

## **Case 10: To Buy or Not to Buy? That is the Question**

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### **Introduction**

Garren and Bonny Dent had grown up in the small Midwestern town of Brendan Sands, population 2,220. They were both 25, had been married for two years, and were facing a decision they knew could ultimately change the direction of their lives. As they sat together in well-used kitchen chairs, Garren laid down his pencil and rested his hand on the old, scarred table. In front of him lay a notepad on which he had placed all the reasons why they “should” and “should not” buy a hardware store. As he glanced out the window, he let his mind wander for a moment, thinking back to his childhood days in this town and what had happened in the last few years that had led him and his wife to this fork in the road.

### **Two Hardware Stores in One Town**

Laid out in the typical small town grid, the town had one main street with several streets running across Main. The town sported two traffic lights and, even though the second light had been added ten years earlier, there was still an on-going argument over the need for it. He chuckled as he thought of the heated discussion over the light that he had just heard that morning. That was the way of a small town though; change didn’t often come easy.

There were two hardware stores in town. The smaller one (approximately 1,638 square feet), located on a downtown side street, was not well managed. It had been passed from one owner to the next with the new owners never really taking the time to either clean it up or determine the needs of the customer. Although each new owner seemed to continue to make a small profit, it was not due to store improvements, since none had been made for years, but rather simply because it was there. The frustration of many of the customers was that it only had one of anything on the shelf: one screwdriver, one hammer, one tape measure. Also, customers were never sure if the store would have what they needed; more often than not, they wouldn’t. For the past

seven years Dave, a schoolteacher, had been the owner. He would go down to the store at the end of the day after school was out. He hired a few retired men to work in the store during the day. It was truly an old town hardware store. Garren smiled as he remembered his wife telling him, “The older men from town go down there and chat but nobody actually buys anything.” It was very different from the other hardware store.

The larger hardware store was located right on Main Street, around the corner and just a short distance down from the smaller one. The owner of the larger store, Harry, also owned an apartment complex. This was a good fit, since keeping the apartments in good repair was important and owning the store assured Harry that he would be “his own best customer,” always having what he needed on hand.

### **Mr. Fix-It**

Things were going well, and as the larger hardware store grew, Harry began to invest in more properties. As his business ventures thrived, Harry realized that he was too busy to keep up with all the needed rental repairs of the various units himself. Once he realized this, he went to the Seventh-Day Adventist college on the outskirts of town looking for a student who would be interested in a job. That was where he had found and hired Garren. Harry now owned 25-30 apartment units which gave Garren a wide variety of new experiences. He fixed switches, garbage disposals, various plumbing mishaps, and all sorts of leaky pipes and faucets. Looking back on that time, Garren marveled at what a great learning experience it had been and wondered at the patience of Harry as he trained him in a wide variety of maintenance tasks.

As time passed, Harry realized that even though he enjoyed being at the hardware store, he no longer wanted the responsibility of owning it. So, about ten years after he had purchased it, Harry sold the store. He told the new owner that he would probably continue to be one of his best customers since he would still use the store for all his hardware needs.

### **Nothing Ever Stays the Same**

Harry had hired Garren about a year before he sold the store. During that time, Garren had learned an incredible amount about a

variety of tasks, from painting walls to installing new plumbing fixtures. He knew the hardware store well and could find exactly what he needed for his current repair job.

Soon after Harry sold the store, things started to change. First, the new owner moved the store a short distance from town to a new, beautiful, 15,000-square-foot building. In the beginning it was great. But, as the new owner grew and started opening additional stores, he “outgrew” his money supply. This shortage of cash led to less inventory in the store, so it was not as well stocked as it had once been.

Second, it was no longer what Garren considered a “real” hardware store. It was crowded with a wide variety of large and small appliances such as washers, dryers, blenders, patio furniture, and riding lawn mowers. If Garren went in for the repair of a faucet or a sink, they didn’t have the part or even the very basic, common items. When asked, the employees would say they didn’t carry it or were out of it. Garren complained, “They would let the inventory go to zero and then let it sit that way for weeks!” He remembered they would tell him, “It’s coming in on the truck,” so he would leave and then come back to pick it up only to be told, “It didn’t come in on the truck.”

It was a very frustrating period. During this time the smaller hardware store, now a tenth the size of the other one, was not much better. Since no one kept an eye on the merchandise, they might or might not have what was needed, and, if they did have the part, there was no guarantee they would have the quantity needed. Finally Garren decided it wasn’t worth the risk of going to either store, so he began spending a great deal of his time driving (30-40 minutes one way) to other towns to buy parts. This had always seemed ridiculous to him. That was when he first began to think about how nice it would be to once again have a hardware store in town that had the common, everyday things people needed for home repairs.

### **Marriage: The Early Years**

Garren had gotten married during college. He had two years left to acquire a bachelor’s degree in business, and his wife had three years left to acquire a degree in physical therapy. Once married, they purchased a home, and Garren realized, as many others had before him, that he now had bills to pay so he could no longer attend college full-time. Although he worked construction in the summers plumbing new houses, he knew

he couldn’t keep a regular 9 to 5 job in the fall since he had to work around his college schedule. That was when he started doing odd jobs and began to work for Harry as a handy man.

As college graduation drew near, Bonny and Garren were prayerfully asking the Lord what He wanted them to do with their lives. They thought about becoming student missionaries since, aside from student loans and a small house payment, they didn’t have any debt. During the placement phase they found there were no matches between their college skills and the various mission stations which currently needed missionaries. After three months of waiting to be assigned and a great deal of prayerful consideration, they decided the Lord was not pulling them towards the mission field. At loose ends but still believing that when the Lord closes a door somewhere He opens a window, they continued to ask for guidance.

It was during this time that Garren and Bonny walked by the small hardware store. Garren recalled, “It had a little ‘For Sale’ sign, like you would have to sell your car. It was in the front window. It just said ‘For Sale.’ And I looked at Bonny and said, ‘What do you think? I kind of know a little about hardware.’”

### **Opportunity Knocks**

After seeing the sign in the window of their hometown hardware store, Garren and Bonny agreed that it would be worth looking into the possibility of buying the store. As they began thinking of the possibility of store ownership, they realized that what was really important was assessing what they could bring to the community.

Harry, Garren’s boss, encouraged the couple, reminding them there was a market in the community for the types of things that ordinary people needed for ordinary household problems. He reminded Garren of his frustration over the last year of how hard it had been to find those items for simple household repairs. His advice had been simple, “Don’t abuse your 1,638 square feet. Don’t carry appliances or riding lawn mowers since others in town are already doing that. Serve the small niche in the marketplace that is not being met and you will do well.” Harry also offered to show him his books from the days when he owned his hardware store so Garren could get a sense of what he could expect in Brendan Sands given the type of merchandise he wanted to carry.

Garren liked the idea of serving those in his community, yet there was still a major obstacle standing in the way of ownership, and that was money. If the Lord was truly leading them towards this opportunity, they both knew that He would have to find the money for them. Upon talking to the owner, they found that he was done with the store and simply wanted to sell. He assured them that money wouldn't be a problem since they could buy it on a land contract over five years. After Garren looked through the balance sheet (Table 1), the projections for the next five years (Table 2), and last year's sales broken down by week and month (Table 3), he was excited. He knew that even though the town wasn't growing much, there was a profit to be made with this store and he wanted to help his community. But before he made a final decision he decided to look in the area for other possibilities.

Garren found a number of stores for sale in the surrounding two-state area. One store, which was not far from their home, was of particular interest. It was different than the one in his hometown in that it was the only hardware store in town. It was a wonderful little Ace hardware store owned for many years by a now-elderly man who had been successful but decided it was time to retire. He was willing to work with them to make sure the financing went through. He was also willing to continue working at the store and help train Garren. Similar to the other owner, he simply didn't want the headache of owning the store anymore.

Garren soon realized the Lord had presented him with two great opportunities. He was excited as he talked to his wife, saying, "It's in a small town but they are building new subdivisions all around and you could tell that it is primed for growth!" The older gentleman who owned the store knew the store just needed some younger blood to take over, but his kids didn't want anything to do with it. Garren knew that to really take off, the store needed to be relocated to the outskirts of town. Since the store didn't have any immediate competition, he realized that with this small change the store would soon be booming in sales. As Garren evaluated the store's five-year projections (Table 4) and last year's balance sheet (Table 5), he knew this was a really, really good opportunity. He went down three times to evaluate the store, assess the demographic studies, and look at the sales numbers. When he compared current sales with the projected growth for the next five years, the potential was huge.

Before a decision could be made, Bonny, a student in physical therapy, still had to finish her last six-week clinical rotation to graduate. This rotation was to be done in Hawaii. When they arrived, he noticed a hardware store advertising to hire a sales person for the plumbing aisle. He went in and inquired, knowing that no one would hire him for just six weeks. He bravely told them he wanted the job but that he could only work 9 to 4 (when he dropped off and picked up my wife), no weekends, and he was leaving in six weeks. To his surprise they said, "OK, then you can start right now!" and gave him a uniform shirt. Another door was being opened. Here was his entry into the hardware market in an actual retail environment. In the end, it was an invaluable learning experience.

### Decisions Don't Come Easy

Now, back from Hawaii, a decision needed to be made, but there were still two ethical issues with which Garren and Bonny had to come to terms. First, could they continue to be good Christians and own a business, and second, could they maintain the store's hours and still keep the Sabbath? As Christians, they had been raised hearing the debate over the dilemma of "business ownership and being a good Christian" all of their lives, so they had been discussing this issue for quite some time and thought they had it resolved.

*... could they maintain the store's hours and still keep the Sabbath?*

The other issue was a bit harder. As Seventh-Day Adventist Christians, Garren and Bonny worshipped on Saturday, which meant that they did not work from Friday night sundown until Saturday night sundown. This would mean either store purchased would be closed on Friday night and Saturday.

**Table 1**  
**Brendan Sands Hardware Balance Sheet (December 31)**

ASSETS

Current Assets

Cash in Bank	\$ 8,000	
Inventory	<u>60,000</u>	
Total Current Assets		\$68,000

Property and Equipment

Furniture, Fixtures, Equipment		10,300
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Other Assets

Investment in Hardware Wholesalers, Inc.		<u>1,000</u>
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Total Assets		<u>\$79,300</u>
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LIABILITIES AND CAPITAL

Current Liabilities

Notes Payable - Bank (current portion)	\$ 8,008	
Land Contract (current portion)	<u>5,700</u>	\$13,708

Long Term Indebtedness

Notes Payable - Bank	\$21,992	
Land Contract	<u>7,800</u>	<u>29,792</u>
Total Liabilities		\$43,500

Capital, Owner Equity		<u>35,800</u>
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Total Liabilities and Capital		<u>\$79,300</u>
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**Table 2**  
**Five-Year Projections: Brendan Sands Hardware (Michigan)**

Note: This assumes a sales area of 1,638 square feet. Also, these figures are, at least, an estimate of what could take place at this store. As you are aware, there are many variables such as the degree of competitiveness in the market, the local economy, the correct suppliers, etc., which could change these projections.

	<u>Full</u> <u>1st Yr.</u>	<u>2nd Yr.</u>	<u>3rd Yr.</u>	<u>4th Yr.</u>	<u>5th Yr.</u>
<b>Projected Sales</b>	115,000	131,000	147,000	155,000	165,000
Cost of Sales	<u>72,500</u>	<u>81,220</u>	<u>89,670</u>	<u>93,775</u>	<u>99,000</u>
Gross Margin	42,500	49,780	57,330	61,225	66,000

**Est. Operating**

**Expenses**

Occupancy	7,000	7,000	7,000	7,000	7,000
Payroll	22,000	25,000	28,000	29,000	31,000
General	<u>10,000</u>	<u>12,000</u>	<u>13,000</u>	<u>14,000</u>	<u>15,000</u>
	39,000	44,000	48,000	50,000	53,000

**Operating**

**Profit/Loss**

Operating Profit/Loss	3,500	5,780	9,330	11,225	13,000
	3.04%	4.4%	6.35%	7.24%	7.88%
HWI Rebate*	6,525	7,310	8,070	8,440	8,910
Other Income**	5,000	5,250	5,513	5,788	6,078
Net Opportunity (before taxes)	15,125	18,340	22,913	25,453	27,988
Profit	13.07%	14%	15.59%	16.42%	16.96%

\*HWI Rebate (Hardware Wholesalers, Inc.): Once the store invests in the wholesaler, all purchases made through the wholesaler receive a 9% rebate.

\*\*Other Income – Store had a small office space attached which could be rented out.

**Table 3****Brendan Sands Hardware Sales (Monthly)**

January	\$3,167.75	July	\$4,677.28
February	2,420.56	August	5,243.86
March	3,055.63	September	4,368.25
April	3,705.87	October	3,626.69
May	4,350.68	November	3,997.50
June*	5,472.93	December	3,479.11

Yearly Sales: \$47,566.11

**Brendan Sands Hardware Sales – June\*\* (Weekly/Daily)**

<u>June*</u>	<u>Wk 1 Sales</u>	<u>Wk 2 Sales</u>	<u>Wk 3 Sales</u>	<u>Wk 4 Sales</u>
Tuesday	\$220.38	\$154.20	\$200.69	\$163.09
Wednesday	301.61	214.37	205.31	195.10
Thursday	286.45	253.41	215.38	206.09
Friday	336.48	293.30	250.62	299.10
Saturday	537.51	412.41	332.04	395.39
	\$1,682.43	\$1,327.69	\$1,204.04	\$1,258.77

**Total June Sales = 5,472.93**

\*These are the sales figures for the last full year before the business went on the market.

\*\*Store is closed Sunday and Monday.

**Table 4****Five-Year Projections: New Carlton Hardware (Indiana)**

Note: This assumes the sales area is 2,000 square feet and inflation is at 5.00% after the first year. These figures are, at least, an estimate of what could take place at this store. As you are aware, there are many variables such as the degree of competitiveness in the market, the local economy, the correct suppliers, etc., which could change these projections.

	<u>Full</u> <u>1st Yr.</u>	<u>2nd Yr.</u>	<u>3rd Yr.</u>	<u>4th Yr.</u>	<u>5th Yr.</u>
<b>Projected Sales</b>	120,000	138,000	151,800	166,980	183,678
Cost of Sales	<u>78,000</u>	<u>86,940</u>	<u>92,598</u>	<u>100,188</u>	<u>110,207</u>
Gross Margin	42,000	51,060	59,202	66,792	73,471

**Est. Operating****Expenses**

Occupancy	7,700	7,785	7,875	7,968	8,066
Payroll	22,500	25,625	28,056	30,724	33,651
General	<u>16,939</u>	<u>16,716</u>	<u>16,427</u>	<u>16,187</u>	<u>16,023</u>
	47,139	50,126	52,358	54,879	57,740

**Operating****Profit/Loss**

Operating Profit/Loss	-5,139	934	6,844	11,913	15,731
	-4.28%	.68%	4.51%	7.13%	8.56%
HWI Rebate*	7,020	7,825	8,334	9,017	9,919
Other Income**	5,000	5,250	5,513	5,788	6,078
Net Opportunity (before taxes)	6,881	14,009	20,691	26,718	31,728
Profit	5.73%	10.15%	13.63%	16%	17.27%

\*HWI Rebate (Hardware Wholesalers, Inc.): Once the store invests in the wholesaler, all purchases made through the wholesaler receive a 9% rebate.

\*\*Other Income – Store had a small office space attached which was being rented out.

**Table 5**  
**New Carlton Hardware Balance Sheet (December 31)**

<u>ASSETS</u>		
<u>Current Assets</u>		
Cash in Bank	\$ 8,000	
Inventory	<u>65,000</u>	
Total Current Assets		\$73,000
<u>Property and Equipment</u>		
Furniture, Fixtures, Equipment		12,000
<u>Other Assets</u>		
Investment in Hardware Wholesalers, Inc.	<u>1,000</u>	
Total Assets		<u>\$86,000</u>
<u>LIABILITIES AND CAPITAL</u>		
<u>Current Liabilities</u>		
Notes Payable - Bank (current portion)	\$ 9,450	
Land Contract (current portion)	<u>6,575</u>	\$16,025
<u>Long Term Indebtedness</u>		
Notes Payable - Bank	\$25,550	
Land Contract	<u>8,425</u>	<u>33,975</u>
Total Liabilities		\$50,000
<u>Capital, Owner Equity</u>		<u>36,000</u>
Total Liabilities and Capital		<u>\$86,000</u>

For some businesses this might not have been much of an issue, but they knew the hardware industry was a Saturday business. For both large and small stores, the whole industry was geared around Saturday. The large hardware stores like Home Depot, Lowe's, and Menard's all had large Saturday sales. Sundays were also big days but usually consisted of more afternoon sales so, overall, Sundays only did half the business of Saturdays. The rationale was that most people went to church or had other activities planned. Since sales were slower, stores usually closed earlier on Sundays – such as 6 p.m. as opposed to 8 p.m. or 9 p.m. on Saturdays. This held true for most local businesses in both towns as well.

Currently, both stores Garren and Bonny were considering were closed on Sundays, with the Brendan Sands store also closed on Mondays and the New Carlton store open Monday through Saturday. Given this store schedule, Garren evaluated the sales charts of the Indiana store. They indicated that across the board, Saturdays were huge. It was found that for both stores Saturdays were their biggest day. For the New Carlton store, Saturday sales were nearly 80% of weekly sales. The Indiana owner had verified this himself by stating many times that “Saturdays were huge,” “On Saturdays the store was just packed,” and “People are off and are in the store on Saturdays.”

All of this meant that as Christians, wanting to witness for the Lord in all that they did, should Garren and Bonny buy a hardware store knowing the people were expecting it to be open on Saturday? Garren knew they had two options in either location they chose. They could either 1) maintain steady sales by continuing to keep the store open on Saturday for the convenience of their customers, or 2) based on their religious beliefs, only open Sunday through Friday, closing on Saturdays, knowing from the beginning that this would be a huge inconvenience for their customers as well as a danger to their success.

Buying either hardware store was a big decision, and Garren found himself asking Bonny if realistically she thought they could succeed in buying either store, since they were basically choosing to come into a town, buy the only hardware store for miles around which would carry the items that were truly needed for home repairs, and then promptly close it down on the biggest day of the week for doing home repairs. Sitting there at his kitchen table and looking at it for the first time from that perspective, Garren realized that if he bought either store and

decided to close it on Saturdays it would only be because of the Lord's power that he could/would survive in the hardware business. This brought him up short but, once he recognized the truth of what it would take to make it in the hardware business, he picked up his notepad, looked at his wife and said, "I have made a decision and you might be surprised at what I have decided to do!"

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