
Winning Retail Strategies

How Hardware Retailers Successfully Co-Exist with Big Boxes

A REPORT ON THE STUDY

*Retail Strategies for the 21st Century:
Competing with the Big Boxes*

Published by



Russell R. Mueller Retail Hardware Research Foundation

5822 West 74th Street
Indianapolis, Indiana 46278
Phone: (317) 290-0338
Fax: (317) 328-4354

Research conducted by

Reginald A. Litz, Ph.D
Associate Professor of Marketing
Asper Centre for Entrepreneurship
University of Manitoba
Winnipeg, Manitoba

Edited by

Ellen E. Hackney

PREFACE

Russell R. Mueller
Retail Hardware Research Foundation



Organization

The Russell R. Mueller Retail Hardware Research Foundation was established in 1968 as a living memorial to Russell R. Mueller, managing director of the National Retail Hardware Association from 1952 through 1967. Mr. Mueller was a life-long crusader and hardware industry leader who made major contributions to the hardware industry as an advocate for the independent retail hardware dealer.

Objectives

The purpose of the Mueller Foundation is to conduct continuing special research and educational activities for the improvement of hardware retailing. According to the Foundation’s charter, all such research and education activities must fulfill a basic need, must not duplicate projects or programs of the National Retail Hardware Association or any other industry organization, must be of industry-wide interest and application, must have retention value over a period of years and must serve to perpetuate the causes for which Russ Mueller worked. All information developed by the Foundation is made available throughout the industry.

Financial

Funded by an initial grant of \$50,000 from the Board of Directors of the National Retail Hardware Association, the Mueller Foundation is organized as a non-profit business league. Continuing research projects are funded by voluntary contributions from individuals, companies and organizations at all levels of distribution throughout the hardware industry and by grants.

Administration

The Board of Directors of the Mueller Foundation consists of representatives of the major segments of hardware distribution, including retailing, wholesaling and manufacturing. All Board members serve without compensation, assuring that 100 percent of the Foundation’s income is available to finance research and education projects.

Board of Directors
2003-2004

PRESIDENT
Del Garber
Gig Harbor Ace Hardware
Gig Harbor, Washington

DIRECTORS
Michael M. O’Hara
O’Hara True Value Hardware Inc.
Ottumwa, Iowa

Myron Boswell
Orgill Inc.
Memphis, Tennessee

William Hudson
H.D. Hudson Manufacturing Co.
Chicago, Illinois

John Haka
Midwest Hardware Association
Stevens Point, Wisconsin

Mac Hardin
Minnesota-Dakotas Retail Hardware Association
Hopkins, Minnesota

EXECUTIVE VICE PRESIDENT
John P. Hammond
National Retail Hardware Association
Indianapolis, Indiana

SECRETARY/TREASURER
Thomas W. Smith
National Retail Hardware Association
Indianapolis, Indiana

Acknowledgements

The Russell R. Mueller Retail Hardware Research Foundation wishes to thank the sponsors of the study, *Retail Strategies for the 21st Century: Competing with the Big Boxes*, for their financial support, the nearly 350 retailers who took the time to answer a confidential 12-page questionnaire and several individuals whose talents and hard work made this study and the *Winning Retail Strategies* report possible. Their support is truly appreciated.

John P. Hammond
Executive Vice President
Russell R. Mueller Retail Hardware Research Foundation

Gold Sponsors

Ace Hardware Corp., Oak Brook, Illinois
Distribution America, Des Plaines, Illinois
Do it Best Corp., Fort Wayne, Indiana
Orgill Inc., Memphis, Tennessee
PRO Hardware Inc., Centennial, Colorado
TruServ Corp., Chicago, Illinois

Silver Sponsors

Flood Co., Hudson, Ohio
H.D. Hudson Manufacturing Co.,
Chicago, Illinois
Robert Bosch Tool Corp./Accessories Div.,
Mt. Prospect, Illinois

Individuals

Katrina Murray
Nancy Vondersaar
National Retail Hardware Association

Grant Starke
University of Manitoba

CONTENTS

Executive Summary

10

Winning Retail Strategies

11

Profile of Study Respondents

12

Profile of Respondents’ Market

13

Customer Base for Hardware Stores

13

How Difficult Is It to Compete?

14

What Do Customers Think?

14

What Do Customers Do?

14

How the Study Was Conducted

15

Strategy #1: Build Customer Relationships

16

Strategy #2: Train Employees

20

Strategy #3: Compete Aggressively

23

Strategy #4: Adapt Product Mix

27

Strategy #5: Offer Special Services

31

The Small Market Difference

34

©2004 by the Russell R. Mueller Retail Hardware Research Foundation. All rights reserved. Except as permitted under the United States Copyright Act of 1976, no part of this publication may be reproduced or distributed in any form or by any means or stored in a database or retrieval system without prior written permission of the publisher. Printed in the United States of America by SPG Graphics, Inc, Indianapolis, Indiana. Single copy price: \$50 for hardware/home improvement industry; \$100 for non-hardware/home improvement industry. Multiple-copy pricing available on request.

EXECUTIVE SUMMARY

Retail Strategies for the 21st Century: Competing with the Big Boxes is a research study that details strategies and tactics independent hardware retailers can implement to co-exist with big box home improvement centers. During the year-long project, nearly 350 hardware store owners and managers completed a comprehensive questionnaire seeking information on a wide array of retailing activities.

The research targeted seven major metro areas and rural counties in three states. The major markets were San Diego, CA, Atlanta, GA, Chicago, IL, Kansas City, MO/KS, Minneapolis/St. Paul, MN, New York City/Long Island, NY and Seattle, WA. The small markets were counties with a population density of 300 or fewer people per square mile in Iowa, North Carolina and Texas.

The results compare the actions of high profit retailers to those of the rest of the panel of respondents. Additional analysis examines differences in competitive actions traceable to the distance between the hardware store and the big box and the length of time a big box competitor has been in the market. A special analysis focuses on results from the three small market states.

The study defines five strategies hardware stores use to co-exist with big boxes. Within each strategy are a number of tactics or actions retailers can evaluate and blend into a strategy that will be effective for their own market. Those strategies are:

Build Customer Relationships – Personal relationships with customers seem to be the greatest strength for independent hardware stores. The more they can do to be accessible to their customers and accommodate their needs, the better they can compete.

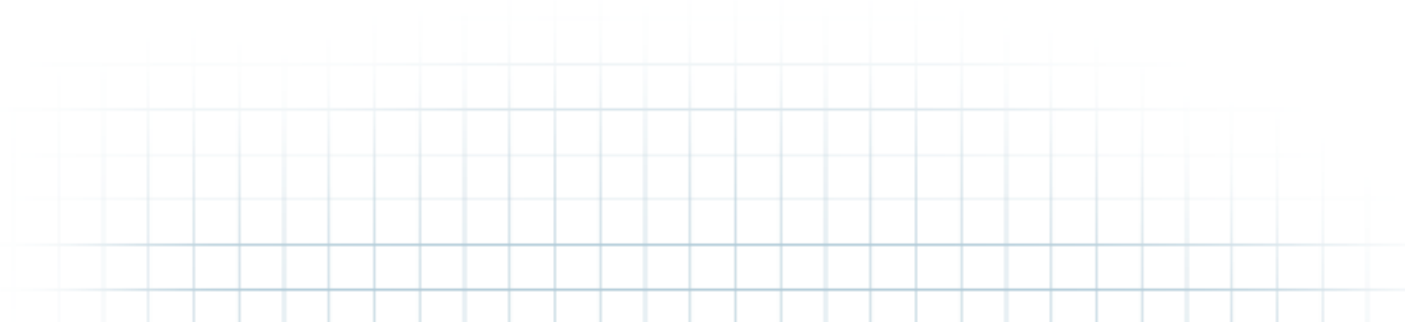
Train Employees – Many of the products sold by hardware stores require some degree of technical knowledge to help customers make the right purchase. Most of the training techniques used today are informal.

Compete Aggressively – Hardware stores make serious efforts to learn as much as they can about neighboring big boxes and move aggressively to differentiate themselves from larger rivals.

Adapt Product Mix – Hardware stores take a similar but different approach to product mix, making an effort to stock merchandise that complements rather than competes directly with the product mix of the big boxes.

Offer Special Services – Hardware stores tend to offer special services that relate directly to the products they sell and that can be handled quickly on the salesfloor. They seem less inclined to set themselves up as service or repair sources.

The study was commissioned by the Russell R. Mueller Retail Hardware Research Foundation and conducted between September 2003 and March 2004 by Reginald A. Litz, Ph.D, associate professor of marketing in the Asper Centre for Entrepreneurship at the University of Manitoba, Winnipeg, Manitoba.



How Hardware Retailers Successfully Co-Exist with Big Boxes

For a quarter century big box home improvement centers have been moving into neighborhoods once the domain of independent hardware stores. In the beginning, the arrival of a big box struck terror in the hearts of hardware retailers.

For some, the competition proved too much. For others it was the impetus to stand up and fight. Those retailers are more than survivors – much more.

They are strong, well-managed, market-savvy businesses whose owners learned what was important to them and, more critically, what is important to their customers. They learned one profound lesson: It makes more sense to co-exist with a big box than to compete head-on!

Retailers have said that the arrival of a big box makes an impact on customer traffic and sales, but in most cases it is short lived. Once the newness of a big box has worn off, customers come back. More often than not, business for the independent hardware store improves.

Although anecdotal evidence supports the success of independent hardware stores, there has been little in the way of true research to define how independents compete with bigger rivals. A new study, *Retail Strategies for the 21st Century: Competing with the Big Boxes*, commissioned by the Russell R. Mueller Retail Hardware Research Foundation, defines the challenges facing independent hardware retailers and how they succeed in the face of big box competition.

Conducted by Reginald A. Litz, Ph.D, an associate professor of marketing in the Asper Centre for Entrepreneurship at the University of Manitoba in Winnipeg, Manitoba, the study surveyed some 350 hardware retailers about their competitive experiences.

Accepting the premises that big boxes

do have an immediate impact on any market they enter and that independents can co-exist with them, the study addresses the following questions:

1. How do independent hardware retailers co-exist successfully in the same market with a big box home improvement center?
2. What do highly profitable retailers do that is different from more typical stores?
3. Does it matter how far away a big box is in devising competitive strategies?
4. Do retailers change tactics after a big box has been in the neighborhood for a while?

Independent family-owned businesses account for some 90 percent of store units in the United States and nearly half the sales in the \$200-plus billion hardware/home improvement retail market. At 20,000-plus strong, hardware stores outnumber the stores operated by

the 25 largest chains by about five to one. Hardware stores are in markets of all sizes. They are close to their customers – in more ways than one.

The Mueller Foundation study shows clearly that independent retailers face crucial challenges. Price and product selection top the list.

One particularly frustrating aspect is the penchant of customers to go to big boxes first, thinking their prices are lower. The study participants feel that a major challenge is convincing customers to come to the hardware store first.

The hardware retailers do not seem to be wearing rose-colored glasses when they evaluate their own situation. While they believe they are way ahead of their big box competitors in terms of customer service, special services and knowledgeable employees, they tend to believe that the big box has a better location and traffic flow.

“We really don’t focus on competing with big box stores, but rather on serving our customers our best and creating an atmosphere in our store that is friendly and inviting. We do not feel badly when we refer customers to Home Depot or Lowe’s, but more grateful that they exist to serve also in areas we cannot because of space limitations, etc.” – Texas retailer

“When the big box store opened, our business took a clip of 25 percent. Took several years to get back our customers. One of our small competitors closed. I have a manager second to none. He is a great merchant and knowledgeable, pleasant person. We have developed personal relationships with many of our customers. We accept that many of our customers also shop at Home Depot.”

– New York retailer

That said, the responding retailers face the future with a positive attitude, primarily because, as the study shows, there are many specific actions hardware stores can take to be successful. The study focuses attention on the most successful stores, those that produce a higher than average net operating profit with big boxes in their markets.

High profit hardware stores are defined as those with net operating profit of at least 7.4 percent; this is the average net profit for high profit stores (the top 25 percent in terms of return on assets) who reported to the National Retail Hardware Association’s 2003 *Cost of Doing Business Study*. The entire panel of Mueller Foundation study participants reported a higher than average net operating profit of 4.0 percent.

According to the Mueller Foundation

study, competitive tactics can be sorted into five strategies. Within each strategy are a number of tactics or actions that can be blended into a competitive plan that fits a hardware retailer’s individual market. The strategies:

Build Customer Relationships – Personal relationships with customers seem to be the greatest strength for independent hardware stores. The more they can do to be accessible to their customers and accommodate their needs, the better they can compete.

Train Employees – Many of the products sold by hardware stores require some degree of technical knowledge to help customers make the right purchase. Most of the training techniques used today are informal.

Profile of Study Respondents

Several questions in the Mueller Foundation study were designed to gather operational data about the respondents. In most areas, operational figures closely parallel the averages from the National Retail Hardware Association’s annual *Cost of Doing Business Study*. The major exception is pre-tax net operating profit, where the study participants reported substantially higher profitability. This would indicate that respondents are highly aggressive competitors.

	Average for Survey Respondents	Average for Typical Hardware Store (from <i>Cost of Doing Business Study</i>)
Annual sales volume per store	\$1.1 million	\$1.1 million
Salesfloor size	7,000 square feet	8,000 square feet
Number of full-time equivalent employees	10	9
Number of full-time employees	7	NA
Number of part-time employees	6	NA
Sales per square foot	\$157	\$148
Gross margin	39.4%	40.1%
Pre-tax net operating profit	4%	2.5%
Type of location	Free-standing store	NA
Number of parking spaces	25	NA
Number of years in business	32	NA

Customer Base for Hardware Stores

The study reveals no surprises in the type of customers who are important to hardware stores. Do-it-yourselfers top the list followed by professional tradespeople. Still, half or more of the study respondents said all types of customers were important.

Percent of Hardware Retailers Saying Customer Group is Important	
Do-it-yourselfers	87%
Professional tradespeople	72%
Contractors and builders	58%
Industrial/commercial buyers	54%
Institutional buyers	51%
Women shoppers	79%
Parents with children	69%
Senior citizens	67%

Profile of Respondents' Markets

The Mueller Foundation study profiles the type of market in which independent hardware stores co-exist with big box home improvement centers. In general, there's more than one big box close to the hardware store. The Home Depot, Lowe's Home Improvement Centers and Menard's were most often mentioned as being near-by competitors. However, study participants seem to have a solid customer base with nearly half their customers living within a mile of the store and two-thirds of them shopping at the hardware store for at least five years. Most of the responding retailers think the big box has a better retail location and better traffic flow.

Average number of big box home improvement centers in the market	2.1
Average distance between big box and hardware store	6 miles
Average driving time between big box and hardware store	15 minutes
Average number of years the big box has been in the market	6.5 years
Percent of customers living within one mile of hardware store	44%
Percent of customers who have been buying from hardware store for at least five years	64%
Percent of hardware retailers who think their store has better traffic flow than the big box	13%
Percent of hardware retailers who think their store has a better general retail location than the big box	22%

“In many ways the big box is our best advertising ... our type of customer goes to the big box and returns to us forever. This is the customer who values our product knowledge and personal service.”
– New York retailer

Compete Aggressively – Hardware stores make serious efforts to learn as much as they can about neighboring big boxes and move aggressively to differentiate themselves from larger rivals.

Adapt Product Mix – Hardware stores take a similar but different approach to product mix, making an effort to stock merchandise that complements rather than competes directly with the product mix of the big boxes.

Offer Special Services – Hardware stores tend to offer special services that relate directly to the products they sell and that can be handled quickly on the salesfloor. They seem less inclined to set themselves up as service or repair sources.

In addition to isolating actions that can contribute to greater profitability, the study presents detailed data on how actions in each of the five strategies differ by distance between the hardware store and big box and by the length of time the two have been competing. A separate set of data define the differences between hardware stores in small markets and those in larger cities. This report presents statistical findings from the Mueller Foundation study in detail. Retailers can use this information to plan their own strategies by looking at the figures that most closely describe their own situations. Although the study reveals no single formula for success, it offers solid evidence that independent hardware stores can mix and match competitive actions that will fit their own stores and market.

How Difficult Is It to Compete with Big Boxes?

One would expect independent hardware stores to find it very difficult to compete with big box home improvement centers. To find out, the Mueller Foundation study included a series of statements about the competitive situation. Retailers rated their agreement with each statement on a scale of one to five, with one being strongly disagree and five being strongly agree.

The hardware stores’ rating on general difficulty in competing was 2.87, not a particularly high rating. An encouraging sign is that the rating on becoming more difficult to compete is slightly lower. Not surprisingly, price image is the hardware store’s biggest challenge, with a much higher rating than actual pricing. Hardware retailers find it most difficult to compete in home improvement and lawn and garden product categories, where big boxes would be expected to be strong. With a 1.6 rating, customer service would seem to be the independents’ greatest strength, a finding borne out elsewhere in the study.

	Average Rating
I find it difficult to compete generally	2.87
It is becoming more difficult to compete	2.84
It is difficult to compete in product selection	3.5
Home repair products	2.9
Home improvement products	3.5
Lawn and garden products	3.2
Niche categories	2.5
It is difficult to compete on price image	4.1
It is difficult to compete on actual pricing	3.3
It is difficult to compete in customer service	1.6
It is difficult to compete on special services	2.0

“Our customers tell us they do not like to shop at the big stores, but they visit us second all the time and usually find what they need. How do we become the first stop?”

– Minnesota retailer

What Do Customers Think?

Retailers must deal with customer perceptions, regardless of the reality. Several questions in the Mueller Foundation study presented statements about what customers think about big box home improvement centers. The findings are not surprising. Hardware retailers say their customers believe the big box has lower prices and better product selection, but have a much lower opinion of big box special services and customer service.

	Percent of Retailers Agreeing with Statement
The big box has lower prices	81%
The big box has better product selection	73%
The big box has better special services	13%
The big box has better customer service	3%

What Do Customers Do?

Customer actions can speak louder than words. Two statements in the Mueller Foundation study highlight major challenges for independent retailers. More than half the respondents said customers go to the big box first. They also indicated in written comments that customers usually find out the hardware store pricing is competitive with the big box, but still go there first. Price matching does not seem to be as much of a concern.

	Percent of Retailers Agreeing with Statement
Customers say they go to the big box first	57%
Customers ask us to match big box prices	23%

How the Study Was Conducted

Retail Strategies for the 21st Century: Competing with the Big Boxes is a year-long study designed to define effective strategies used by independent hardware retailers to compete with big box home improvement centers. It was commissioned by the Russell R. Mueller Retail Hardware Research Foundation and conducted by Reginald A. Litz, Ph.D, an associate professor of marketing in the Asper Centre for Entrepreneurship at the University of Manitoba in Winnipeg, Manitoba.

The study was designed to:

Discover competitive actions taken by independent hardware retailers in terms of product mix, service mix, selling techniques/customer relations, employee education/training and interactions with big box home improvement competitors.

Identify actions that differentiate successful or high profit hardware stores from more typical retailers.

Relate competitive actions to the distance between the independent hardware store and the big box and the length of time a big box has been in the market.

Generate practical suggestions that independent hardware stores can use to improve operational strategies.

The study was conducted between September 2003 and March 2004 in seven major metropolitan markets and three small rural markets. The metro markets were San Diego, CA, Atlanta, GA,

Chicago, IL, Kansas City, MO/KS, Minneapolis/St. Paul, MN, New York City/Long Island, NY and Seattle, WA. The small markets were counties with a population density of 300 or fewer people per square mile in Iowa, North Carolina and Texas.

The Foundation acquired lists of retailers identified as hardware stores from *Do-It-Yourself Retailing* magazine's circulation list. Researchers called each store to confirm classification as a hardware store and receive the owner's or manager's agreement to participate in the study. These stores received a confidential 12-page by-mail questionnaire, which was field tested in hardware stores in North Dakota and Minnesota.

From a total list of 1,974 stores, approximately 1,000 met the criteria and agreed to participate. Three-hundred and forty-seven stores responded to the survey, for an effective response rate of 34.7 percent.

In an effort to determine what successful hardware stores do differently, researchers identified a group of high

profit stores. The National Retail Hardware Association's 20 03 *Cost of Doing Business Study* shows that high profit hardware stores, the top quartile of participating stores in terms of return on assets, reported a net operating profit before taxes of 7.4 percent of net sales.

Researchers isolated survey respondents with before tax net operating profit of at least 7.4 percent and compared their responses to the others. The high profit retailers represented about a third of the respondents who provided net profit figures.

STRATEGY #1

16

Build Customer Relationships

Customer relationships are all important for independent hardware stores competing with big box home improvement centers. They may be the most important advantage independents have. And these relationships are even more important when a big box is newly arrived or very close.

Participants in the Mueller Foundation study ranked activities designed to reach out to customers and establish personal relationships higher than anything else they can do. They want to make themselves as accessible to customers as they can.

Accessibility is more than a convenient location and operational policies. It is an entire way of doing business, a corporate or company culture that puts the customer first – always.

The respondents to the study **spend time on the salesfloor, know customers by name, develop friendships and take whatever time is necessary** to help solve customers' problems.

They have **hassle-free return policies, don't ask for deposits on special orders and then hold the orders as long as necessary** for customers to pick them up.

They **keep the store open past posted hours, will open in the middle of the night** for emergencies and **give out their home phone numbers**.

They will **loan products to customers** to take home and try out before making a purchase. And they **give small on-the-spot discounts**.

These activities are so important that there is little difference between the high profit participants and the rest of the panel. In fact, the high profit retailers were significantly stronger in only two areas – giving out their home phone numbers in case of emergency and opening in the middle of the night for an emergency.

The distance between the hardware retailers and big box home improvement centers seems to make a difference, though. According to the study, the closer an independent retailer is to a big box, the more likely he or she is to aggressively court customers.

High profit retailers within three miles of a big box show a significantly higher inclination to develop friendships with customers, accept returns without receipts stay open past posted hours,

give out their home phone numbers, open in the middle of the night and loan products to customers.

Ten miles seems to be a dividing point. Retailers who said their big box competitor was more than 10 miles away tended to tighten up on return policies and be less inclined to give on-the-spot discounts

The length of time a big box has been in the market does not seem to make as much difference as distance in the independents' efforts to build customer relationships. They work hard at it no matter how long the big box has been around.

The study does, however, indicate a few differences in how the high profit respondents deal with a big box over time. The tendency to give on-the-spot discounts to customers is a good example.

The perception that hardware stores are higher priced than big boxes is the biggest competitive concern for the study participants. Giving surprise on-the-spot discounts is a way of overcoming that perception. During the first three years a big box is in the market, the hardware retailers tend to be quite aggressive at giving these discounts. As time goes on, however, the high profit respondents seem to ease off and begin to drop that practice. The implication is that they feel they have established themselves as being priced fairly and they forego the discounts as a means of protecting their profits.

"Community involvement very important. Make as many friends as possible. Be involved with your major wholesalers. And go to markets to look for new products and trends. Develop service revenue. Keep an eye on what local community needs are." – New York retailer

How Retailers Build Customer Relationships

The most important competitive strategy to be identified by the Mueller Foundation study is building personal relationships with customers. The study questionnaire listed a series of actions that retailers might reasonably take to tie customers more closely to their stores. Retailers were asked to rate each action on a scale of one to five, with one meaning never done and five meaning done very often.

The analysis of responses compares the actions of high profit retailers to those of the other participants.

Not surprisingly, actions that involve personal interaction with customers receive the highest ratings. All actions but one were rated at 2.5 or better. There is not much difference between the high profit respondents and the rest of the panel. In fact, only two actions showed significant differences. A statistical significant difference is a rating difference of at least 0.5 point.

The two actions where ratings of high profit retailers are significantly higher than the others are giving their home phone numbers to customers and opening the store in the middle of the night.

Customer Relationship Action	Average Rating	
	High Profit Retailers	All Other Retailers
Make it a priority to be out on the salesfloor to get to know customers	4.43	4.41
Greet customers by name	4.43	4.30
Try to develop friendships with customers	4.43	4.10
Take extra time to make sure customers' needs are understood	4.35	4.34
Place special orders without a deposit	3.97	3.97
Get involved in community activities and events	3.87	3.77
Take back products even if opened	3.60	3.81
Take back products without a receipt	3.46	3.31
Hold merchandise for pick-up longer than the normal length of time	3.46	3.55
Take back products even if used	3.38	3.13
Keep the store open past posted hours	3.30	3.01
Give small on-the-spot discounts to customers	3.11	3.03
Give home phone number to customers in case of emergency	2.89	2.43
Open the store in the middle of the night to help with an emergency	2.81	2.28
Loan products to customers to try before buying	2.54	2.27
Respond to customer e-mail requests	2.14	2.33

“We emphasize that our employees greet each customer and help them throughout the whole process of selecting what’s needed and paying for the items. Customer service door to door.”

– Washington retailer

Distance Makes a Difference

One purpose of the Mueller Foundation study was to find out if distance from a big box home improvement center makes a difference in the actions taken by independent hardware stores. It does.

Although actions that involve personal relationships with customers are important regardless of distance from the big box, actions relating to operational policies seem to change as distance between big box and hardware store becomes greater. In general, 10 miles seems to be the distance where significant differences begin to appear.

For example, return policies seem to be less generous when the hardware store is more than 10 miles from the big box. Hardware stores are less inclined to give

small on-the-spot discounts and to stay open past posted hours. The high profit participants, however, do not seem to change policies significantly when distance increases. If anything, they may be even more inclined to respond to customer needs by giving out their home phone numbers and opening in the middle of the night.

The following chart reports average ratings for actions taken to build customer relationships. Retailers rated each action on a scale of one to five, with one meaning never and five meaning very often. A statistical significant difference is at least 0.5 point.

The chart compares actions by high profit stores to those of the rest of the

panel of participants based on the distance between the hardware store and the big box home improvement center. The best way to use the data in this chart is to find the distance range that best fits your store and see what high profit stores do. These actions should be carefully considered in formulating a competitive strategy.

“Customer service is king. Friendly people who know what they are talking about are a must.” – Texas retailer

	Average Rating							
	Within 3 miles		3-10 miles		10-20 miles		20-60 miles	
	High Profit	All Others	High Profit	All Others	High Profit	All Others	High Profit	All Others
Make it a priority to be out on the salesfloor to get to know customers	4.55	4.50	4.56	4.27	4.25	4.36	4.40	4.46
Greet customers by name	4.36	4.16	4.33	4.33	4.25	4.29	5.00	4.54
Try to develop friendships with customers	4.64	4.14	4.22	3.87	3.75	4.29	4.80	3.92
Take extra time to make sure customers' needs are understood	4.46	4.46	4.56	4.13	4.00	4.43	4.20	4.23
Place special orders without a deposit	3.64	3.91	4.00	3.93	4.25	4.21	3.80	4.15
Get involved in community activities and events	4.00	3.63	3.89	3.60	4.00	4.36	3.40	3.92
Take back products even if opened	3.55	3.82	4.11	3.80	3.50	4.00	3.00	3.69
Take back products without a receipt	3.82	3.32	3.78	3.40	3.00	3.57	3.40	3.00
Hold merchandise for pick-up longer than the normal length of time	3.73	3.57	3.44	3.67	3.50	3.36	3.00	3.23
Take back products even if used	3.27	3.07	3.67	3.43	2.75	3.43	3.20	2.69
Keep the store open past posted hours	3.46	2.75	3.22	3.20	3.50	3.43	3.20	3.23
Give small on-the-spot discounts to customers	3.55	3.14	2.78	3.07	2.25	2.86	3.20	2.92
Give home phone number to customers in case of emergency	3.09	2.07	2.33	2.17	3.00	2.86	2.40	3.31
Open store in the middle of the night to help with an emergency	2.91	1.91	2.67	2.03	3.25	3.00	2.60	2.85
Loan products to customers to try before buying	2.82	2.21	2.78	2.20	2.50	2.64	2.00	2.39
Respond to customer e-mail requests	1.82	2.21	2.56	2.76	3.00	2.36	1.40	2.15

Time Isn't Critical

Duration, or the length of time a hardware store has been co-existing with a big box home improvement center, is another competitive variable examined in the Mueller Foundation study. The question was whether hardware stores change their competitive behavior after a big box has been in the market for several years. The answer seems to be yes, but not significantly.

Again, actions that involve personal relationships with customers are of utmost importance and do not seem to change over time. Nor is there much difference between the behavior of high profit stores and the rest of the study participants. Two areas of significant difference are in the inclination to give small

on-the-spot discounts and place special orders without a deposit. The high profit retailers seem to ease off on giving discounts after the big box has been around for more than three years and are more likely to forego deposits.

The following chart reports average ratings for actions taken to build customer relationships. Retailers rated each action on a scale of one to five, with one meaning never and five meaning very often. A statistical significant difference is at least 0.5 point.

The chart compares actions by high profit stores to those of the rest of the panel of participants based on the time the big box home improvement center has been in the market. The best way to

use the data in this chart is to find the time range that best fits your store and see what high profit stores do. Then look at actions of high profit stores who have been competing with big boxes longer. These actions suggest what could be done now and in the future in formulating an operational strategy.

Average Rating

	3 Years or Less		3-8 Years		8-20 Years	
	High Profit	All Others	High Profit	All Others	High Profit	All Others
Make it a priority to be out on the salesfloor to get to know customers	4.67	4.44	4.33	4.33	4.40	4.51
Greet customers by name	4.60	4.35	4.25	4.26	4.40	4.34
Try to develop friendships with customers	4.25	4.10	4.50	4.48	4.50	3.83
Take extra time to make sure customers' needs are understood	4.25	4.35	4.50	4.41	4.30	4.34
Place special orders without a deposit	3.67	4.15	3.92	3.85	4.40	4.02
Get involved in community activities and events	3.83	4.00	3.75	3.60	4.20	3.75
Take back products even if opened	3.58	3.77	3.58	3.93	3.60	3.83
Take back products without a receipt	3.58	3.32	3.33	3.48	3.40	3.20
Hold merchandise for pick-up longer than the normal length of time	3.75	3.68	3.00	3.63	3.50	3.46
Take back products even if used	3.33	3.13	3.24	3.22	3.00	3.17
Keep the store open past posted hours	3.67	3.21	2.75	2.96	3.50	2.98
Give small on-the-spot discounts to customers	3.41	3.12	2.92	3.26	2.70	2.98
Give home phone number to customers in case of emergency	3.00	2.71	2.25	2.30	3.30	2.24
Open store in the middle of the night to help with an emergency	3.17	2.32	2.33	2.19	3.00	2.32
Loan products to customers to try before buying	2.75	2.30	2.33	2.33	2.60	2.20
Respond to customer e-mail requests	1.92	2.27	2.08	2.72	2.44	2.20

STRATEGY #2

Train Employees

Many of the products hardware stores sell require at least some product or technical knowledge. One strength that has traditionally been claimed by independent retailers is employees who are so knowledgeable they can answer customer questions and solve their home repair problems.

The Mueller Foundation study makes apparent the need for knowledge. What is not so apparent is how employees gain that knowledge.

Retailers participating in the study were asked to estimate the percentage of their sales that involve products requiring certain degrees of technical assistance. The amount of assistance needed ranged from none to expert advice.

Although the highest percentage of sales was allocated to products needing no technical assistance, the difference was very slight. In fact, the estimates ranged from 22.1% for expert instruction to 29.5% for no help. Basically, the four categories of assistance split about evenly.

This means that nearly three-fourths of sales involve products needing some kind of technical assistance for customers to buy

the right product and use it properly.

Although several survey participants commented on their well-trained employees and the inability of big box employees to answer even simple questions, overall responses suggest little is being done in the way of formal training.

Attending trade shows or buying markets, reading product brochures and catalogs and reading trade magazines are training activities most often used. They were closely followed by **gleaning information from local tradespeople or vendor representatives**.

These activities do not speak to formal training. Those that would – watching training videos or DVDs, using online educational materials and studying printed educational material – seem to be rarely used.

There is little difference between the practices of high profit retailers and other respondents. Neither distance from the big box nor the number of years the hardware stores have been competing with a big box make much difference.

If hardware store employees are truly better trained than those at big boxes, indications would be that they are learning very informally from older, more experienced employees or they bring personal knowledge with them to their jobs.

This lack of planned employee education has long term implications. Independent retail hardware stores may not be able to rely on a traditional reputation for knowledgeable, well trained employees. Their employees must be truly knowledgeable. This is a competitive strategy that needs attention.

“I think attracting, training and retaining exceptional employees is key to success in this business. That and staying close to our customers.” – Illinois retailer

“We train our employees in-house and daily assist in their product knowledge training. Extremely important in competing with the big boys.” – North Carolina retailer

How Retailers Train Employees

Employee training is considered a prime competitive advantage for independent hardware stores. The Mueller Foundation study sought to define how hardware retailers train their employees.

The questionnaire presented retailers with a series of activities related to employee education. Participants were asked to rate each activity on a scale of one to five. One meant they or their employees never participate in that activity; five meant they participate very often. Ratings were segmented for high profit retailers and the rest of the respondents.

The three activities with the highest ratings – attending trade shows or buying markets, reading product brochures and catalogs and reading trade magazines – are fairly informal, suggesting there may be a need for formal education programs.

When the participants were segmented for high profitability, by distance from the big box and by the number of years they

had competed with a big box, there were no significant differences. A statistical significant difference is at least 0.5 point. Three charts on pages 21 and 22 show these comparisons.

Reinforcing the need for training is the

fact that many products sold in hardware stores require some degree of technical assistance. A fourth chart (page 22) reports estimated percentages of sales of products based on the amount of technical assistance needed.

Training Activity	Average Rating	
	High Profit Retailers	All Other Retailers
Attend trade shows or buying markets	3.43	3.10
Read product brochures and catalogs	3.35	3.47
Read trade magazines	3.24	3.26
Get information from local tradespeople	2.76	2.82
Get information from vendor representatives	2.60	2.63
Read a book	2.49	2.38
Watch training video or DVD	2.38	2.66
Go online to an Internet site	1.95	1.87
Attend training event at another store	1.89	1.99

Distance from Big Box Competitor

	Average Rating							
	Within 3 miles		3-10 miles		10-20 miles		20-60 miles	
	High Profit	All Others	High Profit	All Others	High Profit	All Others	High Profit	All Others
Attend trade shows or buying markets	3.46	3.00	3.78	2.97	3.50	3.14	3.40	3.46
Read product brochures and catalogs	4.00	3.54	3.33	3.37	3.00	3.43	2.80	3.15
Read trade magazines	3.18	3.41	3.56	3.20	3.25	2.93	2.80	3.31
Get information from local tradespeople	2.91	2.91	2.89	2.83	2.50	2.79	2.60	2.62
Get information from vendor representatives	3.18	2.81	2.44	2.60	2.50	2.07	2.20	2.31
Read a book	2.73	2.54	3.00	2.20	2.25	2.36	1.80	2.23
Watch training video or DVD	2.27	2.88	2.11	2.33	3.00	2.57	2.00	2.62
Go online to an Internet site	2.09	2.00	2.00	1.67	2.50	2.07	1.60	1.62
Attend training event at another store	1.64	1.81	1.78	2.00	2.25	2.21	2.21	2.15

Length of Time Competing

	Average Rating					
	3 Years or Less		3-8 Years		8-20 Years	
	High Profit	All Others	High Profit	All Others	High Profit	All Others
Attend trade shows or buying markets	3.50	2.91	3.75	3.04	3.20	3.20
Read product brochures and catalogs	3.58	3.41	3.33	3.63	3.20	3.30
Read trade magazines	3.33	3.27	3.25	3.15	3.20	3.28
Get information from local tradespeople	2.58	2.79	2.83	2.96	2.90	2.75
Get information from vendor representatives	2.50	2.44	2.67	2.81	2.60	2.58
Read a book	2.50	2.21	2.58	2.44	2.40	2.38
Watch training video or DVD	2.08	2.49	2.67	2.63	2.50	2.70
Go online to an Internet site	2.08	1.73	1.75	2.07	2.10	1.83
Attend training event at another store	1.75	1.73	2.00	1.89	1.90	2.15

“Many customers asked me when Home Depot opened if Home Depot affected us. I said no; they helped us. People would ask why. I would say we have just as good prices, better quality of goods and much more knowledgeable store help. I visited Home Depot and found out that their help are the most unknowledgeable people I have ever met in the hardware industry.”

– New York retailer

Technical Assistance	
Type of Technical Assistance Needed	Percent of Sales
Products requiring no technical assistance; e.g.: direction to location in store	29.5%
Products requiring limited technical assistance; e.g.: information on sizes and models	22.8%
Products requiring some technical assistance; e.g.: basic advice on how to use the product	26.7%
Products requiring a lot of technical assistance; e.g.: expert instruction on how to use the product	22.1%

Compete Aggressively

The more you know about your competitor the more successfully you can compete. That philosophy would seem to describe what participants in the Mueller Foundation study do. They said price perception was their biggest challenge in competing with big box home improvement centers, but that, in actuality, they were priced fairly.

Their other competitive challenge is product selection. By the nature of their businesses, 7,000 to 8,000 square foot hardware stores cannot carry as many products as big boxes of 100,000 square feet or more.

Study participants are aggressive in positioning themselves to complement the big box and keep customers coming. They **visit big box competitors** to find out what products they sell and what prices they charge. They **study sale circulars** so they know what merchandise is being promoted.

They **adjust their merchandise mix** so they will not compete directly with the big box and they make an effort to **buy from manufacturers who do not sell to big boxes** – two tactics designed to differentiate themselves from the big box and to make direct price comparisons more difficult.

A complementary merchandise mix can take many forms. Examples: specialty hand tools a big box does not carry; accessory items such as replacement reels for string

trimmers regardless of brand or age; high end merchandise such as barbecue grills and accessories with price points above those in big boxes.

What all these tactics have in common is intimate knowledge of what the big box carries and creative thinking about how to take advantage of weaknesses.

Study respondents are **involved in community activities** which gives them access to information in an informal way. They **talk to their customers** who do not hesitate to let them know what they think about big boxes.

Many of them personally **know someone who works at a big box**. It could be a former employee, a friend or a family member. And it is likely the reason someone at the big box sends customers to the hardware store.

Other competitive tactics which can help overcome a high priced perception include **advertising loss leaders** and **matching prices**. Respondents were more likely to match prices on items

promoted in big box circulars than to match any price.

The high profit participants use the same tactics as the other responding stores; they just do so more aggressively.

All of these competitive actions are critical to retailers who are close to a big box. As distance increases, the study participants seem to worry less about what the big box is doing. This seems particularly true of the high profit stores. The farther they are from a big box the less likely they are to check the big box's product mix and adjust their own, check prices and try to match them or use loss leaders – all tactics that protect profit margins. Not surprisingly, they are also less likely to know someone who works at the big box and to have customers referred to them by the big box.

The high profit participants also seem to become less sensitive to the big box as years go by. The longer they compete with a big box the less likely they are to adjust product mixes, match prices and use loss leaders.

"We can compete with Home Depot and Lowe's if we emphasize our strengths. Service and selection are essential. Convenience counts for a lot also. Price is only primary to those who will never be loyal customers to any store." – New York retailer

BY THE NUMBERS

How Hardware Stores Compete

Another objective of the Mueller Foundation study was to find out what specific actions hardware retailers take to compete with a big box. Their answers

“The best defense will likely be to offer extraordinary service in a very friendly environment and develop as many niches as possible. Become more of a specialty retailer.”

– Illinois retailer

indicate they adapt to the presence of big boxes and learn to co-exist with them.

The study questionnaire presented retailers with a series of actions that hardware stores might be expected to take to compete with big box home improvement centers. Participants were asked to indicate on a scale of one to five how often they took each action. A rating of one meant never and five meant very often.

The analysis of responses compares the actions of high profit retailers to those of the other participants.

The ratings suggest that hardware stores make a point of knowing what their larger rivals are offering in the way of promotional items and pricing and attempt to complement rather than compete directly with the big box.

The only significant difference between the high profit participants and the rest of the panel is knowing someone working for a big box. The high profit stores are more likely to know someone. A significant statistical difference is at least 0.5 point.

Action to Compete with Big Box	Average Rating	
	High Profit Retailers	All Other Retailers
Study big box sale circulars	3.49	3.40
Buy from manufacturers not selling to the big box	3.37	3.23
Know someone who works at the big box	3.31	2.77
Visit big box to check product mix	2.86	2.78
Visit big box to check prices	2.86	2.77
Adjust product mix to complement rather than compete directly with big box	2.83	2.60
Use loss leader items to attract customers	2.83	3.03
Have customers referred by someone at the big box	2.80	2.77
Match big box prices on circular items	2.14	2.19
Send customers to the big box	2.11	2.26
Match big box prices on items not in circulars	2.03	1.93
Serve as a warranty depot or repair shop for products sold by the big box	1.71	1.74
Visit big box to stock up on its loss leaders	1.69	1.59

The Effect of Distance

The closer a hardware store is to a big box the more likely it is to look for ways to differentiate itself. And high profit retailers are more aggressive in these activities.

A comparison of the practices of high profit participants in the Mueller Foundation study to those of the rest of the respondents suggests the high profit stores do their homework. They study sale circulars, visit the big box and know someone working there.

They differentiate themselves by adjusting their product mix to comple-

ment the big box and buy from manufacturers who do not sell to big boxes. The closer they are to a big box – 10 miles seems to be the dividing line – the more likely they are to take these actions. The farther away the less likely high profit stores are to visit big boxes, use loss leaders, match prices or know someone working at the big box.

The following chart reports average ratings for actions taken to compete with big box home improvement centers. Retailers rated each action on a scale of one to five,

with one meaning never and five meaning very often. A statistical significant difference is at least 0.5 point.

The chart compares actions by high profit stores to those of the rest of the panel of participants based on the distance between the hardware store and the big box home improvement center. The best way to use the data in this chart is to find the distance range that best fits your store and see what high profit stores do. These actions should be carefully considered in formulating a competitive strategy.

	Average Rating							
	Within 3 miles		3-10 miles		10-20 miles		20-60 miles	
	High Profit	All Others	High Profit	All Others	High Profit	All Others	High Profit	All Others
Study big box sale circulars	3.91	3.56	3.44	3.17	3.25	3.71	2.60	3.23
Buy from manufacturers not selling to the big box	3.82	3.43	3.00	3.17	2.50	3.29	3.00	2.85
Know someone who works at the big box	3.55	2.93	3.33	2.83	3.25	2.86	2.80	2.46
Visit big box to check product mix	3.18	2.93	2.89	2.57	3.00	3.07	1.60	2.62
Visit big box to check prices	3.18	2.82	2.67	2.70	2.75	3.14	2.00	2.77
Adjust product mix to complement rather than compete directly with big box	3.46	2.82	2.56	2.48	2.25	2.79	2.20	2.08
Use loss leader items to attract customers	3.46	3.05	2.66	3.13	2.25	3.07	2.60	2.54
Have customers referred by someone at the big box	3.55	3.61	2.89	2.47	2.50	2.21	1.80	2.00
Match big box prices on circular items	2.55	2.39	2.22	2.17	2.25	2.50	1.20	1.77
Send customers to the big box	1.82	2.41	2.44	2.17	2.25	2.71	1.80	1.77
Match big box prices on items not in circulars	2.27	2.07	2.33	1.93	1.75	1.86	1.60	1.92
Serve as a warranty depot or repair shop for products sold by the big box	1.64	1.75	1.67	1.62	2.75	2.14	1.20	1.54
Visit big box to stock up on their loss leaders	1.27	1.66	2.22	1.63	1.25	1.50	1.40	1.69

Time Eases Pricing Pressures

When a big box home improvement center comes to town, independent hardware retailers sharpen their pricing. That is a significant finding in the Mueller Foundation study.

High profit retailers seem to be more aggressive in matching big box prices in the early years. By the time the big box has been in the market for three years, the high profit stores begin backing away from price matching. They keep a watchful eye on the big box, though, as they are

more likely to continue checking circulars, product mix and pricing. They also maintain contact with people who work at the big box.

The following chart reports average ratings for actions taken to compete with big box home improvement centers. Retailers rated each action on a scale of one to five, with one meaning never and five meaning very often. A statistical significant difference is at least 0.5 point.

The chart compares actions by high

profit stores to those of the rest of the panel of participants based on the time the big box home improvement center has been in the market. The best way to use the data in this chart is to find the time range that best fits your store and see what high profit stores do. Then look at actions of high profit stores who have been competing with big boxes longer. These actions suggest what could be done now and in the future in formulating an operational strategy.

Average Rating

	3 Years or Less		3-8 Years		8-20 Years	
	High Profit	All Others	High Profit	All Others	High Profit	All Others
Study big box sale circulars	3.33	3.09	3.33	3.37	3.80	3.68
Buy from manufacturers not selling to the big box	3.42	3.24	3.17	3.33	3.60	3.20
Know someone who works at the big box	3.33	2.62	3.25	2.92	3.30	2.83
Visit big box to check product mix	2.67	2.59	3.00	2.78	2.80	2.95
Visit big box to check prices	2.92	2.41	2.92	3.00	2.60	2.95
Adjust product mix to complement rather than compete directly with big box	3.08	2.49	2.50	2.56	2.80	2.66
Use loss leader items to attract customers	3.17	3.06	2.75	3.35	2.60	2.92
Have customers referred by someone at the big box	3.08	2.97	2.67	2.74	2.70	2.78
Match big box prices on circular items	2.50	2.12	2.08	2.41	1.80	2.20
Send customers to the big box	1.75	2.15	2.17	2.52	2.40	2.20
Match big box prices on items not in circulars	2.42	1.97	2.00	2.08	1.50	1.90
Serve as a warranty depot or repair shop for products sold by the big box	2.08	1.53	1.17	1.60	1.90	1.90
Visit big box to stock up on their loss leaders	1.50	1.50	2.00	1.67	1.30	1.66

“It is crucial for hardware stores to be identified as convenient, easy and quick to shop and offering niche products and services in order for them to be home for the long run.”

– Illinois retailer

Adapt Product Mix

For several years before big box home improvement centers came into the market, hardware retailers were faced with competition from discount department stores like Wal-Mart, Target and K mart. These stores took away business in product categories such as housewares, sporting goods, toys and, in some cases, automotives.

How did hardware stores respond? They concentrated on core home repair products – hardware, tools, plumbing, electrical, paint and lawn and garden. These were products that demanded product and project knowledge from employees – products where customers needed assistance they could not get from discounters.

Then big box home improvement centers came to the hardware industry, bringing stiff competition on price and product selection. This time, though, the competition was in those core lines and hardware stores had to find another way to compete.

The Mueller Foundation study suggests that hardware stores have become more sophisticated in how they manage inventory. When getting out of complete departments was no longer an option, they learned to evaluate inventory on a line by line and item by item basis.

Even in the face of competition from big boxes that can offer a far larger product selection, hardware stores derive about half their business from home repair product categories and another quarter from lawn and garden.

The study suggests that high profit stores are a bit more aggressive in lawn and garden lines and may use niche categories to better advantage. It indicates that housewares and small appliances, pet supplies and automotives can be competitive additions to product mixes.

The high profit stores also seem to be more willing to try their hands at home improvement categories such as lumber and wood products. They derive a higher percentage of sales from lumber and wood products than do other study participants, indicating they may be offering a convenience selection for customers who don't want to deal with a big box for purchases of a few pieces of lumber.

The distance between the hardware store and the big box as well as the length of time a big box has been in the market seem to affect the independents' strategy on merchandise mix. In general, study results indicate that the farther away a hardware store is from a big box the more likely it is to have a more diverse merchandise mix. It is more likely to have a greater percentage of sales in niche categories and less in home improvement categories.

The same seems to be true the longer a big box is in the market. The study suggests that hardware stores, especially the high profit ones, tend to pull back from home improvement product lines and expand lawn and garden and niche categories such as pet supplies, automotives and toys as they settle into long-term co-existence with a big box.

“Niches are very important to small stores. Small stores must constantly be looking to change or enhance their product mix ... to stock slow moving items to round out their product selection ... to remain a destination store.” – Iowa retailer

BY THE NUMBERS

How Retailers Adapt Product Mix

One of the major findings to come from the Mueller Foundation study is the ability of hardware retailers to adapt to the presence of a big box home improvement center. They reported that they adapt their product mix to complement rather than compete directly with the big box.

One section on the study's questionnaire was dedicated to an analysis of the hardware stores' product mix. Merchandise categories were organized into four major groups – home repair categories which included the core departments carried in most hardware stores; home improvement categories which included departments that are common in big boxes but not usually found in hardware stores; lawn and garden categories which have come to be very important for hardware stores and niche categories which included departments which may have been dropped by hardware stores and are getting a second look and specialty lines that may not be carried by home improvement centers.

As would be expected, the home repair and lawn and garden groupings represent the major share of hardware store sales, home improvement categories the smallest.

When comparing the product mixes of high profit study participants to those of the rest of the panel, there were few significant differences, significant being defined as a difference of at least one percentage point. The high profit stores seem to get a slightly lower percent of sales from core home repair categories, making up for it mostly in lawn and garden lines. Although the high profit stores report higher sales in home improvement cate-

gories, these lines represent less than 10 percent of sales and the highest percentage of sales in this grouping comes from

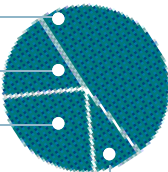
concrete, mortar and adhesives – products that could be considered core lines for hardware stores.

Sales by Product Category

Product Category	High Profit Stores (percent of sales)	All Other Stores (percent of sales)
Hardware and Fasteners	7.16%	8.30%
Hand Tools	5.88%	6.14%
Power Tools	4.14%	4.48%
Power Tool Accessories	5.61%	5.73%
Electrical, Lighting and Fans	6.63%	7.10%
Plumbing, Heating and Cooling	7.60%	8.74%
Paint Sundries and Home Décor	6.78%	7.86%
Glass and Screens	4.42%	4.45%
TOTAL HOME REPAIR CATEGORIES	48.22%	52.80%
Lumber and Wood Products	2.72%	1.85%
Flooring, Carpeting and Vinyl	0.04%	0.03%
Concrete, Mortar and Adhesives	4.31%	3.55%
Kitchen and Bath Cabinets	0.61%	0.38%
Other Building Materials	1.67%	1.90%
TOTAL HOME IMPROVEMENT CATEGORIES	9.35%	7.71%
Lawn and Garden Tools	6.59%	5.65%
Outdoor Power Equipment	3.88%	4.09%
Lawn and Garden Chemicals	6.20%	5.44%
Green Goods	2.03%	1.90%
Barbecue Grills and Accessories	3.46%	3.71%
Outdoor Furniture	2.58%	1.89%
TOTAL LAWN AND GARDEN CATEGORIES	24.74%	22.68%
Housewares and Small Appliances	2.89%	3.17%
Major Appliances	0.96%	1.04%
Sporting Goods	1.89%	1.59%
Pet Supplies	3.06%	2.29%
Automotives	3.78%	3.26%
Toys	1.47%	0.86%
Giftware	1.80%	1.40%
Others	1.47%	3.07%
TOTAL NICHE CATEGORIES	17.32%	16.68%

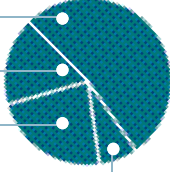
High Profit Stores

Home Repair	48.3%
Niche Categories	17.4%
Lawn and Garden	24.9%
Home Improvement	9.4%



All Other Stores

Home Repair	52.8%
Niche Categories	16.8%
Lawn & Garden	22.7%
Home Improvement	7.7%



Opportunities Change with Distance

One might think that hardware stores who have a very close big box neighbor would look for niche products to differentiate themselves. Quite the contrary, according to findings of the Mueller Foundation study.

Hardware stores who are close to big box home improvement centers are more likely to carry the same categories of merchandise but find ways to tailor their

assortments to complement those of the big box. The farther away the hardware store is the more likely it is to diversify into categories such as pet supplies, automobiles and toys. This is particularly true of high profit stores, where there are significant differences (at least one percentage point) in several product categories.

The following chart compares the merchandise mix of high profit stores to

that of the rest of the panel of participants based on the distance between the hardware store and the big box home improvement center. The best way to use the data in this chart is to find the distance range that best fits your store and see what high profit stores do. A skillful balance of product categories is an important factor in formulating a competitive strategy.

Percent of Sales in Selected Product Categories

	Within 3 miles		3-10 miles		10-20 miles		20-60 miles	
	High Profit	All Others	High Profit	All Others	High Profit	All Others	High Profit	All Others
Hardware and Fasteners	7.16%	8.65%	9.08%	7.93%	7.67%	7.78%	4.86%	7.61%
Hand Tools	6.34%	6.40%	6.49%	6.59%	5.85%	6.11%	4.20%	5.75%
Power Tools	4.22%	4.59%	4.48%	4.52%	2.91%	4.90%	3.30%	4.78%
Power Tool Accessories	5.41%	5.88%	5.94%	6.22%	6.23%	5.98%	3.96%	5.21%
Electrical, Lighting and Fans	6.83%	7.48%	7.64%	7.66%	6.86%	6.64%	5.81%	7.13%
Plumbing, Heating and Cooling	6.71%	9.18%	8.03%	8.51%	7.40%	7.62%	7.81%	8.65%
Paint Sundries and Home Décor	7.06%	7.98%	7.60%	8.05%	7.25%	8.00%	4.85%	8.10%
Glass and Screens	6.07%	4.43%	6.08%	4.71%	3.17%	4.46%	2.84%	4.65%
TOTAL HOME REPAIR CATEGORIES	49.80%	54.59%	55.34%	54.19%	47.34%	51.49%	37.63%	51.88%
Lumber and Wood Products	4.31%	1.60%	3.66%	1.15%	2.10%	0.84%	0.33%	5.18%
Flooring, Carpeting and Vinyl	0.79%	0.45%	0.19%	0.24%	0.0	0.0	0.0	0.25%
Concrete, Mortar and Adhesives	4.23%	3.83%	4.72%	3.37%	4.53%	3.07%	5.10%	3.60%
Kitchen and Bath Cabinets	1.71%	0.19%	0.18%	0.34%	0.0	0.73%	0.0	0.83%
Other Building Materials	2.20%	1.68%	1.69%	1.44%	2.10%	1.50%	1.17%	3.45%
TOTAL HOME IMPROVEMENT CATEGORIES	13.24%	7.75%	10.44%	6.54%	8.73%	6.14%	6.60%	13.31%
Lawn and Garden Tools	6.20%	5.51%	5.46%	5.34%	8.91%	6.86%	5.36%	5.18%
Outdoor Power Equipment	2.65%	3.94%	3.19%	4.03%	6.73%	4.21%	4.68%	4.25%
Lawn and Garden Chemicals	5.21%	5.24%	5.66%	5.74%	7.01%	5.39%	5.62%	4.75%
Green Goods	2.23%	1.55%	1.30%	1.73%	3.23%	2.49%	3.57%	1.29%
Barbecue Grills and Accessories	3.71%	3.86%	4.69%	4.57%	2.15%	3.36%	4.34%	2.06%
Outdoor Furniture	2.72%	1.93%	1.97%	2.49%	2.15%	1.18%	3.20%	0.91%
TOTAL LAWN AND GARDEN CATEGORIES	22.72%	22.03%	22.27%	23.90%	30.18%	23.49%	26.77%	18.44%
Housewares and Small Appliances	2.51%	2.80%	2.88%	3.38%	1.09%	3.77%	4.26%	3.01%
Major Appliances	0.62%	0.57%	0.54%	0.21%	0.0	1.98%	3.50%	2.19%
Sporting Goods	1.62%	1.14%	0.87%	1.72%	1.85%	2.22%	3.60%	1.90%
Pet Supplies	2.17%	2.28%	2.14%	2.07%	1.85%	2.65%	4.12%	2.59%
Automotives	2.58%	3.82%	2.03%	3.22%	2.64%	3.01%	7.53%	2.37%
Toys	0.65%	0.63%	0.36%	0.86%	2.61%	1.06%	3.23%	0.32%
Giftware	1.65%	1.12%	1.48%	0.90%	2.61%	1.84%	2.28%	2.38%
Others	2.42%	3.37%	1.66%	3.00%	1.09%	2.21%	0.44%	1.62%
TOTAL NICHE CATEGORIES	14.22%	15.73%	11.96%	15.36%	13.74%	18.74%	28.96%	16.38%

Time Leads to Change

As hardware retailers learn to co-exist with big box home improvement centers, they slowly shift emphasis on merchandise categories. But they never lose sight of their core business – home repair products.

According to the Mueller Foundation study, high profit retailers are much more likely to expand lawn and garden lines and incorporate niche product categories into their merchandise mix after a big box has been in the market for several years. This

seems to be their way of differentiating themselves while protecting profitability. Despite significant shifts (at least one percentage point) in several categories within the lawn and garden and niche category groupings, the high profit stores continue to derive the largest percentage of sales from core home repair departments.

The following chart compares the merchandise mix of high profit stores to that of the rest of the panel of participants based

on the time the big box home improvement center has been in the market. The best way to use the data in this chart is to find the time range that best fits your store and see how the high profit stores have balanced their product mix. Then look at the changes made by high profit stores who have been competing with big boxes longer. These changes suggest what could be done now and in the future in formulating an operational strategy.

Percent of Sales in Selected Product Categories

	3 Years or Less		3-8 Years		8-20 Years	
	High Profit	All Others	High Profit	All Others	High Profit	All Others
Hardware and Fasteners	7.53%	8.79%	7.58%	7.42%	6.73%	8.45%
Hand Tools	6.21%	6.03%	5.98%	6.17%	5.29%	6.05%
Power Tools	4.05%	4.80%	4.50%	4.49%	3.01%	4.40%
Power Tool Accessories	5.43%	5.26%	5.98%	5.73%	5.40%	6.22%
Electrical, Lighting and Fans	6.89%	7.22%	7.79%	6.52%	5.50%	7.41%
Plumbing, Heating and Cooling	8.80%	9.34%	6.70%	7.94%	7.20%	9.02%
Paint Sundries and Home Décor	7.62%	7.31%	7.39%	7.72%	5.07%	8.56%
Glass and Screens	6.37%	3.64%	4.50%	4.20%	3.10%	5.35%
TOTAL HOME REPAIR CATEGORIES	52.90%	52.39%	50.42%	50.19%	41.30%	55.46%
Lumber and Wood Products	1.51%	2.38%	5.28%	1.20%	1.11%	1.92%
Flooring, Carpeting and Vinyl	0.73%	0.33%	0.18%	0.31%	0.16%	0.21%
Concrete, Mortar and Adhesives	4.46%	3.45%	4.55%	3.66%	3.52%	3.76%
Kitchen and Bath Cabinets	0.93%	0.61%	0.82%	0.11%	0.16%	0.39%
Other Building Materials	2.10%	1.70%	1.60%	1.90%	1.09%	2.25%
TOTAL HOME IMPROVEMENT CATEGORIES	9.73%	8.47%	12.43%	7.18%	6.04%	8.53%
Lawn and Garden Tools	5.97%	6.13%	6.32%	5.40%	7.79%	5.41%
Outdoor Power Equipment	3.10%	3.50%	2.80%	4.90%	5.90%	4.30%
Lawn and Garden Chemicals	2.17%	5.41%	5.64%	6.10%	7.70%	5.00%
Green Goods	1.38%	1.70%	1.97%	2.16%	3.10%	1.83%
Barbecue Grills and Accessories	3.75%	3.66%	4.23%	3.88%	3.02%	3.77%
Outdoor Furniture	2.61%	1.76%	1.97%	1.72%	4.05%	1.95%
TOTAL LAWN AND GARDEN CATEGORIES	18.98%	22.16%	22.93%	24.16%	31.56%	22.26%
Housewares and Small Appliances	2.84%	3.22%	2.65%	3.43%	3.45%	2.81%
Major Appliances	1.77%	0.38%	0.0	0.97%	1.00%	0.85%
Sporting Goods	1.79%	1.97%	1.35%	1.49%	2.59%	1.12%
Pet Supplies	1.95%	2.27%	2.48%	2.89%	4.21%	2.11%
Automotives	2.95%	3.00%	2.70%	3.83%	4.83%	3.16%
Toys	0.56%	0.79%	1.36%	1.44%	2.34%	0.56%
Giftware	1.64%	1.39%	2.17%	1.59%	1.89%	0.88%
Others	1.90%	3.92%	1.47%	2.94%	0.76%	2.42%
TOTAL NICHE CATEGORIES	15.40%	16.94%	14.18%	18.58%	21.07%	13.91%

Offer Special Services

Hardware stores have long claimed service as one of their primary competitive advantages. The Mueller Foundation study sought to find out just what special services hardware stores offer and whether that offering changes with distance from a big box home improvement center or with the time that store has been in the market.

Study participants were given a long list of services and asked to indicate whether they offered each service free or for a fee or did not offer it at all. Some of the services were tied directly to the products sold by the stores; others were included to indicate whether the retailer was serious in offering a broad range of services.

In some ways, the results are surprising. On an average, more than half the services listed are not offered by the hardware stores. Of those that are offered, most carry a fee.

The high profit study participants tend to offer fewer services than the other participants. And they are more likely to charge for the services they do offer. The kinds of services offered free tend to be those that can be handled easily on the salesfloor, that take little time to perform and that are related

directly to products being sold. Paint mixing and cutting rope or chain are examples of these kinds of services.

Services such as key cutting, screen and window repair, pipe cutting and sharpening tend to carry a fee.

Somewhat surprisingly, rentals are not a big service offering for the high profit stores. About two-thirds of them rent cleaning equipment such as rug shampooers but few rent other types of equipment.

Another area where high profit stores seem to differ from the rest of the respondents is in services done in customers' homes. They are more likely to go to customers' homes to install or assemble products or to make repairs.

The effects of distance between competitors and time in the market are different. The farther away hardware stores are from a big box, the less likely they are to offer special services.

When it comes to long-term co-existence, the hardware stores tend to reduce the number of special services offered, especially those for which they charge a fee. They don't offer them free; they seem to drop them altogether. The study indicates that the number of free services offered stays much the same over time. However, the number of services offered for a fee declines the longer a big box has been in the market, and there is a corresponding increase in the number of services not offered.

These results suggest that high profit respondents understand the value of special services in meeting customers' needs, but there are also indications that they look very hard at the return they get on the investment in services. They seem to prefer to use valuable employee time and salesfloor space for sales.

"We have found that a combination of service and unique product lines keep customers loyal. ... We promote services such as locksmith, storm and sash repair, lamp repair and small appliance repair." – New York retailer

32

Some of the specific services were less common than others, but the purpose was to see if hardware stores viewed special services as a significant competitive edge. Retailers were asked to indicate if

The chart on page 33 details the responses of study participants, segmenting them for high profit stores and the rest of the respondents. The value of this information is that it may pinpoint some

The charts below summarize the number of special services offered in terms of distance from the big box home improvement center and the time this competitor has been in the market. There were no significant differences in the number of services offered in respect to distance. It does seem, however, that high profit stores tend to pare down the number of services they offer after the big box has been in the market for three years or more.

Average Number of Special Services Offered	Within 3 miles		3-10 miles		10-20 miles		20-60 miles	
	High Profit	All Others	High Profit	All Others	High Profit	All Others	High Profit	All Others
Number of special services offered free	6.5	7.4	8.0	6.6	6.5	8.4	8.4	8.2
Number of special services offered for a fee	11.7	11.1	11.9	12.0	10.8	12.9	8.8	8.6
Number of special services not offered	19.8	18.6	18.0	19.3	13.8	14.9	20.6	21.2

Average Number of Special Services Offered	3 Years or Less		3-8 Years		8-20 Years	
	High Profit	All Others	High Profit	All Others	High Profit	All Others
Number of special services offered free	7.6	7.6	7.3	7.2	7.2	7.4
Number of special services offered for a fee	13.0	9.8	10.1	12.0	9.0	11.6
Number of special services not offered	17.3	19.6	20.6	18.5	19.0	18.5

- Illinois retailer

Percent of Stores Offering Selected Special Services

	Special Services Offered Free		Special Services Offered for a Fee		Special Services Not Offered	
	High Profit	All Others	High Profit	All Others	High Profit	All Others
REPAIRS AND REPLACEMENTS						
Precision sharpening	5.6%	0.9%	47.2%	58.9%	47.2%	40.2%
General sharpening	5.4%	2.7%	59.5%	64.6%	35.1%	32.7%
Lock repairs and rekeying	5.6%	4.5%	61.1%	74.5%	33.3%	20.9%
Screen cutting and repair	0.0	0.9%	66.7%	77.5%	33.3%	21.6%
Glass cutting and window repair	0.0	4.5%	69.4%	76.8%	30.6%	18.8%
Faucet rebuilding	33.3%	29.7%	22.2%	24.3%	44.4%	45.9%
Electric power tool repairs	2.9%	1.9%	40.0%	30.6%	57.1%	67.6%
Small electrical appliance repairs	2.8%	10.9%	52.8%	47.3%	44.4%	41.8%
Small engine repairs	0.0	0.9%	43.2%	38.7%	56.8%	60.4%
VCR/TV repairs	0.0	0.0	0.0	1.8%	100.0%	98.2%
Bicycle repairs	0.0	1.8%	11.1%	10.8%	88.9%	87.4%
Sell sports licenses	11.1%	10.1%	11.1%	14.7%	77.8%	75.2%
CUSTOMIZING						
Paint mixing	69.4%	80.2%	11.1%	6.3%	19.4%	13.5%
Computer color matching	41.7%	63.1%	5.6%	5.4%	52.8%	31.5%
Pipe cutting	18.9%	10.1%	54.1%	68.8%	27.0%	21.1%
Key cutting	8.3%	5.4%	80.6%	92.8%	11.1%	1.8%
Door sizing	2.8%	3.7%	11.1%	5.6%	86.1%	90.7%
Rope and chain cutting	78.4%	80.2%	18.9%	17.1%	2.7%	2.7%
Engraving	0.0	1.8%	0.0	2.7%	100.0%	95.5%
Window shade cutting	36.1%	29.1%	8.3%	11.8%	55.6%	59.1%
Custom millwork	0.0	1.8%	2.8%	2.7%	97.2%	95.5%
IN-HOME SERVICES						
Free home delivery	62.2%	57.3%	16.2%	13.6%	21.6%	29.1%
Special delivery services for the elderly and disabled	67.6%	59.1%	10.8%	10.0%	21.6%	30.9%
Home delivery for a fee	8.8%	12.8%	47.1%	51.4%	44.1%	35.8%
Assembling or installing store products in homes	27.8%	9.1%	8.3%	17.3%	63.9%	73.6%
Repair jobs not requiring store's products	13.9%	1.8%	16.7%	11.0%	69.4%	87.2%
Construction jobs not requiring store's products	0.0	0.0	8.3%	2.8%	91.7%	97.2%
RENTALS						
Cleaning equipment rentals	0.0	0.0	63.9%	67.3%	36.1%	32.7%
Painting equipment rentals	0.0	0.0	19.4%	25.7%	80.6%	74.3%
Plumbing tool rentals	8.3%	14.7%	36.1%	41.3%	55.6%	44.0%
Small construction tool rentals	0.0	3.6%	33.3%	34.5%	66.7%	61.8%
Heavy duty power tool rentals	0.0	0.0	19.4%	25.9%	80.6%	74.1%
Outdoor power equipment rentals	0.0	0.0	35.1%	50.5%	64.9%	49.5%
Party equipment rentals	0.0	0.0	11.4%	14.5%	88.6%	85.5%
Vehicle rentals	2.8%	0.9%	8.3%	5.5%	88.9%	93.6%
CREDIT						
Accept credit/debit cards	78.4%	87.4%	16.2%	9.9%	5.4%	2.7%
Offer house credit accounts to local businesses/organizations	86.5%	83.8%	10.8%	10.8%	2.7%	5.4%
Offer house credit accounts to individuals	62.2%	74.5%	16.2%	9.1%	21.6%	16.4%

High Profit Stores



All Other Stores



The Small Market Difference

Conventional wisdom is that hardware stores in small rural markets do not yet have to face the same kind of competition from big box home improvement centers that stores in major metropolitan areas do. Conventional wisdom also suggests that when big boxes do arrive, they can wreak havoc for independent stores in small markets.

In an effort to get an idea of what is going on in smaller markets, the Mueller Foundation study quizzed retailers in small markets in three states. The study defined a small market as any county with a population density of 300 or fewer people per square mile. It profiles retailers in Iowa, North Carolina and Texas who do business in those markets.

The study dispels one myth – that hardware retailers in small markets aren’t affected by big boxes yet. On average, the small markets have felt the influence of big boxes for as many years as the metro markets. Stores in small markets find it more difficult to compete with big boxes than do big city stores and they expect it to become more difficult to compete as time goes on.

A small market state of interest is North Carolina, home base for Lowe’s. Hardware retailer respondents in North Carolina said there were fewer big boxes in their immediate market but that the big box was closer.

They find it increasingly difficult to compete, especially in core home repair products. They claim a competitive advantage, however, in lawn and garden products. Perhaps because there are more big boxes in the state and they are closer to customers, North Carolina hardware retailers say keeping customers from going to a big box first is more difficult than do retailers in the other two states.

The study indicates that the small markets are different from larger markets and different from each other in several ways.

In customer relationships – The small market hardware retailers are very similar to big city counterparts when it comes to developing close ties to customers. The areas where they are significantly different from stores in larger markets are in their inclination to keep the store open past posted hours, give out home phone numbers in case of emergency and open in the middle of the night for emergencies.

In employee training – Retailers in all three small markets indicated they are slightly more likely to encourage employee training. But, as indicated by overall study findings, formal training is not as strong or as prevalent as it could be.

In competitive responses – Here is one area where North Carolina retailers are more active than retailers in Iowa and Texas. They are far more likely to know

Profile of Small Markets

The three small market states surveyed in the Mueller Foundation study revealed significant differences. The North Carolina market seems to present challenges the others do not – fewer big boxes in each market but closer to hardware stores. As might be expected, a smaller percentage of customers live within one mile of the store than in more densely populated areas, but customer loyalty is just as strong.

	Iowa	North Carolina	Texas
Average number of big box home improvement centers in the market	1.9	1.2	1.8
Average distance between big box and hardware store	30.7 miles	9.3 miles	26.6 miles
Average driving time between big box and hardware store	33.4 minutes	15.8 minutes	30.5 minutes
Average number of years the big box has been in the market	9.7 years	8.2 years	4.7 years
Percent of customers living within one mile of hardware store	37%	22%	27%
Percent of customers who have been buying from hardware store for at least five years	69%	67%	65%
Average rating* by hardware retailers who think their store has better traffic flow than the big box	2.06	2.54	2.30
Average rating* by hardware retailers who think their store has a better general retail location than the big box	2.28	2.58	2.70

* Rating based on a scale of one to five with one meaning retailers strongly disagree with the statement and five meaning they strongly agree with it.

someone working at a big box, to check big box prices, to use loss leaders and to match prices.

In product mix – Although retailers in all three small markets depend on core home repair products for half their sales, Iowa is more similar to the full panel of participating stores than the other two. North Carolina retailers pull a larger share of sales from lawn and garden merchan-

dise while Texas retailers are stronger in home improvement goods.

In special services – Texas retailers offer far fewer special services than do retailers in the other two states. They are also less inclined to charge for the services they do offer. In all three states, respondents indicated that the special services they are most likely to offer are closely related to the products they sell.

Overall, the North Carolina retailers seem to be facing tougher competition and the reason may be the fact that big boxes are closer to them – an average distance of less than 10 miles compared to 25 or 30 miles in Iowa and Texas. These retailers may be a leading indicator for what is to come in other small markets if big boxes find a format that will bring them closer to small market hardware stores.

Customer Base in Small Markets

The customer base for the study's small markets is similar to that of larger markets, with consumers being most important but other types of customers contributing significantly to the hardware stores' success. The chart shows average ratings on a one to five scale, with one meaning not important and five meaning very important.

	Iowa	North Carolina	Texas
Do-it-yourselfers	4.69	4.41	4.33
Professional tradespeople	4.14	3.77	4.19
Contractors and builders	3.91	3.38	3.74
Industrial/commercial buyers	3.51	3.68	3.76
Institutional buyers	3.65	3.27	3.43
Women shoppers	4.44	3.95	4.14
Parents with children	4.00	3.68	4.00
Senior citizens	3.97	3.82	3.86

Small Market Respondents

In many ways, the operational profile of hardware stores in small markets is typical. The one place they are not typical is in net operating profit where they report considerably higher profits than bigger market compatriots and the industry average for hardware stores.

	Iowa	North Carolina	Texas
Annual sales volume per store	\$1.0 million	\$1.2 million	\$1.4 million
Salesfloor size	7,800 sq ft	9,400 sq ft	8,000 sq ft
Number of full-time equivalent employees	8.8	8.5	7.6
Sales per square foot	\$128	\$128	\$175
Gross margin	35.4%	36.2%	30.6%
Pre-tax net operating profit	5.3%	5.9%	8.6%
Number of years in current location	26	36	29

How Difficult Is It to Compete with Big Boxes?

Competing with big boxes in small markets seems to be more difficult than in larger markets. Overall, participants in the Mueller Foundation study rated competitive difficulty at 2.87; the small market ratings were all above 3.0. Whereas small market retailers say it is becoming more difficult to compete, the entire panel suggests the opposite with a rating on that subject of 2.84. The same difference in ratings persists for all the elements of big box competition. The chart shows average ratings on a one to five scale, with one meaning strongly disagree with the statement and five meaning strongly agree.

	Iowa	North Carolina	Texas
I find it difficult to compete generally	3.17	3.14	3.06
It is becoming more difficult to compete	3.22	3.22	3.10
It is difficult to compete in product selection	3.69	3.82	3.85
Home repair products	2.72	3.22	3.05
Home improvement products	3.56	3.43	3.40
Lawn and garden products	3.08	2.83	3.75
Niche categories	2.67	2.43	3.35
It is difficult to compete on price image	4.09	4.13	4.30
It is difficult to compete on actual pricing	3.36	3.14	3.50
It is difficult to compete in customer service	1.69	1.57	1.75
It is difficult to compete on special services	2.19	1.70	2.15

Iowa
“When our customers need answers to questions or great service or an item they know we have, they come to us. Our customers tell us all the time they were at Lowe’s first but could not find anyone that knew anything.”

What Do Customers Think?

Small market retailers say that customer perceptions present stronger competition as well. Compared to the full panel of respondents, their level of agreement is noticeably higher. The chart shows average ratings on a one to five scale, with one meaning strongly disagree with the statement and five strongly agree.

	Iowa	North Carolina	Texas
The big box has lower prices	4.00	3.96	3.75
The big box has better product selection	4.11	3.70	3.80
The big box has better special services	2.58	2.17	2.55
The big box has better customer service	2.03	1.65	1.80

North Carolina

“Forget about competing on prices. Compete with service and convenience.”

What Do Customers Do?

Again, competition in small markets is stronger when it comes to customer behavior. Small market retailers are more likely to agree that customers go to a big box first. The chart shows average ratings on a one to five scale, with one meaning strongly disagree with the statement and five strongly agree.

	Iowa	North Carolina	Texas
Customers say they go to the big box first	3.39	3.88	3.30
Customers ask us to match big box prices	2.50	2.54	3.00

NUMBERS TELL THE STORY

The Mueller Foundation study provides an in-depth analysis of the actions of hardware retailers in small markets as they compete with big box home improvement centers. The charts on this and the following pages detail what these retailers do and compare their actions to those of the rest of the study participants – retailers who do business in larger markets. In each case, the

small market retailers rated activities in the areas of building customer relationships, training employees and responding to big box competition on a scale of one to five. One meant never; five meant very often. The chart shows average ratings.

There are few significant differences (at least 0.5 point) in how the small market retailers build customer relationships and train employees. But in the realm of competitive responses, the North Carolina retailers are significantly more aggressive.

North Carolina

“In order to compete with the big box stores, we must stay sharp in customer relations and customer services. We must keep our store easy to shop and give our customers more than they expect.”

How Small Market Retailers Build Customer Relationships

	Iowa	North Carolina	Texas	All Others
Make it a priority to be out on the salesfloor to get to know customers	4.50	4.57	4.57	4.43
Greet customers by name	4.64	4.57	4.38	4.30
Try to develop friendships with customers	4.31	4.39	4.19	4.23
Take extra time to make sure customers' needs are understood	4.36	4.26	4.48	4.45
Place special orders without a deposit	4.39	4.04	4.19	3.90
Get involved in community activities and events	4.06	3.91	4.33	3.63
Take back products even if opened	3.64	3.83	3.67	3.78
Take back products without a receipt	3.56	3.48	3.43	3.43
Hold merchandise for pick-up longer than the normal length of time	3.72	3.48	3.57	3.57
Take back products even if used	3.11	2.78	3.29	3.18
Keep the store open past posted hours	3.42	3.00	3.57	2.96
Give small on-the-spot discounts to customers	3.00	3.01	3.19	3.17
Give out home phone number for use in case of emergency	3.03	3.22	3.52	2.13
Open the store in the middle of the night to help with an emergency	3.03	2.57	2.95	2.12
Loan products to customers to try before buying	2.36	2.48	2.67	2.19
Respond to customer e-mail requests	1.97	2.29	2.10	2.20

How Small Market Retailers Train Employees

	Iowa	North Carolina	Texas	All Others
Attend trade shows or buying markets	3.14	3.35	3.33	2.88
Read product brochures and catalogs	3.89	3.52	3.19	3.43
Read trade magazines	3.17	3.43	2.90	3.15
Get information from local tradespeople	2.61	2.82	2.90	2.66
Get information from vendor representatives	2.44	2.61	2.81	2.56
Read a book	2.50	2.57	2.33	2.44
Watch training video or DVD	2.64	2.55	2.48	2.39
Go online to an Internet site	1.75	2.29	2.00	1.75
Attend training event at another store	2.08	2.26	1.90	1.82

How Small Market Retailers Compete

	Iowa	North Carolina	Texas	All Others
Study big box sale circulars	3.33	3.58	3.25	3.34
Buy from manufacturers not selling to the big box	3.28	3.71	3.15	3.42
Know someone who works at the big box	2.81	3.54	3.15	2.83
Visit big box to check product mix	2.75	2.96	2.60	2.80
Visit big box to check prices	2.78	3.00	2.80	2.72
Adjust product mix to complement rather than compete directly with big box	2.58	2.82	2.30	2.65
Use loss leader items to attract customers	2.78	3.30	2.50	2.84
Have customers referred by someone at the big box	2.33	2.79	2.30	2.90
Match big box prices on circular items	1.89	2.42	2.00	2.09
Send customers to the big box	2.11	2.25	2.05	2.28
Match prices on items not in sale circulars	1.69	2.30	2.05	1.91
Serve as a warranty depot or repair shop for products sold by the big box	2.25	2.04	1.50	1.58
Visit big box to stock up on their loss leaders	1.56	1.79	1.70	1.62

Core Product Lines Are Important

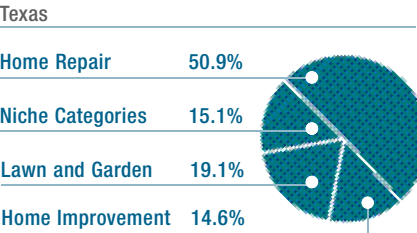
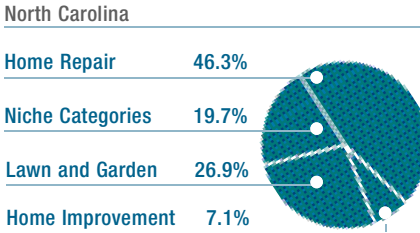
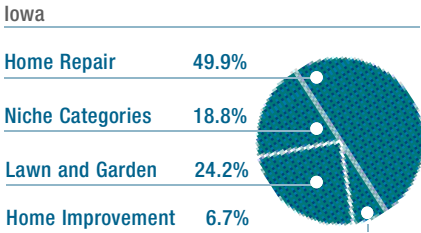
Although core home repair product categories deliver the largest percentage of sales for hardware stores in all three small market states, there are some interesting differences. Lawn and garden is far more important in North Carolina while Texas

retailers do a better-than-average business in home improvement categories such as lumber and wood products. The following chart summarizes the product categories that are most important for hardware stores in the three

small markets included in the study. Each of the categories listed in the chart produces more than 5 percent of sales. In total, these categories represent approximately half the sales for small market retailers.

Most Important Product Categories in Small Markets

Iowa		North Carolina		Texas	
Product Category	Percent of Sales	Product Category	Percent of Sales	Product Category	Percent of Sales
Paint and Home Décor	8.3%	Hardware and Fasteners	8.1%	Plumbing, Heating and Cooling	10.4%
Plumbing, Heating and Cooling	7.8%	Plumbing, Heating and Cooling	7.5%	Hardware and Fasteners	7.3%
Hardware and Fasteners	7.4%	Lawn and Garden Chemicals	6.7%	Electrical, Lighting and Fans	6.5%
Electrical, Lighting and Fans	7.0%	Lawn and Garden Tools	6.5%	Hand Tools	6.4%
Lawn and Garden Tools	6.0%	Paint and Home Décor	6.2%	Paint and Home Décor	6.2%
Lawn and Garden Chemicals	5.6%	Electrical, Lighting and Fans	5.8%	Lawn and Garden Tools	6.0%
Power Tool Accessories	5.2%	Hand Tools	5.4%	Power Tool Accessories	5.8%
		Power Tool Accessories	5.3%	Lumber and Wood Products	5.6%
		Green Goods	5.3%	Power Tools	5.4%
TOTAL	47.3%	TOTAL	56.8%	TOTAL	59.6%



Special Services in Small Markets

Are hardware stores in small markets more likely to offer a broad array of special services than those in larger markets? The Mueller Foundation study indicates a considerable variance among the three states analyzed.

The difference is clear in the number of services these retailers say they do not offer. Iowa retailers are similar to the total panel of respondents. North Carolina retailers offer fewer services and are more inclined to charge for them. Special services do not seem to be a priority for Texas retailers – about two-thirds of the special services listed in the questionnaire came up as not offered, but of those services that are offered, more are free.

The following summary lists special services offered by more than half the study participants in all three small markets.

Special services offered free

- Paint mixing
- Rope and chain cutting

- Home delivery
- Special delivery services for the elderly and disabled
- Acceptance of credit/debit cards
- House credit accounts to businesses and organizations
- House credit accounts to individuals

Special services offered for a fee

- Glass cutting and window repair
- Key cutting

Hardware stores in Texas reported offering very few services for a fee. If the Texas responses are left out of the analysis of special services offered for a fee, the following additional services are offered by more than 50 percent of the respondents in Iowa and North Carolina.

- General sharpening
- Lock repairs and rekeying
- Screen cutting and repairs
- Pipe cutting
- Home delivery

- Cleaning equipment rentals
- Outdoor power equipment rentals

Special services not offered

- Electric power tool repairs
- VCR/TV repairs
- Bicycle repairs
- Sale of sports licenses
- Door sizing
- Engraving
- Window shade cutting
- Custom millwork
- Assembling or installing products in customers’ homes
- Repair jobs not requiring the store’s products
- Construction jobs not requiring the store’s products
- Paint equipment rentals
- Small construction tool rentals
- Heavy duty power tool rentals
- Party equipment rentals
- Vehicle rentals

Texas

“When I went to work in the business, there was a population of 50,000 and 25 lumber/hardware stores. Now I’m the only private-owned left. There are four big boxes – business is good!”

“We pride ourselves on customer service ... offer a good product/ service at fair market price and provide Texas-size service equal to no box store. We will out-hustle them – plain and simple – ‘cause we care for each and every customer.”

Iowa

Number of special services offered free	7.6
Number of special services offered for a fee	12.5
Number of special services not offered	17.8



North Carolina

Number of special services offered free	5.6
Number of special services offered for a fee	11.1
Number of special services not offered	17.5



Texas

Number of special services offered free	7.8
Number of special services offered for a fee	6.6
Number of special services not offered	23.2

