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Shanghai DC lifts Ace's prospects

By Andrew M. Carlo

Nearly three years ago, Ace Hardware sized up its international business and realized it wasn't quite firing on all cylinders.

Some things were working well — such as recruitment of new dealers overseas. But the company determined it could do more to boost the sales of all of its international dealers. Through planning, investing and a dose of deconsolidation, Ace has managed to turn the tide. The key has been Ace's new Shanghai distribution center, which opened in China last August and is providing a major lift to foreign-dealer sales.

PHOTOS COURTESY ACE HARDWARE

"We had reached a point where we were adding stores, but we were not actually growing the business," said Murray Armstrong, president and general manager of Ace International.

A major hurdle for international growth was the fact that Ace dealers abroad were buying some products that were coming from outside of the United States and outside of Ace. As a result, the co-op was missing out on significant dollars by losing out on sales to its own dealers. Compounding the situation, products sold through the United States were not meeting international requirements, including voltage codes for electrical products, which are completely different from codes in the United States.

"We decided we could add stores internationally and take our retail concept overseas, but we needed to grow the product opportunity," Armstrong explained to HCN.

ACE OVERSEAS Ace has found a new way to serve its international dealers since opening its global distribution facility (left) in Shanghai last August. Products are bought, deconsolidated and reconsolidated by Ace into 20- and 40-foot container shipments (above) sent to individual countries rather than individual dealers.

Ace has since developed new relations with Chinese manufacturers, resulting in private label and generic branded products intended specifically for overseas dealer-members. Ace has control over the manufacturing process — which products are produced, including hand tools, and how the products are specifically assembled. "We felt the best to have it done was to do it ourselves. We control the process, and we're able to carry it all the way through to our retailers," Armstrong said.

The company nailed down the opportunity by opening a buying office in Shanghai, followed by the opening of the adjacent 55,000-square-foot distribution facility. Products are now bought specifically for each of the countries Ace serves and then shipped directly to the international retailer. Outside the United States, Ace serves 140 retailers in 70 countries, with its biggest dealer being SACO, the 14-unit retailer in Saudi Arabia.

The packaging process for retailers has also been revamped since the opening of the Shanghai facility. Products are

Ace has contracted a third party to manage the Shanghai location, with the agreement that that warehouse can be expanded when additional size is needed.

"I foresee it growing very rapidly in the near future," Armstrong said.

The next step for Ace's international business is an exchange of products between the United States and China as more American-made products are exported overseas and delivered to the Chinese market. Essentially, Shanghai will become a portal for products flowing in both directions between nations.

"We are looking at the opportunity for this facility to export and import products into China for distribution and not only for Ace stores," Armstrong said. "We feel that there is a tremendous opportunity in China for American-made products to be sold into that market."

Regarding the recruitment of new international dealers for Ace's international business, Armstrong noted that it will be business as usual when it comes to scouting retailers.

"Our recruitment is based on looking for the best retailer in a country and trying to solicit their business. It's more of a quality issue, rather than just adding retailers," Armstrong said. "We want the best."

"We control the process, and we're able to carry it all the way through to our retailers."

Murray Armstrong,
president and general manager,
Ace International

bought, deconsolidated and reconsolidated into 20- and 40-foot container shipments to individual countries rather than individual dealers, marking a "whole new way of doing business" for Ace, Armstrong said.

"We had deconsolidated products before but not on this level," he said.

Dealers can now order products whenever they want in the quantities they choose. In turn, Ace has embraced recent converts to the co-op who have made their decision to switch buying group sides specifically because of the new shipping initiative.

While Ace's larger international dealers can handle large container shipments, that was not the case for smaller dealers. In the old days, a container with too much of a single product could mean six months of merchandise in some categories — merchandise that was not going to be moved very quickly.

"A container load of hand tools is a hell of a lot of hand tools," Armstrong said. "Now by bringing it into a warehouse we are able to ship smaller quantities and much more manageable quantities at the advantageous price that China can offer."

The new shipping method allows dealers to avoid additional costs in the supply chain, which occurred when products were imported from the United States and re-shipped in smaller quantities.

The Shanghai center is predominantly handling private label and generic branded products in a 60-40 percent split. But Ace is in negotiations with several major brands that could be added to the mix.