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TOOL TRENDS:

HOUSING BOOM, EXPANSION OF DIY RETAILERS PUSH MARKET GROWTH

The tool market is poised for strong growth in the coming years, fueled by an increase in new construction and remodeling, as well as aggressive expansion of home-improvement retailers. Competition for market share is pushing companies to offer more features and products at competitive prices. As a result, some manufacturers are cutting costs by moving production overseas.

Home Spending Boosts Tool Sales

It's hard to deny that home improvement is America's new favorite pastime. Our television channels are filled with home-improvement shows, our malls are filled with home-improvement retailers and our weekends are filled with home-improvement projects. Spending on home improvements rose 52 percent to \$233 billion in 2003 from \$153 billion in 1995, according to a 2005 report by Harvard's Joint Center for Housing Studies. The study found that households with incomes of \$120,000 and up were the primary drivers of home improvement, responsible for 60 percent of the growth in remodeling spending since 1995.

This interest in housing and remodeling has been great news for tool manufacturers. Hand and power tool sales reached \$20 billion in 2003, which represents about 10 percent of overall hardware sales in North America, according to the National Retail Hardware Association (NRHA). The wrench and pliers market is sharing the steady growth of the hardware industry; North American sales of wrenches and piers were \$1.5 billion in 2003.

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And this growth is expected to continue. The net tool market in the United States is forecasted to increase nearly 5 percent annually to \$15.4 billion in 2007, according to the Freedonia Group Inc., a Cleveland-based industrial market research firm. U.S. sales of hand tools alone are expected to reach \$5.9 billion in 2007.

The Freedonia Group's Power & Hand Tool study says the demand for tools will come from an increase in residential repair expenditures, continued growth in new construction and rising manufacturing output. Professional users in areas such as construction, vehicle repair and manufacturing make up 69 percent of the overall tool demand.

The aggressive expansion of DIY retailers also has played a large role in U.S. tool market growth, according to a 2004 report by the Mintel International Group, a market research firm. Mintel reports an overlap in the DIY and professional power tool markets, with serious home-improvement enthusiasts purchasing professional-grade tools and professionals sometimes choosing DIY-grade tools. Mintel forecasts that a real estate slowdown would reduce the purchase power of professional users, yet the do-it-yourself market would continue higher relative growth.

Competition: More Products, Features, Sales Outlets

And as the tool market grows, so does the competition for market share. To fight for shelf space and consumer attention at retailers, tool companies are adding more features to their products, without substantial price increases. Tool manufacturers are able to bring new ideas to market in record speed due to improvements in design and manufacturing technology. As a result, tools today are more comfortable, easier to use, efficient and safe -- resulting in greater productivity, higher quality work and less stress on the body. To differentiate themselves, some manufacturers offer tools with multiple functions and lifetime warranties.

Today's consumer also has more places to purchase tools. Of the \$12.1 billion tools sold in the United States in 2002, most were sold through distributors (\$6.15 billion) and home improvement centers (\$3 billion). In home centers, the ratio of products to sales staff is smaller so tools must sell themselves from the shelf. More than ever, customers depend on a product's presentation and features to make purchasing decisions.

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Distributors, or independent tool stores, have been a preferred source for professionals because they offer value-added services, such as professional-grade inventories, expert sales staff, on-site tool repair and deliveries. But home-improvement retailers are anxious to make inroads in the lucrative professional market. They not only stock professional-grade tools, but are adding other services modeled after professional tool stores.

Manufacturing Moves Overseas

Rapid expansion of home-improvement retailers has heightened price competition among manufacturers, causing them to emphasize innovation and to shift production to lower cost countries, such as China, India and Mexico, according to Mintel. Imports have increased sharply since 1997, at a 12.3 percent average annual rate, according to a 2001 report by Business Trend Analysts of Commack, N.Y. China produced 32.3 percent of all imported tools in 2000, followed by Japan at 15.5 percent, Taiwan at 14.3 percent, Mexico at 8.7 percent and Germany at 7.6 percent.

Looking Ahead

With the exception of overseas manufacturing, the changes ahead will benefit the U.S. tool consumer: more tools, more features, more places to purchase them. Cost is expected to drive the design process more than ever. As prices level, tool producers will turn to more creative retailing and marketing techniques. Expect tool distributors and retailers to cater to professional and DIY customers alike with more value-added services.

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