are still opening large stores, all are putting increasing emphasis on smaller ones. Best Buy plans to double the number of its smaller Best Buy Mobile stores by 2016. Wal-Mart is building as many as 100 small-format stores this year, while Target is opening five CityTarget locations.

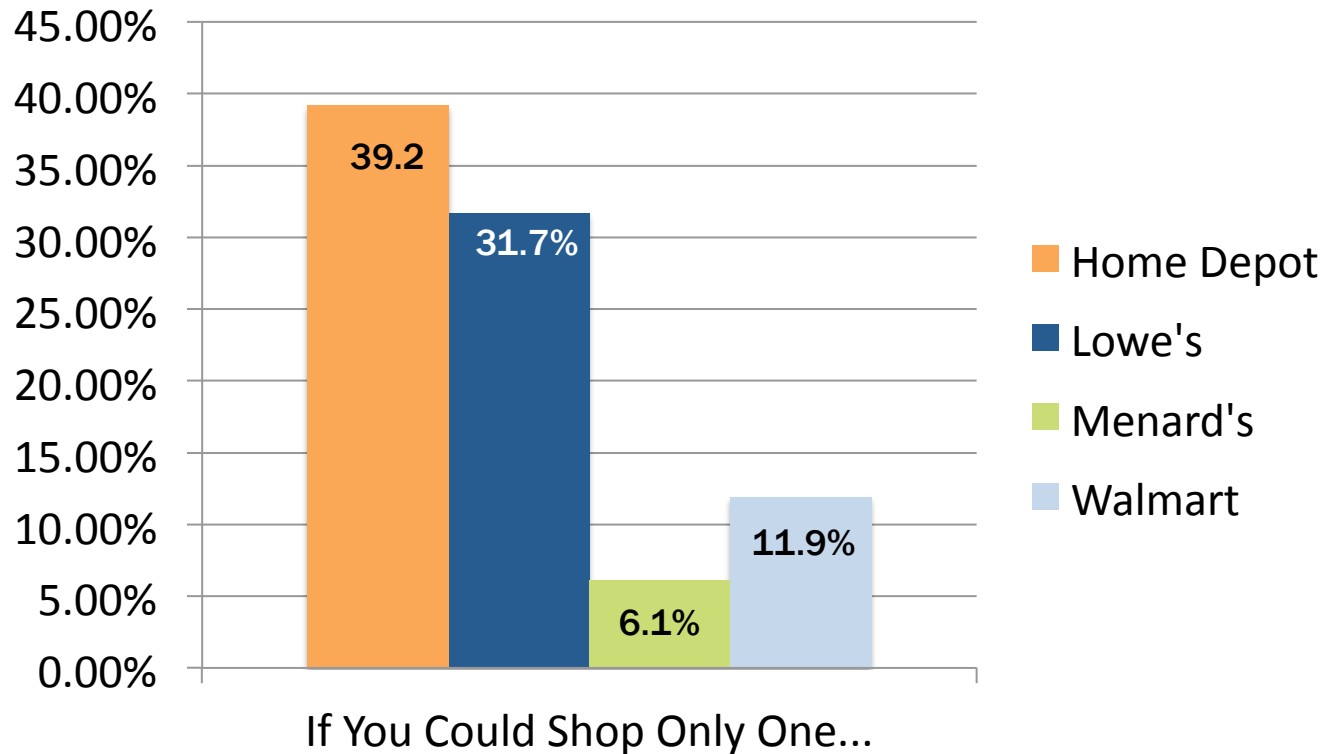
At the Crossroads

- Are consumers' attitudes towards big-box shopping changing?
- If so, will there still be room for three big-box options?
- Which of the three options do consumers seem to favor?
- Is the death of the big-box being greatly exaggerated?

Where they Stand...

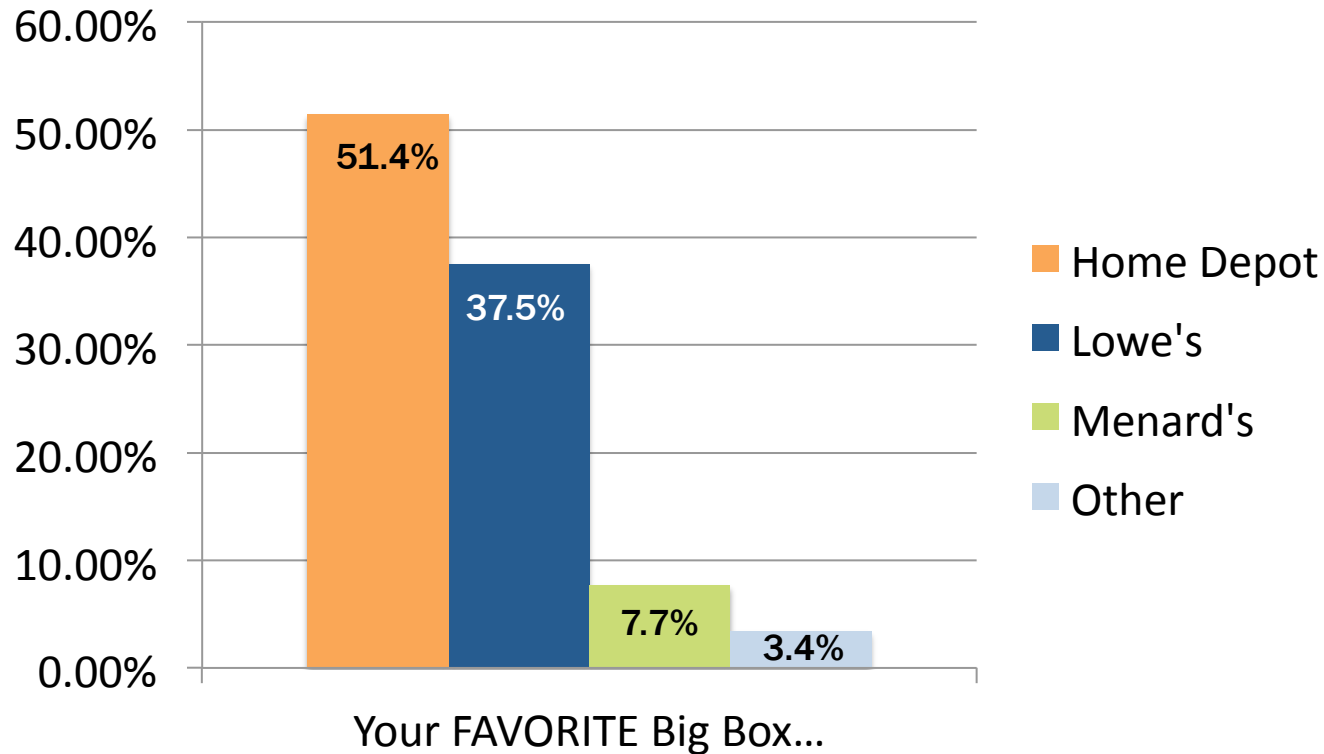


How they Stack Up



Source: NRHA 2012 Consumer Study

How they Stack Up



Source: NRHA 2012 Consumer Study



Home Depot

- Has weathered the damage done by interim leadership.
- Seem to have a clear path and a reinvigorated position for growth and market dominance.
- 2011 marked 2 years of positive sales growth.
- 3.4% comp-store sales growth.
- 3-pronged approach, Customer Service, Product Authority, Disciplined Cap Allocation.



Home Depot

- Focus on Customer Service
 - Four straight years of improving CS numbers.
 - Rolled out First for Pro CS initiative.
 - Goal 60% of payroll hours dedicated to CS.



- Product Authority
 - Upgrading Special Order systems
 - 70% of goods now flowing through centralized distribution.
 - Inventory turns up to 4.3x year over year from 4.1x



Home Depot

- Interconnected Retail
 - Customers can check inventory online.
 - Integrating mobile phone apps.
 - Multiple checkout options.
 - 300K SKUs online, adding 125K this year



Home Depot



- Introducing new HDX private label at entry price points.
- Used in 4-5 categories going forward.



Home Depot



- Aggressively promoting price with in-store aids.
- Also taking on new, non-traditional competition with pricing.



Home Depot





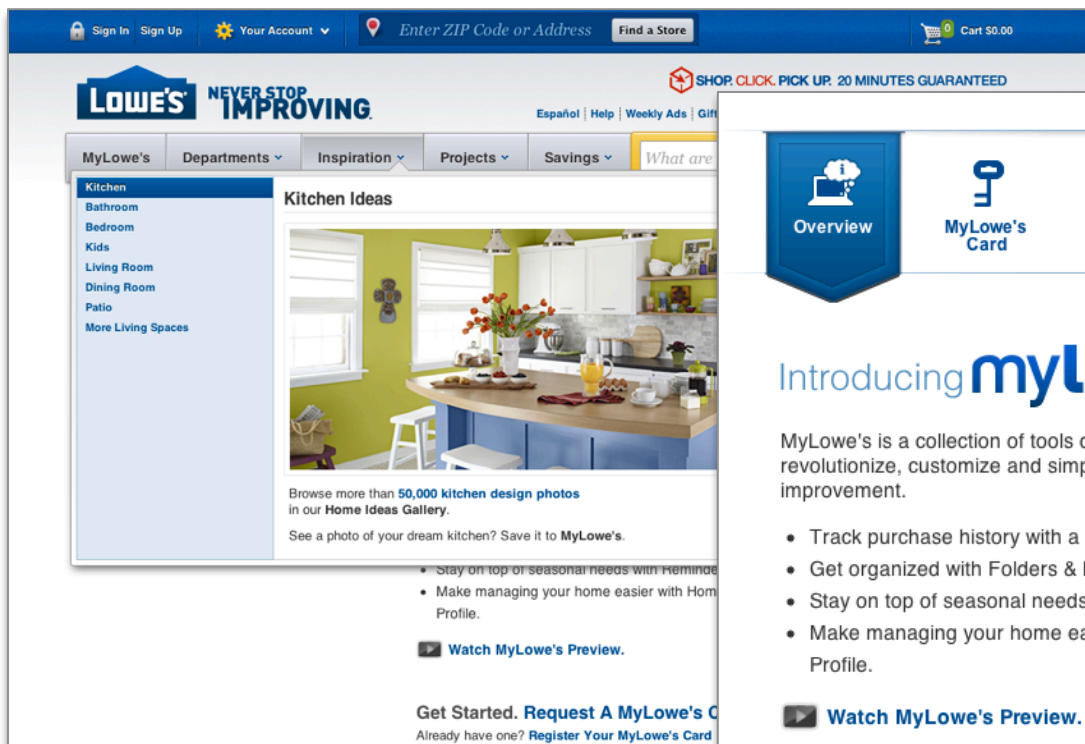
- While economy has impacted Lowe's, internal decisions have also hampered its market position.
- Struggling to maintain grip on its service edge.
- Struggling in contractor market space.
- Hurt itself with advertising flap.
- Never Stop Improving or Never, Stop Improving!







- In contrast to Depot, Lowe's saw flat comp-store sales in 2011.
- Pledge to transform from home improvement retailer to a home improvement company.
- Like Depot, focusing on improving in-store service performance.
- Refocusing on EDLP.



- Spending major resources to build “seamless” logistics operation.
- Also looking to augment customer experience through online interaction and in-store merchandising components such as video and kiosk, wireless employee information access.






Introducing mylowes

MyLowe's is a collection of tools designed to revolutionize, customize and simplify home improvement.

- Track purchase history with a MyLowe's card.
- Get organized with Folders & Lists.
- Stay on top of seasonal needs with Reminders.
- Make managing your home easier with Home Profile.

 [Watch MyLowe's Preview.](#)

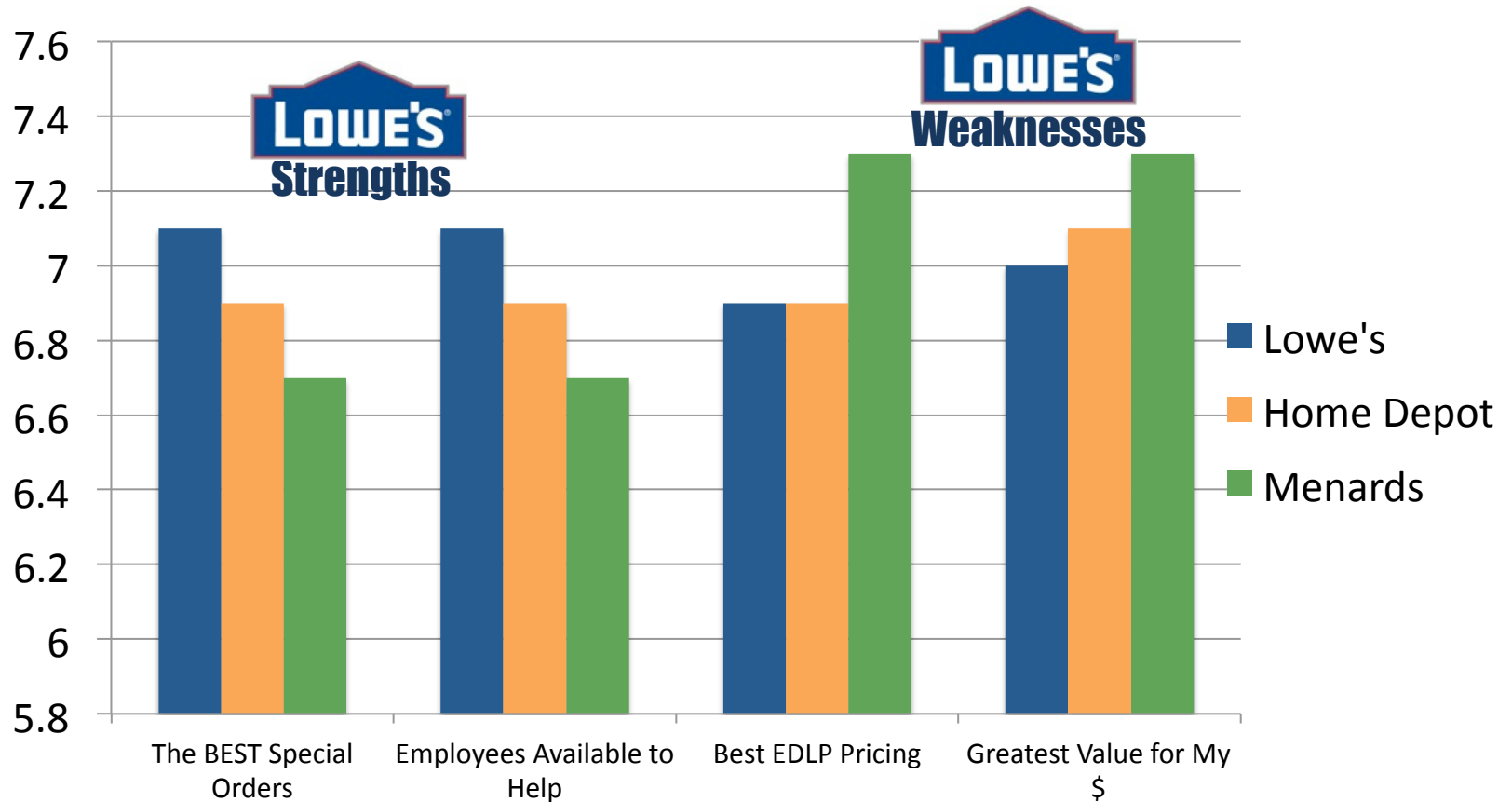
Get Started. Request A MyLowe's Card
Already have one? [Register Your MyLowe's Card](#)





- While EDLP is the new focus, direct comparisons will also be prevalent at Lowe's.







- Content to let HD and Lowe's slug it out as the blue and orange mirrors of one another.
- No concerns over shareholder position.
- Bigger is better theory.
- Unique merchandising among the boxes.
- Everything says value!



- Continues to build it big with 260k+ square foot stores in some markets.
- Merchandising has changed a bit as they focus more on non-core categories in power areas.
- Value proposition plays well in down economy.
- Biggest emerging question surrounding Menard's is succession.

MENARDS® Menard's



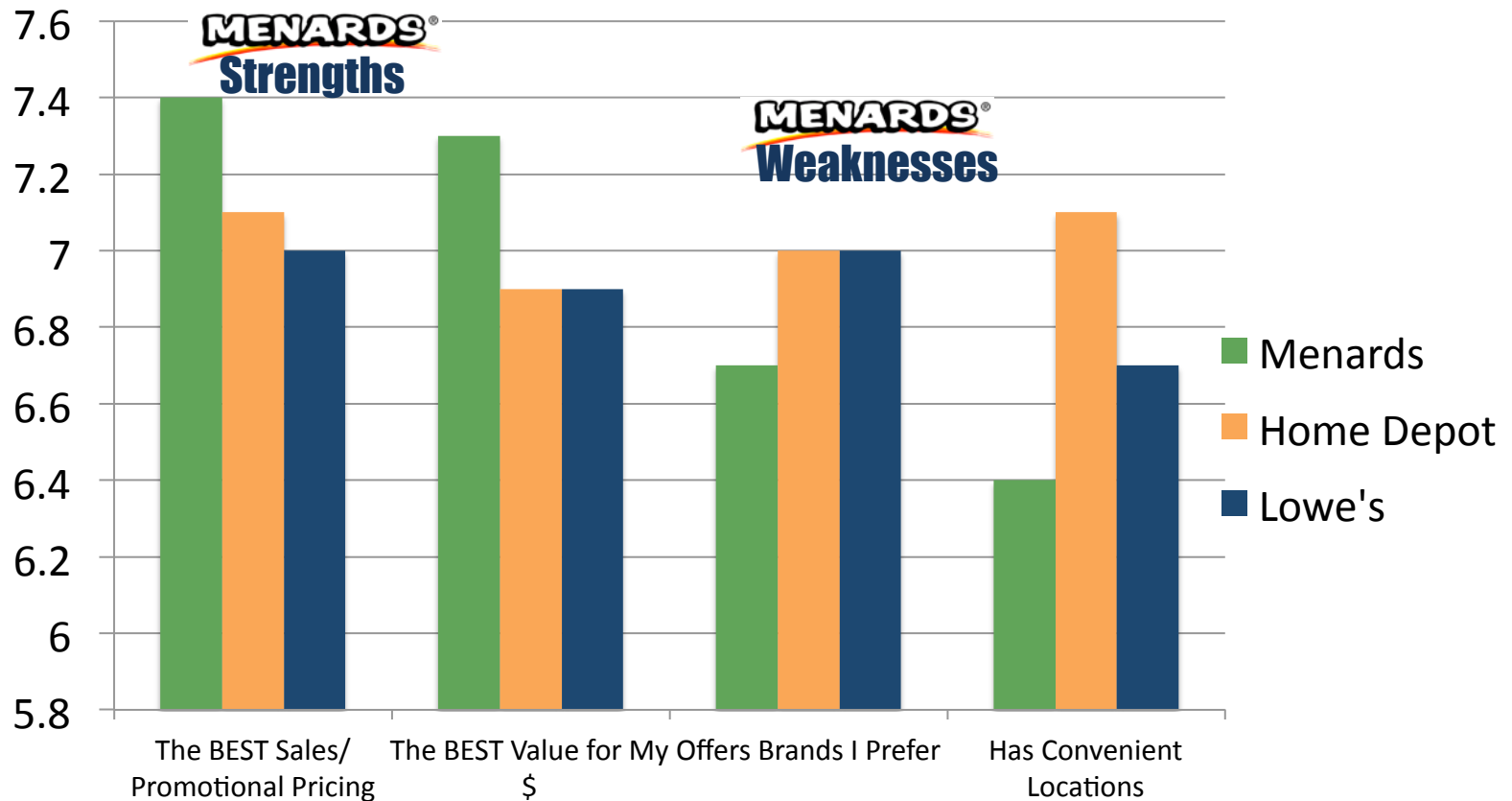
- Continues to focus on measured growth and retrofitting to larger formats.





- The price/value equation presented by Menard's resonated deeply with the consumers we surveyed.
- Menard's is not considered highly for its conveniences or the services it offers.
- Surprisingly, the consumers we interviewed did not see a dramatic difference in service levels.

MENARDS® Menard's



Things to Take Away

- The recession turned the lights on for big boxes and highlighted their challenges.
- Consumers still embrace the big box concept.
- Focus on customer service and pricing will raise the bar and deliver more to customers.
- Ultimately the market will decide who is doing it best.
- Have the big two outgrown themselves and can they sustain the current store levels.
- Can the U.S. support a three box atmosphere.
- Is anyone TOO BIG TO FAIL?

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THANK YOU!

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