

HARDWARERETAILING.COM

Serving Hardware, Home Center
& Building Material Retailers

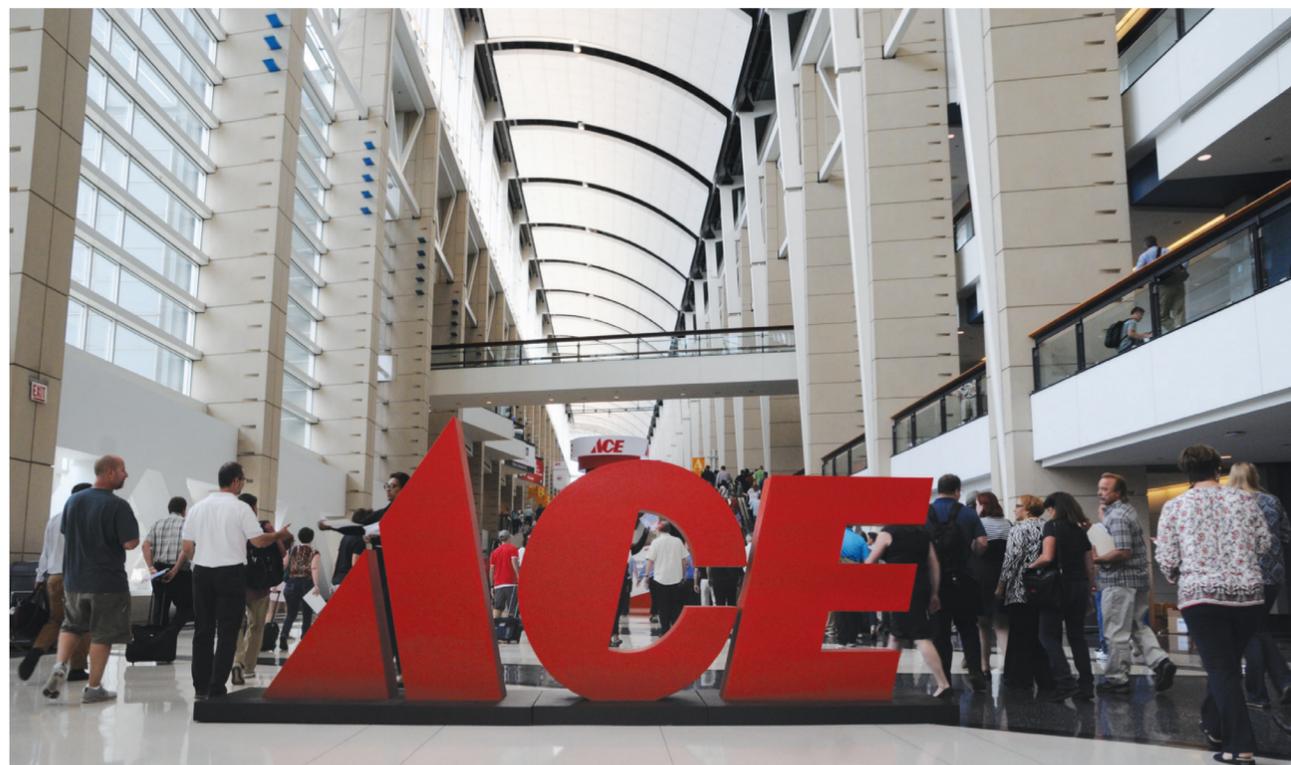
HARDWARE Retailing™

SPECIAL PROFILE ON ACE HARDWARE CORP. 2019



Ace Hardware

Retailer-Centric
Change and Growth



Onward and Upward

Future-Focused Ace Carries Values Forward

Ace Hardware Corp. is on a growth path that maintains its retailer-owned cooperative model, continues to pursue its core values and finds new, adaptive ways to support its retailers.

The co-op is celebrating its 95th anniversary in 2019. The company is also rolling out next-day product delivery to 70 percent of Ace stores nationwide, leveraging its expanded supply chain more than ever and building on recent, rapid e-commerce growth.

Headquartered in Oak Brook, Illinois, Ace serves more than 5,200 retailers worldwide, including nearly 4,500 stores in the U.S.

In the following section, you'll find *Hardware Retailing's* interviews with four top Ace executives, including president and CEO John Venhuizen, and a profile of the brothers who own Desert Foothills Ace Hardware in Phoenix. ➔

This special section on Ace Hardware Corp. is published by Hardware Retailing magazine, which holds and reserves all copyright on the content contained herein.

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

Table of Contents

45	John Venhuizen
46	John Surane
47	Lori Bossmann
48	Kim Lefko
49	Desert Foothills Ace Hardware



Extra, Extra! Online Exclusives
 For full Q&As with Ace executives, visit TheRedT.com/ace-qa.
 To read additional retailer profiles, visit TheRedT.com/ace-profiles.

EXECUTIVE Q&A

Evolving for Growth

Ace Maintains Mission While Embracing Change

Hardware Retailing (HR): What is new with Ace's strategic plan?

John Venhuizen (JV): It's our belief that, while the tactics will change, strategically, the three battles we will wage to win the retail war are service, convenience and quality. We want an irrational pursuit of amazing service. When you walk into an Ace store, the consumer has to feel it is noticeably better than the competitor. The definition of convenience is changing, but really working in our favor. We're trying to exploit the fact that just under 75 percent of the U.S. is within 15 minutes of an Ace store. We have \$1.9 billion of inventory sitting in our stores within 15 minutes of most of U.S. homes and businesses. We're going to continue to accentuate and leverage that. When it comes to quality, we compete against some very big, well-funded enemies, but our niche is to have high-quality, differentiated, locally relevant products. Having the widest assortment of goods with the most unique, locally relevant product is critical to our foundation and our strategy.

HR: How has purchasing the wholesale companies Emery-Waterhouse and Jensen Distribution served Ace's mission?

JV: A supply chain is a hard, capital-intensive, low-margin business. The way to make a capital-intensive, low-margin business work is by skill and scale. The No. 1 thing we can do to help the local home improvement store owner is to drive down the cost of goods. In the very first year, we were able to deliver, through synchronization of costs across multiple vendors, just under \$20 million in lower cost of goods.

HR: Where do you see Ace's place in the home improvement market?

JV: In the home improvement industry, local owners really are competing against the biggest, best, most well-capitalized companies in human history. Look at Home Depot, Lowe's, Menards and Amazon. These are direct competitors, and the way we've articulated this is, who do you want to go to war with against those Goliaths? We think you're going to want to be aligned with a co-op that can bring you the lowest cost, best brand, biggest, best supply chain, best economics and most services. We think the combination of those things is a powerful proposition for local owners. The consumer is the one that makes the choice and that's why brands matter.

HR: What are some ways Ace's strategy has changed over time?

JV: We are disproportionately investing, not in lieu of but in addition to, three really important things.

First is digital. We spent a lot of money to re-platform our website. We were up 40-some percent in 2018 in e-commerce sales, and on every single one of those sales, 100 percent of the profit goes right to that local store. That growth is going to be material going forward. We're delighted with the 40-plus percent increase, but we're just getting started, and we're going to continue to invest significantly.

Second is The Supply Place, our business-to-business function. The Supply Place is our No. 1 fastest-growing area. We're going to continue to disproportionately invest in that.

Third, from a supply chain perspective, we're investing the majority of our capital to ensure we have the biggest, best, most efficient supply chain. We're providing a new, unique and relevant benefit to local owners. Our stores now can order whatever they want to satisfy and win over a customer, and we'll ship it to them the next day. We want to be faster than Amazon on products we stock.

HR: What's your vision for the future of the co-op?

JV: The co-op is alive and well and aligns completely with the aspirations of our owners. We have grown. We have more equity than debt and more capital to fuel our aspirations than we need.

We've entered our 95th year with record sales, 6 percent revenue growth and a lot of momentum. How will we sustain ourselves for the next hundred years? I think it's by being the best, most helpful hardware stores on the planet. Corporately, our mission is to be the best provider of products, services and operating methods to entrepreneurial retailers around the world. I'm more excited about tomorrow than I am about today. ➔



John Venhuizen
 President and CEO

Venhuizen has worked at Ace Hardware for more than 25 years, serving in a variety of leadership positions. In the past, he has overseen marketing, business development, strategy, supply chain, IT and Ace International.

EXECUTIVE Q&A

Staying Focused

How Ace Pursues Differentiation Where It Counts

Hardware Retailing (HR): What is your merchandising strategy for Ace?

John Surane (JS): I think it's important that we stick to what our core strategy has been for merchandising over the years. It really is about becoming famous for four big segments or categories in the store, which are paint, backyard and barbecue and home preservation, which would be the core plumbing, electrical, hardware products. The fourth key segment is holiday, where we really get into trim-a-tree and unique, innovative gifts. We have to be the best at sourcing those categories and finding the best brands and creating the most differentiation within those four big buckets of product categories.

HR: How will the co-op do that?

JS: It's really all about focus. It's knowing what we stand for and then trying to go after it. For example, our paint department has grown the number of merchants we have in that department and resources we put toward it and grown significantly over the years. We heavily adjust resources to make sure we have enough people in that department so we can work closely with our manufacturers and sourcing agents to procure the best assortments. Again, best costs, best assortments and the most differentiation to make that department really work.

HR: How is your team making sure Ace Hardware is always differentiated?

JS: They have to understand what the trends are, what consumers are seeking. Then they have to work from there to establish relationships with brands and find the ones that aren't sold on Amazon, which is very difficult. To the extent we can, they look for the stuff that is not sold online and not in the big boxes. We have the most success there. Our owners love those brands and we win with those.

HR: Is differentiation an ongoing process?

JS: It really is. This is why I believe in the co-op. Having 4,500 stores banding together as one co-op in the U.S. market and supporting some of these key products and brands in big categories, allows us to have the scale we need to get manufacturers and brands to favor us and come to us and say, "I'm going to offer you these products or my brand exclusively. I'm not going to sell this brand to one of

the big boxes or in the rest of the hardware channel." We are seeing more and more of that every day because of our growth and because of our great retailers banding together to grow these categories. We'll never stop trying to find more and more of those brands.

For example, we work with a brand of power tools that has a very strict channel strategy. They sell to Home Depot and they sell in the industrial channels, but they're not on Amazon and they're not in Lowe's or Menards. We're putting together big strategies to grow their business, and they're favoring Ace in many ways because of our growth and again because of our retailers sticking behind that brand.

HR: What does it look like for them to favor Ace?

JS: The level of support, be it in terms of the assortment they're offering us, field support, programming, support of our shows, support of our retailers, advertising dollars. All of those things make up a program that enables us to grow. There's a give and take. We support them as much as we can, and they support us with all of the resources and funding that they can. We believe that's a win-win.

HR: How have you zeroed in on the categories that are key for Ace?

JS: We say that our brand stands for helpful in service and convenience. We think about what categories require engagement of an associate in the store. For example, paint. You can't go into a hardware store, a home center or anywhere else and purchase paint without the help of an associate because you have to get the paint tinted. There's engagement and a level of service that has to occur. Categories like lawn and garden, outdoor power equipment, barbecue, paint, plumbing, electrical and hardware are high-engagement, high-touch categories with Ace store associates. Those are where we focus so retailers can really leverage helpful, best-in-class service. ➔



John Surane
Executive Vice President,
Chief Merchandising and Sales Officer
Surane oversees merchandising, sales and Ace Hardware's wholesale division. He has worked toward enriching Ace's selection of high-quality, differentiated products.

EXECUTIVE Q&A

Supply Chain Moves

Ace Innovates to Help Retailers Stay Competitive

Hardware Retailing (HR): What are some major supply chain improvements that are underway?

Lori Bossmann (LB): Ace's business is driven a lot by the weather. We have an opportunity, as an organization, to really shine when tragedies or big weather events—such as hurricanes, snow storms or flooding—happen. We are using a program that incorporates weather forecasting to predict how much sales will go up due to weather events, such as hurricanes. The significance of that is that we have a two-week lead time on orders by being ahead of the weather. We tested this in 2018 on 21 categories. Our forecasting accuracy improved 6 percent. We're rolling out the program from 21 to 100 categories. We'll leverage it in any categories we can, going forward.

What we're calling the Logistics Revolution is a significant initiative. Our supply network can reach 70 percent of our stores within 250 miles of a distribution center. Our average Ace store has 25,000 SKUs. Our warehouses have 100,000 SKUs. The Logistics Revolution is giving stores access to those SKUs within one day. Our goal is to roll it out to 70 percent of Ace stores by the first quarter of 2019. This initiative is really enabling store associates to say "yes" more often to customers. If the store makes an order by 2 p.m., we can guarantee delivery for the next day.

HR: How does the Logistics Revolution work?

LB: In order to offset costs, we optimized our current replenishment routes with retailers. We used software that basically looks at service routes to optimize delivery routes.

We have 4,500 stores that are within local markets, in close proximity to the customer, and we can leverage the Logistics Revolution to get them the product within a day. That's something that no other retailer out there has because they don't have 4,500 physical store locations within the marketplace. The real value is that we have stores within all those markets that have 25,000 SKUs.

Now, with Logistics Revolution, they really have access to 100,000 SKUs within a day.

HR: What spurred these changes?

LB: All these changes are always a response to our retailers and helping them be more competitive in the marketplace. However, we were the leaders to really push forward the Logistics Revolution because we thought that the retailers needed next-day delivery to be competitive. We were also getting a lot of feedback, as our retailers grew their B2B businesses, that they needed more frequent deliveries. The program is a driver to help them service their B2B customers much better and on a more timely basis. Now, they can get a one-day replenishment order and supplement it with the Logistics Revolution. There's also no order minimum.

HR: What other supply chain projects is your team working on?

LB: Within the last several months, we've also rolled out an Uber-like app that allows our retailers to know exactly where their delivery vehicle is. The reason this is important is that when a normal replenishment order arrives at the store, they usually staff up and have to have extra help come in to receive the order. About 95 percent of the time, our delivery trucks arrive within 30 minutes of when we say they will. However, for the 5 percent of the time that they're delayed, retailers want to know where their truck is so they can shift staff members to other tasks instead of having them wait and be unproductive.

The app is a way to use technology to really help communicate to our retailers. On a map, the retailers can see exactly where their delivery truck is. It's immediate information that is especially helpful when you have storms or there's a traffic accident. ➔

"All these changes are always a response to our retailers and helping them be more competitive in the marketplace."



Lori Bossmann
Executive Vice President,
Chief Supply Chain Officer
Bossmann oversees supply chain operations, inventory replenishment, retail support, loss prevention and property administration. She has been with Ace for more than 30 years.

EXECUTIVE Q&A

A Marketing Balance

Ace's Dual Focus on Both Local and National Initiatives

Hardware Retailing (HR): What are your current marketing initiatives?

Kim Lefko (KL): It's really a blend. We have this philosophy that we test, learn, refine and scale. So, we're always trying new things, but ultimately, we need to balance national advertising with local, relevant advertising because of the nature of our business. Keeping a national brand presence is important for us. That's why TV advertising is still a major area of investment for us. We're also investing in digital advertising on a national level.

Each individual region and each individual store is local. We balance the national advertising with very local, relevant advertising. Probably our two biggest levers at the local level are PR and social media. We provide tools and support so a local store can really make its presence felt using marketing.

Events are also very important. We have four national events that we advertise and promote nationally, but locally, retailers can really activate and create a draw at the store level. Those events are geared around what we would call our famous categories, which are barbecue and grills, home maintenance and preservation and holiday and gift giving. New in 2019 is our 95th anniversary. The events are nationally promoted through radio and TV, but locally activated at the store level.

HR: What will the 2019 events look like?

KL: First, we will be doing the spring start, which is home maintenance and repair. We're calling that the backyard party. It will be taking place in the March-April timeframe, and that will be very much focused on featuring a premier brand for us. Our May event will be a barbecue fest that will be focused on our top-tier brands. October is our birthday month, so that'll be our 95th birthday celebration, and we have some fun things planned. And then December will be holiday gifts and lighting.

We'll nationally promote the events through our preprint circular that we send out. We'll also piggyback our TV promotion the week prior to each of these events. And then, of course, we're big on creating the necessary tools that we can hand off to the local store to market on their own. If you were to walk from one Ace to another, each store chooses how they want to do the event, but at the corporate level, we give them a standard sign kit and tools to execute a unified feel.

HR: What are some other important initiatives you're working on?

KL: Probably the biggest one is digital. When we talk about digital marketing, it really comes down to a few key areas. The first is AceHardware.com. Through the website, if you're a local Ace retailer, you can show your pricing. You can show your promotions and offers and events happening. And that's an incredible marketing opportunity for the individual hardware stores located across the country.

The second major investment in digital is our app. We're now in the process of redeveloping our app, and we will be relaunching that in the back half of 2019. As we think about the app, it really is geared toward commerce and Ace Rewards members. We have several million members in our Ace Rewards loyalty club. How we connect and engage with them on a very personal level is a key marketing initiative. It's a major value-add to the brand on the national level, but also on the local level because we can segment out the shoppers for an individual store and put together programs specific to that region or that individual store.

HR: What are the benefits of the different approaches you're taking?

KL: The biggest benefit for the local retailer is that you have the best of both worlds. You have this beautiful balance of nationally building Ace's very trusted and loved brand. That's important to a local retailer because it's the name on the front of their store. We also have to give the local store all the tools necessary to be able to market at an individual local level. Being able to personalize their marketing and be locally relevant are so important. We would never want to take away that entrepreneurial spirit and locally owned feel from a neighborhood or from a store owner. As a marketer, we have to give retailers tools to empower them while we also build the loved and iconic Ace brand. ➔



Kim Lefko
Senior Vice President, Chief Marketing Officer
Lefko leads Ace Hardware worldwide marketing and advertising efforts and digital initiatives. She was appointed to her position at Ace in 2018 after working for Weber-Stephen Products.

RETAILER PROFILE

From Famine to Flourish

Brothers Grow a Business by Saving Struggling Stores



Brothers Martin and Art Ruggiero—owners of Desert Foothills Ace Hardware in Phoenix—were already business partners before most kids their age had moved on from their high school and college jobs.

Their father, Al, had opened a hardware store in 1976 as a retirement plan. He realized within a year or so that the business wouldn't become profitable quickly. He wanted to close the store, but couldn't afford to break his lease on the retail space.

Martin, at age 20, and Art, who was just 15, made a choice. They decided to keep the store alive so their dad wouldn't have to pay the penalty if he broke the lease.

Martin was in college and Art was still in high school, but they began spending their free time scrambling to manage a struggling operation they didn't know how to run.

For years, they barely scraped by. Yet Art graduated from high school, both of them graduated from college, and the store grew up with them.

Their mother helped out at the business, and eventually they could afford to hire other employees.

The brothers learned as they went, talking to customers about what they needed and expected from a local hardware store.

"We knew every customer by their first name," Martin says. "We really enjoyed the business and being on the floor with our customers."

Four decades later, Martin and Art are still partners. They have a third generation of Ruggieros rising in the company that is eager to keep it family owned.

And their business is now a flourishing multistore operation called the Jant Group Inc. with seven locations in Arizona, New Mexico and Washington state. Each store has a local name specific to its community, such as Desert Foothills Ace Hardware, which is located in the Ahwatukee neighborhood near the foot of South Mountain in Phoenix.

“It’s kind of our niche to take a struggling store and make it profitable. We’ve found a very successful way of doing it.”

—Martin Ruggiero, Desert Foothills Ace Hardware

Turning Around Troubled Stores

The Ruggieros’ original Phoenix store set a pattern for the brothers’ business model.

Since making their father’s store successful, they have grown their operation primarily by acquiring stores that weren’t doing well.

“It’s kind of our niche to take a struggling store and make it profitable,” Martin says. “We’ve found a very successful way of doing it.”

During the past 20 years, the brothers have bought or started four stores in Arizona; one in Santa Fe, New Mexico; and two in Spokane, Washington. They are currently on the lookout for more acquisition opportunities.

Neither Martin nor Art spends much time working on salesfloors anymore, particularly since Martin’s job now includes visiting every store location at least once a month. Martin also oversees the company’s financials and commercial sales, while Art handles human resources and operations.

They have built a management team they trust to oversee day-to-day operations at the stores and the next generation of Ruggieros are enthusiastic about keeping the family business thriving. Art’s sons Austin, age 32, and Josh, 35, are already involved in the company, and Martin’s son Troy, 25, has expressed eager interest.

“We have very capable children to take over the company,” Martin says. “They understand the business and understand our philosophy. We’re very fortunate.”

A Partner in Growth

Martin and Art credit Ace Hardware Corp. with helping their operation thrive and grow. They have worked with the co-op since their first store started in the 1970s.

Ace has been an important partner for four decades, helping the brothers expand the business through acquisitions. Over the years, the co-op has helped the brothers identify store owners who want to retire or are otherwise looking to get out of their business.

In addition, the co-op has assisted with resetting product departments, provided advertising programs and a robust customer rewards program, conducted market studies and offered suggestions for the product mix for each new or acquired store.



Martin and Art Ruggiero own seven stores in three states, including **Desert Foothills Ace Hardware** in Phoenix.

The Ruggieros’ most recent purchase was in 2017, when they bought their 12,500-square-foot location in Peoria, Arizona.

Their current goal is to buy two or three more stores within the next few years. Ace Hardware continues to help Martin and Art look for and negotiate with other Ace store owners who are ready to sell.

An ongoing struggle for independent retailers who do not have family members or managers lined up as successors is finding buyers so they don’t have to close their stores when they retire. “I think we can help,” Martin says.

The Jant Group now has a reputation for buying stores and making them successful thanks to a track record of making acquisitions profitable within about a year, he says.

Martin appreciates Ace Hardware’s ongoing support of the company’s growth. The co-op takes a personalized approach to serving the business, he says.

For example, Ace CEO and president John Venhuizen called Martin on Black Friday in 2018 to check how the stores were doing.

In turn, Martin feels comfortable calling Ace executives if he encounters problems in the business and has seen quick resolutions in response to concerns he has expressed.

“I can’t imagine not being an Ace dealer, to be honest,” he says. —