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SPECIAL PROFILE ON TRUE VALUE CO.

2019



New Year, New Path for
True Value



Ready for the Future

True Value Continues to Embrace Strategic Plan

Throughout 2018, many changes took place in the retail industry. One of those changes for independent home improvement retailers was True Value Co.'s decision to alter its distribution model.

This new path led to many questions among retailers, regardless of wholesale affiliation, as they wondered what might happen with the company. Last March, True Value announced plans to sell 70 percent ownership of the organization to private investment firm ACON Investments. The decision transitioned True Value away from its identity as a co-op. In April, more than 80 percent of True Value members approved the deal.

Hardware Retailing spoke with four True Value executives to learn more about the transition, its future plans and the latest programs it has to offer. Finally, for insights from a retailer, we spoke to the father-son duo at Nelson True Value. ➔

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This special Hardware Retailing supplement is part of a yearlong series profiling the home improvement industry's distributors.

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Extra, Extra! Online Exclusives

For the full Q&A with True Value president and CEO John Hartmann, visit TheRedT.com/tv-hartmann. To read additional retailer profiles, visit TheRedT.com/tv-profiles.

EXECUTIVE Q&A

A Clear Message

True Value CEO Discusses Strategic Plan, Future

Hardware Retailing (HR): What are you most excited about as True Value continues the strategic plan laid out in 2014?

John Hartmann (JH): If you rewind back to 2014 when we rolled out the strategic plan, we went out and spoke with True Value retailers. Our plan is grounded in identifying through their eyes the areas of business that are important to them and focusing our resources on providing solutions.

In 2018, we had an unprecedented amount of contact with retailers. We covered nearly 30,000 miles visiting stores across the country, including hosting 15 town hall meetings in the U.S. over a four-week period in late March and early April. Our customers' feedback continues to inform every action we take in the business. That's the foundation of our strategy.

HR: How did the 2018 deal with ACON Investments affect this strategic plan?

JH: The only thing ACON has changed about our strategy is how fast we can grow and invest. Here's how things have already changed: We are moving forward with an investment of \$100 million for supply chain advancements in the upcoming year. The investment will alleviate congestion in distribution centers and will ensure that True Value provides the highest fill rates. We know this very substantial investment, along with our commitment to continuing to lower our costs of doing business, can keep independent retailers profitable.

HR: What does 2019 look like for True Value? What about the next five years?

JH: Our focus is on the continued execution of our plan. It's important for retailers to understand that the change in business structure is not a change in strategy. The investment ACON made in True Value is based on the very substantial opportunities they saw to help the company grow. The expectation our current retailers, customers and future customers should have for True Value is that the company will continue to be a leader in the industry.

Making smart and important investments has been the cornerstone of our strategic plan. Over the past four years, we've been investing in our infrastructure and technology, also in support of independent retailers through marketing programs and other a la carte retail services. Our members and customers should expect that funding and that focus on their growth and profitability to continue in the future.

HR: What would you say are some of the biggest successes at True Value?

JH: True Value's success in the last five years has been our unwavering shift toward the growth and profitability of the independent retailer. One example is the creation and implementation of our Customized True Blue (CTB) program, which allows retailers to bring in assortments tailored specifically to their local community in a clear, easily displayed format. Our focus is also seen in our a la carte approach that allows retailers to use what True Value offers in a way that is most appropriate for them.

Of course, the business transition that released nearly \$230 million of our members' trapped equity was a big win. As a result of the transaction, members received 70 percent of the invested capital, 100 percent of their promissory notes and their 2017 patronage dividends. And their remaining 30 percent ownership can appreciate in value over time, unlike co-operative equity. Also, we've seen over \$50 million reinvested back into retailers' businesses, including new roofs, updated parking lots, new signage and store remodels. They are also paying down debt.

HR: What do you want retailers to think of when they think of True Value?

JH: True Value is the most flexible partner in the industry. We have the culture and commitment from our deep and long heritage as a co-op, and we've simply shifted to a wholesaler partner that doesn't require a fee or any equity invested to be a part of our family. True Value provides the best of both worlds—premier retail services without the required co-op buy-in.

Our customers benefit from a stronger company and the growth of the True Value family. The ambiguity is behind us; True Value is clearly here to stay and lead continued improvement in our industry. **➔**



John Hartmann
President and CEO

Hartmann has 20 years of corporate experience, with 16 years spent in the hardware and home improvement sector. He joined True Value in 2013 after serving at New Zealand-based cooperative Mitre 10.

EXECUTIVE Q&A

A Custom Approach

True Value Rolls Out New Marketing Plan in 2019

Hardware Retailing (HR): Can you talk about some of the company's upcoming marketing initiatives?

Dave Elliott (DE): Independent hardware retailing is in a really great spot by being able to supply different needs under one roof. Generally consumers need advice, or they have new and ongoing projects. Therefore, independent hardware retailers are in a great position to be the go-to resource to continue to meet consumers' shifting needs.

For wholesalers and independent retailers, it's a matter of staying relevant for everyone. We stopped charging a national advertising fee so retailers could use that money to advertise locally, in both print and digital formats. Digital advertising may be new to a lot of our customers, but once they can see it will be profitable, they're willing to include this new marketing approach in their mix.

HR: Do retailers set individualized budgets through this customized marketing program?

DE: Through the marketing process, True Value helps retailers determine the budget that works best for their needs and goals. As a wholesaler, the company also invests in marketing programs. A good example of that investment occurred last spring when the weather delivered snow on the ground through much of the country. To offset that slower sales period, we directly bought and paid for geo-targeted digital advertising with relevant messaging to support our retailers and drive store visits, even with a late spring.

We also offer a la carte localized marketing programs. Digital marketing allows you to adjust and change content more quickly to adapt to the current environment. Print is still important, but it needs to be targeted to specific audiences because it is so expensive. Stores that combined digital and print marketing methods realized the highest incremental sales currently, but their print expense contributes to a lower return on ad spend, due to its higher cost.

HR: How can a retailer determine the marketing program that works best for them?

DE: In 2019, each store will have its own individual marketing program, and they will be able to adjust it as the dollars go up and down, right on the screen. We're putting that power in their hands, because True Value marketing is about customization so we are relevant locally.

Being able to customize locally is a smart thing to do, and our store owners understand this.

“We are also launching artificial intelligence devices to push localization further ... Retailers will be able to stand in the aisle and scan a barcode to see all the information they need.”

We are also launching artificial intelligence devices to push localization further. One example of this technology is a new app. Retailers will be able to stand in the aisle and scan a barcode to see all the information they need, like how many units they have on hand, as well as advertising information or a video that shows the product in use. This technology can even help them look up companion products or print a sign to show if an item is on sale.

In the next year, artificial intelligence will do more for stores, which is where I believe the future of technology is heading. We'll start to increase advertising spending and decrease advertising expenses.

In addition to the app, we're introducing a new marketing technology suite, which will allow retailers to produce their own advertising materials and customize their printed circulars.

We've also begun targeting Over-the-Top (OTT) advertising on televisions, apps and programs. This is the delivery of video and TV content via the internet without requiring traditional cable services. It is a more targeted type of advertising that goes to streaming services in a certain radius. That means retailers will have ads streamed within three miles of a store. We plan on doing more of that moving forward. ➔



Dave Elliott

Senior Vice President, Marketing

Elliott joined True Value in 2017 from Mitre 10, a New Zealand-based home improvement co-op. He has over 25 years of global marketing experience. In his career, he has developed growth strategies for independent retailers.

EXECUTIVE Q&A

An Efficient Supplier

Supply Chain to Improve With New Investments

Hardware Retailing (HR): Can you give readers an update on True Value's supply chain as we enter 2019?

Abhinav Shukla (AS): We're in year three of five of our Supply Chain Network Optimization program, which is a central piece of a wider strategic plan. At the end of it, we'll have significantly reduced operation costs and improved productivity by 25 percent. In the next year, we'll have almost completely transitioned to a hub-and-spoke model.

We are focused heavily on this, especially following our announcement of \$100 million in investments into the program. In early December, we launched the first iteration of our hub-and-spoke distribution model in the midwest to address capacity issues and enhance our customers' product fulfillment and delivery experience. This strategy delivers many benefits, such as improved efficiency, streamlined deliveries and greater in-stock probability for low-volume SKUs. This system also allows us to provide increased distribution center capacity to support their future growth.

Leading up to the switch to hub-and-spoke, we looked at our stocking strategy and optimized it across our central facility and regional centers.

In the last three years, separate from this five-year plan, we've invested in voice-pick technology, which frees up operators' eyes and hands, leading to greater efficiency without requiring more employees and improving operations.

HR: From a retailer's perspective, what are the efficiencies that have been delivered so far?

AS: We pride ourselves on having competitive prices. For example, in 2016, despite increasing cost headwinds that have worsened since, we lowered our base freight rates and kept them at reduced levels. Consolidated receipts have allowed efficiencies at stores, and we want to make it easier to adopt these programs.

We have industry-leading fill rates. The more you trust your primary distributor, the easier it is to do business with us.

HR: What are you seeing in terms of inbound efficiency moving forward?

AS: The broader supply industry is facing serious challenges from record low levels of unemployment, trade-related increases and commodity inflation, as well as persistent shortages in warehouse and driver labor pools.

Distributors have struggled with inbound service levels, and we have adopted a multitude of strategies to insulate our customer fill rates from these challenges.

On the pricing side, with the tremendous volatility around trade agreements and an inflationary raw material environment, we are protecting our customers by negotiating timing and level of price changes from our vendors.

We're supporting our retailers by helping them with pricing strategies that preserve and grow margins in this volatile and rising price environment, and we guaranteed our Fall Reunion pricing, regardless of tariff activity, and plan to do the same for our Spring Reunion.

HR: What are some operational challenges moving forward?

AS: Our central objective is to support retailer growth and profitability by recognizing the reality of the world we live in. Consumers are seeking flexibility and choice through an omnichannel offering. That requires constant focus on in-stock accuracy, quality and cost to serve, and a strong focus on order to delivery, or lead times. New digital programs, such as customized circulars and retailer-specific e-commerce programs, will help us be more responsive and cost-effective.

One of our differentiators on the e-commerce side is that 80 percent of our retailers participate in the ship-to-store program. Ship-to-store drives consumers into the store, so regardless of where they begin or end their journey, there is an interaction with a brick-and-mortar True Value, which builds the value and success for the customer with our retailers.

For special orders, if a consumer walks into a store and a particular item is not in stock, they can place a direct-to-consumer order. It's providing retailers an extended capability supported by True Value. ➔



Abhinav Shukla

Senior Vice President and COO

Shukla is responsible for all aspects of supply chain management, global sourcing and strategic procurement. He has led strategic initiatives at several Fortune 500 companies, improving financial and operational performance.

EXECUTIVE Q&A

A Growing Opportunity

How True Value Plans to Serve More Retailers

Hardware Retailing (HR): How has True Value been looking at growth through the strategic plan?

Tim Mills (TM): We've had almost 200 new stores join the organization since April, which has set a new record for True Value growth. Most of these are still in the core hardware space, but we're also seeing farm, ranch and lumber retailers, such as Carter Lumber, that are joining, and realizing True Value can add value to their business model.

Many of the new stores that have joined have come from major wholesalers. All have called out our value proposition and focus on independence. Many have joined because they see the value of not having to invest.

True Value has experienced its best year of conversions, which tells me the market was ready to accept a new model.

We see secondary supplier relationships as an additional growth opportunity. In those instances, our field team will work with the retailer to develop a category assortment plan such as paint, lawn and garden or farm, ranch, auto and pet, which are areas True Value leads in the industry.

HR: How is True Value helping retailers grow their operations?

TM: We came out with the Roadmap to Retail Excellence several years ago, and that is still our primary focus. This tool helps diagnose and guide what actions retailers can take to achieve their goals.

The concept here is really all about relevance—we recognize that to compete today, a store must be relevant. Whether it's the physical plan of the store, new marketing techniques or product assortments, we have programs in place today that are focused on ensuring relevance at the retail level. If we do those things well, it always translates to higher sales.

“We have built strong relationships, and these relationships set us apart. We are looking to grow our team and amp up our engagement even further in the new year.”

HR: What are some of the current challenges retailers are facing?

TM: One of the biggest challenges for some retailers is the fear of change. I see many retailers being comfortable with the routines and approach they've taken to run their businesses. Yet society has changed and, therefore, we have to as well.

Success in retail is not only about knowing what the customers want and need, but staying one step ahead and adapting to the world around us. It used to be about big beating small, but now I think it's about fast and nimble beating slow and inflexible.

HR: What are the specific programs built around growth from True Value?

TM: Aside from our leading growth programs, like Destination True Value, and our Customized True Blue assortment program, our retail pricing efforts are important relative to growth. First, they create an appropriate price perception in the store, and second, they maximize profitability.

HR: How does True Value help with concepts like e-commerce and store promotions?

TM: Our omnichannel strategy is of vital importance. One of the biggest improvements for us is that we're able to display local store inventory and soon, local pricing, on TrueValue.com so consumers can see price points and local inventory availability. Additionally, our field and marketing teams are available to help retailers best utilize True Value Rewards and digital marketing. These programs allow retailers to customize communications to their consumers.

The most distinguishing factors of True Value are that we are flexible, respecting the independence of each of our retailers, yet we are always available to help them succeed. We have built strong relationships, and these relationships set us apart. We are looking to grow our team and amp up our engagement even further in the new year. **→**



Tim Mills

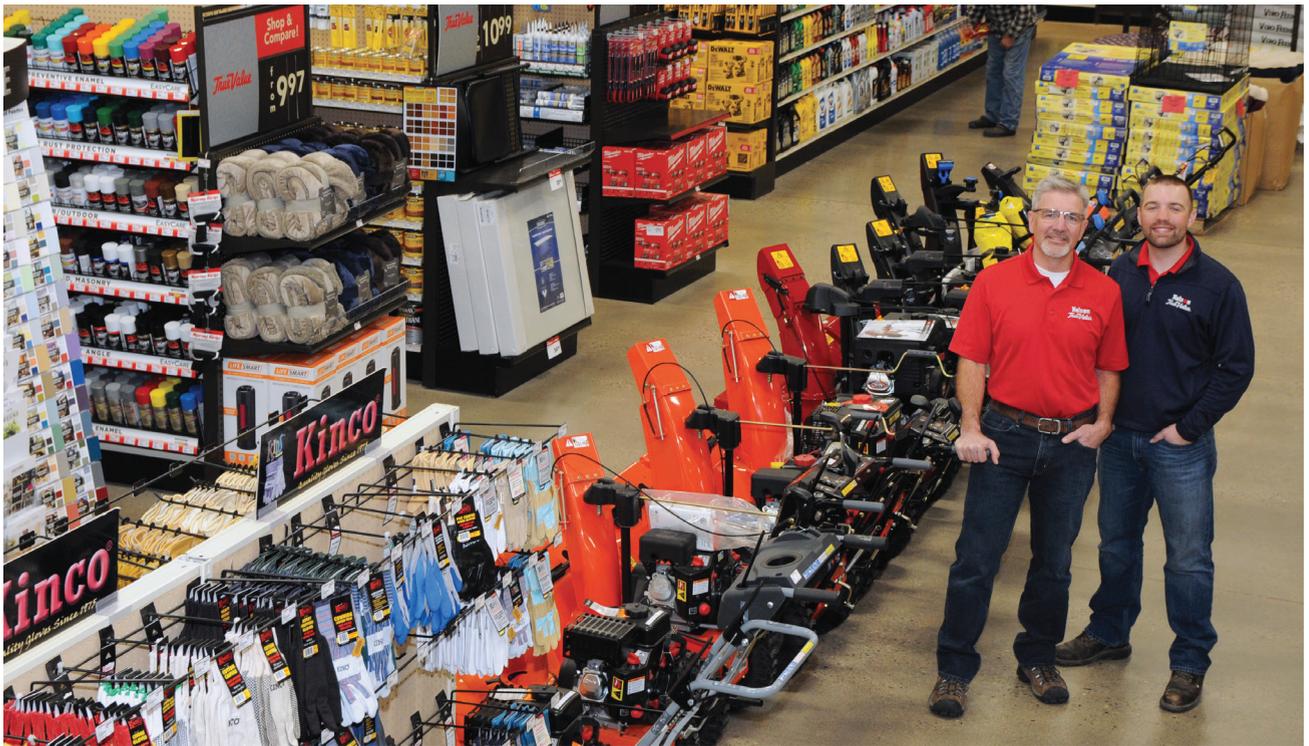
Senior Vice President, Growth

Mills joined True Value in 2013 from industrial distributor HD Supply. He has held executive roles in operations, sales, mergers and acquisitions and was most recently vice president for the company.

RETAILER PROFILE

Family Business Focused on the Future

Nelson True Value Finds Success With Distributor



When Fred Nelson was ready to retire from retail ownership of the store he had owned and operated since 1954, he didn't want to see the business come to an end. In his search for a new owner, he wanted to find someone excited about the opportunity, and ideally, someone who had children who might show interest in one day running the business.

So when Nelson approached Roy Kanis about taking on ownership of Nelson Agri-Center True Value in Viroqua, Wisconsin, in 1989, Nelson was confident the business would have a bright future. Roy's son Dan Kanis graduated from college and began working as a sales representative for an agriculture company. In 1995, Nelson's hope of a family leading his store forward became a reality when Dan entered the retail operation alongside his father and their manager and minority business partner, Mark Brueggen.

In 1998, Roy, Dan and Mark invested in a second hardware store about 50 miles away in Prairie du Chien, Wisconsin, which they renamed Nelson True Value.

Many more changes and updates have influenced the operation since then, but now, Dan's son Jacob is the next in line to lead the Nelson True Value operation.

Growing the Business

While Dan was excited about Jacob or any of his children joining the family business, he knew he wanted them to attend college and get work experience outside of the store before making that commitment.

Jacob pursued his education and began his career with Menards and United Rental before returning to the business. According to Jacob, these jobs gave him an inside look at what worked and didn't work in retail and rental.

In 2014, a fire destroyed businesses near Nelson True Value, and the team faced a new future when they decided relocate. “Our original location in Prairie du Chien had been in the same building since 1970,” Dan says. “Our store just had smoke damage after the fire, but we decided it was time to move. We worked with True Value and began planning a ground-up store, which we built in 2015.”

As they built the new store, Jacob was there to oversee construction. He also became the store’s manager.

“True Value was extremely helpful as we built our store,” Jacob says. “We used the Destination True Value program, and they helped us select planograms and products.”

A Passion for People

For Dan and Jacob, operating retail businesses in small communities is something they are passionate about.

“My favorite aspect of my job is working with customers,” Jacob says. “I wake up and look forward to coming to work every day, because I am helping our loyal customers.”

“True Value has new and fresh ideas, from pricing and products to logistics.”

—Dan Kanis, Nelson True Value



Nelson True Value was one of the first stores to implement the True Value Inspiration Realized color center, a modular display.

Dan and Jacob understand the importance of investing in the communities they serve.

Both stores face big-box competition from chains like Walmart and Tractor Supply Co., but the team believes employee knowledge and deep inventory help set them up for success.

A Future-Focused Distributor

Nelson True Value has been part of True Value since the mid-1970s, and according to Dan, the wholesaler has always been a supportive partner to their family business.

One area where Dan and Jacob have been able to improve and expand with help from their wholesaler is their rental department.

“In my opinion, True Value was really a pioneer in the store-within-a-store concept in regard to rental,” Dan says. “With their help, we got that program off the ground in the 1990s and now, rental is one of our biggest departments at both of our stores.”

Paint is another product area where True Value has helped the store stand out against competition. It was one of the first locations across the country to have the updated True Value Inspiration Realized color center, which is a modular program that can work in stores of all sizes.

The business utilizes other True Value programs, including its marketing and advertising initiatives, as well as the True Value Rewards program.

When True Value announced plans to sell 70 percent ownership of the organization to ACON Investments, Dan says he was skeptical due to his loyalty to the established co-op model.

However, Jacob had a more objective perspective, and they decided to use the return on capital to strengthen the future of the business.

“We took the money we got back from True Value and paid down debt,” Dan says. “My business partner and co-owner Mark is retiring, and I’m looking at retiring in the next six or seven years, so we’ve been able to use our money to focus on the transition to Jacob running the business. It really was a blessing.”

As the father-son team continues to focus on the future, they know they can count on True Value to provide innovative products and programs to help the business succeed.

“True Value has new and fresh ideas, from pricing and products to logistics,” Dan says. “We really appreciate their focus on changing and strengthening their advertising and marketing program, which has a strong focus on digital and social media. And the True Value Rewards program has also been a fantastic way for us to connect with customers and build stronger relationships. Getting people to walk in the door is crucial right now, and marketing and Rewards are two ways we can continue to do that.” ➔