

WEBINAR

Register Today

Join NHPA's Dan Tratensek and The Farnsworth Group's Grant Farnsworth for an exploration of the data in a Market Measure webinar on Jan. 19. Register at YourNHPA.org/webinars.

Market Measure

THE INDUSTRY'S ANNUAL REPORT

The primary tenet of the mission of the North American Hardware and Paint Association (NHPA) is to help independent home improvement retailers become better, more profitable operators. One way the organization achieves its mission is through industry resources, and the debut of this Market Measure report in *Paint & Decorating Retailer* magazine is one such resource.

NHPA analyzes government data and industry surveys to highlight the growth trajectory of the prior fiscal year and make projections for the future and compiles the results into this report.

The annual *Cost of Doing Business Study* is one survey we use to analyze growth patterns.

The study is an aggregate of financial and operational data provided by retailers, and it is segmented by store type, including paint and decorating outlets. The data from this year's study, which compiled 2020 metrics, showed that while sales at paint stores were up 10.8 percent over 2019, it wasn't the same level of increase seen by other industry sectors.

On the following pages, read more about the home improvement industry's growth over the last two years, and get insights into NHPA's predictions for the future. Additionally, see the performance of big boxes and national chains, and see how your business compares against your peers with highlights from the *2021 Cost of Doing Business Study*.







What We'll Cover

- 25 Industry Breakdown & Chain Results
- 26 Cost of Doing Business Study
- 28 Financial Profiles
- 30 HIRI Analysis
- Read the Canadian Retail Report at [PDRmag.com/canada-report](https://pdrmag.com/canada-report).

This report is compiled by Paint & Decorating Retailer staff from a variety of resources that are attributed throughout.

INSIGHTS

From the Experts

Get additional recaps and forecasts from two analysts at [PDRmag.com/2022-insights](https://pdrmag.com/2022-insights).

The Consumer Impact

In 2020, the unprecedented growth was so unusual that the models we typically use couldn't accommodate the rapid increase, causing us to restate our size of the industry prediction for 2020. When the dust settled, we saw the industry grow by 22.3 percent and final total sales tallied \$497 billion.

Consumers were eager to spend their money at independent retailers in 2020, which led to an increase in market share by about 40 basis points.

Despite demonstrable growth, retailers still had concerns, including the still-broken supply chain, labor challenges and the question of how long home improvement spending would continue.

Toward the end of 2020, most retailers were cautious in budgeting for more growth in 2021. We knew the first few months of the year would comp strong because they were measuring against a pre-pandemic Q1 2020. However, most retailers were just hoping they could carry any additional profits from the start of 2021 through the balance of the year.

In fact, when NHPA surveyed independent retailers toward the end of 2020, 80 percent of survey respondents indicated they would be budgeting sales flat or down for 2021.

Our projections for Q1 were accurate, as 2021 started with strong comps. By midyear, most retailers had seen a bit of a summer swoon in sales, but comps were still holding relatively strong. When we polled retailers again in early Q3, 60 percent of respondents said sales were up over the same period in 2020, with the average increase sitting at 14.9 percent.

While some of this increase was the result of inflation, retailers were still

outpacing 2020 sales and performing considerably better than their conservative budgets. In fact, nearly 56 percent of retailers surveyed said they were performing better than their expectations.

As we headed into the back half of 2021, we continued to hear a similar refrain from retailers: "We would be happy if we could just comp flat against the last six months of 2020."

In Spite of It All, Growth

Barring the persistent challenges of supply chain and product and labor shortages, along with pandemic restrictions being lifted for consumers, we saw most retailers hold the line against the previous year.

So, after two years of unprecedented growth, how do we make projections about 2022 and beyond?

As this report goes to press, we anticipate the final quarter of 2021 to finish flat against 2020 and leave sales for the industry up 8.2 percent over 2020. No small feat coming off the largest single-year increase we have seen for the industry.

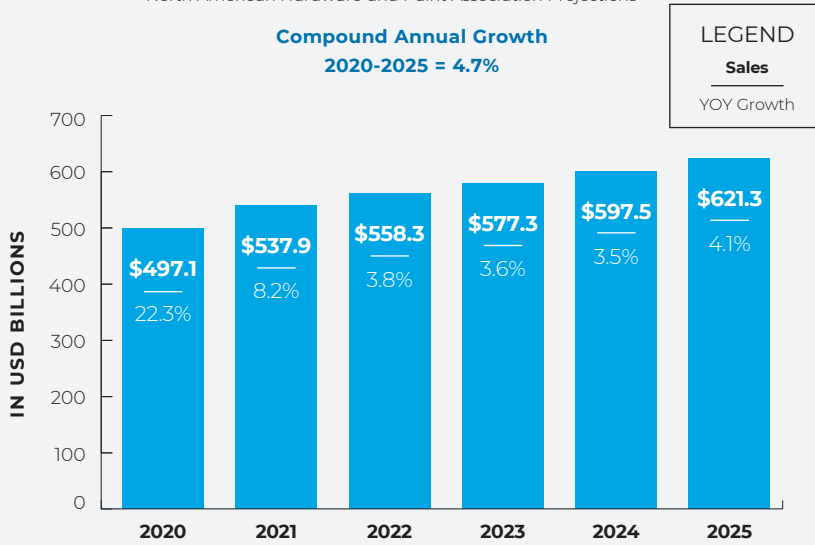
Moving forward, we see 2021 as a reset point for the industry. In the past, industry sales have bumped along with 3.5 to 4.5 percent increases, and we anticipate a return to this normalcy for the next three to five years.

Based on a more measured several years of increases for the industry, we put the overall five year compound annual growth rate for the industry (2020-2025) at 4.7 percent.

Of course, with all the continued ripples from COVID still creating uncertainty for just about every industry, we make these predictions with a bit of a cautious eye toward future potential disruptions.

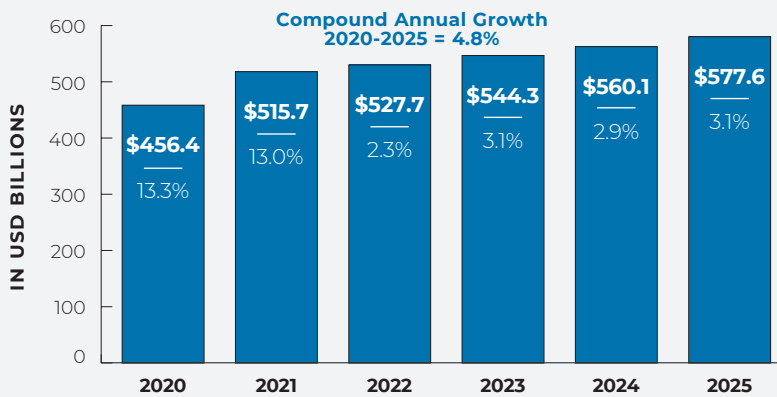
U.S. Home Improvement Industry Sales

North American Hardware and Paint Association Projections



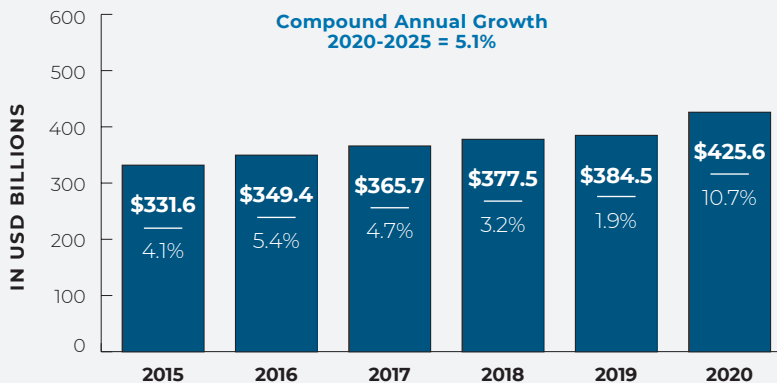
Home Improvement Product Sales Performance

Home Improvement Research Institute/IHS Projections at Current Prices



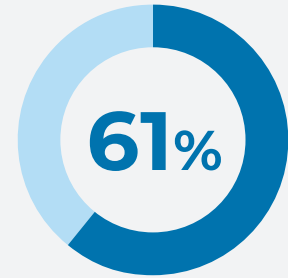
Home Improvement Retail Sales

U.S. Department of Census Monthly Retail Sales Report NAICS 444/NSA






How Retailers Are Preparing for 2022

Top Investments Retailers Anticipate in 2022

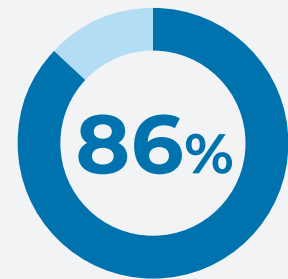


of retailers anticipate investing in their employees

Other Top Investments

-  **42%** Adding new categories
-  **32%** New technology
-  **31%** Marketing programs

Top Challenges Retailers Anticipate in 2022



of retailers anticipate supply chain disruptions to continue

Other Top Challenges

-  **69%** Price fluctuations
-  **59%** Hiring quality employees
-  **54%** Customer frustrations

Source: 2021 Midyear Review, NHPA

2021

Home Improvement
Sales by Month

(in billions)

January \$31.2

February \$29.6

March \$43.5

April \$47.1

May \$46.9

June \$45.4

July \$41.6

August \$40

September \$39.1

YTD \$364.4

Sales Growth
2020 vs. 2021

January 16%

February 13%

March 35.5%

April 31.2%

May 10.6%

June 7.8%

July 5.6%

August 9.3%

September 6%

YTD 14.4%

Source: U.S. Department of Census/
Monthly Retail Sales Report NAICS
444/NSA

Top Chains: Individual Performance

	2020 Sales (in billions)	Stores at End of 2020	Stores in 2021 (as of Dec. 1, 2021)
Home Depot Atlanta	\$132.1	2,296	2,293 ^a
Lowe's Mooresville, North Carolina	\$89.6	1,974	1,968 ^a
Menards Inc. Eau Claire, Wisconsin	\$11.8	335	352
Sherwin-Williams Cleveland, Ohio	\$18.4	4,774	~5,000 ^a

These chains represent home improvement retail operations that carry at least two core categories and have sales of approximately \$1 billion or more; adjustments to the included chains were made to the 2021 data.

Sources: Company reports, NHPA surveys and NHPA estimates

^aStore counts include operations in the U.S., Canada, Mexico and all other locations

Market Share Profile

Top Chains: Combined Performance

	Net Sales (in billions)	No. of Stores
2016	\$182.2	8,901
2017	\$195.2	9,362
2018	\$207.3	9,314
2019	\$210.2	9,351
2020	\$251.9	9,379
2016-2020 Compound Annual Growth Rate	6.7%	1.1%

Benchmark Your Business

To get your copy of the *2021 Cost of Doing Business Study* to analyze your operation, visit YourNHPA.org/codb.

COST OF DOING BUSINESS STUDY

A Real-World Look at Retailers' Financials

The *2021 Cost of Doing Business Study* presents the North American Hardware and Paint Association's (NHPA) annual financial and operational profile of independent hardware stores, home centers, lumber and building materials outlets and paint and decorating outlets. (Data for hardware stores, home centers and lumber and building material outlets is not included here. To see those metrics, visit PDRmag.com/codb-data.)

This study assesses the financial performance of home improvement retailers who graciously submitted confidential financial reports for fiscal year 2020 to NHPA. The study presents composite income statements and balance sheets plus averages for key financial performance ratios.

Retailers can use this data to measure their own performance against industry averages and establish financial plans to improve profitability.

Methodology

The annual *Cost of Doing Business Study* is made possible through the cooperation of hardware store, home center, LBM outlet and paint and decorating outlet operators who provide detailed financial and operational information on their individual companies. The analysis in the report is the result of extensive review by NHPA. All individual company responses are completely confidential.

Most of the figures in this report are medians. The median for a particular calculation is the middle number of all values reported when arranged from lowest to highest. The median represents the typical company's results and is not influenced by extremely high or low reports.

To determine high-profit stores, all participating companies were ranked based on net profit before taxes. The high-profit companies in each segment are those that make up the top 25 percent. The figures reported for each of the high-profit segments represent the median for that group.

Each year, the report contains figures from a different sample group of stores, which means overall figures have the potential to vary widely from year to year based on the respondent group of stores participating each year.

In this year's study, 1,115 independent home improvement stores participated, a 6.1 percent increase from the prior year.

Of the total number of respondents, 16 paint companies representing 76 store units participated in this year's survey. Paint and decorating outlet data has been collected for the past three years, so the historical data is not as robust as other sectors.

Paint and Decorating Outlet Overview

Comparable paint store sales were up 10.8 percent over 2019, which lagged far behind the rest of the home improvement industry. While customer count rose to the highest level in the three years the study has tracked paint performance, sales per customer stood at \$106, dropping to the lowest level in the three years of analysis. Notably, consumer/retail sales dropped to 10 percent in 2020, indicating paint stores may be losing business to other industry segments.

How to Use This Study

To get the most out of these selected results from the *2021 Cost of Doing Business Study*, follow these tips.

- **Compare numbers.** Determine your operating expenses as a percentage of sales and calculate your balance sheet as a percentage of total assets. Compare those numbers to the study results for typical and high-profit stores.
- **Look beyond the percentages.** Compare your real-dollar expenditures as well.
- **Consider the results.** If you find your store's individual data veers sharply from what's contained within the study, explore the cause behind the discrepancy and develop a plan to bring your numbers on par with high-profit stores.
- **Participation counts.** Overall figures can vary from year to year based on the group of participating operations. Year-to-year comparisons are helpful for illustrating general trends over time.

Typical Store Results

Profit Margin

8.0%

This metric is the highest level ever recorded since data has been collected for the paint and decorating segment.

Total Operating Expense

34.5%

This metric has been steadily declining by a few points since data was first collected from this segment.

Sales Per Square Foot

\$755

This year was the first time this metric for typical stores was higher than high-profit, which came in at \$620.

Gross Margin Per Employee

\$101,496

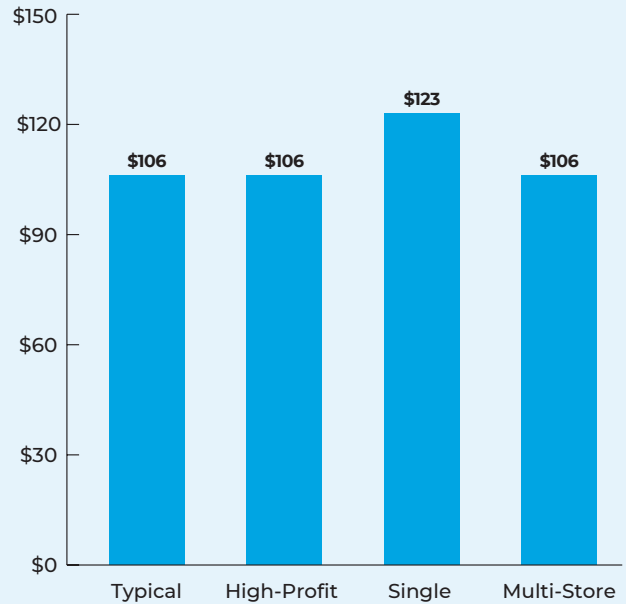
This metric for typical stores was up 58.7% over 2019 even though the total number of full-time employees was the same.

Inventory as a Percent of Assets

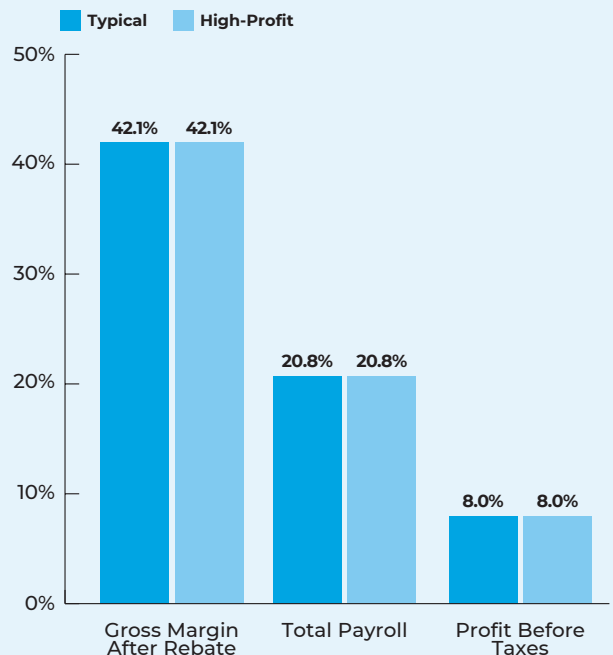
49.4%

This metric is the lowest over the three years data has been collected, down from 52.1% for the 2018 fiscal year.

Sales Per Customer



Key Business Indicators



Source: 2021 Cost of Doing Business Study, NHPA

2020 Financial Profiles of Leading Publicly Held Chains

Operating and Productivity Profile	Sherwin-Williams	Home Depot	Lowe's
Number of Stores (at end of 2020)	4,774	2,296	1,974
Manufacturing Facilities	100	N/A	N/A
Distribution Centers	74	~200	15*
Average Size of Selling Area (sq. ft.)	4,500*	104,000	105,000
Total Sales	\$18.4 billion	\$132.1 billion	\$89.6 billion
Total Asset Investment	\$20.4 billion	\$70.6 billion	\$46.7 billion
Total Inventory	\$1.8 billion	\$16.6 billion	\$16.2 billion
Sales Per Square Foot	\$857*	\$544	\$431
Inventory Turnover	5.4x	5.8x	3.7x
Net Sales to Inventory	10.2x	7.9x	5.5x
Total Sales Per Employee	\$301,000	\$261,708	\$263,529
Average Size of Transaction	N/A	\$74.32	\$85.67
Gross Margin Return on Inventory	481.2%	270.0%	182.6%
Income Statement	Sherwin-Williams	Home Depot	Lowe's
Net Sales	100.0%	100.0%	100.0%
Cost of Goods Sold	52.7%	66.0%	67.0%
Gross Margin	47.3%	34.0%	33.0%
Total Operating Expenses	33.6%	21.1%	22.20%
Net Income (Before Taxes)	13.7%	13.9%	10.8%
Balance Sheet	Sherwin-Williams	Home Depot	Lowe's
Total Current Assets	22.5%	40.3%	47.8%
Cash	1.1%	11.2%	10.0%
Receivables	10.2%	4.2%	1.2%
Inventory	8.8%	23.6%	34.6%
Other	2.4%	1.4%	2.0%
Fixed Assets	77.5%	59.6%	52.2%
Total Assets	100.0%	100.0%	100.0%
Current Liabilities	22.5%	32.8%	40.1%
Long-Term Liabilities	59.8%	62.5%	56.8%
Net Worth	17.7%	4.7%	3.1%
Total Liabilities and Net Worth	100.0%	100.0%	100.0%

Sources: Sherwin-Williams, Home Depot and Lowe's annual reports

*NHPA estimates

Profile of Top 6 Buying Groups and Distributors

	ALLPRO	Lancaster	Ace Hardware Corp.	Do it Best Corp.*	Orgill Inc.	True Value Co.‡
# of Distribution Centers	4	7	17	8	8	13
# of Employees	30	242	10,500	1,630	N/A	2,500
# of Stores/Members Served	290	10,000+	5,327	3,800	12,000+	4,500
Dollar Volume Most Recent Fiscal Year	\$1.0 billion	N/A	\$7.8 billion	\$5.2 billion	\$3.0 billion	N/A
% Sales Out of Warehouse	5%	N/A	80%	28%	N/A	N/A
% Sales Out of Pool/Relay	0%	N/A	0%	0%	N/A	N/A
% Sales Direct-Drop Ship	95%	N/A	20%	72%	N/A	N/A
% Sales in LBM	N/A	N/A	N/A	21%	N/A	N/A
Avg. # of SKUs in Warehouse	2,200	13,000	N/A	67,000	N/A	80,000
Sales/inventory Ratio for 2020	6.6	N/A	N/A	16.5	N/A	N/A
2020 Member Rebate Distributed	N/A	N/A	N/A	\$170 million	N/A	N/A
Rebate % Cash	2% ^o	N/A	N/A	58%	N/A	N/A
Rebate % Stock	N/A	N/A	N/A	42%	N/A	N/A
Rebate % Other	N/A	N/A	N/A	0%	N/A	N/A

Sources: NHPA distributor surveys and distributor news releases

^oALLPRO members received an aggregate rebate of 2% from suppliers for the 2020 fiscal year which is based on the group achieving purchasing plateaus

*FY 2020 data as of June 27, 2020; FY ended June 29, 2020

‡True Value transitioned away from the co-op model in 2018 and no longer shares certain data points.

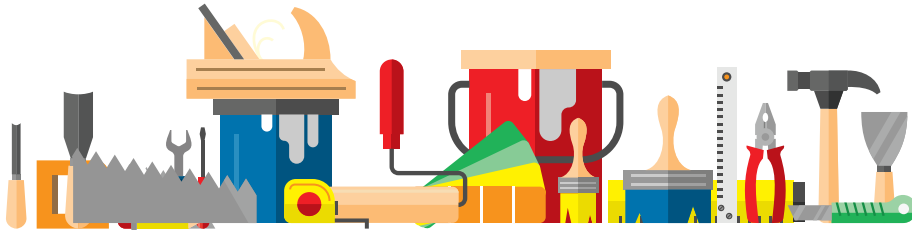
Profile of Wholesaling Merchandising Groups

	PRO Group Inc.	Distribution America	Val-Test Group
Current # of Wholesale Members	73	8	51
# of Member-Operated Distribution Centers	150+	9	51
Dollar Volume for 2020 Fiscal Year	N/A	\$900 million	\$660 million
Estimated Dollar Volume Calendar 2021	\$6 billion	\$950 million	\$650 million
# of Retail Stores Served by Members	35,000	9,000	1,400
# of Program Stores	800	1,500	90
# of Employees	16	9	4

Source: NHPA distributor surveys

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THE HOME IMPROVEMENT INDUSTRY

Year in Review

PROVIDED BY THE HOME IMPROVEMENT RESEARCH INSTITUTE

Entering 2021, many within the home improvement industry proceeded with caution. Even though 2020 was rife with heartache, turmoil and disruption at a global level, home improvement was one of the few shining stars. Homeowners took their forced time at home and decided to make it productive by tackling home projects and tasks they had been intending to do but had yet to find the time. They also took on unplanned projects in response to their new way of life, health concerns and changing uses of the home. This increased time at home, long project lists and a shift in disposable income led to a surge in DIY home improvement activity and record sales for many within the industry. Led by the surge in consumer spending, the Home Improvement Research Institute (HIRI) noted a 13.3 percent growth in home improvement product sales for 2020, an astounding number considering GDP dropped by nearly 3.5 percent.

With the success of 2020 behind us, many asked not if the other shoe will drop, but how heavy will it drop? Most expected relatively strong continued interest in home improvement and building, but compared to 2020, a modest uptick at best. Looking back at the past year, now we saw 2020 was just the start. In preliminary estimates for 2021, HIRI expects another 13 percent growth for all of 2021. To put that into perspective, the home improvement products market will have increased by 28 percent over a two-year span, a feat nearly unheard of in an industry this large and established.

While 2020 growth was driven very much by consumers, 2021 was the year of the pro. With part of 2020 stymied from the pro perspective due to the lockdowns throughout much of the country, demand for a pro's time was strong in 2021. With a glut of demand from first-time homeowners, homebuyers moving to new markets and existing homeowners wanting changes to their home, pros' books filled up quickly and timelines were extended as many contractors didn't have enough time or workers to keep up with the number of projects coming in. This led to a constant source of product sales, leading to an estimated 18.2 percent increase in pro building material sales in 2021.

HIRI noted a 13.3 percent growth in home improvement product sales for 2020, an astounding number considering GDP dropped by nearly 3.5 percent.

Strong demand for particular goods and services is never a bad thing, but it can cause some headaches along the way. The headaches in 2021 were felt by nearly all with a stake in home remodeling. Supply constraints have plagued many within the industry as manufacturers

struggle to keep up with demand. While some categories have begun to subside, like lumber, others continue as a thorn in the side of pros and DIYers alike. Although the root causes of constraints are varied (component shortages, shipping delays, lack of labor, etc.), the outcome is the same: project delays, product shifts and inflation. When taking inflation into account, the “real” growth is closer to the 5 percent range compared to the 13 percent nominal growth we see overall.

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Now in 2022, we approach with cautious optimism. Demand is still strong for home improvement among DIYers and pros and doesn't seem to be slowing down. We don't expect to see a third consecutive year of double-digit growth but instead settling into the 3 to 4 percent range we saw pre-pandemic. Indicators tell us that unless something significant happens, any retraction is unlikely. Throughout all of 2021, we've seen strong demand unlike what we've seen before of homeowners who are still planning on undertaking home improvement projects.

The housing market, while slowing from the peak, is still quite strong. Even with increased home prices, we have yet to see existing home inventory go up, indicating there is still room to grow. Home sales often lead to flurries of project activity as new purchasers rush to make a house their home. Alongside this, there is a contingent of homeowners who previously would have made a step-up home purchase, but have been priced out of the market and are instead reinvesting in their homes with the equity they amassed in the past 24 months.

HIRI projects flat to modest growth of DIY products sales in 2022 and 6 to 8 percent growth in pro home improvement product sales. Solid supply and demand, and lingering tailwinds, indicate we will continue seeing modest growth at this new market level for the year ahead.



HOME IMPROVEMENT
RESEARCH INSTITUTE

About HIRI

The Home Improvement Research Institute (HIRI) is the only nonprofit organization dedicated to home improvement research. The organization empowers its members with exclusive,

ongoing home improvement data and information for making better business decisions. Members are the home improvement industry's leading manufacturers, retailers and allied organizations. Learn more at hiri.org.

Industry Sales By the Numbers

2020



Home improvement product sales for DIYers and pros increased

13.3%

2021



Building material sales for pros increased

18.2%

2022



Home improvement product sales for DIYers are projected to slightly increase

0.2%



Building material sales for pros are projected to increase

7.1%

Source: Home Improvement Research Institute

Unprecedented Sales Activity in Canada

PROVIDED BY MICHAEL MCLARNEY, MANAGING DIRECTOR, HARDLINES, NHPA CANADA

As the economy opens up and consumers begin spending money on travel and other sectors, Canadian retailers have a wait-and-see attitude to determine whether spending will detract from home improvement sales. Sales to contractors have been buoyed by the renovation boom that remained a constant throughout the pandemic. However, the housing market shows signs of stabilizing and returning to a more normal pace.

Economic recovery has not been as strong in Canada as in the U.S., which was impacted more severely, and economists anticipate much of the recovery will be pushed into 2022 compared to the U.S.

Supply Chain Woes

The supply chain travails of 2020 were still in effect through 2021. Many retailers reported learning valuable lessons about supply and demand over the last two years. They have been working more closely with their buying groups and key suppliers, and the scramble for products has left many shelves empty. Some retailers had to work with reduced SKUs while bulking up on better-selling items. Prices, which fluctuated wildly in 2020, continued to be unstable through much of 2021. As a result, many retailers have become more strategic to offer a more consistent, reliable source of supply.

Wildfires throughout the country posed a further challenge for supply chains. Ontario and British Columbia were hit hard by wildfires during the summer. At one point, some 300 fires were blazing in western Canada, while northern Ontario had more than 150 wildfires last summer.

Consolidation Continues

According to the 2021 *Hardlines* Retail Report, just four companies account for two-thirds of all home improvement retail sales in Canada. In 2019, they comprised 63.2 percent of the industry. In 2020, that had grown slightly to 63.6 percent.

The Home Depot Canada continues to lead the industry, with estimated sales now exceeding \$10 billion, making it the largest home improvement retail store in Canada.

Still firmly in the No. 2 spot, Lowe's Canada continues to grow both with new stores and through the expansion and repositioning of existing stores.

Home Hardware, with nearly 1,100 stores, remains a strong brand and an attractive model for retailers. As an example of its commitment to brand recognition, the company recently relaunched its private brand, Benchmark, which includes hand and power tools and accessories and outdoor power equipment.

Canadian Tire has undertaken a great deal of restructuring of its retail business, focusing on acquisitions and expanding its private labels. The private labels include products from power tools to home decor, and more than one-third of its revenue comes from its owned brands. The retailer's online sales continued to rise in 2021, following an increase of more than 250 percent in 2020.

Buying Groups Grow Market Share

Buying groups hold their own however, as independents consolidate buying power and marketing efficiencies under them.

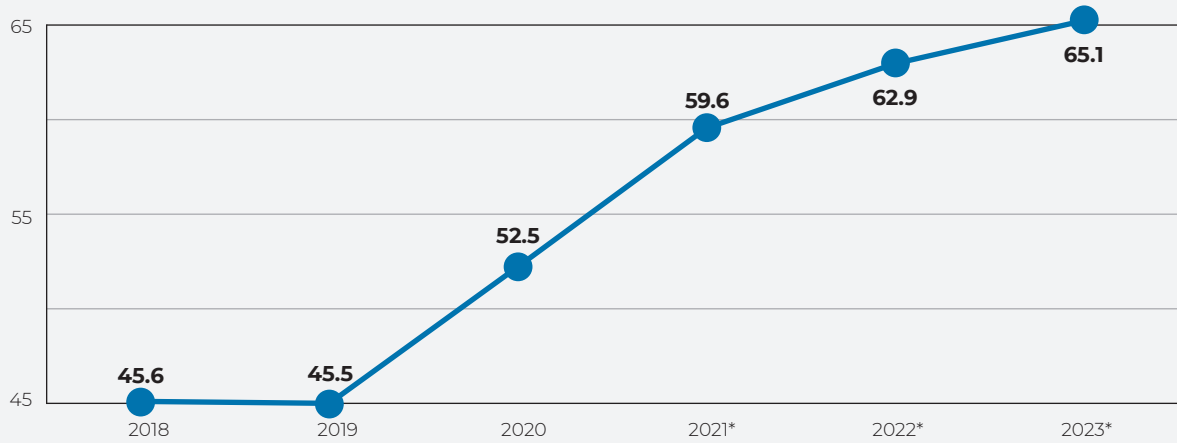
The LBM buying groups are unique in Canada since they have no direct parallel in other markets like the U.S. Their operation and structure are quite distinct from the large retail banners and big-box chains that make up such a large part of the U.S. market.

Since 2016, buying groups have represented at least one-third of sales by the Canadian retail home improvement market—a market worth more than \$50 billion in 2020. Last year, the market share of buying groups grew to almost 38 percent of the overall market. Those sales were generated by more than 2,500 independently owned outlets that are members of eight buying groups across the country.

The largest buying group is Home Hardware Stores with almost \$6 billion in retail sales. Next is Independent Lumber Dealers Co-operative, whose combined membership accounts for close to \$5 billion. The other buying groups are, in order of size, TIMBER MART, Sexton Group, Castle Building Centres, BMR Group, Delroc Industries and TORBSA.

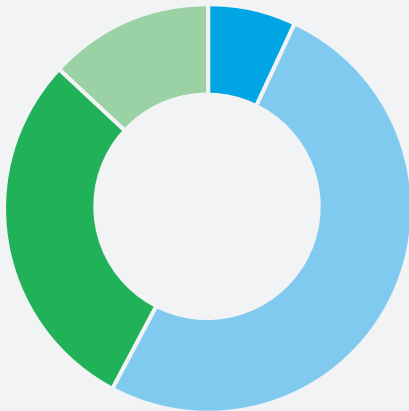
The past year, which followed a year of double-digit growth in 2020, is estimated to have logged further growth. Growth in 2021 will reach into the double digits, with *Hardlines* forecasting an overall increase in retail sales of 13 percent. Forecasts show strong sales activity continuing into 2022, hampered only by the lack of product and the challenge of hiring staff.

Home Improvement Industry Sales Growth (IN \$CD; IN BILLIONS)



*Forecasted numbers

Market Share by Store Format



- 7% Hardware Stores
- 51% Building Centers
- 29% Big Boxes
- 13% Canadian Tire*

*Related building material sales only

Top 10 Home Improvement Retailers

Rank	Company	2019 Sales (in billions)	2020 Sales (in billions)	Percentage Change
1	Home Depot Canada	\$8.8	\$10.4	18%
2	Lowe's Canada	\$6.9	\$7.9	14%
3	Home Hardware Stores	\$6.6	\$7.7	17%
4	Canadian Tire Retail	\$6.2	\$7.3	18%
5	ILDC	\$4.1	\$4.4	8%
6	TIMBER MART	\$3.0	\$3.5	16%
7	Sexton Group	\$2.2	\$2.4	11%
8	Castle Building Centres	\$2.1	\$2.3	10%
9	BMR Group	\$1.3	\$1.4	5%
10	Kent Building Materials	\$0.95	\$1.1	14%

Source: Hardlines 2020 Retail Report