QUARTERLY REPORT

INDEPENDENT RETAILER INDEX

May 2024
Measuring Q1 2024 Performance

NHPA North American Hardware and Paint Association | THE Farnsworth GROUP

OBJECTIVE OF RESEARCH

The Independent Retailer Index, a project produced in partnership between the North American Hardware and Paint Association (NHPA) and The Farnsworth Group, serves as a regular measure of the independent channel's performance. Reports are published at **YourNHPA.org/retailer-index** each quarter, and all data is presented in aggregate. The index tracks quarterly changes in various business areas including:

- Total sales
- Transaction count
- Inventory investment
- Cost of goods
- Gross profit margins
- Future expectations
- Investment plans: inventory, staff, property, plant and equipment and technology solutions

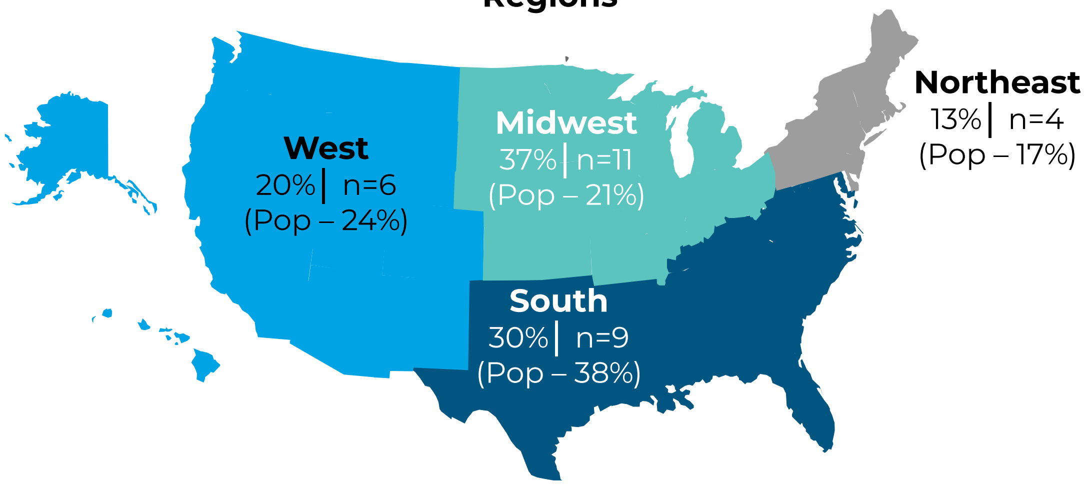
IN THIS REPORT: MEASURING Q1 2024 PERFORMANCE

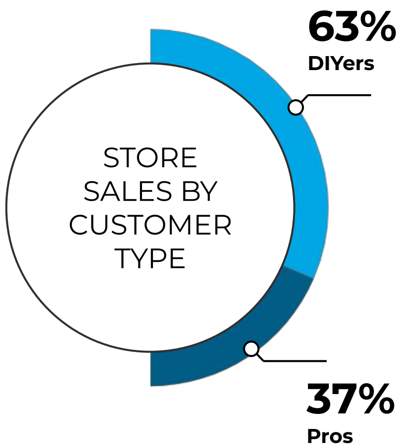
In this installment of the Independent Retailer Index, 36 retailers responded, providing insights into operational metrics during the first quarter of 2024. They also reported **quarter-over-quarter changes** compared to performance in Q4 2023.

RESPONDENT PROFILES

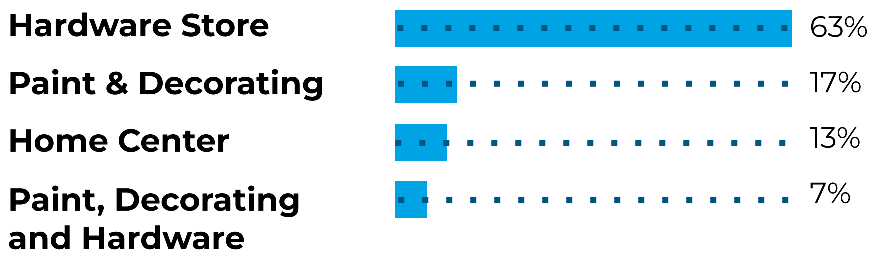
83% of respondents answered the demographic questions in the survey. In that segment, 63% operate hardware stores and about two-thirds of their customers are DIYers.

Regions



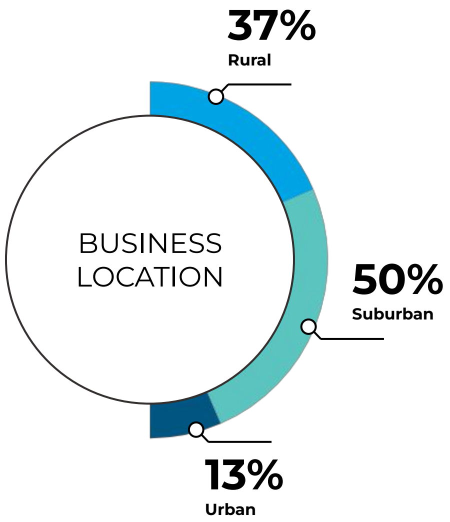


Store Type

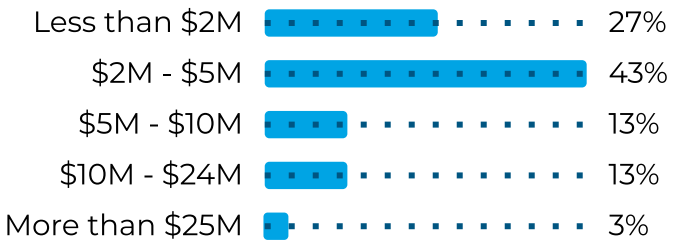


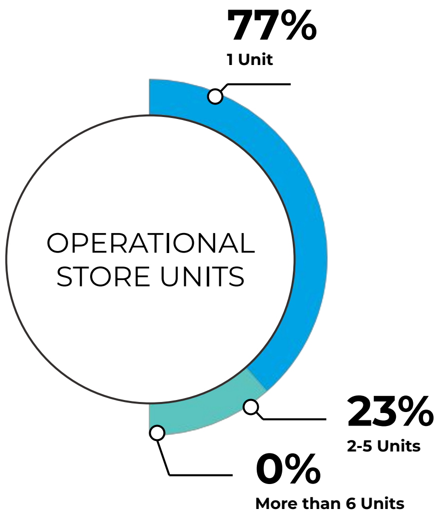
RESPONDENT PROFILES

Most of this quarter's respondents (77%) have one store unit. The majority of respondents (70%) report annual sales of $5 million or less.

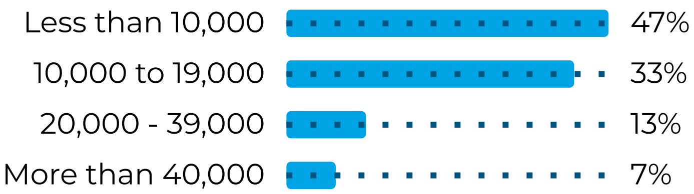


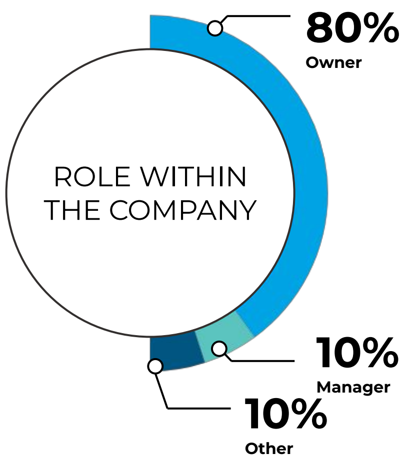
Overall Annual Sales



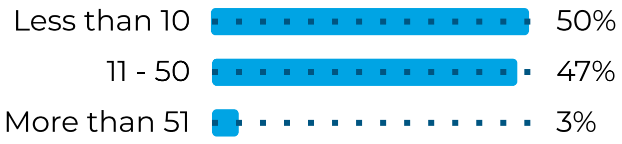


Square Feet of Sales Floor





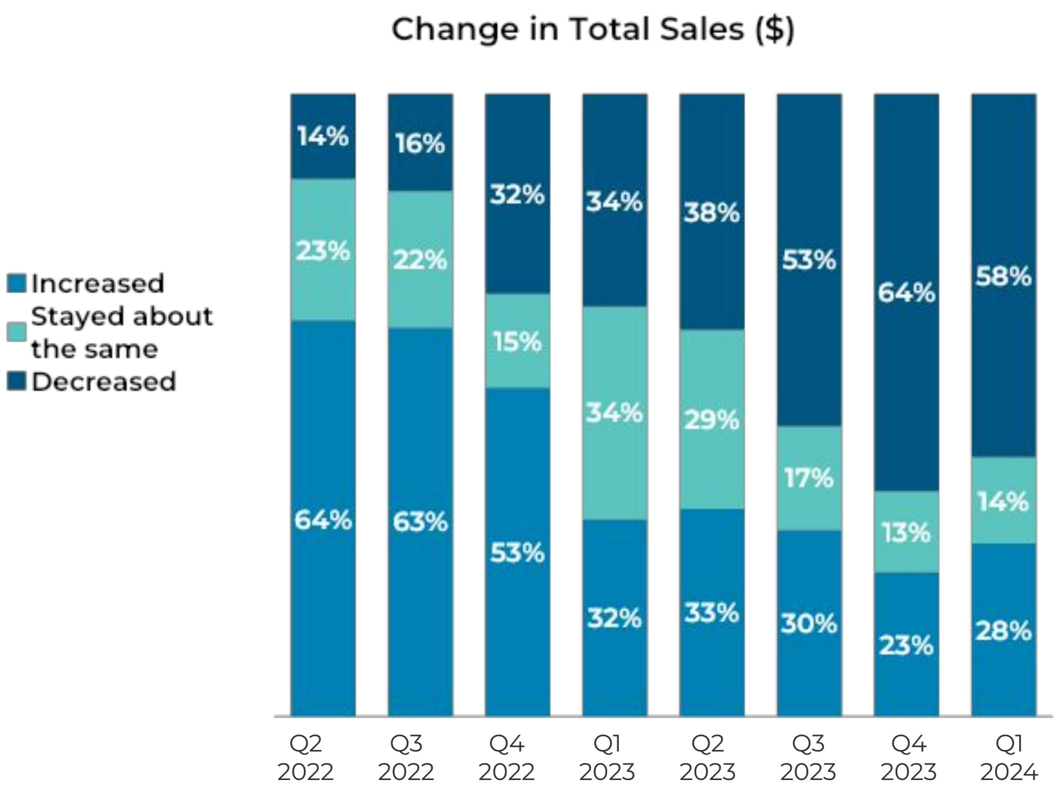
Number of Full-Time Employees

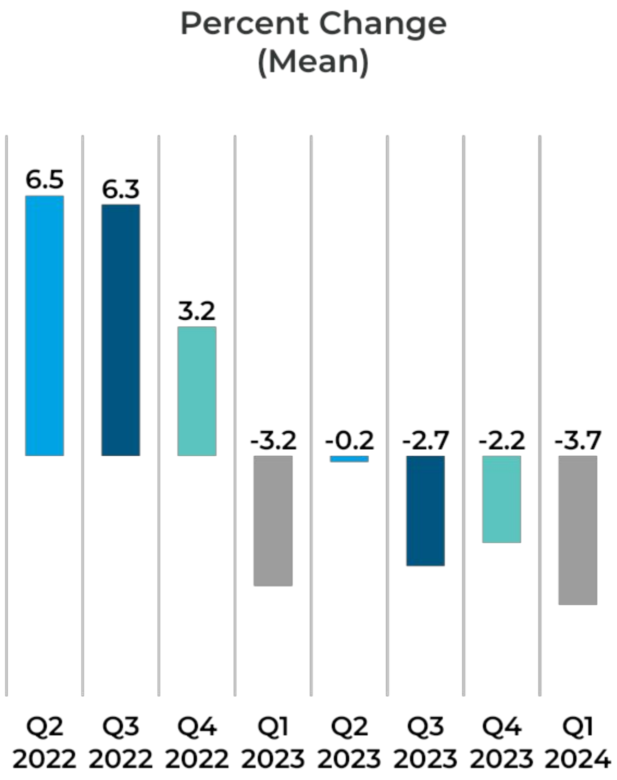


CHANGES IN TOTAL SALES

(quarter over quarter, in dollars)

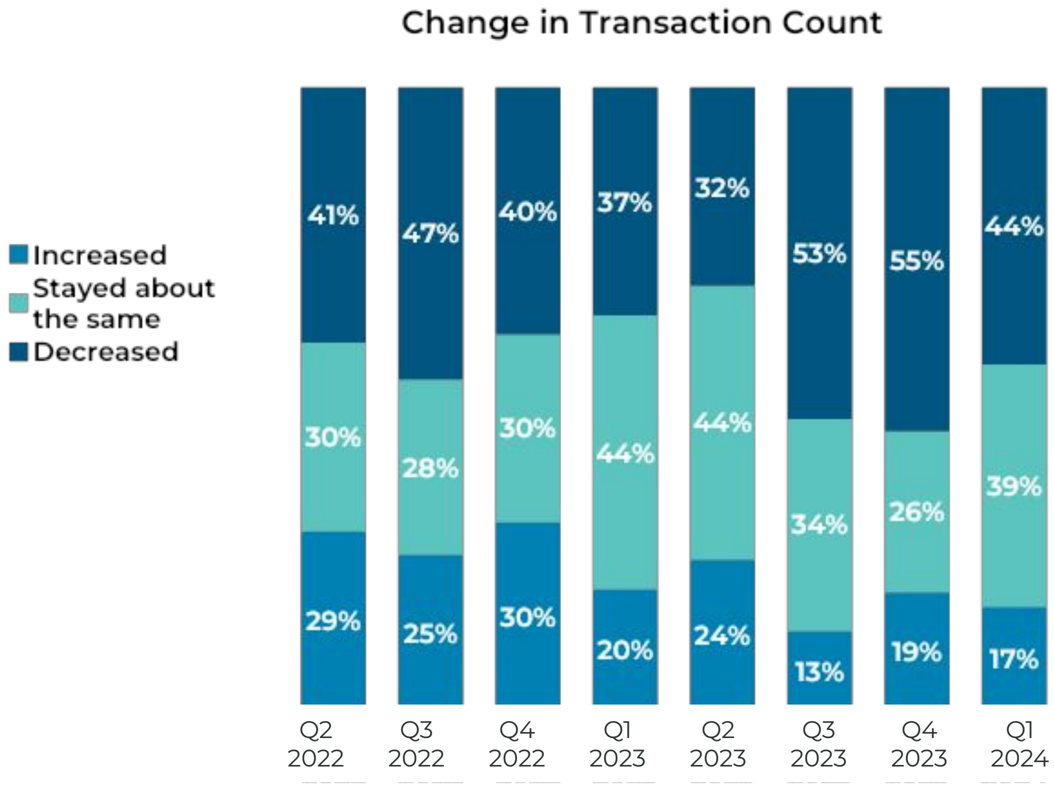
Fewer retailers (58%) said their sales decreased in Q1 than did in Q4 (64%). Just over a quarter of retailers said their total sales increased in Q1. The average percentage change was negative (3.7%).

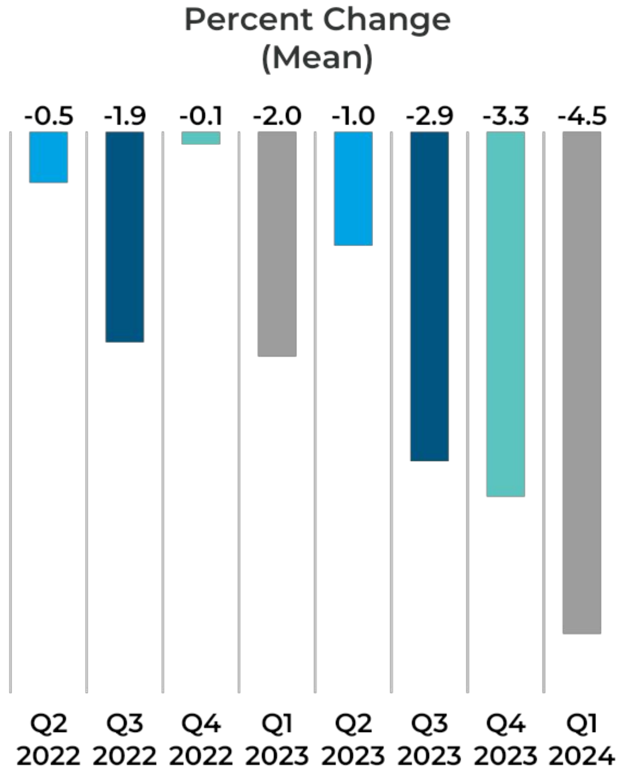




CHANGES IN TRANSACTION COUNT

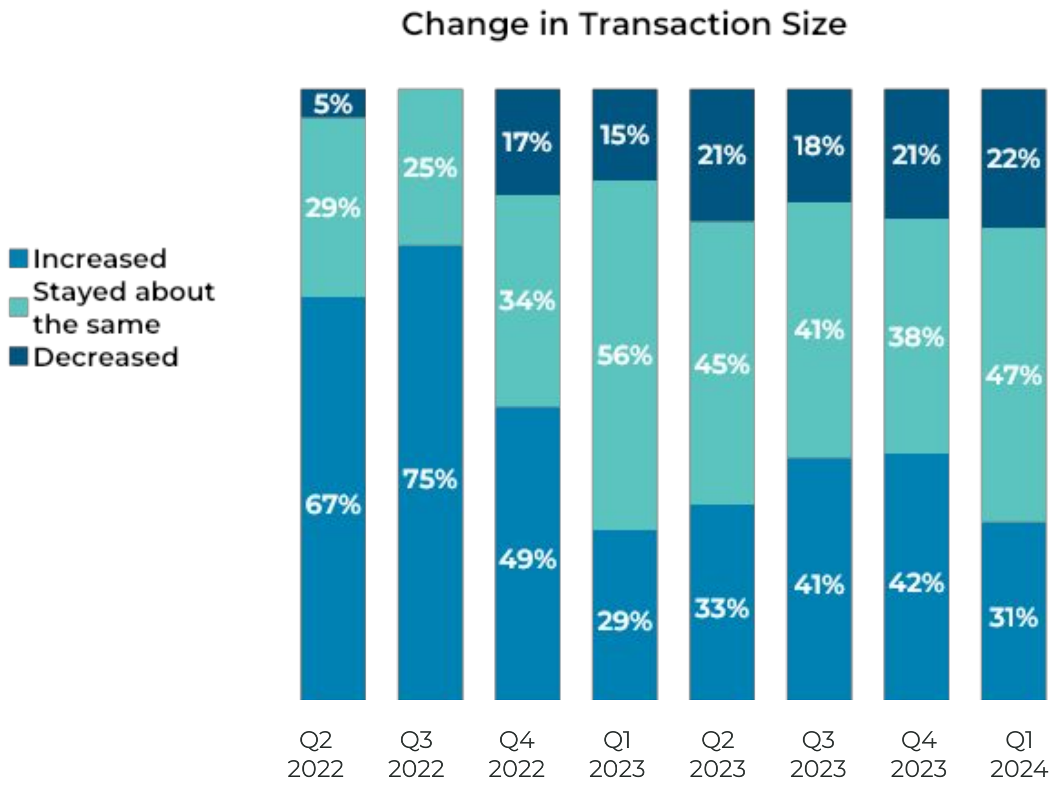
In Q1, more retailers (44%) saw a decrease in transaction counts than did not. Just under 20% of retailers said their transaction count increased in Q1 over Q4. The average percent change was also the most negative average change at -4.5%.

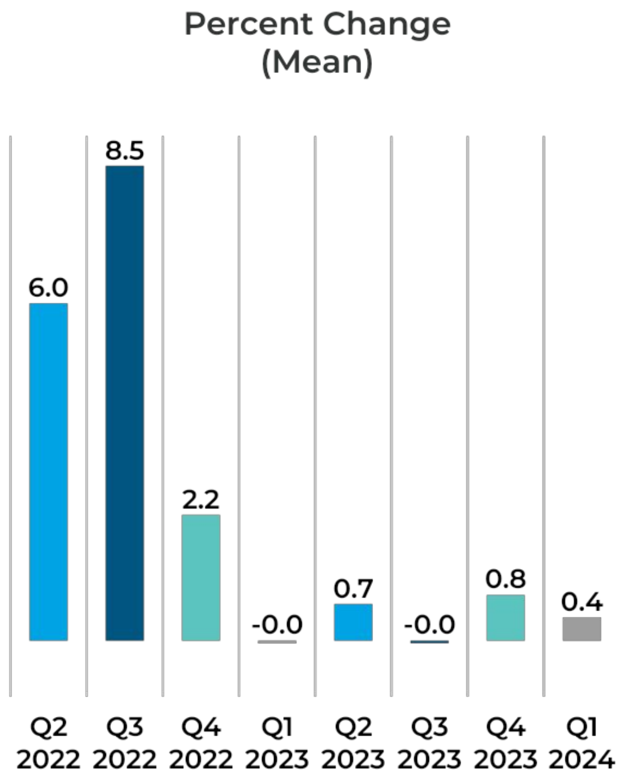




CHANGES IN TRANSACTION SIZE

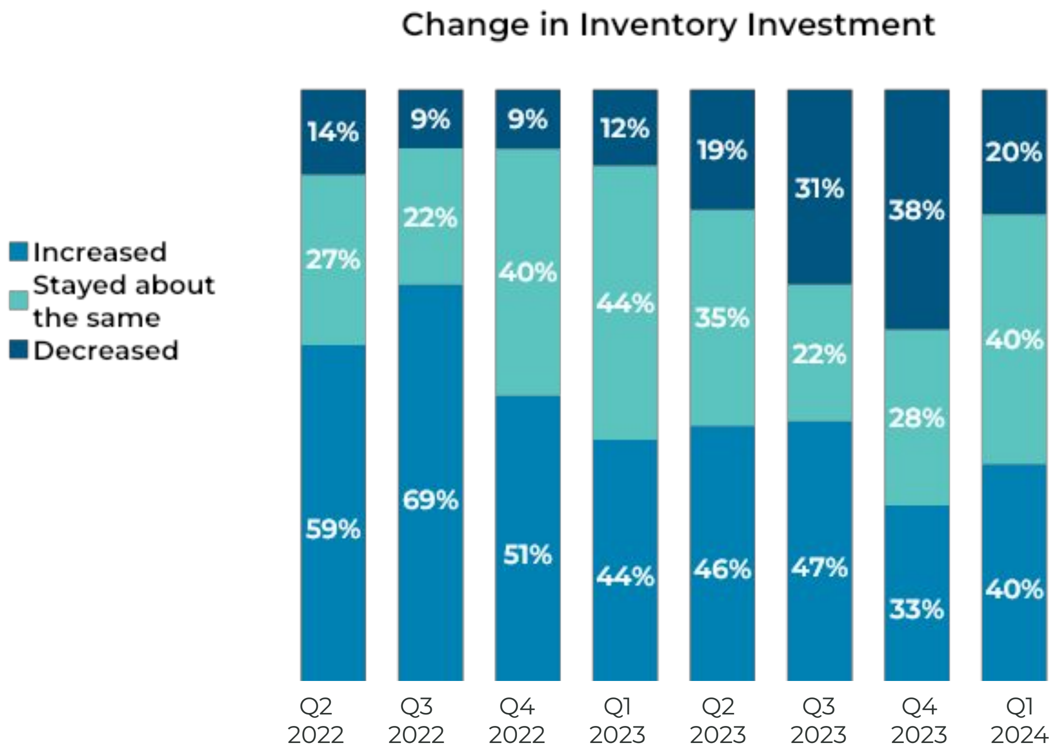
Fewer retailers (31%) said their transaction size increased, which is the lowest that metric has been since Q1 of last year. Just over 20% of retailers said their transaction sizes decreased in Q1 over Q4. The resulting average change in transaction size was under 1%.

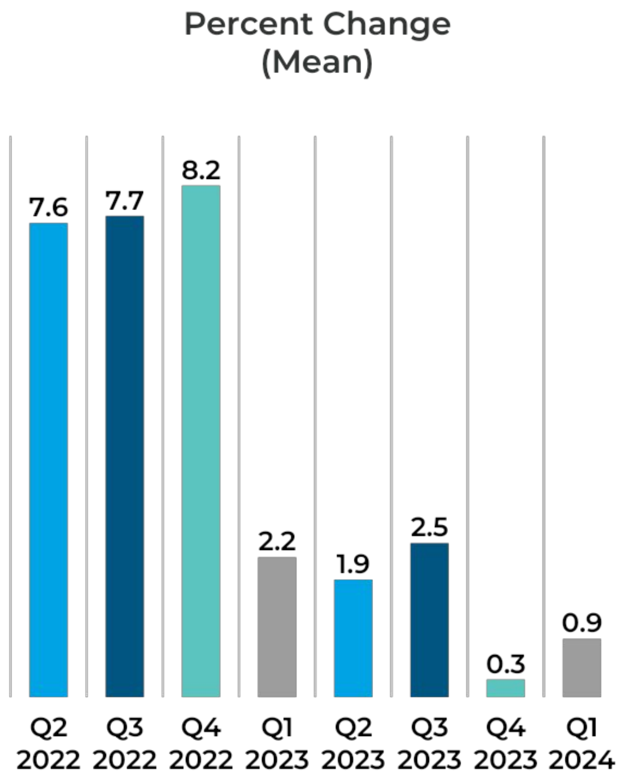




CHANGES IN INVENTORY INVESTMENT

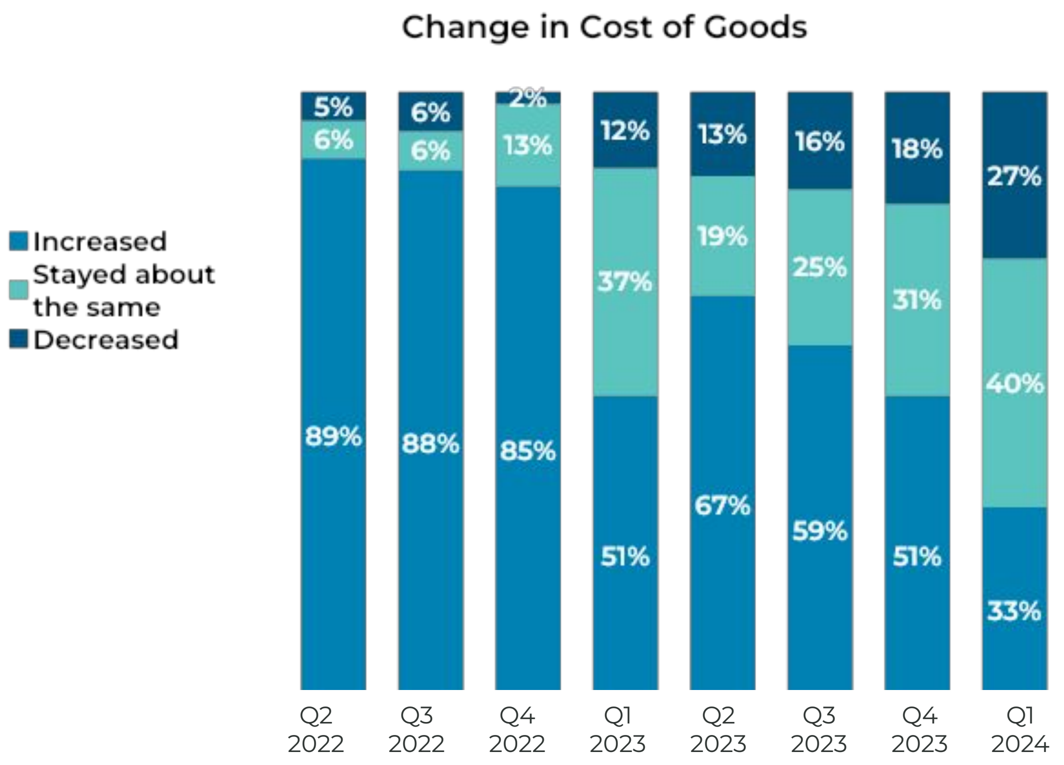
One-fifth of retailers (20%) reported a decrease in inventory investment, bucking the trend over prior quarters. About 40% of retailers said their inventory investment increased in Q1. The average investment for Q1 was nearly flat (0.9%) and at the second lowest since the study began.

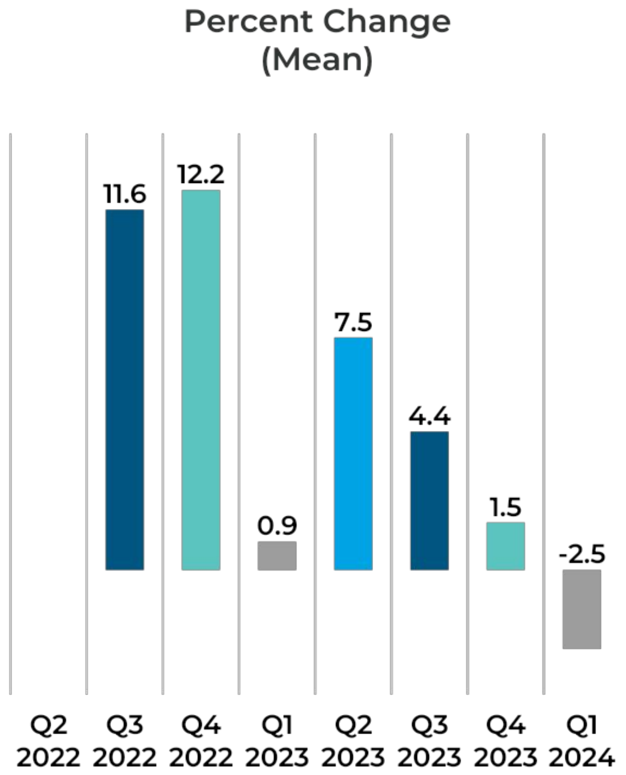




CHANGES IN COST OF GOODS

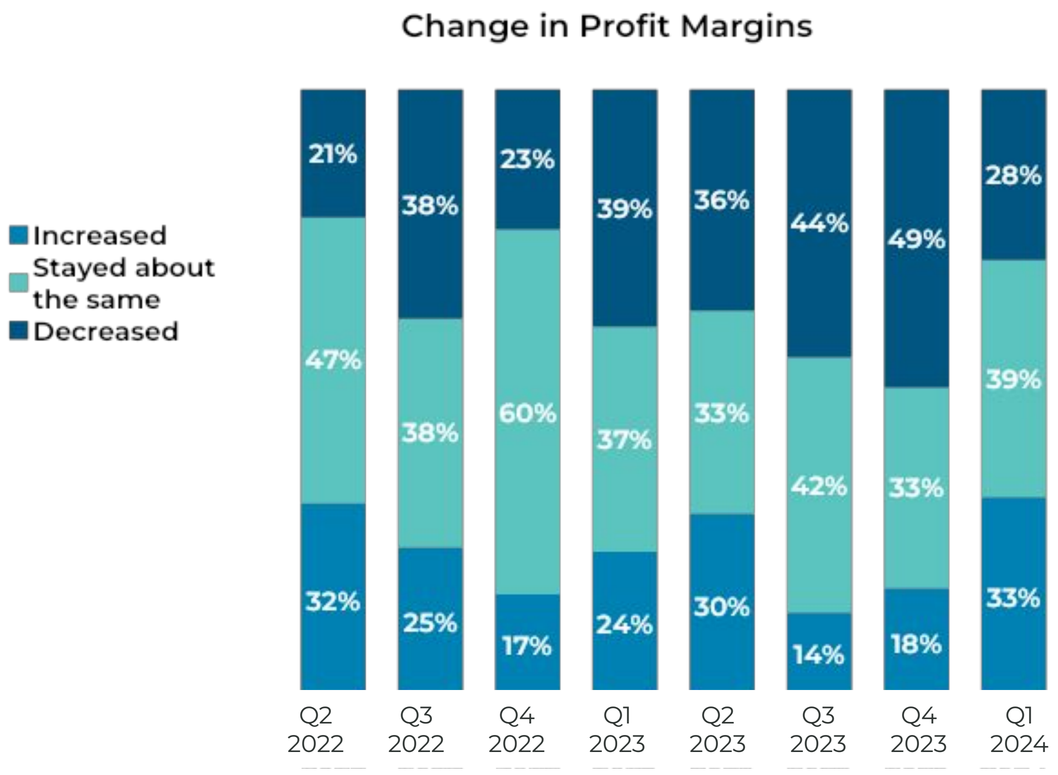
Increasing costs of goods is still a factor for retailers, but does seem to be leveling, with a third of retailers reporting an increase in Q1, and 67% reporting costs staying the same or decreased. This data set represents the most even split for the metric since the study began. The average quarter-over-quarter cost of goods net change continues to decline and was -2.5% for Q1.





CHANGES IN GROSS PROFIT MARGINS

Retailers had mixed profit margin results for Q1: 33% *increased*; another 39% stayed *about the same* and another 28% *decreased*. The average change was a 2.6% decrease in profit margin, up slightly from Q4.



Q1 2024 SUMMARY

Cost of goods declined on a net percentage basis for the first time in this trend study, which relates to an increase in profit margins. However total sales ($) and transaction count saw the largest net quarterly decrease since the study began.

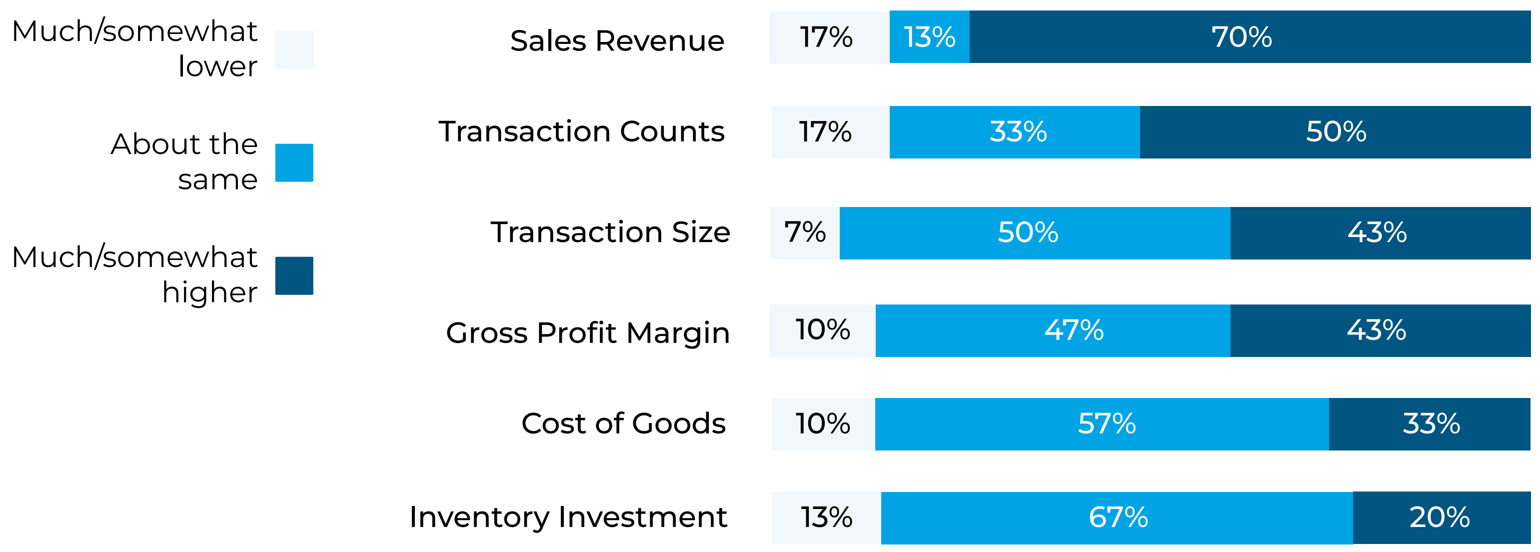
		+ / -	Avg % Change	Market Trend	
Cost of Goods	How have your cost of goods changed…? By what percent?	33% inc. 40% same 27% dec.	-2.5%* (Q3 +4.4%)		COGs increased for only a third of retailers, the lowest ever for the study. Another first for the study was a net average decrease of -2.5% for cost of goods, a possible sign of slowing inflation.
Inventory Investment	How has your inventory investment change…? By what percent?	40% inc. 40% same 20% dec.	0.9% (Q3 +0.3%)		Inventory investment has begun to pick back up with 40% seeing an increase over Q4. The net average change is 0.9% increase.
Profit Margins	How have your store's gross profit margins changed…? By what percent?	33% inc. 39% same 28% dec.	-2.6% (Q3 -3.0%)		More retailers than ever (33%) reported seeing an increase in profit margins. However, the net average margins are still down -2.6% showing there is still work to do.
Transaction Size	How has your transaction size changed…? By what percent?	31% inc. 47% same 22% dec.	0.4% (Q3 +0.8%)		QoQ transaction size stayed relatively flat with 47% seeing no increase or decrease. The net average change from all retailers was an increase of only 0.4%.
Total Sales	How have your total sales (in dollars) changed…? By what percent?	28% inc. 14% same 58% dec.	-3.7% (Q4 -2.2%)		In Q1 less retailers (58%) saw a decrease in QoQ sales than in Q4 (64%), however the net average change in sales of -3.7% is the lowest since the study began.
Transaction Count	How has transaction count changed year over year? By what percent?	17% inc. 39% same 44% dec.	-4.5% (Q3 -3.3%)		The percent seeing transaction decreasing is down to 44% (from 55%), however the net average percent change is at the lowest ever at -4.5%.

*****Of the six market measures, Cost of Goods is the only one in which a lower average change is a positive indicator.

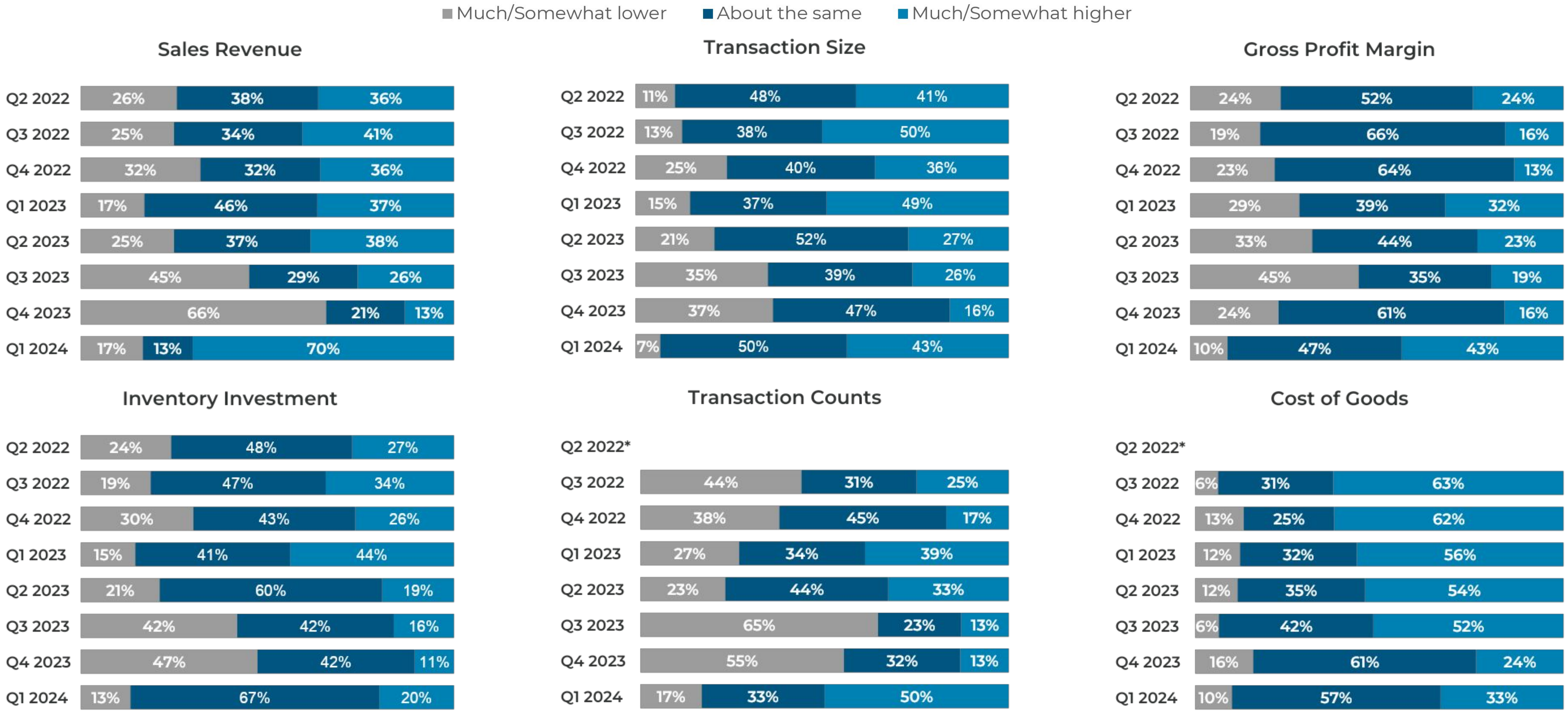
**Results shown are quarter over quarter from Q1 2024 over Q4 2023.*

Q2 PERFORMANCE PROJECTIONS OVER Q1

About 70% of retailers expect the sales revenue to be higher in Q2, which aligns with historical trends of Q2 being the busiest for retailers..



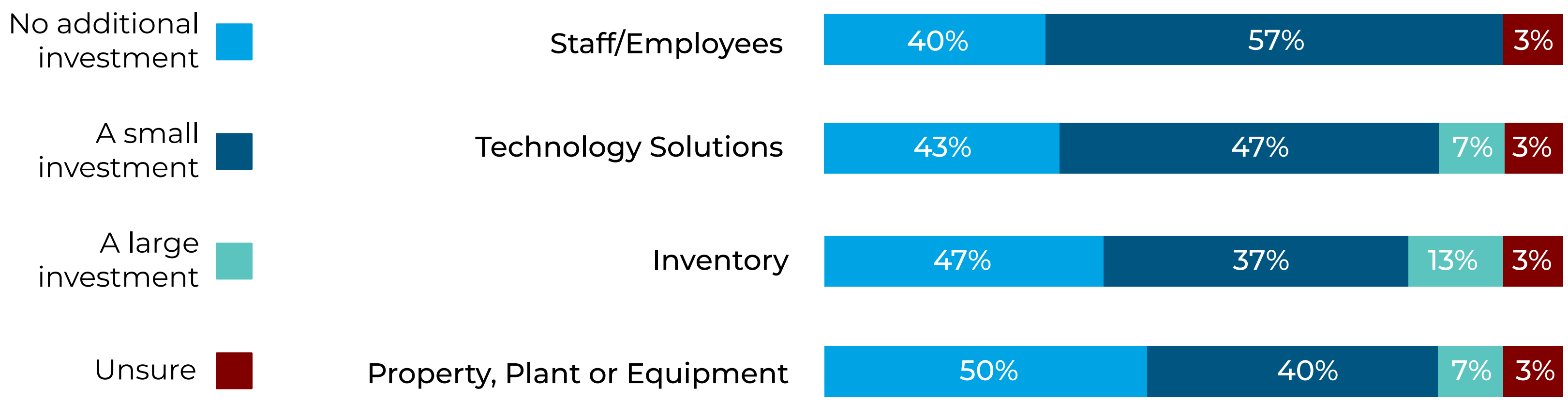
Q2 PERFORMANCE PROJECTIONS — TRACKING



*Transaction Counts and Cost of Goods were not asked for Q3 2022

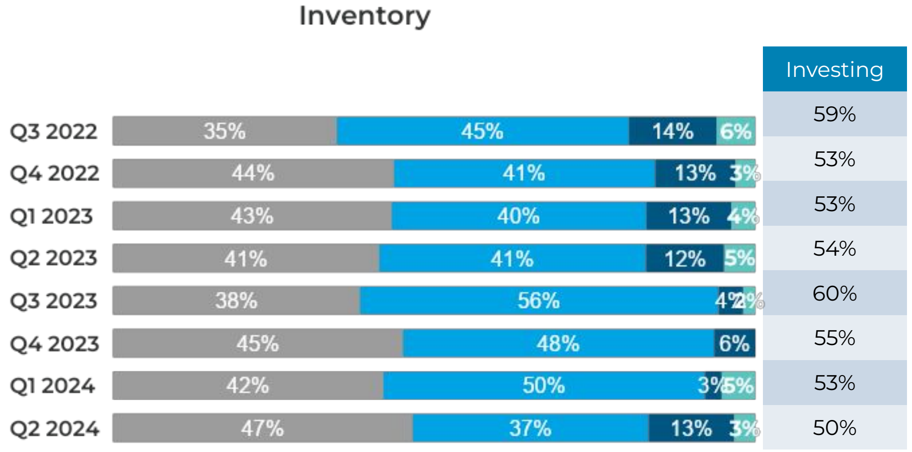
Q2 PLANNED INVESTMENTS

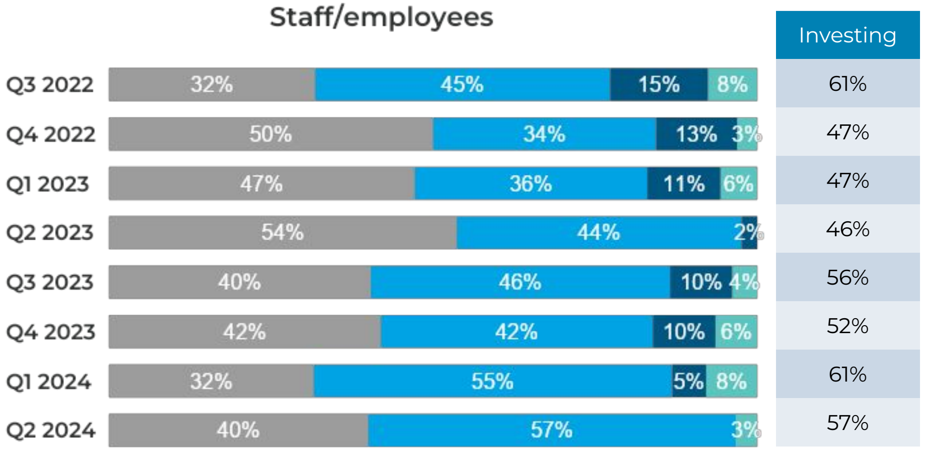
For Q2, over half of retailers anticipate investing in each category, but most (57%) plan to invest in staff/employees.

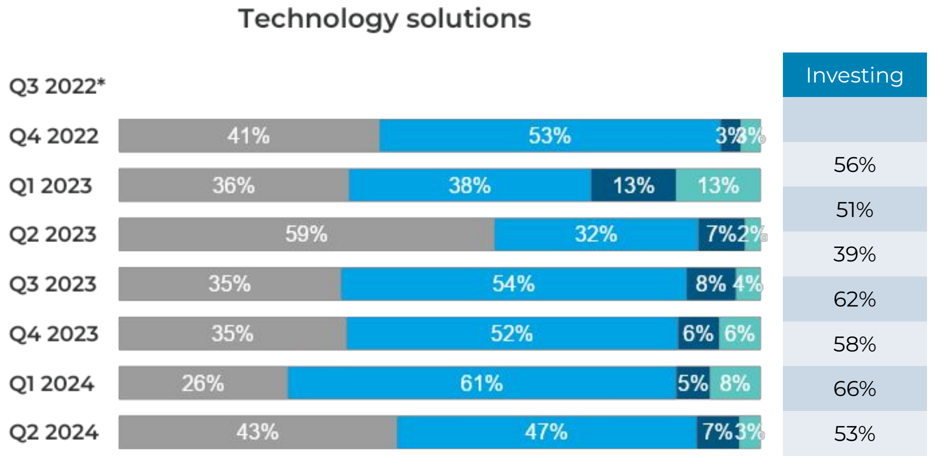


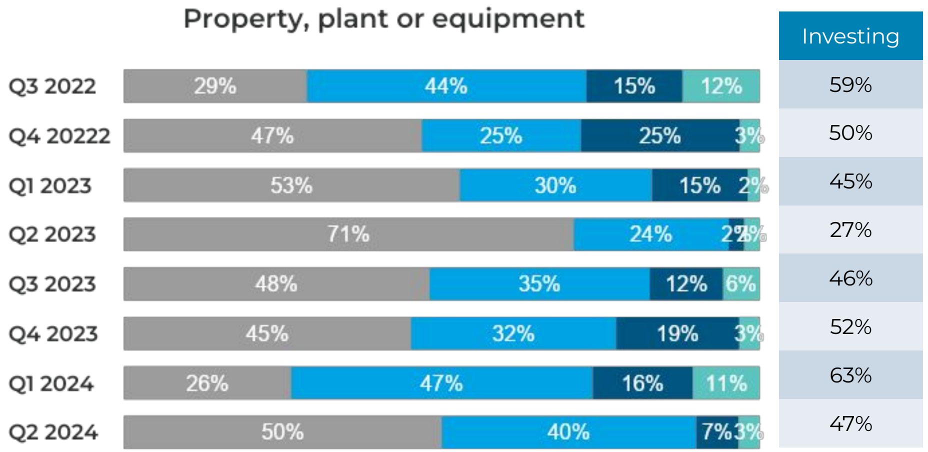
Q2 PLANNED INVESTMENTS – TRACKING

■ No additional investment ■ A small investment ■ A large investment ■ Unsure









**Technology solutions was not included in the Q3 2022 survey.*

Q2 PLANNED INVESTMENTS — TOP RESPONSES

New for this installment of the Retailer Index, we asked retailers who said they would be investing to elaborate on where they are investing, including which categories, what types of technology solutions and what forms of employee support..

Top 5 Category Investments

Hand & Power Tools

Paint & Sundries

Stains

Lawn & Garden

Outdoor Living

Top 3 Technology Investments

POS

Web/e-commerce

Digital Marketing

Top 3 Employee Investments

Adding Staff

Raises/bonuses

Additional Training

ABOUT NHPA

The North American Hardware and Paint Association was founded in 1900 by a group of independent home improvement retailers. Since then, the organization has been governed by a board of retailers and works toward a simple mission: To help independent home improvement and paint and decorating retailers become better and more profitable.

The association works toward its mission by providing comprehensive education programs, networking opportunities and exclusive research projects, like this index, to over 40,000 operators in the U.S. and Canada.

Learn more about the opportunities and services that are available to you from NHPA at **YourNHPA.org**.

ABOUT THE FARNSWORTH GROUP

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