QUARTERLY REPORT

# INDEPENDENT RETAILER INDEX

November 2023 – Q3 (2023) YoY Results

NHPA
North American Hardware and Paint Association

THE Farnsworth GROUP

# OBJECTIVE OF RESEARCH

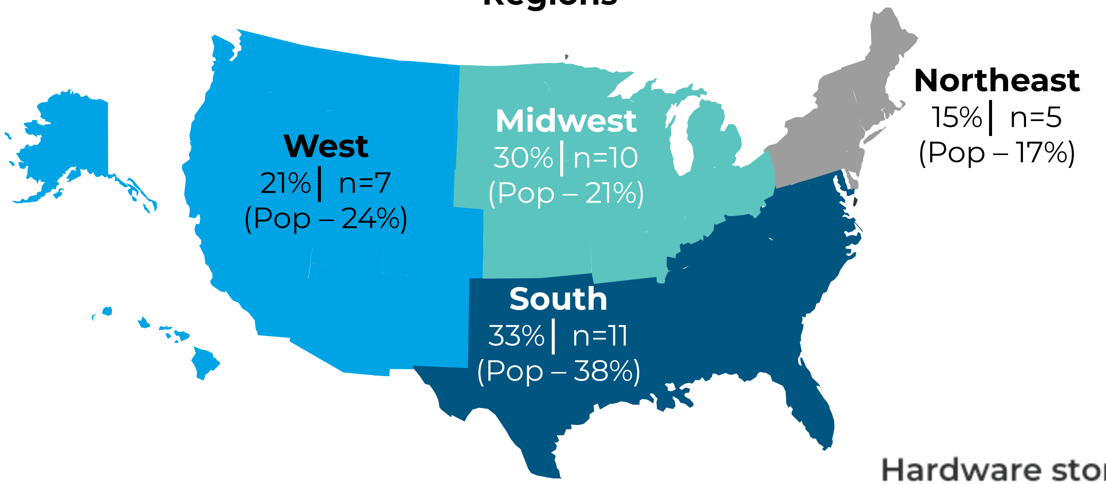
The Independent Retailer Index, a project produced in partnership between the North American Hardware and Paint Association (NHPA) and The Farnsworth Group (TFG), serves as a regular measure of the independent channel's performance. Reports are published at **YourNHPA.org/retailer-index** each quarter,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

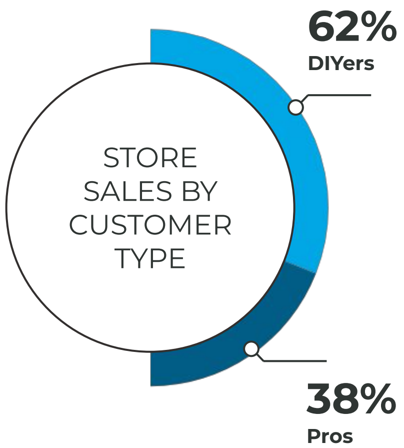
- Total sales
- Transaction count
- Inventory investment
- Cost of goods
- Gross profit margins
- Future expectations
- Investment plans: inventory, staff, property, plant and equipment and technology solutions

# RESPONDENT PROFILES

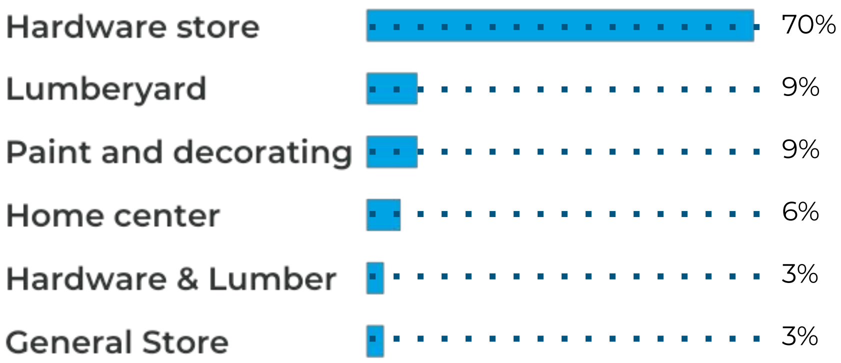
For Quarter 4 (asking about Quarter 3) 60 independent retailers were interviewed throughout the country. Of those, 31 answered all the survey questions. Of those answering, most classified themselves as a hardware store.

**Regions**



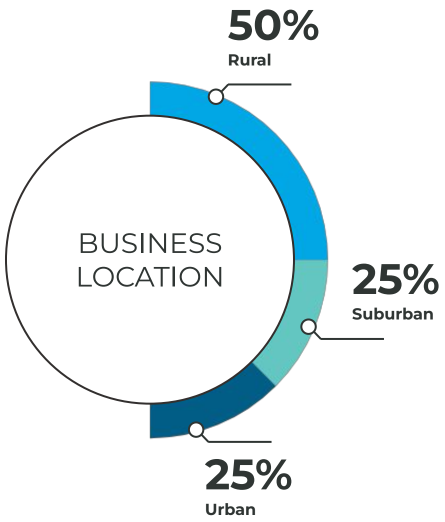

**Store Type**



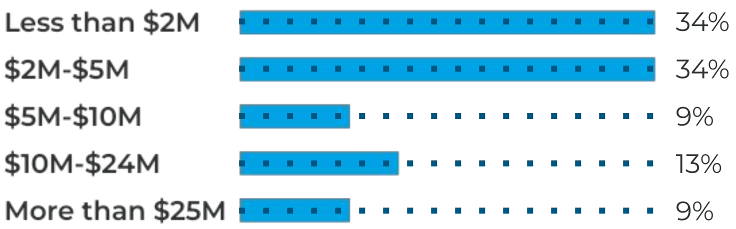

Qstate. In what state are you located?
Q2. What's your store type?
Q3. What percentage of your sales comes from the following audiences?

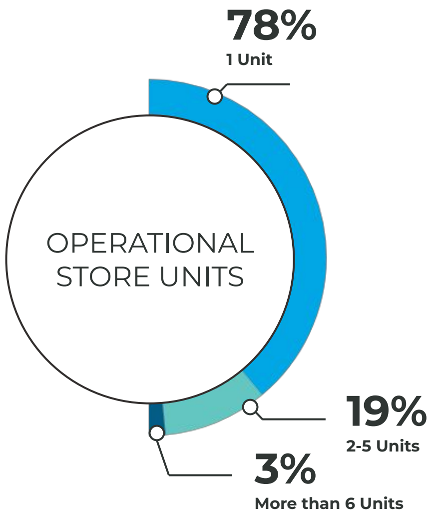
# RESPONDENT PROFILES

A good mix of independent retailers took part in the survey with most (78%) having just one store unit.

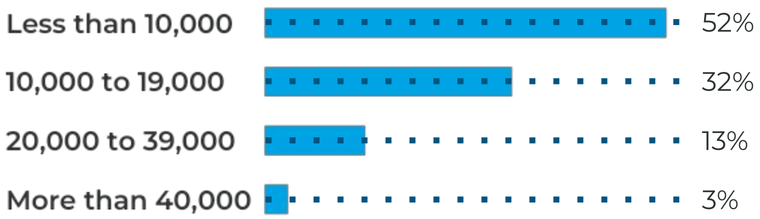


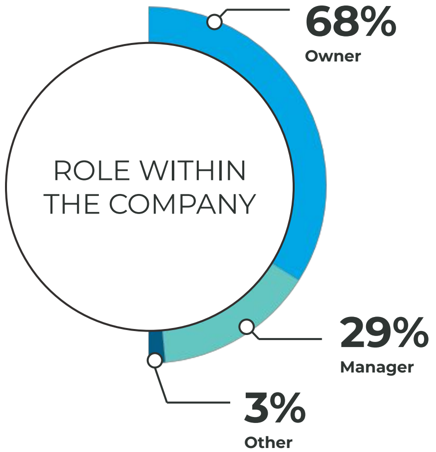

**Overall Annual Sales**



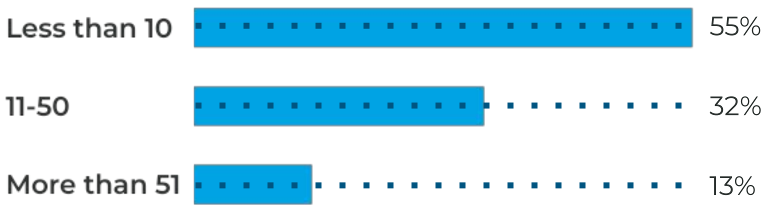




**Sq Ft of Sales Floor**



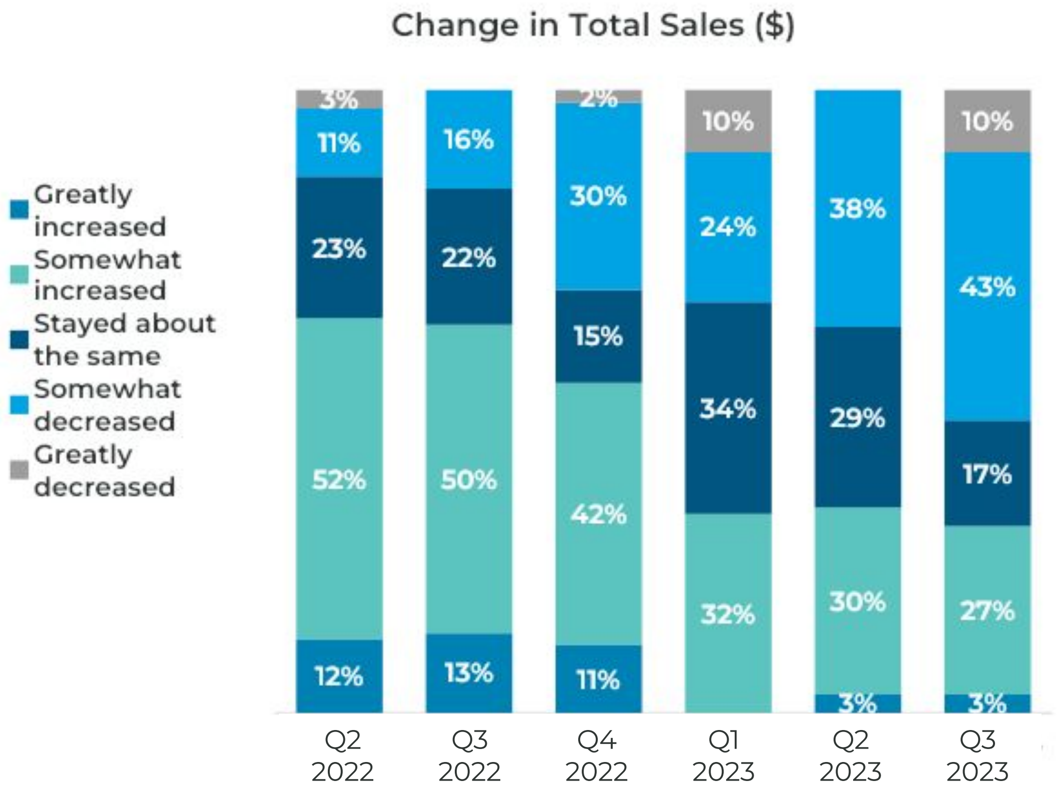

**Number of Full-Time Employees**

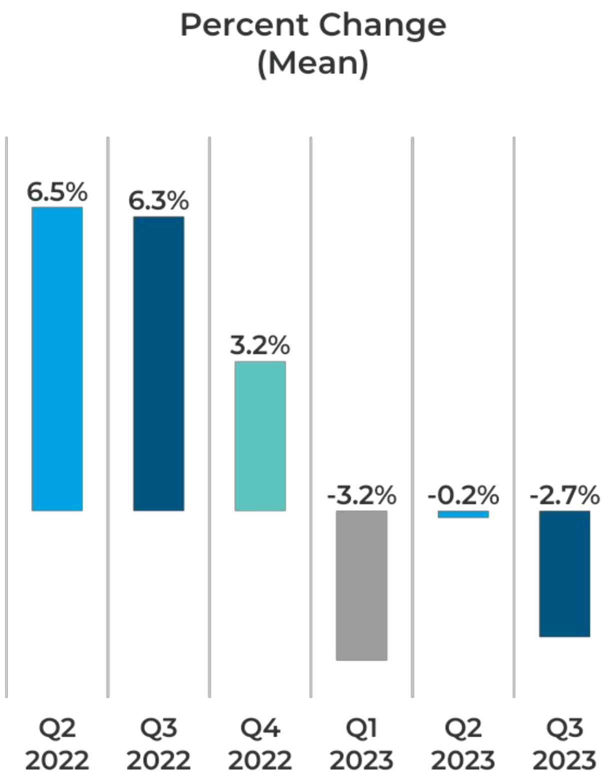



Q4. How would you describe the area where your business located?
Q5. What are your overall annual sales?
Q6. How many store units do you operate?
Q22. How many square feet is your sales floor?
Q23. What best describes your role within the company?

# CHANGES IN TOTAL SALES - YOY BY QUARTER

About 17% of independent retailers had sales *staying the same* YOY in Q3. The average percentage change was -2.7%.

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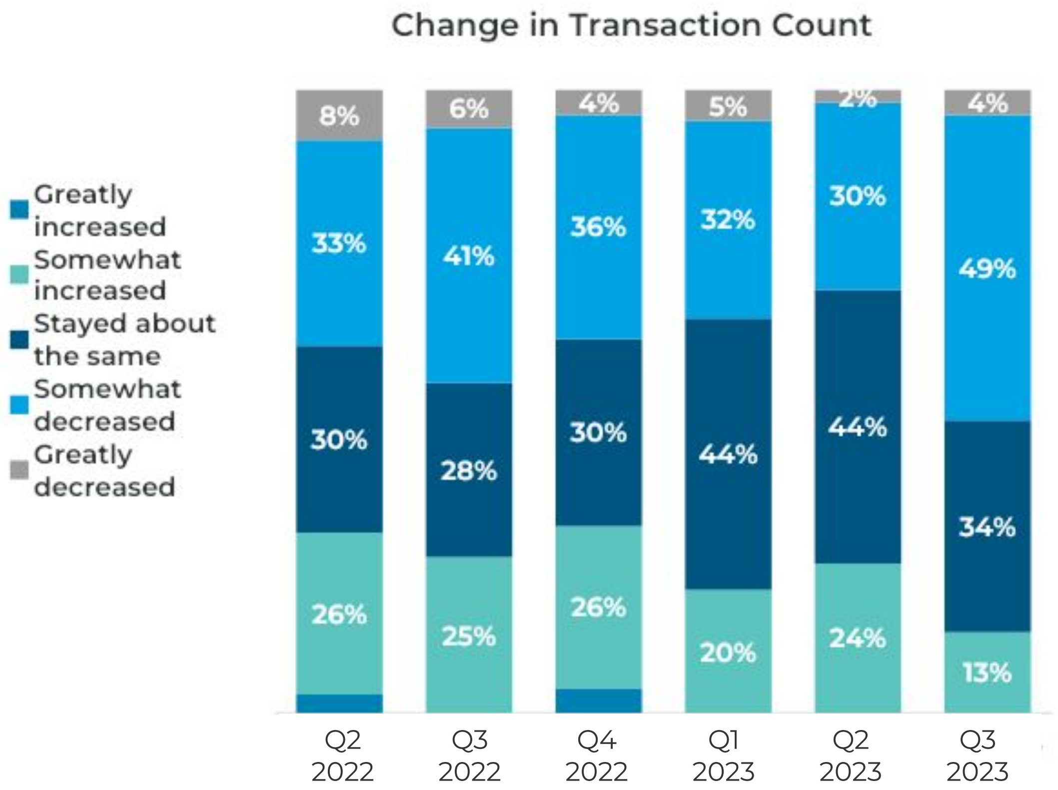
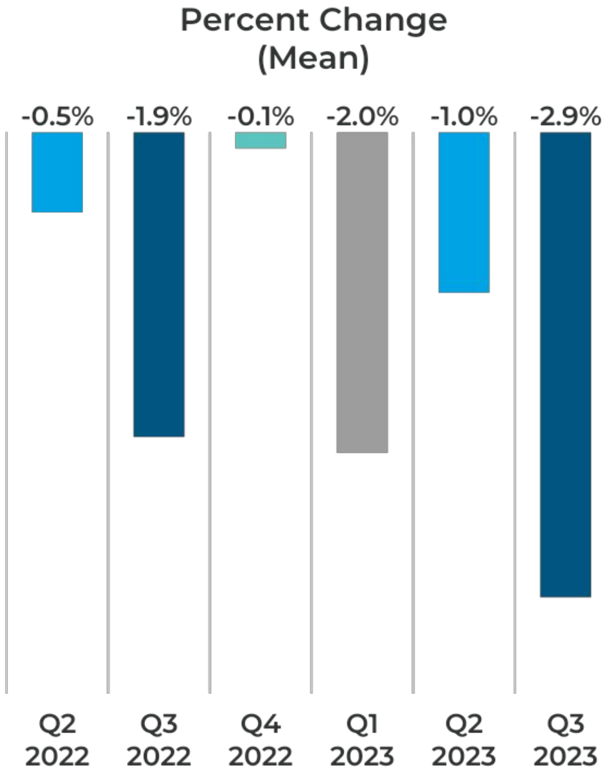
Q7. How have your total sales (in dollars) changed year-over-year from Q3 2022 to Q3 2023 (July-September)?
Q8. (ASK IF 1, 2, 4, OR 5 AT Q7) You stated that your total sales dollars <increased or decreased> year-over-year from. By what percent?

# CHANGES IN TRANSACTION COUNT - YOY BY QUARTER

Quarter 3 transaction counts year-over-year saw the highest decrease since the start of the index with over half seeing a decline. The average percent change was -2.9%.

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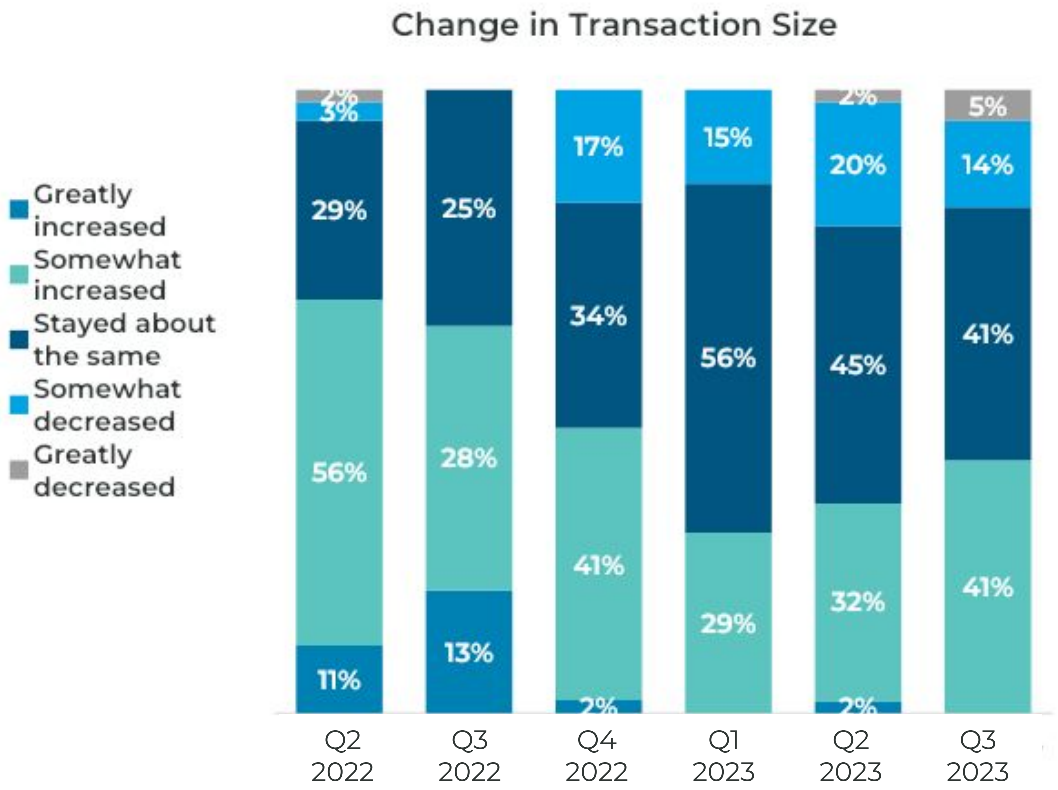
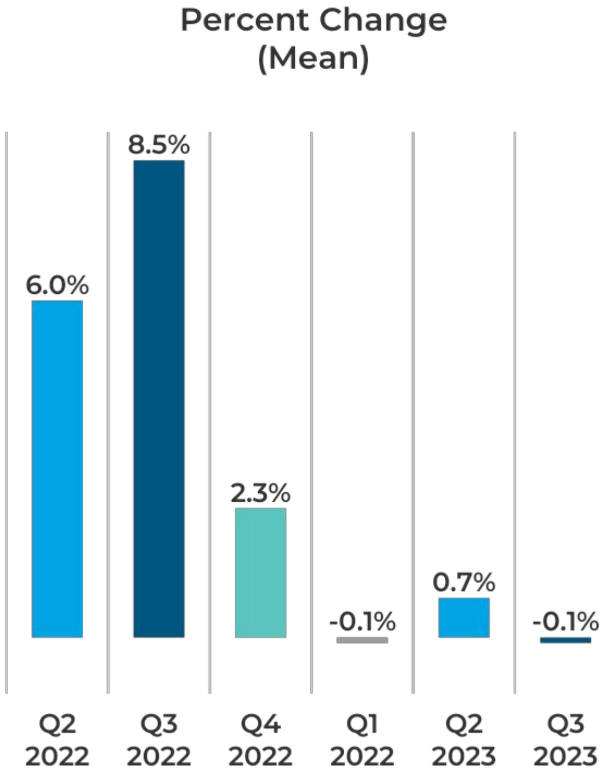
Q9. How has your transaction count changed year-over-year from Q3 2022 to Q3 2023 (July-September)?
Q10. (ASK IF 1, 2, 4, OR 5 AT Q9) You stated that your transaction count <increased or decreased> year-over-year from. By what percent?

## CHANGES IN TRANSACTION SIZE - YOY BY QUARTER

YoY transaction size increased 41% improving over Q1 (29%) and Q2 (34%) changes. The resulting average change was negligible.

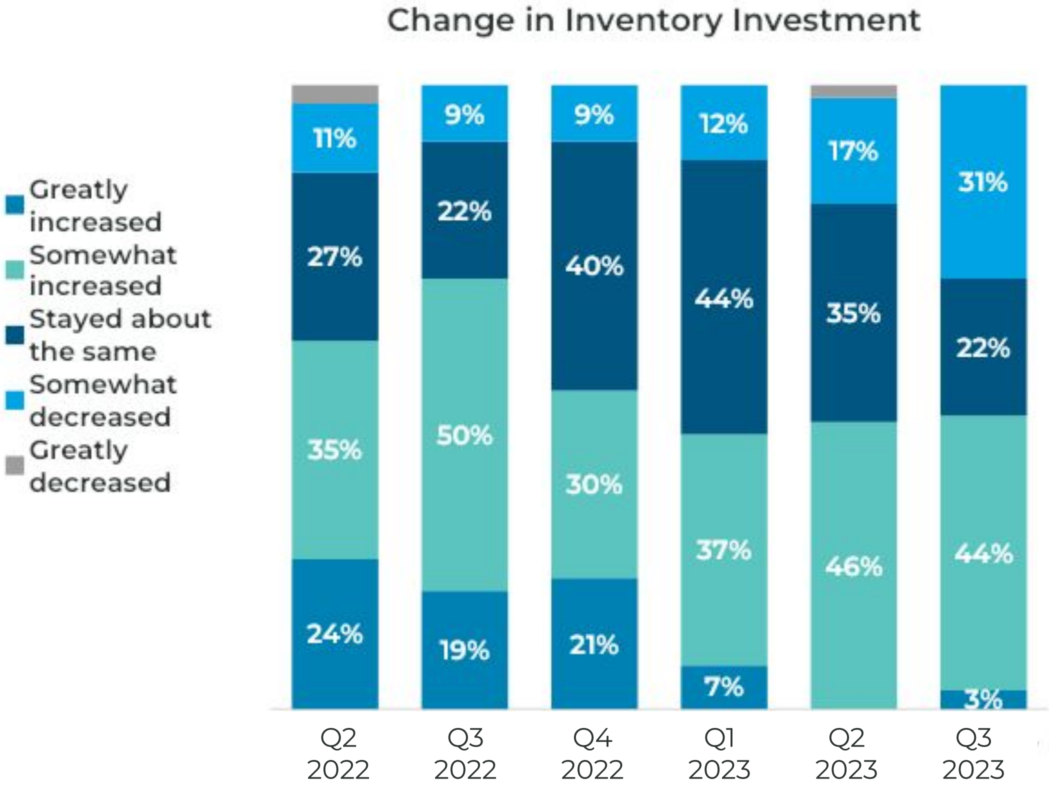


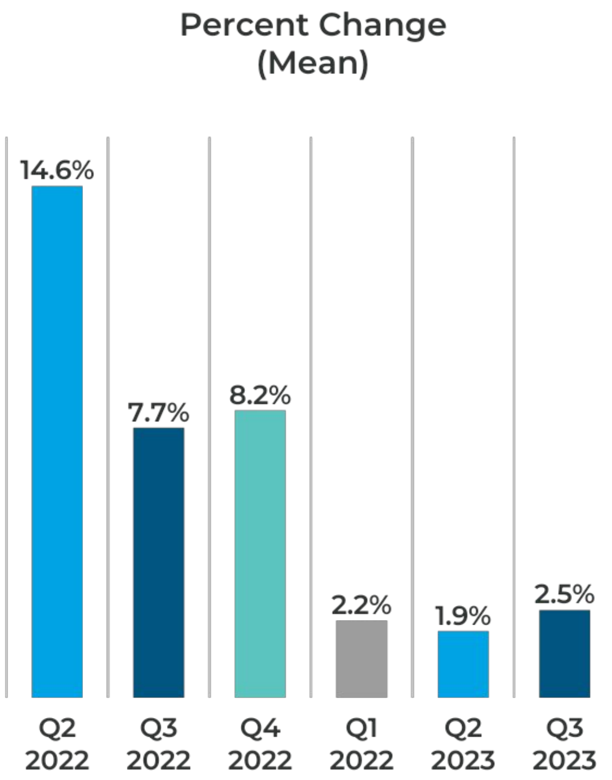




Q11. How has your transaction size changed year-over-year from Q3 2022 to Q3 2023 (July-September)?
Q12. (ASK IF 1, 2, 4, OR 5 AT Q11) You stated that your transaction size <increased or decreased> year-over-year from. By what percent?

# CHANGES IN INVENTORY INVESTMENT - YOY BY QUARTER

Nearly a third (31%) saw a decrease in inventory investment, the highest decrease since the start of the research. The average investment, while still positive, is slightly higher than last quarter at 2.5%

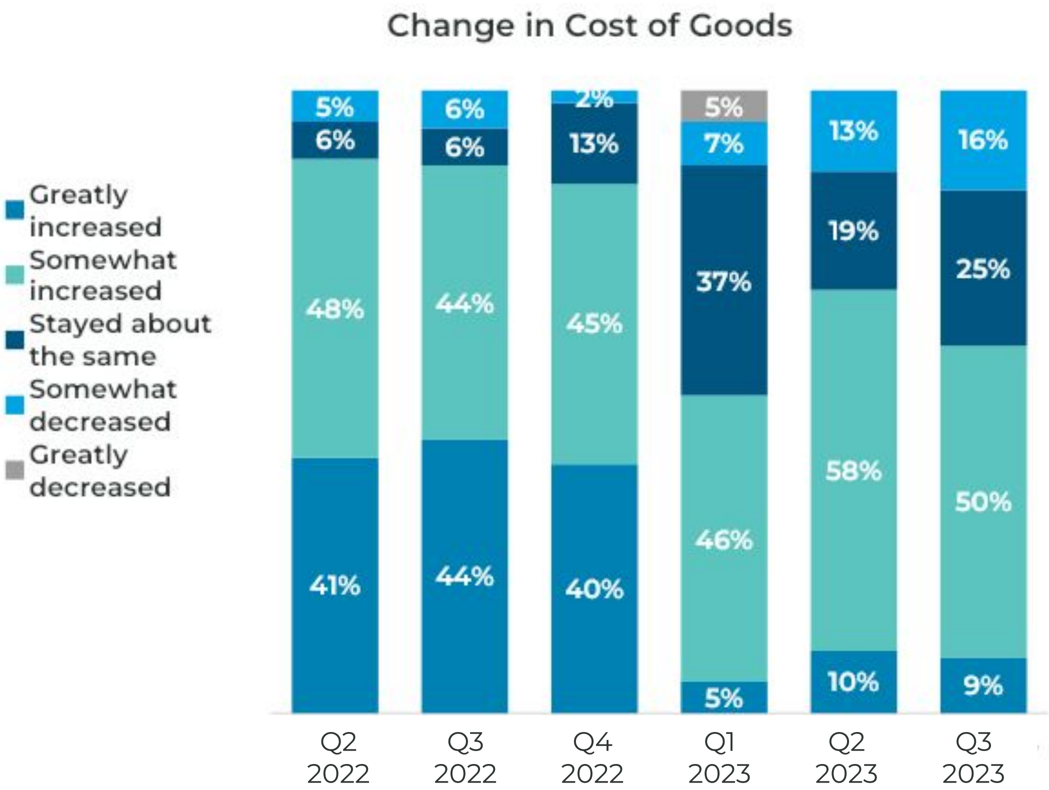


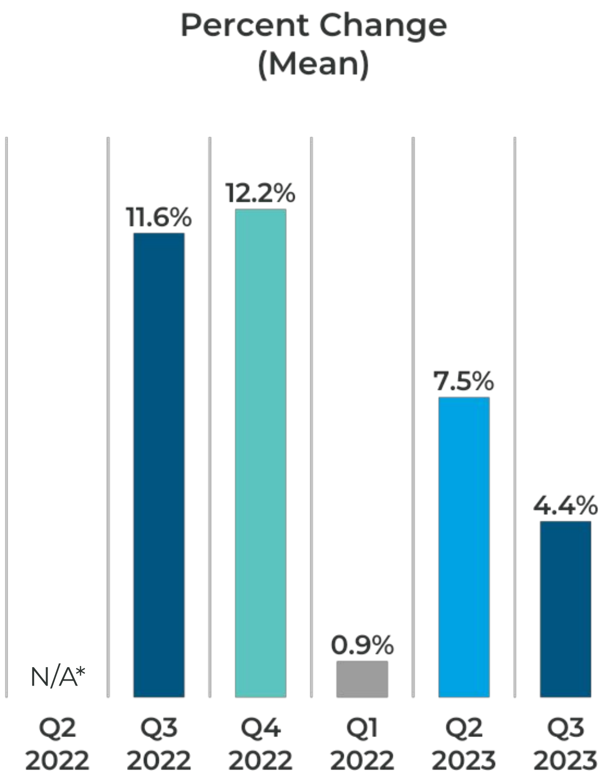




Q13. How has your inventory investment changed year-over-year from Q3 2022 to Q3 2023 (July-September)?
Q14. (ASK IF 1, 2, 4, OR 5 AT Q13) You stated that your inventory investment <increased or decreased> year-over-year from. By what percent?

# CHANGES IN COST OF GOODS - YOY BY QUARTER

Increasing costs of goods is still a factor among retailers, however, 16% said their cost of goods *somewhat decreased*. The average YoY increase fell in Q3 to 4.4%.

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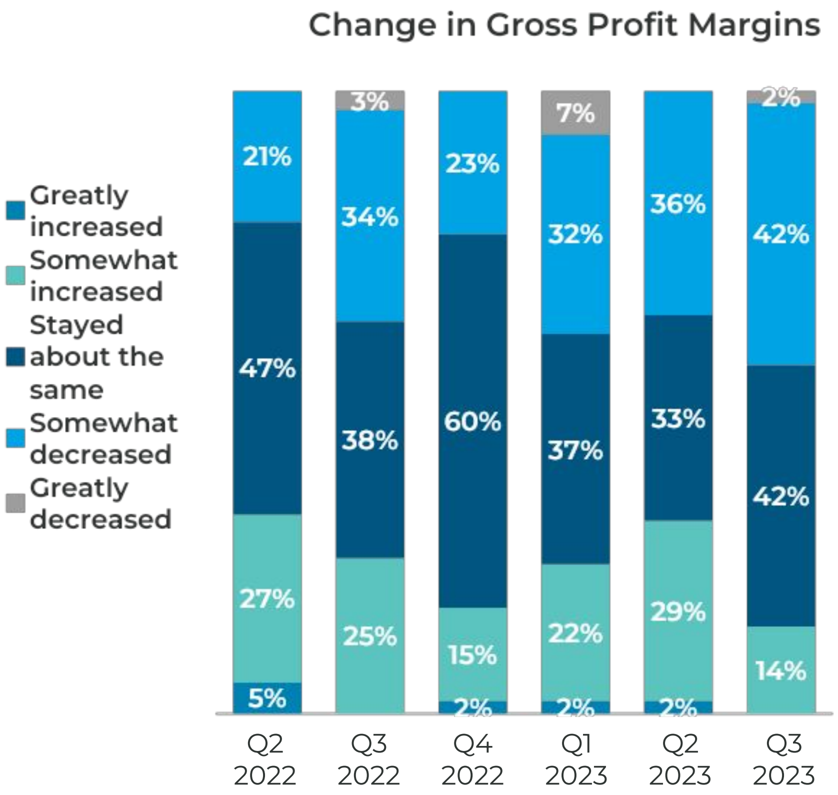
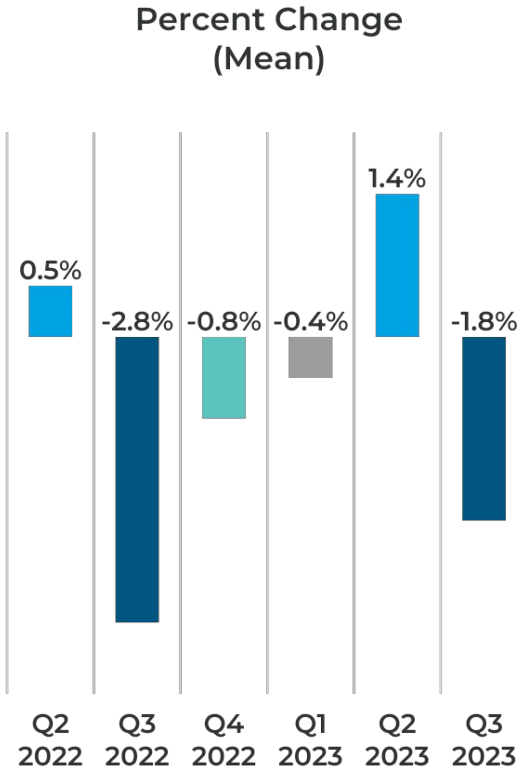
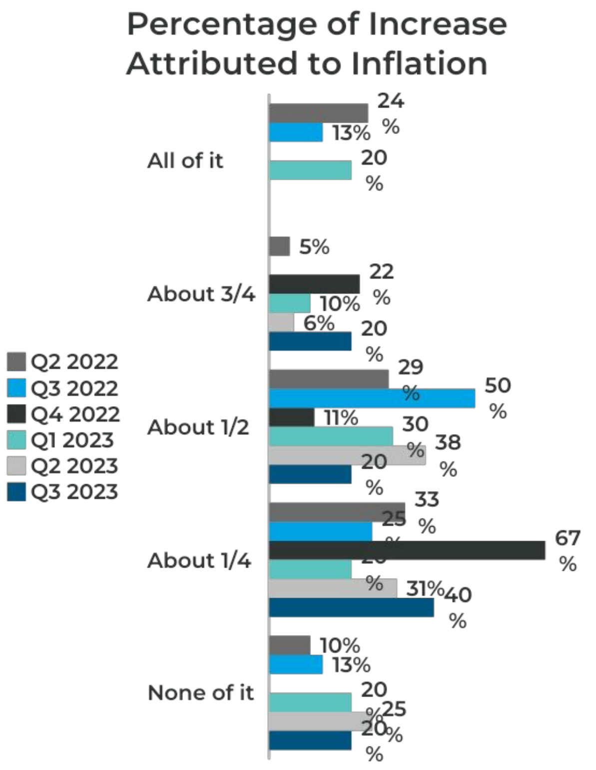
Q15. How have your cost of goods changed year-over-year from Q3 2022 to Q3 2023 (July-September)?
Q15b. (ASK IF 1, 2, 4, OR 5 AT Q15) You stated that your cost of goods <increased or decreased> year-over-year from. By what percent?
*Percent change not asked for Q2 & added for Q3.

# CHANGES IN GROSS PROFIT MARGINS - YOY BY QUARTER

Retailers had mixed profit margin results: 14% *increased somewhat*; another 40% stayed *about the same* and another 40% *decreased somewhat*. This resulted in -1.8% mean change in YoY profit margin.




Q16. How have your store's gross profit margins changed?
Q18. (IF Increased) How much of your Q3 2022 profit margin increased would you attribute to inflation?
Q17. (IF Increased) By what percent of your profit margin dollars increased year-over-year from Q3 2022 to Q3 2023 (July-September)?
Q19. (IF Decreased) By what percent have your profit margin dollars decreased year-over-year from Q3 2022 to Q3 2023 (July-September)?

## Q3 - 2023 YoY SUMMARY

Cost of Goods is slowly improving, however it was still an issue in Q3. Transaction size and total dollar sales dipped in Q3 as the consumer market began to cool.

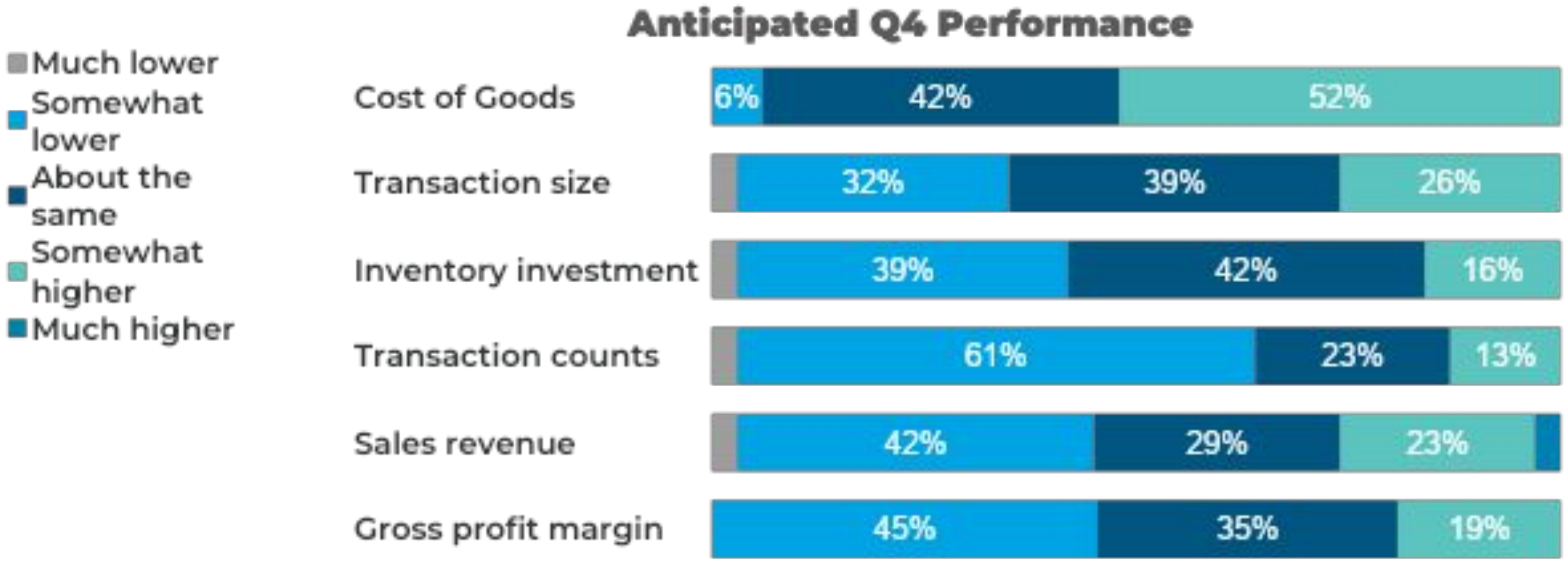
| | | + / - | Avg % Change | Market Trend | |
|---|---|---|---|---|---|
| **Cost of Goods** | How have your cost of goods changed…? By what percent? | 59% inc.<br>25% same<br>16% dec. | 4.4%*<br>(Q2 7.5%) | | Although over half of retailers are still seeing an increase in cost of goods, average YoY percent change is down to 4.4% (from 7.5% increase in Q2). |
| **Inventory Investment** | How has your inventory investment change…? By what percent? | 47% inc.<br>22% same<br>31% dec. | 2.5%<br>(Q2 1.9%) | | Nearly a third of retailers saw a decrease in inventory investment, the highest decrease since the start of the research. The average investment, is still positive and slightly higher than last quarter at 2.5% |
| **Transaction Size** | How has your transaction size changed…? By what percent? | 41% inc.<br>41% same<br>19% dec. | -0.1%<br>(Q2 0.7%) | | YoY transaction size increased 41% improving over Q1 (29%) and Q2 (34%) changes. However, the resulting average change was negligible (-0.1%). |
| **Profit Margins** | How have your store's gross profit margins changed…? By what percent? | 14% inc.<br>42% same<br>44% dec. | -1.8%<br>(Q2 1.4%) | | Q3 also saw the largest YoY % decrease in Gross Profit Margins. The average profit margin decreased nearly 3% compared to Q2 YoY. |
| **Total Sales** | How have your total sales (in dollars) changed…? By what percent? | 30% inc.<br>17% same<br>53% dec. | -2.7%<br>(Q2 -0.2%) | | Q3 has the largest YoY % of retailers seeing a decrease since the study began. Overall, the YoY average percent change is negative at -2.7%, down from -0.2% in Q2. |
| **Transaction Count** | How has transaction count changed year over year? By what percent? | 13% inc.<br>34% same<br>53% dec. | -2.9%<br>(Q2 -1.0%) | | Q3 YoY transaction counts saw the highest decrease in since the start of the study with over half seeing a decline. The average percent change was -2.9%, also the highest recorded. |

**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 year over year from Q3 2023 over Q3 2022.*

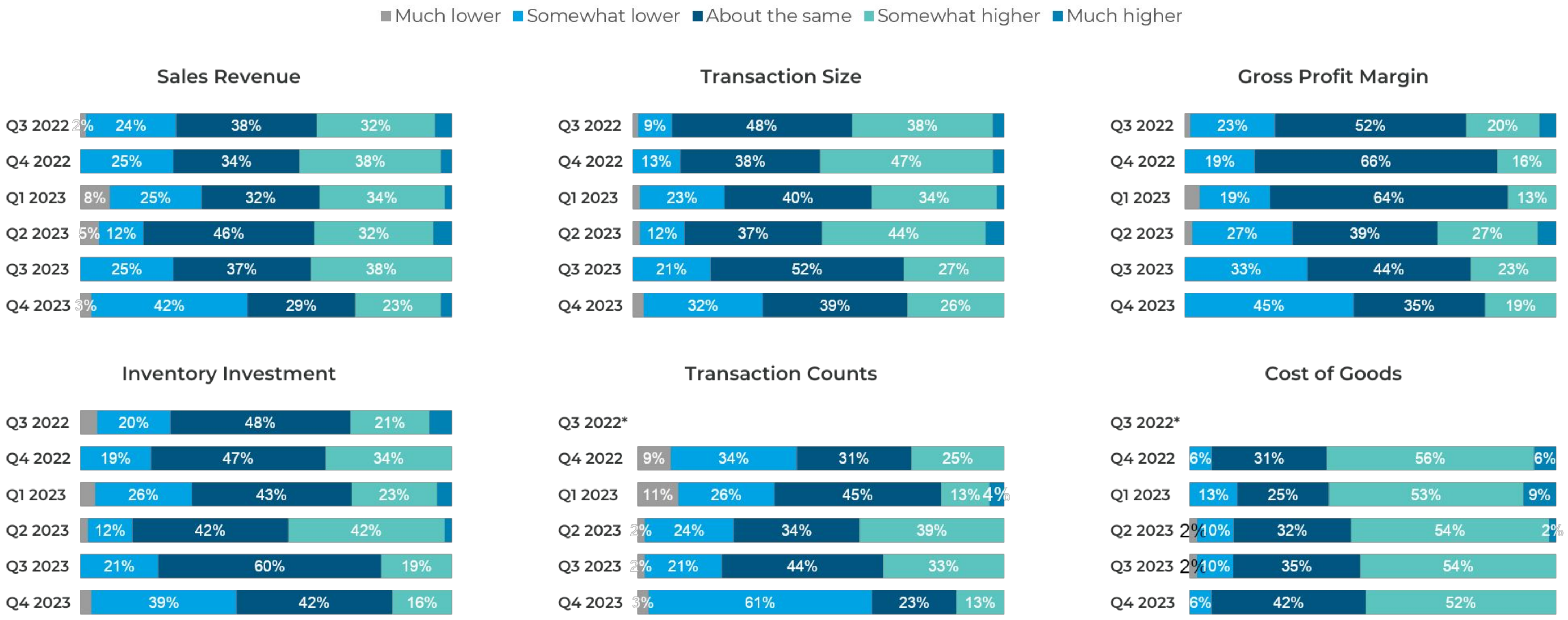
# ANTICIPATED CHANGES IN Q4-2023 OPERATION PERFORMANCE OVER Q3-2023

Anticipated performance for Q4 is mixed. Many (52%) are expecting their cost of goods to rise and 64% are expecting "somewhat or much lower" transaction counts in Q4 (YoY).




Q20. Considering your operation's performance so far in Q4 2023 (October-December), are you anticipating the following to be higher, lower or stay the same from the previous quarter (Q3)?

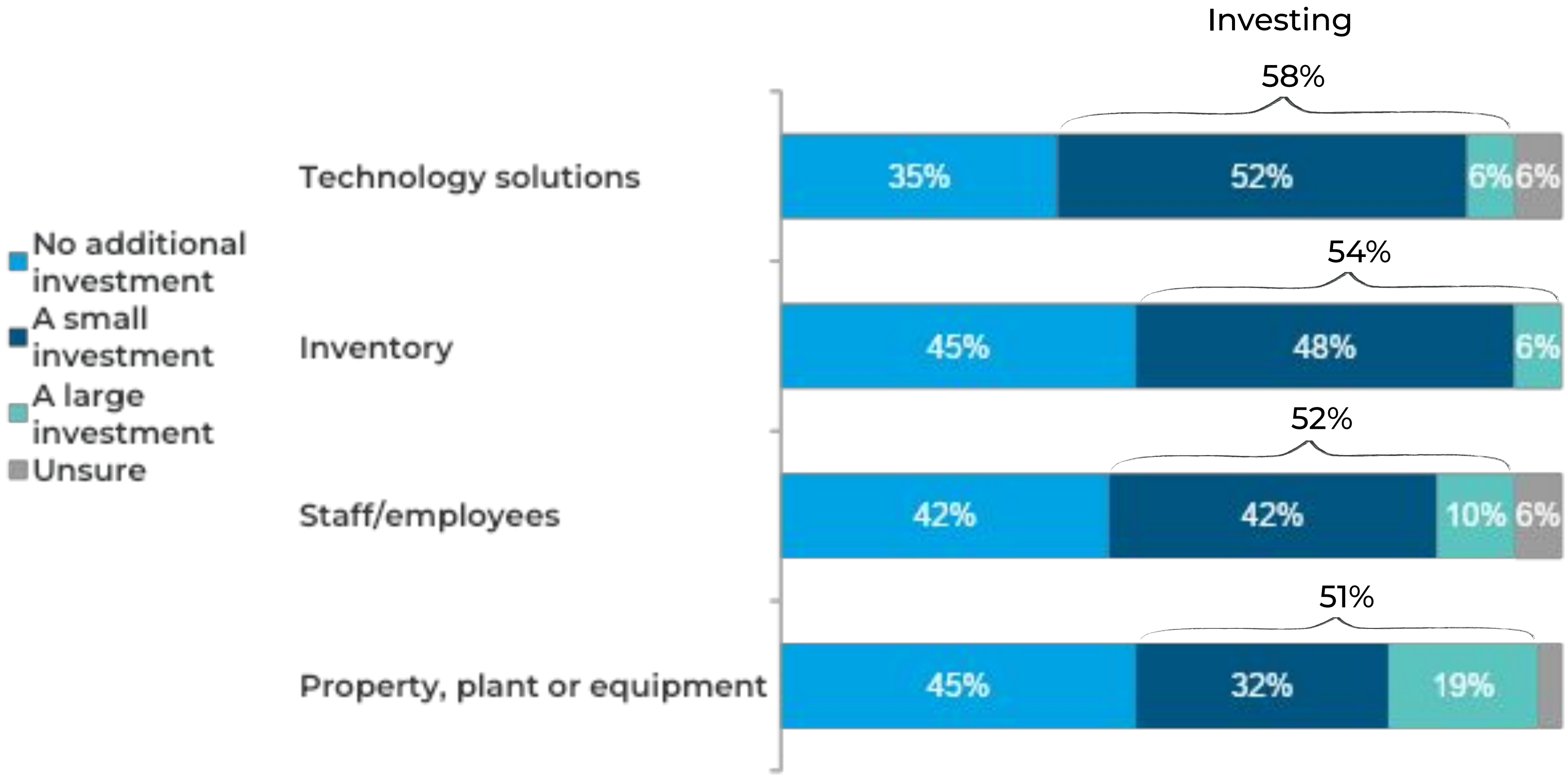
# ANTICIPATED CHANGES - TRACKING




Q20. Considering your operation's performance so far in Q4 2023 (October-December), are you anticipating the following to be higher, lower or stay the same from the previous quarter (Q3)?
*Transaction Counts and Cost of Goods not asked for Q3 2022

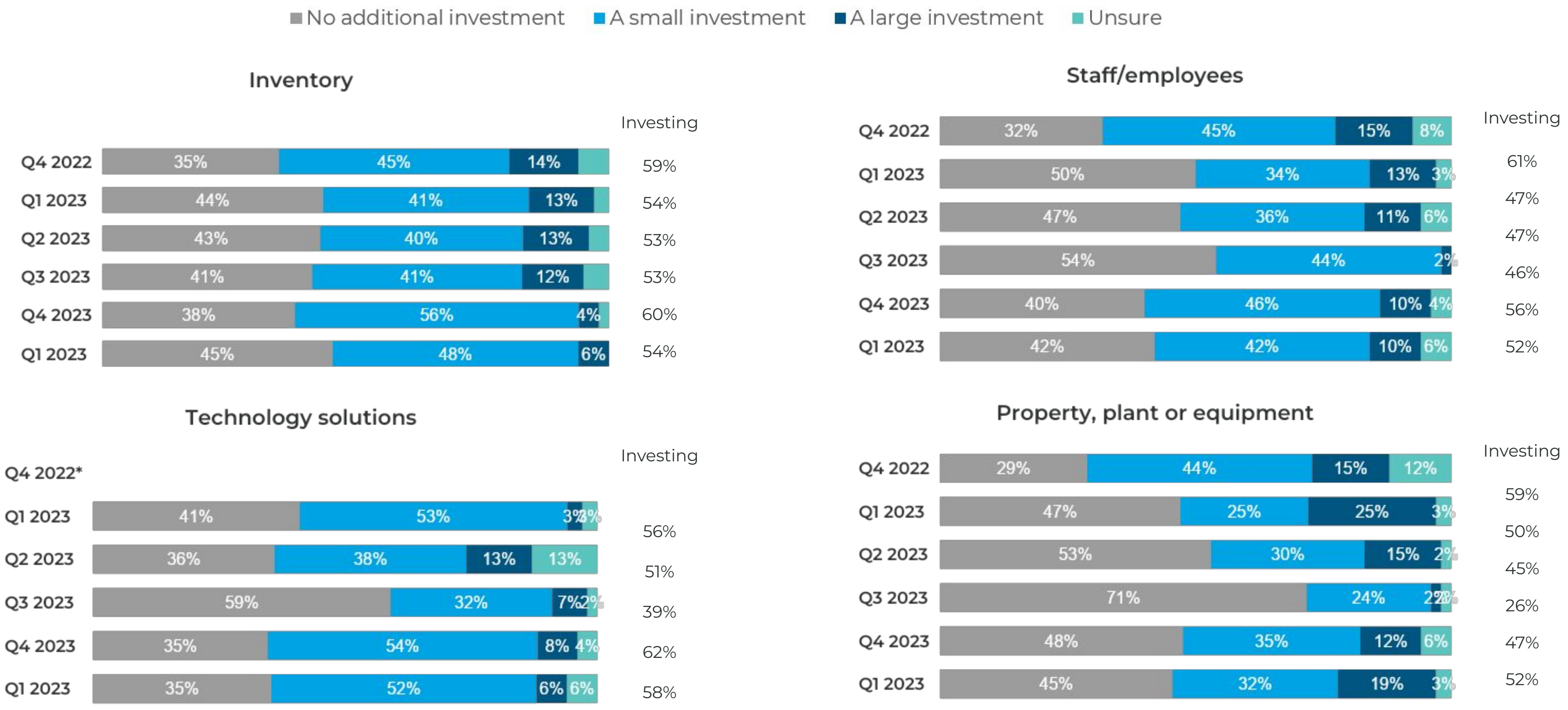
# INVESTMENT PLANS FOR UPCOMING QUARTER – Q1 2024

Most retailers (58%) are planning for at least some Q1 investment in technology solutions, while nearly half of respondents say they will not be making additional investments in inventory, property, plant or equipment..




Q21. How much do you plan on investing in your business in this upcoming quarter in each of the following areas (Q1 - 2024, January-March)?

# INVESTMENT PLANS FOR UPCOMING QUARTER (Q1 – 2024) – TRACKING




Q21. How much do you plan on investing in your business in this upcoming quarter in each of the following areas (Q1 - 2024, January-March)?
*Technology solutions not asked for Q4 2022.

# 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

## Industry-focused, custom research to provide insights that improve strategy

For over 30 years, The Farnsworth Group has dedicated its business to understanding consumers and professionals in specific industries.

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- **Lawn & Ranch**

The Farnsworth Group's industry knowledge paired with research expertise uniquely equips them to deliver solutions that get you insightful answers to your specific needs.

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