

HARDWARE *Retailer*

The Newsletter for Members of the National Retail Hardware Association • www.nrha.org • November/December 2004

New Mueller Research Confirms Skill and Strength of Independent Hardware Retailers

For a quarter century big-box home improvement centers have been moving into neighborhoods that were once the domain of independent hardware stores. In the beginning, the arrival of a big box struck terror in the hearts of hardware retailers.

For some, the competition proved too much. But for others it was the impetus to stand up and fight.

The independent channel has stayed vibrant

Those retailers are more than survivors—much more. They are strong, well-managed, market-savvy businesses whose owners learned what was important to them and, more critically, what is important to their customers.

Retailers have said that the arrival of a big box makes an impact on customer traffic and sales, but in most cases it is short lived. Once the newness of a big box has worn off, customers come back. And more often than not, business for the independent hardware store improves. The independent channel has stayed vibrant due to the many retailers who have enlarged their stores, opened new stores and found creative ways to increase their business.

Although anecdotal evidence is rampant, there has been little in the way of true research to define how independent hardware retailers compete with bigger rivals. The Russell R. Mueller Retail Hardware Research Foundation set out to fill in the blanks.

Accepting the premises that big boxes do have an immediate impact on any market they enter and

that independents can compete with them, the foundation sought answers to several questions:

- Do independent retailers change their competitive strategies after several years facing off against big boxes?
- Do independents that are next door to a big box have different competitive strategies from those farther away?
- What do successful independents do that is different from their less successful neighbors?
- What can other independents learn from the successful strategies of their peers?

Winning Retail Strategies: How Hardware Retailers Successfully Co-Exist With Big Boxes is a year-long study in which nearly 350 retailers in large metro areas and smaller rural locations told the Mueller Foundation researchers how they compete. The study contains a tremendous amount of information on how hardware retailers adapt merchandise mixes, select services to offer, develop customer relationships, train employees and respond to big-box competitors.

The study points to many tactics that retailers can weave into competitive strategies that fit their stores and their markets. “We stay focused on our business and customers’ requirements. The big boxes will continue to compete and make us independents stronger, provided we stay focused,” commented one Illinois retailer.

The study illustrates the fact independent

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Mueller Study Shows Savvy Independents Can Compete With Big Boxes

Winning Retail Strategies: How Hardware Retailers Successfully Co-Exist with Big Boxes is a year-long study designed to define effective strategies used by independent hardware retailers to compete with big-box home improvement centers. It was commissioned by the Russell R. Mueller Retail Hardware Research Foundation.

The study was designed to:

- Discover competitive actions taken by independent hardware retailers in terms of product mix, service mix, selling techniques/customer relations, employee education/training and interactions with big-box home improvement competitors.
- Relate competitive actions to the distance between the independent hardware store and its big-box competitor and the length of time a big-box competitor has been in the market.
- Identify actions that differentiate successful or high-profit hardware store competitors from less successful retailers.
- Generate practical suggestions that independent hardware stores can use to improve competitive positions.

The study was conducted between September 2003 and March 2004 in seven major metropolitan markets and three small rural markets. The metro markets were San Diego, Atlanta, Chicago, Kansas City, Minneapolis/St. Paul, New York City/Long Island and Seattle. The rural markets were Waterloo, Iowa; Franklin, N.C.; and New Braunfels, Texas. Nearly 350 stores responded by filling out the 12-page survey—with a response rate of 34.7 percent.

In an effort to determine what successful hardware stores do differently from other hardware stores, researchers identified a group of high-profit stores. NRHA's 2003 Cost of Doing Business Study shows that high-profit hardware stores, the top quartile of participating stores in terms of return on assets, reported a net operating profit before taxes of 7.4 percent of net sales. Researchers isolated survey respondents with before tax net operating profit of at least 7.4 percent and compared their responses to the others. The high-profit retailers represented about a third of the respondents who provided net profit figures.

The results are enlightening, but not surprising. For example, while the vast majority of customers think the big boxes have lower prices and better product selection, only 3 percent think they offer better customer service. Independents can co-exist with the big boxes quite nicely when the proper strategies are followed. Find out if your store is doing the right things. The full Mueller Foundation report is available by calling (800) 772-4424.



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retailers face some challenges. Price and product selection top the list. While just one-third of the survey respondents said that it was difficult in general to compete with a big box, 83 percent of the hardware retailers said it was hard to overcome the perception that they were higher priced. Fewer than half (49 percent) thought actual pricing was a major problem.

Seventy-three percent said it was difficult to compete with a big box on the basis of product selection, especially in home improvement and lawn and garden product lines.

The Mueller Foundation study shines a spotlight on specific actions hardware stores take to compete. It focuses attention on the tactics used by the most successful stores, those that produce a higher than average net operating profit while competing with big boxes. High-profit hardware stores are defined as those with net operating profit of at least 7.4 percent; this is the average net profit for high-profit stores who reported to the National Retail Hardware Association's 2003 Cost of Doing Business Study.

According to the Mueller Foundation study, the most successful competitive tactics can be sorted into five strategies:

- Build customer relationships
- Train employees
- Compete aggressively
- Adapt product mix
- Offer special services

High-profit retailers participating in the Mueller Foundation study blend a combination of tactics into successful competitive strategies. It is evident that no one action or combination of actions is a guarantee of success. It takes a number of tactics tailored to each retailer's individual situation.

This new research from the Mueller Foundation attests to the skill with which independent retailers go to market, confirms the strength of independent retailers and points to a viable industry in the years to come.

The research was conducted by Reginald A. Litz, Ph.D, associate professor of marketing at the Asper Centre for Entrepreneurship at the University of Manitoba in Winnipeg, Manitoba.

The significant results of this study were published in the October issue of *Do-It-Yourself Retailing*, and the Mueller Foundation has now published a complete report. This report is available for purchase at a cost of \$50 for industry representatives and \$100 for those outside the industry. Special quantity discounts are available. For more information or to order the report, call (800) 772-4424.

Funding for the study came from industry sponsors and the Mueller Foundation. Gold sponsors of this research report include: Ace Hardware Corp., Distribution America, Do it Best Corp., Orgill Inc., PRO Group and TruServ Corp. Silver sponsors include: Robert Bosch Tool Corp./Accessories Division, The Flood Company and H.D. Hudson Mfg. Co.

The Russell R. Mueller Retail Hardware Research Foundation is a living memorial to Russell R. Mueller, managing director of the National Retail Hardware Association from 1952 through 1967. Its purpose is to conduct continuing research and educational activities for the improvement of hardware retailing. Research projects are funded by voluntary contributions from individuals, companies and organizations at all levels of distribution throughout the hardware industry and by grants. Its headquarters are in Indianapolis, IN.

AHMA Cancels 2005 Hardware Show

The board of directors of the American Hardware Manufacturers Association (AHMA) unanimously voted to positively change its direction relative to the 2005 AHMA Hardware Show, according to a statement released by the organization.

AHMA will proactively focus on creating alternative, optimally valuable and relevant events for its members and its industry in response to recent developments and evolutionary changes of the home improvement industry that dramatically, negatively impacted the Hardware Show for the past several years. As a result of the decision, AHMA will not conduct the 2005 AHMA Hardware Show, originally scheduled for April 3-5 in Chicago.

"It's a tough decision because the Hardware Show has been such an important event to our members, our industry and our association for such a long time, but that doesn't change the fact that it's the right decision," said Timothy S. Farrell, AHMA president and CEO. "We've always made

decisions in the best interests of our members and our industry, and this is one more example. We're excited about pursuing what's most valuable to our members and our industry now and in the future, not holding on to something that was valuable to them in the past," he added.

The American Hardware Manufacturers Association is the trade association serving the hardware, home improvement, lawn and garden, paint and decorating and related industries. AHMA consists of approximately 800 U.S.-incorporated manufacturer members, as well as a smaller number of manufacturers' representatives' agencies and trade publications.

AHMA conducts many valuable industry programs, services and activities, including the AHMA Executive Conference for the Home Improvement Industry, the AHMA Hardlines Technology Forum®, AHMA/USA international pavilions, government relations programs, member benefit vendor programs and member cost-reduction programs.

Orgill Announces Management Succession Plan With New President

Joseph Orgill III, chairman of the board of Orgill Inc. since 1980, has announced plans to turn over the role of chairman of the Memphis-based wholesaler to long-time company President and CEO William Fondren, effective Jan. 1, 2005.



Ron Beal

Ron Beal, senior vice president and general manager of Orgill's hardware division, will become president and ceo on Jan. 1, 2005. Beal joined the company in 1985. In his new role, Beal will be responsible for the day-to-day operations and the strategic direction of the company.

Byrne Whitehead, currently responsible for finance and administration at Orgill, will assume the position of senior vice president-general manager of operations, finance and administration.



William Fondren

In 1981, Fondren was named as Orgill Inc.'s president and ceo to manage the day-to-day operations as well as determine the strategic direction for the company. Over the next several years, Fondren assembled a management team that launched the company's growth and market penetration that continues today.

In Fondren's new position as chairman, he will be responsible for oversight of the overall operations for the company. He will continue to be active with Orgill's customers and suppliers and attend the company's twice-annual dealer markets as well as other internal and industry events.

Joseph Orgill III will remain on the company's board of directors and plans to maintain an active role in the business that has been part of his family since 1847.

"These announced management changes are part of an orderly process for succession that was set into place years ago to ensure the continued success of the company," says Orgill. "My role will continue to be, as it has been for a long time; to be at our Dealer Markets, attend major functions, visit with customers and to represent the ownership's interest in and support for the company.

"In the 1970s the company ownership made the decision to rely on professional management to guide the company," Orgill says. "We didn't just want to depend on family members' interests or capabilities to run the company. Given the success Orgill has achieved to date, I think most people will agree this decision has worked out very well."

In addition, several years ago, Orgill expanded its board of directors to include outside directors and younger family members to guide the company through the planned succession. "My partner, Mike McDonnell and I, the board of directors and the family will remain in full support of Orgill Inc. and its efforts for the long haul," Orgill added.

In related news, John Glaser, Orgill's senior vice president and general manager of operations, has announced his plans to retire, effective December 31, 2004. Glaser has been employed by Orgill for 26 years, and has served in his present capacity since 1983.

According to Glaser, his most significant professional achievement at Orgill has been the ability to manage significant growth, and to be able to watch Orgill's operating systems and technology within its DCs advance from the manual, paper-based systems of the past to their current state of paperless, RF controlled, mechanization.

Do it Best Hands Out Record \$107.5 Million Rebate

More than 13,000 Do it Best Corp. member-retailers and their families, vendors and staff were expected to attend the co-op's market, which was held October 14-19 in Indianapolis.

The highlight of the market was the distribution of a record rebate of \$107.5 million to Do it Best retailers. Members and vendors were also recognized at the annual Purchasing Awards Breakfast for achievements during the past year.

The special exhibit area featured two model electrical departments, and the third annual Power Preview gave dealers a chance to view equipment demonstrations and attend lawn and garden-oriented seminars.

The keynote speaker for the Kickoff Breakfast was Torie Clarke, the former Assistant Secretary of Defense for Public Affairs. She was one of a small handful of top aides in the Defense department on Sept. 11, and she has played a leading role in shaping the public's understanding of the war on terrorism and the role of the U.S. military.

Lunch-N-Go sessions featured R. Derrick Morris, director of Habitat for Humanity International, and Drew Mendoza, managing principal of The Family Business Consulting Group.

Fort Wayne Hardware Retailer Profiled in *Fortune* Magazine

The September issue of *Fortune* magazine includes a profile of Dave Umber, the longtime Ace retailer in Fort Wayne, Ind., and former member of the National Retail Hardware Association's board of directors. Umber is spotlighted as part of the magazine's small business package, "Beat the Beast: Details Matter. Here's How Five Small Retailers Are Competing Against Firms Many Times Their Size."

Fortune sent a reporter and two photographers earlier this year to recount Umber's successful efforts to reconfigure his business model after Home Depot, Lowe's and Menards all built multiple locations in Fort Wayne, a town of about 200,000 people. In response, Umber cut expenses in several areas and redoubled his efforts to tailor his inventory more to customers' wants and needs, using exit surveys and input from employees and longtime customers. He also initiated a policy of keeping his prices within 10 percent of his competitors.

Umber credits his strategic moves, as well as research and support from both Ace and the NRHA, for making fiscal year 2004 "my best in four years despite flat sales."

Ace Boosts New Business Efforts

Ace Hardware Corp. has hired retail book sales executive Mike Zipser to oversee the co-op's efforts to add 1,100 new stores in the next five years.

Zipser, who has served as a vice president of Borders Group Inc. and OfficeMax Inc., has joined Ace as vice president for retail development and new business. "Mike Zipser has a history of dramatically increasing store counts, market penetration and the overall growth of the companies he has worked for," says Ray Griffith, executive vice president and COO for Ace.

Joining Zipser in this development initiative is John Venhuizen, who will serve as director of new business development. Venhuizen is an Ace veteran, having previously served as the co-op's marketing manager. He will report to Zipser and direct efforts to attract new members and open additional Ace locations.

The way my store looks has made an impression on my customers and my bottom line.

Any store can put hardware on the shelves, but with the help of Do it Best Corp., I've seen how a store's design can improve margins, average ticket sale, turns, and ultimately increase sales. Do it Best Corp. helped us move to a new, more convenient location with greater market potential. From site location research, to store traffic flow, to merchandise plans, Do it Best Corp. helped us every step of the way. With the new layout, customers are shopping the store — not just running in for one item — and it's easier for customers to find what they need. In the first year, our sales jumped by more than 60%. We built on that growth with an additional 15% in sales this year. Thanks to Do it Best Corp., the difference is visible where it matters most.

Do it Best Corp.
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EPA Reminds Retailers to Stop Selling Diazinon By Year End

The Environmental Protection Agency (EPA) has issued a notice to remind retailers of a Dec. 31, 2004, stop-sale date for all outdoor diazinon home, lawn and garden products. It will be unlawful to sell diazinon outdoor non-agricultural use products in the United States after the end of this year. This is part of an agreement between EPA and diazinon registrants to phase out and eliminate all residential uses of the insecticide diazinon. Discontinuing diazinon use in home, lawn and garden care is part of EPA's ongoing effort under the 1996 Food Quality Protection Act to reduce the risk of pesticides, especially to children.

Diazinon registrants are offering a "buy back" program to assist with removing these products from the market and preventing further sale. The registrants will repurchase any unopened, unused outdoor residential products from retailers or formulators. Retailers should make all possible efforts to sell their diazinon products back to the manufacturers by March 31, 2005.

Consumers may continue to use diazinon residential products according to label directions and precautions. If consumers choose to discontinue use, they should contact their state or local hazardous waste disposal program or local solid waste collection service for information on proper disposal. Consumers are advised not to dispose of pesticides in sinks, toilets, storm drains, or any body of water. The local government may recommend that consumers take diazinon products to a household hazardous waste collection site.

The organophosphate pesticide, diazinon, has been one of the most widely used insecticides in the United States for household lawn and garden pest control, as well as for indoor residential treatments. All indoor use product registrations have been cancelled and retail sale ended on Dec. 31, 2002. More information on diazinon is available at: <http://www.epa.gov/pesticides/op/diazinon.htm>.

TruServ Corp. to Change Its Name to True Value Company

TruServ Corp. announced that it will change its name to True Value Company, effective January 1, the first day of the company's new fiscal year. The new name was chosen because it clearly reflects the strength of the cooperative's largest and best known retail brand.

"True Value Company is a natural choice for us. The True Value brand is readily recognized, understood and respected in the marketplace, because it stands for quality and value and expertise," said Pamela Forbes Lieberman, president and CEO of TruServ Corp. "But even more importantly, the True Value Company name reflects what we stand for—a belief and set of values that transcend every facet of our business."

True Value is the cooperative's largest retail identity, making up more than 85 percent of total sales. Though the name change reflects the importance of True Value, the company still remains strongly committed to its other retail brands, including Home and Garden Showplace, Taylor Rental, Grand Rental Station, Party Central, Induserve Supply and Commercial Sales.

"The change also reflects a new commitment to leverage the power of the True Value brand for the benefit of the whole organization, creating superior value for all of our members and their customers," said Forbes Lieberman.

TruServ Supports Hurricane Victims at Fall Market

Thousands of home improvement, hardware and home and garden suppliers attending TruServ Corporation's 2004 Fall Market in Orlando, Fla., pitched in to give hurricane victims affected by Hurricanes Charley, Frances, Ivan and Jeanne some much needed support. Market exhibitors and attendees were asked to donate clean-up products and monetary support to the Red Cross of Central Florida.

This year with the TruServ market in Orlando, attendees could put their expertise and hardware products to good use for the Red Cross. "The Red Cross' work is vital to disaster relief efforts in Florida. TruServ and its partners are proud to help the Red Cross by donating resources and products to assist our friends, partners and customers in the devastated areas," said Susan Katz, director of events and meetings for TruServ Corporation.

Vendors that sell products to aid in the hurricane clean-up were supplied with "wish lists," that include items such as disinfectants, brooms, gloves and bottled water for the Red Cross. In addition, donation boxes were set up throughout the market to collect monetary donations. The market concluded with a donation presentation to a representative from the Central Florida chapter of the Red Cross.

First Outsider Elected to Ace Hardware Board of Directors

Long-time retail executive William (Bill) Bolton has been elected to the Ace Hardware Corp. board of directors as an outside director. This marks the first time in the company's 80-year history that an individual who is not an Ace store owner or Ace executive has been elected to the board.

With the exception of Bolton, the Ace 11-member board, which sets the strategic direction for the retailer-owned cooperative, is comprised solely of Ace store owners from different regions of the country.

Bolton has served the board since October 2003 in a retail advisory capacity. In this new position, he will be up for re-election in 2007.

"Bill's contributions over the past year have been valuable to our organization, and with his election to the board, he will continue to help Ace implement its long-term retail growth strategy," said Ace retailer and Chairman of the Board J. Thomas Glenn. "Bill has a proven track record of being able to achieve strong retail growth through a focus on high levels of customer service, coupled with innovative merchandising techniques, and we look forward to his ongoing counsel."

Bolton's career in the retail sector has spanned three decades. Previous positions include executive vice president, retail president and chief operating officer of SuperValu, Inc., a Minnesota-based grocery wholesaler; chairman and chief executive officer of Alabama-based Bruno's, Inc.; chief operating officer of American Stores Co.; and president of Jewel Food/Osco Stores.

Presently, Bolton is a consultant/advisor to Leo J. Shapiro & Associates, a Chicago market research company that specializes in tracking consumer behavior and the performance of retail companies. He also serves as a board member of Bemis Company Inc. (NYSE), a Minneapolis-based flexible packaging company. Bolton also has experience serving as an outside advisor to a number of small, privately held companies as well as educational institutions such as Western Michigan University, his alma mater.

Pedaling to Ace Market Raises \$300,000 For Children's Hospitals

Most business travelers today encounter long security lines at airports, plane delays and rental car hassles. Not so for a group from Ace Hardware that traveled to the

hardware cooperative's 2004 fall convention.

These travelers trekked from Chicago to St. Louis on bicycles and though they logged 350 miles with no frequent flier bonuses to show for it, they did receive a "perk" of a different kind—more than \$300,000 raised for Children's Miracle Network (CMN) hospitals in Chicago and St. Louis.

The significant sum equals one-tenth of what Ace annually contributes to CMN nationwide, more than doubles funds directed toward Chicago's Children's Memorial Hospital and increases those funneled to St. Louis Children's Hospital and Cardinal Glennon Children's Hospital in St. Louis more than 10 times.

Ace Hardware Corp. sponsored its first Tour de Kids charity bicycle ride September 24-27. Thirteen "Ace's Helpful Riders," who ranged from Ace merchandise buyers to senior executives to a board member, embarked from downtown Chicago to St. Louis in a four-day journey to the Ace fall convention. The ride began in the Windy City's NBC Plaza with a live appearance on WMAQ-TV's "Chicago Morning News" and culminated near the famous St. Louis Arch in downtown Kiener Plaza.

All contributions from Ace retailers, vendors, employees and other individuals supported this charity "drive." Consumers also pitched in with donations, which still may be made via www.acetourdekids.com through the end of October. Ace has raised nearly \$30 million for CMN hospitals since 1991.

While some of Ace's Helpful Riders were bicycling enthusiasts, some participants experienced their very first "marathon" bike ride. The riders pedaled through many towns along their Chicago to St. Louis route, including Joliet, Morris, Dwight, Pontiac, Bloomington-Normal, Lincoln, Springfield and Carlinville.

"We're so proud that we were able to turn a concept like this into such a successful reality," said Dave Myer, a "Helpful Rider" and Ace Hardware's senior vice president-retail support and logistics. "A group of us thought this would be a unique way to travel to the convention, and at the same time support the crucial healthcare services that CMN hospitals provide each day to so many young people. Aside from a few flat tires, the trip went amazingly well for all of us."

More than 75 local and national entities sponsored Tour de Kids, including premier sponsors Henkel Consumer Adhesives and Charlotte Pipe and gold-level sponsors, Masco Corp., Gardner Bender, Gardner-Gibson, 3M, Butler Construction and Watts Anderson. Daimler Chrysler donated two "chase" vans.

Industry Relationships Put to Test at 16th Annual Hardware Conference

Retailers, manufacturers and distributors attending the 16th annual Hardware Conference Sept. 10-12, in Marco Island, Fla., did not let hurricanes Charley, Frances or Ivan destroy their spirits. In fact, they gathered together to support others who incurred losses as a result of the hurricanes.

Joe Waksler, whose Florida hardware store—Morton's Ace Hardware in Port Charlotte—was a total loss from Hurricane Charley, attended the conference and thanked manufacturers for their support. A fire last September destroyed Larry Tonjes' store, the Lake Wales, Fla.-based Cliff's True Value. Tonjes also suffered some losses due to Hurricane Charley. The advice he offers to retailers is, "You never look back, you always look forward. You can't feel sorry for yourself, but should pick up the pieces and move forward."

The conference featured both retailers, along with Isles Do it Best, in Punta Gorda, Fla., and Nicholson's Ace Hardware of Wauchula, Fla., in a slide presentation shown at the conference to demonstrate the hurricane's impact.

Conference directors Tom and Dale Chasteen kept one eye on the weather report as the conference got underway, staying in contact with hotel and local officials and keeping attendees updated about the latest storm tracking reports. During and after the conference, though, they did their most important work: organizing relief efforts and coordinating special offers from participating manufacturers to help retailers who sustained heavy damage or total loss as a result of the hurricanes.

The Chasteens know what it's like to sustain such loss—they have had their home and business destroyed by past hurricanes. That's why Tom didn't think twice about traveling up and down the east coast and west coast of Florida, personally visiting all the hardware retailers who sustained heavy damage



During the open dialogue session, Tom Chasteen led the discussion on emergency preparedness.

and seeking to compile a list of those most in need.

Through the Chasteens' efforts, a large percentage of participating manufacturers agreed to help the retailer victims of the hurricanes that have hit Florida in August and September. A handful of vendors who don't participate in the conference also agreed to help out affected retailers. "We've been building these relationships with vendors for 16 years through the conference. And it was very rewarding to see how vendors stepped up to the plate," Tom said.

Chasteen identified seven hardware retailers who need to rebuild their business—one Do it Best retailer and six Ace stores—and he said all seven are committed to rebuilding and reopening their stores. These retailers will each receive a coupon from the participating vendors that outlines their special hurricane assistance program, deals that are good through their wholesaler for one year. About 50 manufacturers are participating in the program, including National Mfg., Krylon, H.D. Hudson Mfg., Minwax, Hillman Fastener, Cooper Lighting, KST Coatings, Hunter Fan and Skil Bosch.

The Chasteens said they were gratified by the overwhelming support the conference received, despite the imminent threat of the category five Hurricane Ivan. "Crisis brings out the best in everyone," said Tom. "It was the most difficult conference we've ever had, but it was also the most memorable. We were overwhelmed by the vendor support and the unbelievable spirit shown by the retailer attendees. It really brought people together."

Retailers representing Ace, Do it Best, Orgill and TruServ attended the conference, along with 110 manufacturers. Participating distributors hosted retailers at dealer meetings and luncheons before the start of the conference.

John Hammond, managing director of the National Retail



Hardware Conference co-directors Tom and Dale Chasteen coordinated special offers from manufacturers to help assist hardware retailers who saw their stores badly damaged by the hurricanes.



Joe Waksler, whose Ace Hardware store in Port Charlotte was completely demolished by Hurricane Charley, attended the conference to thank vendors for their support. Waksler has vowed to rebuild his store as quickly as possible.

Hardware Association (NRHA), commended the effort, as well as the gathering of retailers, wholesalers and manufacturers at the conference. "The Hardware Conference exemplifies everything that's good about the hardware industry," he said.

NRHA was one of the major event sponsors for the conference, along with 3M, Activant Solutions, Inc., CooperTools, Damp Rid, Duracell Batteries, H.D. Hudson Mfg., Hillman Group, Hunter Fan, Irwin, Krylon, KST Coatings, Miami Children's Hospital Foundation, Minwax, Poms & Associates, Robert Bosch Tool Corp., Toolbox Marketing and Weber Stephens Products.

Award winners for the 2004 conference included Beacon Awards to the Ace Retailer Team in Florida, Judi Brink of True Value Hardware in Cape Coral, and Kevin Bolender of Executive Do it Best Hardware in Ft Lauderdale.

Del Garber, immediate past president of NRHA and owner of Gig Harbor (Wash.) Ace Hardware, attended the conference for the second time. "I think any time you can get retailers together, the dialogue is wonderful. We are all after our corner of the market, regardless of what the name above the store is. We had wonderful conversations with vendors and other retailers."



More than 100 vendors participated in the Hardware Conference in Marco Island, Fla., despite the imminent threat of another hurricane.

One of the multi-unit store owners at the conference, Gordon Birgbauer of the Algonac, Mich.-based LumberJack Building Centers, attended the conference along with 14 members of his senior management team, representing six LumberJack locations. LumberJack representatives attended distributor events at the conference and also gathered together as a management team to do 2005 budget planning.

Hot topics in the open dialogue session included buying markets, national brands versus private label and margin management. The Chasteens and Poms & Associates led an open discussion about preparing for and recovering from disasters such as hurricanes.

Libbie Susnik, retail specialist for 3M, said she found it valuable to build relationships on a different level with vendors and retailers at the conference. Susnik promoted 3M's emergency ship program to retailers who had losses as a result of the hurricanes. Darin Galka, general manager of manufacturer Damp Rid, said he valued the non-traditional trade show format.



Del Garber, an Ace retailer from Gig Harbor, Wash., and past president of the National Retail Hardware Association, attended the Hardware Conference for the second time and said he enjoyed the opportunity to talk to fellow retailers and vendors.

"We get face-to-face interaction and outstanding opportunities to build new business." Damp Rid has made donations to the American Red Cross and is sending free products to retailers impacted by the hurricanes.

Ted Blosser, district sales manager for The Hillman Group, has been attending the conference for 12 years. Hillman is donating a deck and drywall project center to retailers that had damage as a result of the hurricane.

Over the last 16 years, in addition to raising funds for NRHA scholarships, the conference has raised more than a half million dollars to benefit the Miami Children's Hospital Foundation.

The 2005 Hardware Conference is scheduled for September 9-11, at the Marco Island Marriott in Marco Island, Fla. For more information, visit www.thehardwareconference.com or call (305) 853-0049.

Our files are full of sales that speak for themselves

—Garold Wingate

The first day of our sale was the biggest sale day ever in the history of our store. In fact, our days were producing sales at a rate two times greater than we had ever had. This continued all the way through the sale.

We would recommend Wingate to any company.

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Our sales goal was not only achieved, but exceeded. This helped with capital for our new enterprise. Thanks to Wingate, all details were taken care of.

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Seven Florida Hardware Retailers Lose Stores to Hurricane Damage But Vow to Reopen

Seven Florida hardware retailers saw their store buildings destroyed or badly damaged in the wake of four hurricanes that walloped the sunshine state in a six-week period. Hurricane Charley was followed by Hurricanes Frances, Ivan and Jeanne, leaving Florida's besieged residents to wonder whether their luck—which began changing for the worse on Friday the 13th—would ever change.

Morton's Ace Hardware in Port Charlotte was completely demolished when Hurricane Charley hit land with 145 mile-per-hour winds and 13-foot storm surges on Friday the 13th of August. Two other hardware stores were extensively damaged by the Category 4 storm: Isles Do it Best Hardware in Punta Gorda and Nicholson Supply & Ace Hardware in rural Wauchula. On the east coast of Florida, Hurricane Frances caused havoc with Ed Struttman's Ace store in Indialantic, Ace Handiman Hardware in Titusville, Ace Hardware in Melbourne and Ormond Ace in Ormond Beach. Despite the devastating setback, all seven retailers vowed to rebuild and reopen as soon as possible.

For 25 years, Morton's Ace Hardware had served customers throughout Charlotte County, the area hit hardest by Charley. Founded by Morton Waksler, the business had been passed on to his son, Joe, who had taken pride in surviving an onslaught of big-box stores over the past decade.

Rubble was all that was left of the 5,000-square-foot store, but the Wakslers quickly vowed to rebuild and reopen to serve a community that needs them now more than ever. They are finalizing plans for an even larger store to replace the one they lost, with plans to reopen by mid-2005.

Opening a hardware store in Florida had been a dream of Bill and Anne Zeithammer, who moved to Punta Gorda after

selling a store they owned in Peoria, Ill. In 1999, their dream became a reality when they opened an 8,000-square-foot store from the ground up—Isles Do it Best Hardware.

Then Hurricane Charley came with gusts up to 173 miles per hour, lifted the roof off their store and dropped it back on the building, smashing everything inside and blowing out the windows. The Zeithammers found themselves with no roof, no power and no phone.

"I realized there was a problem when I walked in the back door of the store and looked up the main aisle and the roof was in the middle of the aisle," said Bill Zeithammer, in an interview with the *Peoria Journal Star*. "The eye (of the storm) went over us," he said. "The winds were horrendous."

Still, he considers himself fortunate—his family is safe



Morton's Ace Hardware in Port Charlotte was completely demolished when a Category 4 storm hit on August 13. Owner Joe Waksler has vowed to rebuild the store to continue serving one of the hardest-hit communities. He hopes to reopen by mid-2005.



The metal roof of Nicholson's Ace Hardware in rural Wauchula, Fla., blew off and landed in the store parking lot after a direct hit from Hurricane Charley. The store also suffered extensive water damage.



Joe Waksler and Bruce Kiles demonstrate their determination to reopen Morton's Ace Hardware in Port Charlotte.



While the walls and roof of Morton's Ace Hardware collapsed, oddly enough a few displays of plastic items remained almost intact.

and they have business insurance.

“You see this on television—I have seen this on television—but it is different when you are there. It is an emotional thing when you actually see cadaver dogs looking for bodies,” he told the newspaper.

They solved their first problem—how to stay in contact with family and friends—by using text messaging. Their son Paul quickly set up a web site (www.zeithammerfamily.com) and posted daily updates on their situation.

Zeithammer removed the computer equipment the day after the storm hit and took it home, and the clean-up effort was under way shortly after along with an effort to get emergency supplies trucked in. By Monday, August 16, the Zeithammers had a generator up and running, and the first shipment from Do it Best arrived around midnight that night. They were the only retailer in the area selling propane and one of the few with roofing felt. Bill Zeithammer walked into the local radio station so he could announce to area residents that they were selling propane. They operated with a cash register outside the store at first, helping one customer at a time.

A few days after their store was damaged, they discovered another negative aspect of the situation when they caught a looter in the store. A 38-year-old Punta Gorda resident was arrested and faced numerous charges.

They got better news soon after when they learned their insurance will cover the damage. Ironically, the Zeithammers had decided to add business interruption insurance just a few months before the storm hit, a move that will see them through the months while their store is rebuilt. They hope to reopen after the first of the year. They were able to salvage inventory and fixtures from the store, which they donated to the local Habitat for Humanity.

“We’re planning to open our home improvement center at the start of the year,” commented Lucy Foss, events and volunteer coordinator for Habitat, as quoted in the *Sun-Herald*. “This will be a godsend for people trying to fix up their property.”

Although the stress level has been high, the Zeithammers wanted to thank all who have remembered them with thoughts, prayers and words of encouragement. They say it has been rewarding to hear the heartfelt appreciation expressed by the community, as people have thanked them profusely for staying open in their time of greatest need.

Retailers inland also suffered heavy damage. Nicholson Supply & Ace Hardware in Wauchula, a small town in rural Hardee County, sustained winds of 110 miles per hour with gusts up to 140 miles per hour. The store’s metal roof blew off and landed in the parking lot, the shop building was destroyed and one of the warehouses lost one-third of its roof, according to Charles and Richard Nicholson. They also suffered extensive water damage to the office area and had ceiling leaks throughout the store. Shelves sat in one inch of water.

Even though they lost their computer system and office and the store was heavily damaged, the Nicholsons refused to stay closed. Their business was the first in the county to reopen after the hurricane—at 8 a.m. the next morning. They walked customers around the store and wrote down everything by hand.

Ed Struttman and his family had to wait two days before they were allowed back across the bridge to their store in Indianantic, where they discovered the roof collapsed due to heavy water damage. They tried to clean up the ceiling and the water in the aisles while helping customers at the same time.



Bill Pastermack shows where the roof of his store in Titusville was damaged. He stayed open by placing plastic over the damage.



The roof of Ed Struttman's store in Indialantic collapsed and the inside suffered extensive structural damage.

Joanne and Marvin Nichols lost the roof on their store in Melbourne, but also refused to stay closed. They draped clear plastic over the top of the gondolas and continued to help customers.

Bill Pastermack also suffered extensive roof damage to his store—Ace Handiman Hardware in Titusville—but stayed open by covering the worst areas of the roof with plastic and blocking off the most damaged areas of the store.

Nick and Harriott Pasquine had no choice but to close—their building in Ormond Beach was condemned as unsafe. However, they placed a sign on the front door directing customers to their second location up the road.

A handful of other Florida hardware retailers sustained less serious damage from the storm. Family Hardware in

Cape Coral suffered minor wind damage to its signs and some leaks in the roof, according to owner Ed Tisdale.

You can help the victims of Hurricane Charley by making a financial gift to the American Red Cross Disaster Relief Fund, which enables the Red Cross to provide shelter, food, counseling and other assistance to those in need. Call 1-800-HELP NOW or make a secure online contribution by visiting www.redcross.org. You can also send monetary donations to the Salvation Army, Florida Divisional Headquarters, 5631 Van Dyke Road, Lutz, FL 33558.



Nick and Harriott Pasquine were forced to close their store in Ormond Beach when it was condemned by authorities. Luckily they were able to direct customers to their second location up the road.



With help from their wholesaler, Anne and Bill Zeithammer (shown here on the right) sold products out of a semi-trailer parked in their store parking lot. Their store, Isles Do it Best in Punta Gorda, Fla., was deemed uninhabitable after Hurricane Charley hit. Store manager Jeff Saal (far left) and Do it Best district manager Jim Troiano helped the Zeithammers keep up with the initial demand for products in the storm's aftermath.

Mike Holley Retires After 36-Year Career

Time flies when you're having fun. So says Mike Holley, who recently retired after a 36-year career at the Northeast Retail Hardware Association (NERHA), formerly the New York State Retail Hardware Association.

Holley served as managing director of the regional association since 1994, when he was promoted to succeed Larry Bowser. His first 26 years with the organization were spent installing store fixtures and doing store planning and merchandise resets for hundreds of retailers.

"We had some good years and some not so good years, but we stuck with it," he said. "I enjoyed working with all the retailers through the years, and made a lot of friends. I'm going to miss attending the NRHA Convention and seeing old friends."

He is looking forward to spending more time with his daughter and grandkids, as well as bowling and golfing. He will also be doing some volunteer work as a delivery driver for the local Meals on Wheels.

Retired Head of Southern Association Passes Away

Robert L. Ricker, 85, passed away on August 17 after a brief illness. He retired as executive vice president of the Southern Association (an affiliated association of the National Retail Hardware Association) following 30 years of service.

Ricker was responsible for developing the first hardware stores in Puerto Rico, Panama, Ecuador and Brazil. He served as an aviation cadet in the U.S. Air Force during World War II, and also worked in trucking, ironwork and sales.

He was a Scottish Rite Mason for more than 50 years, served on the Clay County Development Authority in its early days and was a benefactor for the Florida School of the Deaf and Blind. He had a lifelong love with golf.

Ricker was predeceased by his former wife of 52 years, Gladys Inez Ricker; and his former wife, Faye Travis Ricker. He is survived by two daughters, three sons and six grandchildren. Memorial contributions can be made to Pine Castle Inc., 4911 Spring Park Road, Jacksonville, FL 32207.

Ohio Bill Changes How Retailers Collect Sales Tax

Ohio is participating in the Streamlined Sales Tax Project. The SSTP is a multi-state initiative to make sales tax laws, rules, and systems more uniform across states and thus easier for

vendors to collect states' sales taxes. Ohio has changed some of its laws to conform to the provisions of the SSTP. Ohio lawmakers recently passed a law (H.B. 204) providing a six-month transition period to allow retailers more time to implement the sourcing changes.

The ultimate goal of the SSTP is to encourage out-of-state vendors—primarily catalog and Internet companies—to collect the sales tax of Ohio and other states.

The principal change affecting Ohio hardware retailers involves the taxing of delivery sales at the rate existing in the county where the product is delivered. This law begins January 1, 2005 on a voluntary basis, and becomes mandatory July 1, 2005. The change will not affect the vast majority of retailers that sell merchandise that is carried away by customers (over-the-counter sales), or delivered to customers at a location in the same county as the retailer's place of business. The result is Ohio retailers will charge sales tax on in-state, inter-county sales in the same manner as retailers located outside the state.

For more information, go to www.tax.ohio.gov.

2004 Cost of Doing Business Study Released

The *2004 Cost of Doing Business Study*, available from the National Retail Hardware Association, provides industry financial benchmarks to aid in strategic business planning.

This annual report includes composite industry income statements and balance sheets as well as nearly 100 performance ratios. It highlights the financial performance of high-profit companies, the top quartile in terms of return on assets.

The report, which is derived from financial reports submitted by retailers, includes management summaries for hardware stores, home centers and lumberyards. Each analysis defines the financial elements involved, explains the significance of each and suggests ways to use this data to analyze your own business.

Retailers who participate in NRHA's annual survey by submitting financial data receive, at no cost, two customized reports. The *Profit Improvement Profile* compares the respondent's figures to averages for the industry's high-profit stores and for similar companies. It indicates ways to improve performance and suggests possible results. The *Profit Toolkit* is a computer disk loaded with the respondent's financial data in spreadsheet format. When numbers are changed, the program calculates the results and shows the effect of planned actions on profitability, the balance sheet and key ratios.

The 2004 Cost of Doing Business Study is available for \$49 for NRHA members (\$98 for non-members). To order the report, call (800) 772-4424.

Winning Retail Strategies

HOW HARDWARE RETAILERS SUCCESSFULLY CO-EXIST WITH BIG BOXES

"Winning Retail Strategies" shines a spotlight on specific actions hardware stores take to compete. It focuses attention on the tactics used by the most successful stores.

Most successful competitive tactics fit 5 strategies:

- Build customer relationships
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- Offers special services

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Correspondence Course Graduates

NRHA offers a variety of employee education programs. The Advanced Course in Hardware Retailing, Building Material Product Knowledge Course and Custom Correspondence Course teach employees about the products they sell. The following persons are recent graduates of one or more of these courses.

FARWEST REGION

Timothy Shadel
McGuckin Hardware

Cheryl Allan, James Caruso, Maria Esquivel, Mike Foster, Stephanie Lighter, Jennifer Logan, Bill O'Connor, Jessie Robison, Sarajane Souza
Meeks Building Center

Harold Messersmith
Griffin Ace Hardware

Rebecca Crane
Tri-State Ace Home Center

Eric Scott, Donald Story, Jason Strickland, Samantha Thomas, Amanda Warburton
Dixieline Lumber

Sonia Romero
Supply Ace Hardware

Robbie Nicholas, Melodie Swanson, Steve Lemon, Bill Welsh
Rock Springs Ace Hardware

Kathy Verdi, Carin Moran
Ace Hardware

Giovann Miller
DG Ace Hardware

Raelene Cross, Tammy Richmond
Ken's Discount True Value

Petra Derby
Sutherlands Casper

NORTHEAST RETAIL HARDWARE ASSOCIATION

George Cleverland
Rocky's Ace Hardware

OHIO REGION

Mark Wilson
Handyman Ace Hardware
David Guthrie
Barberton Ace Hardware

PACIFIC NORTHWEST REGION

Sabrina Park
Ace Hardware Burley

Diane Fatzinger
Clallam Co-op

Steven Wilkes
Rosenberg Builders Supply

Jon May
South Hill Ace Hardware

SOUTHEAST REGION

Timothy Moon
Hill's Supply Company

Theolinda Blanco
B.J.Arends & Sons, Inc.

SOUTHWESTERN REGION

Linda Brummett
Comanche Home Center

Roy Barnes, Debra Bauman, Ronald Brown, Harold Cross, Andrew Goossen, Robert Gulland, Lacey Harms, Norman Jensen, Brooke Lee, Dorothy Milligan, Marshall Paczosa, Rick Perry, Mike Rodr, Kimberly Wheeler
Orscheln Farm & Home

Shelly Wagoner
Star Lumber & Supply Co.

Sean Anderson, Bernard Barber Jr., Jessica Bennett, Joe Blackshere, Bradley Blankenship, David Bousson, Pamela Carr, Debra Fenwick, Lowell Howell, Bryan Jett, Jeffrey Kunkle, Susan Leiker, Chris Maycumber, William Maxwell, Terry Ninnemann, Jason Pothorst, Leland Stevens, Jacob Womack

Westlake Ace Hardware

William Holt
Grand Island Ace

Joseph O'Brien
M&D Supply

Megan Nemnich
Waters True Value Great Bend

Ohio Region Hosts Town Hall Meeting

NRHA conducted a Town Hall Meeting in Toledo, Ohio, on August 24. It was attended by 13 retailers—representing six different wholesaler programs—and the meeting was enthusiastically received by participants.

The topics of discussion included advertising and promotional ideas, POS systems, seasonal goods, shoplifting, best sellers in other stores, pricing, rental, distributor alternatives, wage and benefit practices/policies, training programs, employee relations and

how to promote your business in the world of big boxes.

The Town Hall Meetings are designed to attract dealers—regardless of store affiliation—from a 50-mile radius. There is no cost to attend the meetings, and retailers are welcome to bring spouses and store managers.

The next Toledo Town Hall Meeting is scheduled for February 22, 2005. If you are interested in helping host a Town Hall Meeting in your region, contact NRHA's Patty Bowman at (800) 282-1642.

Use Basic Tool Kits to Promote Your Store

With the holiday selling season fast approaching, retailers need to find creative ways to bring customers into their stores.

All retailers know that hand and power tools are popular gift items, with sales increasing around Father's Day and Christmas. But here's a way to call even more attention to this category and drive additional sales.

First, set up an in-store display that showcases the tools and other products that should be contained in a basic tool kit. Use your store name and label it the Acme Hardware Basic Tool Kit with a big sign. You can set up a workbench and place all the items on the workbench. Set it up in a visible area, like near the checkout register, if you are afraid of theft. You might even type up a sheet of paper that lists all the tools and their prices and place it with the display, giving people an easy way to create a wish list.

Once you have set up the display, it's time to promote it. Write a short press release announcing that your store is the local destination for holiday tool purchases. State that your store knows what a basic tool kit should contain, and that people can come to the store (give store hours) to check out your basic tool kit display and see what's missing from their tool kit at home.

Send the press release to all the local newspapers. Newspaper editors love to run stories on topics such as what tools comprise a basic tool kit. They may want to quote you in the story and they will probably mention your store name. This helps establish your credibility as tool experts and attracts customers to the store with buying on their minds.

Your basic tool kit can include whatever you feel is appropriate, whether it be 10 items, 25 items or 40 items. Be creative and have fun with it. If you want some examples, here are our recommendations for a basic tool kit:

1. 16 oz. claw hammer
2. Handsaw
3. Carpenter's square
4. Combination square
5. Slip-joint pliers
6. Needle-nose pliers
7. Locking pliers
8. Small flat head screwdriver
9. Large flat head screwdriver
10. Small Phillips head screwdriver
11. Large Phillips head screwdriver
12. Torpedo level
13. Chalk line with chalk
14. 25' tape measure
15. Three-piece chisel set
16. Adjustable wrench
17. Pipe wrench
18. Allen wrench set
19. Socket-wrench set
20. Block plane
21. 3/8" variable-speed reversible drill
22. Bar clamp
23. Spring clamps
24. Wire cutters
25. Utility knife
26. Nail set
27. Pry bar
28. Small rubber mallet
29. Caulk gun
30. Putty knife
31. Stud finder
32. Flashlight
33. Hacksaw
34. Staple gun
35. Circular saw
36. Extension cord
37. Leather tool belt
38. Safety glasses
39. Work gloves
40. Face mask

Mark Your Calendar Now! NRHA Convention July 18-20, 2005



For more information contact Diane at 800-772-4424 or dallen@nrha.org

Develop a Written Safety and Health Policy

The Ohio Bureau of Workers' Compensation offers substantial savings in workers' comp premiums to retailers who meet nine key safety parameters. Ohio Region participants in the Frank Gates Service Co.'s group rating program can save as much as 76 percent on premiums by meeting these key factors. Following is a description of Key Safety Parameter #1.

The employer's top executive shall sign a safety and health policy document to be given to all new hires. The policy shall be communicated to all employees, then reviewed with them on an annual basis. It shall include:

- The management, supervisors' and employees' responsibilities with regard to the organization's commitment to workplace safety and health.
- Commitment to returning injured or ill employees to work at the earliest opportunity.

For more information on how to meet these key safety parameters, contact Paul Feck at the Frank Gates Service Co., (614) 791-7698 or the Ohio Bureau of Workers' Compensation at (800) 644-6292.

Sign Up For Safety and Health Courses

Nearly 60 training courses are available through the Ohio Bureau of Workers' Compensation (BWC) Division of Safety & Hygiene. These courses are offered at the Ohio BWC's training center in Pickerington, Ohio, at the Ohio Center for Occupational Safety and Health (OCOSH) and at branch sites across the state, including Toledo, Cincinnati, Canton, Marietta, Portsmouth, Youngstown and Cleveland.

All courses are offered at no additional cost to Ohio employers who pay into the Ohio workers' compensation insurance fund. Employers may enroll any number of employees at no additional cost. Courses are designed to emphasize practical application of safety principles, to help develop a safety culture and to provide current and proposed standards for regulatory compliance.

Course titles for November and December 2004 include Accident Analysis, Basic Construction Safety, Controlling Costs Through Claims Management, Controlling Workers' Compensation Costs, Effective Safety Teams, Ergonomics Basic, First Aid in the Workplace, Job Safety Analysis, OSHA Recordkeeping, Train the Trainer and Violence in the Workplace.

More detailed information is available on the Ohio BWC web site at www.ohiobwc.com or in the 2004-2005 safety services catalog.

Staying Safe When Faced With Hurricanes and Tornadoes

A major hurricane or tornado can be lethal. Preparing for hurricanes and tornados and responding to them effectively can reduce the dangers caused by these storms. Many of the hazards occur to workers immediately after the storm has passed, such as during cleanup and restoration work. These activities are even more hazardous in areas of flooding, which are often caused by these storms.

According to the National Weather Service, about 70 percent of injuries during hurricanes and tornados result from vehicle accidents, and about 25 percent of injuries result from being caught out in the storm. Some of the specific hazards associated with working in hurricanes or tornados include:

- Hazardous driving conditions due to slippery roadways
- Slips and falls due to slippery walkways
- Falling and flying objects such as tree limbs and utility poles
- Electrical hazards from downed power lines or downed objects in contact with power lines
- Falls from heights
- Burns from fires caused by energized line contact or equipment failure
- Exhaustion from working extended shifts

Stay well clear of any downed or damaged power lines. Establish a safe distance from the lines and report the incident to the responsible authority. Only properly trained electrical utility workers should handle damaged power lines.

Only appropriate power equipment that is built to be used outdoors and in wet conditions should be used. All saws, chippers, and other tools should be used properly and according to their intended application. It is important that all equipment is well-maintained and functioning correctly in order for use. In addition, all equipment should have proper guarding, working controls and other safety features as installed by the manufacturer.

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Yes, Please send me _____ unit(s) of #35000 Rolling Rack at \$99.95 each

To place your order, phone or fax your credit card information to the numbers below.

Ship to:

Store Name: _____ Signed _____

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City, State, ZIP _____ Wholesaler Affiliation _____

Phone: _____ Fax: _____

P.O. number if required: _____

Understanding the Disadvantages of Family Business Ownership

By Mike Henning

Henning Family Business Center

It is not uncommon to find families with an unspoken understanding of dividing everything they own equally between all their children. Everything they own could be defined as a house, condo, farm, rental buildings, stocks, bonds, personal items and equal percentages in the family business. Eight out of ten times this is exactly how their Last Will and Testament will read: upon my spouse's death divide all equally between my living children. Most parents love their children equally and translate this equality of love into entitlement of assets.

In one family's case, the living children numbered seven. Three worked in the business, and four were not active in the business and had made other choices for their careers, yet ownership was divided equally. While Mom and Dad were alive, this arrangement seemed to work well. All understood the arrangement was done for purposes of eliminating potential estate taxes, all children had grown up with the business and deserved to own some of it, and each child expected a regular income from the family "goldmine" as a privilege of ownership.

Future Challenges

The "big" issues are yet to come, such as what will happen after Mom and Dad are dead, who will actually end up with control and what if the company cannot afford the cash for distributions to the non-active owners. What if someone wants to cash out of the corporation or serious conflict erupts between siblings over cousins entering or leaving the business? Many families seem to confuse ownership of the business with membership in the family or assume Mom and Dad's legacy is to spread the ownership around, while some feel that all must share in the financial rewards for years to come.

The Disadvantages

1. The risks of ownership. The general consensus of family members is that the family business will continue to make a profit, thus providing cash for them plus other benefits as it has always done in the past for Mom and Dad. However, as business management changes, policies change and in-laws become involved, seldom are there funds available for non-active owners. Other factors can also manufacture situations that create risk for the business such as:

- Non-active shareholders become angry and demand to see the financial statements in an effort to receive their "fair" share of the income.
- Family unity and commitment to the business weakens.
- Conflict increases between active and non-active siblings and other relatives.

- The market for the business' services and products dries up, or the competition forces the family firm out of business.
- Poor and undisciplined management forces company into bankruptcy. All shareholders are responsible for their percentage of the debt.

2. Where will control rest? Even naïve parents realize the need for those closest to the action being the only ones in absolute control. Thus, we often see attorneys summoned for the purpose of recapitalizing the business into preferred voting stock and non-voting common stock, or a voting trust put in place for the key shareholder, or simply the clear majority of the stock will rest with the active siblings. Of course, this leaves the minority shareholders with minimal power and control.

Minority shareholders normally are given protection of their ownership by having a say in: the sale or merger of the company, the issuance of stock to others, borrowing money in excess of a set amount, a major capital expenditure. Legally, minority shareholders can charge active owners for taking more compensation than they are worth and using corporate dollars for personal benefits, thus calling for new management or for sale of the corporation. Also minority shareholders get to vote for members of the company board each year.

3. The subtle messages of a buy/sell agreement. We encourage families to put an agreement in place that will make it relatively easy for a shareholder to exit ownership of the business. However, some families believe multiple shareholders will be in place forever. In our experience, this is not the case in 99 percent of families. Buy/sell agreements protect the company and its stock, for example, against a shareholder getting divorced and giving an ex-spouse an ownership stake, where the stock must go in case of death, what must happen to the stock in the event of a shareholder declaring personal bankruptcy and if the stock can be pledged as security for other business investments. Sometimes, a shareholder just wishes to have control of his or her own investments and opts out of the family business. Are they disappointing their deceased parents? Are the active siblings sending a message to the non-active that they do not trust them or their intentions?

Back to the family with seven children, four of whom were not active in the business. As time passed, the S corporation only distributed enough cash to the shareholders to cover their individual income taxes due on this investment and nothing else. Three of the four wanted to cash out and control the destiny of their investments and make a reasonable return. However, disadvantage number four springs from this dilemma.

4. Inability of shareholders to cash out of the family business. Most private companies we know lack the financial

ability to fund the redemption of stock from one major shareholder let alone three at one time. Funds are typically not available, and most owners will refuse to go to the bank for a loan as it might put the company in a poor financial position. Thus, the minority shareholder wanting to cash out either cannot do it or must follow proper company policy, which normally discusses the conditions and timing of a stock redemption.

We often wonder why parents insist on bequeathing the future risk of the business and the work and commitment of the active children to the inactive ones. Why would the active child want to build the company bigger and more profitable,

then see a certain percentage of the rewards go to non-active owner siblings or cousins?

While we see no specific “right way” to handle this situation, we strongly suggest talking with adult children about what they will inherit and asking for discussion about their views.

Mike Henning is a nationally and internationally respected consultant and speaker on family business issues. This article appeared in Mike Henning’s Family Firm Advisor newsletter. For more information about receiving a free copy of the newsletter, visit www.mikehenning.com, e-mail hfbc@mikehenning.com or call 217-342-3728.

The Secret Weapon—Knowledgeable Outside Directors

Not long ago I was involved with an industry panel of company owners and key managers discussing their use of outsiders on a board of directors. For those of you thinking about the possibility of activating your board and then adding outsiders, the following are some interesting thoughts from those who have used outsiders for many years.

Mike states, “Our company board of directors is our secret weapon against the competition. We have used outsiders on our board since 1986, and these “risk-taking peers” have been a godsend. At this point, we operate with three insiders and four outsiders, and meet three times per year in half-day sessions. Two of the meetings are held at our corporate location and one is held in Arizona. Our outsiders normally serve on the board for a minimum of two years and maximum of six years. The role of our directors is supporting, leading future planning for the company, creative thinking, sounding board, council, handle family issues, compensation and distribution of profits.

“At a typical meeting, our managers will present a formal report regarding their responsibilities, past assignments by the board and matters of future interests. Board members help us think through difficult and challenging issues, help us get organized, hold us accountable to our goals and following good Christian values.

“Our meeting in Arizona is a two-day situation that will include the spouses. We get together and have some fun in the sun, and spouses get to know the outside board members and their families. This family and business relationship fosters smooth follow-through regarding some difficult decisions the board is asked to make from time to time. We find the recreation and dinners with the spouses and outside board members promote trust between all involved, which leads to a commitment to our overall goals and desired results.”

John has used outsiders on his board of directors since 1984. They meet six times per year, and address such issues as succession planning and business strategic planning. Jerry indicates his greatest challenge is to properly tap into the tal-

ent and knowledge of the outsiders. He has found success by having as his outside board members attorneys and financial planners who do not work for him on a regular basis.

Dick benefits from the outsiders on his board by carefully preparing to answer any questions they asked him. “Our board members ask difficult questions that go to the core of the issue or the alternative idea. Yes, they are a sounding board, we trust them, and they hold us accountable without mercy. We have learned over the last five years the difference of working on a company versus working in one and what is involved.”

Dick participates on two other family business boards of directors and loves every minute of it. Being able to help others solve problems, and set direction and policy for their companies is a wonderful experience, not to mention all the knowledge gained in the process.

Rick has three outsiders on his seven-person board with the objective of moving the business forward in a timely fashion, knowing and relating to all family members, and, in particular, addressing the needs of 33 shareholders.

The board meets five times per year with one event at a vacation site, which includes members of the family council, all company shareholders and other interested family members and spouses. “We conduct social events to make sure the outside directors become familiar with spouses, siblings and cousins. Over the years, our directors have always been people who own their own company, who are used to providing leadership, giving direction and understanding risk. We expect our outside board members to move us outside our comfort zone on issues.”

During the Q & A portion of the session, one person asked where outsiders on the board had contributed the most. The answer was in two areas: growth and expansion and strategies to compete successfully with the competition. Other panel members mentioned accountability, having a sounding board for ideas and keeping us focused on what is important.

Maybe it is time for you to consider using outsiders, particularly if you need a “secret weapon” to compete successfully with the giant competitors, grow and pass your company to members of the next generation without people destroying each other in the process.

Congress Heads into Lame-Duck Session

Congress is coming back to Washington for a lame-duck session after the election. As so often happens, lawmakers wanted to adjourn the current session of Congress in early October to go home to campaign for re-election. Also as usual, they couldn't seem to get money bills passed to keep the government operating. So they put critical work on hold to be attended to later.

The 2004 fiscal year ended Sept. 30 with only one of 13 appropriations bills passed. Congress worked feverishly to pass a second one before recessing for the final weeks of campaigning before the Nov. 2 election. The rest? They would be rolled into a huge omnibus spending bill.

To cover all bases, the House and Senate, in the last few hours before the fiscal year ended, sent President Bush a continuing resolution extending current funding for government operations until Nov. 20.

Lawmakers were scheduled to come back to Washington the week of Nov. 16 when, presumably, they will pass the omnibus appropriations

bill...or maybe another continuing resolution to run into 2005.

Other legislation deemed critical seemed to be languishing as well, with one exception: a bill to repeal an export tax deduction ruled an illegal subsidy by the World Trade Organization. That ruling opened the way for the European Union (EU) to impose tariffs on U.S. goods.

What About Overtime Rules?

Last March, the EU levied a 5 percent tariff and has been raising it by one point a month. This was to go on until the tariff reached 17 percent or the U.S. repealed the offending law. In October, the tariff reached 12 percent and there was increasing pressure on Congress to act.

Both the House and Senate passed repeal bills, but there were major differences between them. As this was written, House and Senate conferees were trying to reach a compromise on the two versions.

The conference committee drafted a skeleton bill concentrating on tax provisions and opened the draft to amendments. Senate conferees then submitted 299 amendments for consideration; House conferees turned in 41. An extension of the five-year net operating loss carry-back and a corporate tax rate cut for small businesses were among the amendments.

As we have reported, the Senate version of this export tax repeal bill included two amendments limiting the new Department of Labor (DOL) rules defining white collar exemptions to overtime pay.

One would keep DOL from enforcing portions of the rule that would take overtime eligibility away from employees who currently qualify. The second would preserve overtime status for 55 occupations or

job classifications that could be at risk as a result of DOL's revisions. Neither amendment affected the \$23,660 annual salary minimum requirement for overtime.

The fate of these provisions was unknown as the conferees began wading through almost 350 amendments.

Commercial Fax Rule Delayed Again

The Federal Communications Commission (FCC) extended its stay on new rules on unsolicited commercial faxes until June 30, 2005. The new rules, which require advance written permission to send commercial faxes, were set to go into effect January 1, 2005.

The Telephone Consumer Protection Act of 1991 bans unsolicited commercial faxes.

In writing rules to implement this law, the FCC created an exemption to allow businesses and membership organizations to send faxes to people and companies with whom they had an established business relationship.

Last year, the FCC revised its fax rules and eliminated the established business relationship exemption. Under pressure from business groups, the commission delayed the effective date of the rules until January 1, 2005, and agreed to consider several petitions to reconsider the rule.

In the meantime, the business groups turned to Congress to enact the established business relationship exemption into law. The House passed such legislation but the Senate had not acted on a similar bill approved by its Commerce, Science & Transportation Committee.

House GOP Pushing for Tax Reform

House Republicans seem intent on making major changes to the U.S.



tax code.

During a September meeting, they talked about several options, all of which have been introduced in the House.

The proposals included a national sales tax to replace all current federal taxes, a two-tiered tax on individual and business income to replace the existing income tax and a flat tax that would replace the current tax system.

All of these proposals are controversial, but the national sales tax is particularly contentious for retailers.

They would become the nation's tax collectors. Further, the amount of a national sales tax could be tremendous. Various analyses place the rate necessary to replace existing tax revenue at anywhere from 30 percent to 60 percent and that would be on top of any state or local sales taxes.

These kinds of tax reforms have been introduced in previous Congresses but have languished in committees and died at the end of each session. In recent months, House GOP leaders have focused considerable public attention

on tax reform, especially the Fair Tax Act, which would replace all federal taxes (including income, employment and Social Security taxes) with a national sales tax and eliminate the Internal Revenue Service.

Next year, Republicans say, they will make tax reform a top priority. Whether they do and how successful they may be will depend to a great extent on the outcome of the election.

From the States

State Treasuries Better, Cities Worse

State treasuries continue to see increases in tax revenue. The Nelson A. Rockefeller Institute of Government reports that second quarter collections were up 11.3 percent over a year ago. Slightly more than two percentage points of that increase are attributable to recent rate increases. According to the report, "States have begun to reap the benefits of the stronger economy, as their revenues are now growing at rates that rival pre-recession levels."

Unfortunately, cities are not in the same boat. The National League of Cities (NLC) says that some 60 percent of U.S. cities are having trouble meeting financial obligations. City tax revenues are expected to increase by 2.6 percent this year, but expenditures are up 3.6 percent and next year looks no better.

The NLC report blames higher salaries, higher health care costs, greater spending for public safety and homeland security and other federal mandates and cuts in state budgets for their problems.

Federal Bills Could Affect States

Pending federal legislation could have an impact on state treasuries as well. The Business Activity Tax Simplification Act (HR 3220) would limit the power of states to impose business activity taxes such as corporate income taxes, franchise taxes, gross receipts taxes, capital stock taxes, net worth taxes, single business taxes and business and occupation taxes on companies that do not have nexus in the state. The bill tightens and clarifies the definition of nexus. It would expand a 1959 federal law that prohibits states from levying income tax on out-of-state businesses.

A recent report by the Center on Budget & Policy Priorities said that this bill would "rob state revenue departments of their authority to tax a fair share of the profits of out-of-state corporations."

The Telecommuter Tax Fairness Act (S 2785) would

prohibit double taxation of salaried workers who work part time at a residence in a different state from where their employers are located. It would require employees to pay income taxes to the state in which the work was performed but not where the employer is located.

New York Tax Burden Highest in U.S.

The New York comptroller reports that the combined state and local tax burden is the highest in the U.S. He also said that local taxes are the highest, but that state taxes alone rank 24th. Tax burden is defined as state and local taxes as a share of personal income.

Income for some of New York's lowest-paid workers won't improve very soon.

Gov. George Pataki vetoed a bill to raise the state minimum wage from \$5.15 to \$7.15 an hour by 2007. Although the Assembly voted overwhelmingly to override the veto, the state Senate did not address the veto.

Arizona Inspection Alert

We've had questions from members about weights and measures inspectors in Arizona who have been telling retailers they are required to have point-of-sale terminals or remote terminals that are visible to customers.

This requirement was considered by the National Council on Weights & Measures last January and dropped.

The Arizona Department of Weights & Measures' Web site offers this statement: "If you utilize a scanner at the checkout counter, the scanned price MUST equal the displayed shelf or item price. The Department allows one error for each 50 items to pass an inspection. Retailers are also required to have a written pricing error policy and provide marking pens to customers upon request so that prices can be marked on items for sale." For more information, please go to <http://asdwm.gov/business/business.htm>.

Ace Hardware Corp. Spring Convention
 March 17-20, 2005, Orlando, FL
 Convention Department,
 (630) 990-6641

Blish-Mize Spring Customer Buying Market
 March 18-20, 2005
 Overland Park, KS
 Jonathan Mize, (913) 367-1250

Distribution America/PRO Group Executive Planning Conference
 Nov. 15-17, Indian Wells, CA

Do it Best Corp. Winter Market
 Jan. 26-28, 2005, San Diego, CA
 Rosie Wilson, (260) 748-5316

Do it Best Spring Market
 May 14-17, 2005, Indianapolis, IN
 Rosie Wilson, (219) 748-5316

Emery-Waterhouse Co. Marketplace 2005
 Jan. 14-16, 2005, Providence, RI
 Pam Emerson, (207) 775-2371

Handy Hardware Wholesale Fall Market
 Feb. 17-19, 2005, Houston, TX
 Mickey Schulte, (713) 644-1495

House-Hasson Hardware Co. Dealer Market
 Jan. 28-29, 2005, Nashville, TN
 Allen Winn, (865) 525-0471, ext. 295

Moore-Handley Spring Show
 Feb. 18-20, 2005, Birmingham, AL
 Robert Tolbert, (9205) 663-8235

National Retail Hardware Association Convention/Annual Meeting
 July 18-20, 2005, Vail, CO
 Diane Allen, (800) 772-4424

Orgill Inc. Spring Dealer Market
 Feb. 17-19, 2005, Orlando
 Judy Smith, (901) 948-3381

TruServ Spring Market
 March 4-7, 2005, Atlanta, GA
 Dave Feuerhelm, (773) 695-5165

United Hardware Spring Dealer Market
 Jan. 7-10, 2005
 Minneapolis, MN
 Rick Mattson, (763) 559-1800

Wallace Hardware Fall Buying Market
 Nov. 30-Dec. 2, Gatlinburg, TN
 Richard Snowden, (423) 586-5650

REGIONAL ASSOCIATION EVENTS

• **SOUTHWESTERN Regional Meetings**
 Jan. 24—San Antonio, TX
 Jan. 25—Dallas, TX
 Jan. 26—Oklahoma City, OK
 Jan. 27—Amarillo, TX
 Feb. 25—Kansas City, MO
 Mike Griffith, (816) 561-5323

Western Farm Show
 Feb. 26-28, 2005, Kansas City, MO
 Mike Griffith, (816) 561-5323



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