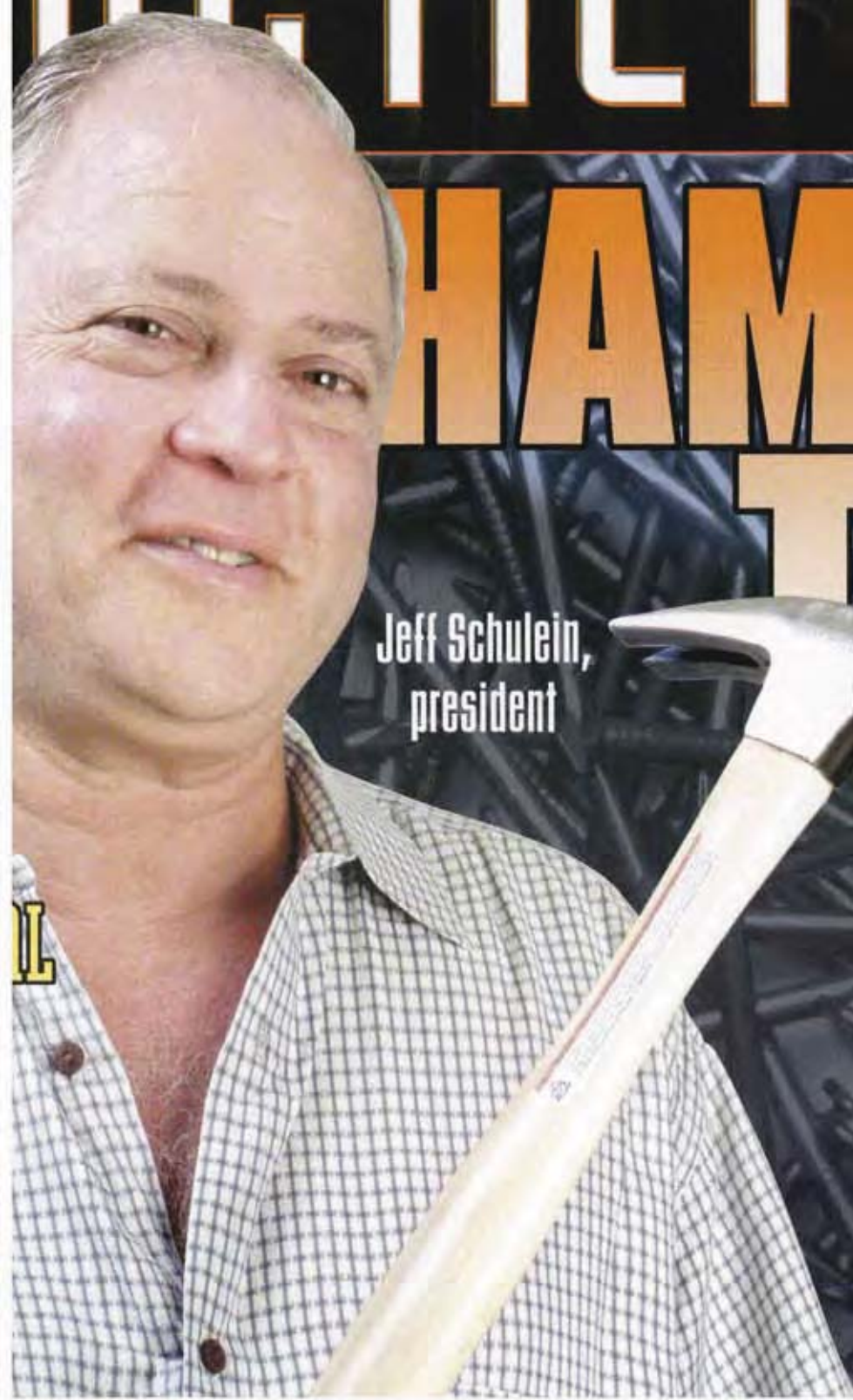


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Jeff Schulein,
president

HAMMER TIME


How Crown Ace
Hardware
competes
against the
mega-stores



TIME

Story By Steve Smith Photos By Mark Savage

Tackling the mega-stores
is no small task, but the
little guy can still win...
sometimes.



In the biblical story, David slays Goliath with the throw of one stone. In the modern marketplace, however, it takes more than one good

throw. Success against a giant competitor – particularly in the retail market where small versus large is common – requires an entrepreneurial slingshot of ideas, punches and counterpunches. Truth is, the Goliaths are overwhelming the Davids one by one and winning most of the battles.

Example: Last month, Costa Mesa Stationers closed its doors after 45 years, citing an inability to compete with the national office supply store chains. While it is still far too early to note the death of the independent retailer, closures like this occur with increasing frequency. In the coming years, almost every aspect of service or hard goods retailing will face competition from large chains offering products as broad as office supplies and services as specialized as installing trailer hitches.

How do independents survive the onslaught of Wall Street capital, mega-budget advertising campaigns and razor-sharp pricing? We decided to find out through the profiles of independent Orange County retailers in the hardware, office supply and drug trades.

THE HARDWARE STORE

One of Orange County's best retail success stories in recent years is that of Crown Hardware Inc. The nine-store chain belongs to the national Ace Hardware co-operative and that relationship enables Crown to face daily challenges from national "big box" retailers such as Home Depot, Home Base and newcomer Orchard Supply Hardware, a statewide home improvement chain. In the new retail jungle, many independents and even some large retail home improvement center chains, such as National Lumber and Builder's Emporium, have fallen by the wayside. Yet Crown Ace Hardware is thriving in the shadow of giants.

"Our business is growing double digits in the existing stores," says president Jeff Schulein. Crown's stores, which range in size from 6,500 square feet to 20,000 square feet, are spread throughout central and south Orange County. By comparison, the typical size of a Home Depot or Home Base store is in excess of 100,000 square feet.

The secrets of Crown's success are largely attributable to a management style Schulein practices daily. "I believe that change is good," Schulein says. "For example, we've moved or reset seven of our nine stores in the past five years. I've always operated by the seat of my pants and I don't see any reason to change."

The need for change is the common thread running through the survivors. The ability to abandon years of established business practices and make sweeping modifications within the company has kept the small retailer in the game with the big boys. Such fluidity is rare in retail, where the motto often is, "If it ain't broke, don't fix it."

Schulein made his move almost by accident 23 years ago: "I was a sales rep in the carpet business and owned the property on which



Jeff and Mark Schulein of Crown Ace Hardware.

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be almost six years until he acquired his second Orange County location, the company grew quickly after purchasing the former Rion Hardware in the Westcliff Plaza shopping center in Newport Beach. The addition of the second store was financed in part by Schulein's brief partnership in Koontz Hardware in West Hollywood.

"In the beginning, I was on the floor, managing, and when we got up to three stores it was the same," Schulein recalls. "I was running around between the stores, going a little nuts, not organized enough, having a small office here, a part-time bookkeeper there, trying to make it work. It worked, but I'm not sure how."

Acquiring the fourth store was a turning point in the company's history. After converting the former Rancho Hardware in Anaheim Hills to fit the Crown mold, Schulein opened a new office, consolidated administrative duties in one location and began hiring people to whom he would delegate some of the work.

Much of the work that is delegated has fallen on the shoulders of two buyers and the nine store managers who are empowered to make many key decisions about the policies and products in their stores. "Our managers are an extremely entrepreneurial group," says Schulein. "We have regular staff meetings which can last half a day. Everyone knows who

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the boss is, but I frequently allow myself to be overruled. The managers hire store personnel and we try to hire managers from within the ranks."

Gary Lillge, manager at Crown's Westcliff Plaza store in Newport Beach, agrees with Schulein's assessment: "As long as I'm doing a good job, they leave me alone. It really feels like 'my' store."

Lillge, a Crown employee for 10 years, focuses first on the customers and then on creating a team atmosphere in the store. Attention to both have helped create regular sales increases since the store's major expansion.

Lillge, a former radio disc jockey in Wisconsin, insists on superior service. The store is spotless, aisles are clear and well-lit and the staff is attentive. The big difference, however, is the attention paid to special orders. Sitting behind his desk at the store is a camping tent which represents a \$120 sale and another satisfied customer. "We don't stock this and Ace doesn't carry it, but I just happened to have the brochure from the company. I showed it to the customer and got the sale," says Lillge. The delivery of the tent took 10 days – an eternity by Crown standards. "If a customer orders something we can get through Ace, it will take two or three days to get it. If they order it on Monday, they can pick it up on Wednesday," he says.

Providing superior service, carrying special items, empowering people and adapting to market changes are important, but even more is required to succeed against the chains.

So strong is the emphasis on special orders that Crown employees rarely need to refer customers to another store. On those rare occasions, however, employees carry "Lost Sale" slips, which are completed and turned in whenever they can't fill a customer's special order. All of the managers bring their slips to their twice-monthly meetings and compare notes. If other stores find that they, too, have had requests for the same item, it will be stocked on a trial basis. If they decide to stock the item, the employee completing the lost sale slip gets a cash bonus from Crown. In a typical month, 18 employees will receive lost sale bonuses.

Lillge's typical day of service may start with the customer who came in looking for a hand crank ice cream maker as a gift. It was Tuesday, so the customer

was told she could pick it up on Friday. In another part of the store, an employee in the electrical department was cutting a switch plate with a hacksaw to customize a fit for an apartment-dweller with a special need.

For independent retailers struggling to make their mark in the community, service has become the linchpin of their survival. Small retailers cannot merely hope that customers tire of long walks from parking lots to mega-stores or rely on customer loyalty, they must create a shopping experience that makes a lasting impression and bring the customer back.

To that end, Crown Hardware carries more help per store than industry standards suggest. In an industry where employees seem too distracted with stocking shelves or aren't available, it's a marked difference.

Being better by being different works at Crown. At the entrance to Lillge's store, there is a large sign that reads, "Dogs Welcome."

"I'm a dog lover and we tend to be like parents," he says. Once inside, canine visitors are likely to be slipped a dog biscuit from a bag stashed behind the front counter.

Creating a team atmosphere is an ongoing effort by Lillge. Sales goals are routinely posted for employees to review and the staff is encouraged to become part of the decision-making process. After each manager's meeting, Lillge posts the minutes for employees to review, in keeping with his belief that much of what transpires in the meetings is beneficial to the sales associates. During regular staff meetings, Lillge points out the ups and downs of their efforts.

Unique to Crown, too, is the product mix. Fully 30 percent of the store's products fall into the housewares category, with small appliances, cookware and gift items making up the bulk of the housewares inventory. With a customer mix of 50 percent women, the housewares are an essential part of the product assortment and make the stores inviting.

Providing superior service, carrying special items, empowering people and adapting to market changes are important, but even more is required to succeed against the chains. Clearly, Crown's close association with Ace Hardware has been

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a key factor in their success. Ace, an Illinois-based co-op with more than 5,000 members, provides store support for everything from advertising to lease negotiation. The strong name recognition adds credibility to the company as does the national television and radio advertising.

According to Schulein, the buying power of the huge co-op provides Crown with retail prices and profit margins that enable them to compete with the big box stores. The association works so well that since Crown's "marriage" with Ace, regular customers have asked, "When did Crown get bought out by Ace?" The reverse is true. As a member dealer, Crown is one of the owners of the Ace co-op. As an economic strategy, co-operatives go back at least to the populist revolt by mid-western and southern farmers in the 1890s.

Crown has an aggressive advertising campaign that features many items from Ace, but also includes its own sale items negotiated through deals with other suppliers. Almost two years ago, Crown formed its own advertising group when the stock ads from Ace were determined to be out of touch with the Southern California lifestyle. The ad group now has 34 members and distributes 600,000 inserts or direct mail pieces each month. The new ad program has customized offerings and increased sales dramatically.

"In the hardware business, the people who have not succeeded, and there have been a lot of them, generally do not belong to a co-op and are not computerized. If you're not computerized to get maximum utilization of your inventory, you can't survive," says Schulein.

Crown is now entering another phase in its growth. Schulein's son Mark, 29, has been working for the company for four years, learning the business from the ground up. Mark, Crown's director of operations, was a graphic design major in college and this has prepared him well for his duties, which include store design and layout.

Mark started working at the bottom of the Crown ladder. "I wasn't sure it was something I wanted to do but I worked in the stores, I drove the truck and I did the grunt work—the same things all the managers had to do," he recalls. Now, Mark is responsible for operations in all stores and acts as a liaison between the stores and the main office. Mark estimates that he is in the stores 40 percent of the time, becoming, in effect, his dad's eyes and ears.

Mark's last major effort was the reset of the Huntington Beach store, Crown's busiest. The unique layout, which features a "power aisle" running corner to corner in the store, is Mark's design. Aisles are staggered for maximum visibility of signage and end caps feature the hottest buys from both the ads and in-store promotions. The new layout, which has made an impact in sales, is not unlike the innovation that Mark's dad instituted many years ago in

the first store in Corona del Mar. Upon taking over the store, Jeff realized that in order to expand, the only way he could go was up. "We put in 7-foot-tall gondolas (merchandise racks) and I believe we may have been the first hardware store out West to do that," he notes. In both cases, father and son fixed things that weren't broken.

What's next? "I don't know," answers Jeff Schulein in keeping with his policy of not developing a master plan. "We're just going to keep on trucking, right through the next generation."

THE OFFICE SUPPLY STORE

“We always had competition, but it used to be with stores like our own," says

Barry West, vice president of family-owned Newport Stationers. That sentiment sums up the feelings of many independent retailers in the area. The office supply/stationery business has been hit harder than the hardware business because the stores in the large chains do not require the huge square footage required to compete in the hardware business. As a result, stores can open in smaller, more expensive real estate locations, close to independents that have been in the area for years. Adding to their woes is the buying habit of the office supply customer, who often orders from a retail catalog over the phone or by fax.

This method of doing business further reduces the dependency on a retail location and puts price and margin pressure on the independent. As if that weren't enough, independent stationery and office supply stores now find the various store departments "cherry-picked" and copied by non-office supply chains ranging from Wal-Mart to Payless Drugs.

According to West, the National Office Products Association reported that the number of independent stationery/office supply stores had dwindled from 14,000 in 1990 to 9,000 in 1998.

Started in 1963, Newport Stationers now has three stores in South County. Over the years, it has evolved to successfully counter the onslaught of big-budget competition. As with Crown

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