

Market Briefing

2016 Issue 5 News from the month of April 2016



BOSCH
Invented for life

Bosch

Dremel

Skil

RotoZip

Vermont American

CST/berger

David White

freud

Sia

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Robert Bosch Tool
Corporation

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60056 USA

www.boschtools.com

U.S. ECONOMY

EXCHANGE RATES APRIL 29, 2016

Euro	1 Euro = \$1.144	\$1.00 = 0.874 Euros
Canadian Dollar	1 CAD = \$0.797	\$1.00 = 1.255 CAD
Japanese Yen	1 Yen = \$0.009	\$1.00 = 106.892 Yen
Chinese Yuan	1 Yuan = \$0.154	\$1.00 = 6.472 Yuan
Mexican Peso	1 Peso = \$0.058	\$1.00 = 17.189 Pesos

MARKET WATCH

DOW	17,775	0.5%
NASDAQ	4,775	-1.9%
S&P 500	2,066	0.3%

Big gains mid-month were erased by weak corporate earnings, leaving the market moving in a narrow range for the month. The DOW gained 0.5% to close at 17,775, the NASDAQ fell 1.9% to 4,775 and the S&P, the index most closely followed by economists, rose 0.3% to close at 2,066.

CONSUMER CONFIDENCE FALLS TO 94.2

The New-York based Conference Board's Consumer Confidence Index fell to 94.2 in April after rising to a slightly downwardly revised 96.2 in March. The Present Situation Index rose to 116.4 from an upwardly revised 114.9. The Expectations Index dropped to 79.3 in April from a downwardly revised 83.6 in March. The Conference Board said that, on balance, consumers are cautious but not pessimistic and don't think the economy is going to get worse. Economists say a level of 90 indicates that the economy is on solid footing and a level of 100 or more indicates growth. Analysts caution that the real driver behind consumer spending is income growth and that labor market trends are a more accurate predictor of consumer behavior.

CONSUMER SPENDING RISES 0.1%

Consumer spending rose 0.1% in March after falling 0.1% in February. Incomes rose a solid 0.4%. Consum-

er spending has slowed for three straight quarters, and fell to a 2.1% annual rate in the first three months of 2016. When adjusted for inflation, consumer spending was unchanged after increasing an upwardly revised 0.3% in February. Core PCE prices, which exclude food and energy prices, rose 0.1% in March after rising by 0.2% in February. Labor costs rose 1.9% in the 12 months through March, well below the 3% threshold that economists say is needed to bring inflation closer to the Fed's inflation target. Spending on services also rose 0.1%, while spending on goods rose 0.2%. Personal income increased 0.4% to \$57.4 billion in March, up from a 0.1% gain in February. Outlays for non-durable goods, which include gasoline, rose 0.7% in March. It was the slowest rate of increase in two years. Economists expect consumer spending to rebound in the second quarter as wages steadily increase. Consumer spending is closely watched by economists because it accounts for 70% of U.S. economic activity.

CONSUMER PRICES RISE 0.1%

The Consumer Price Index (CPI) rose 0.1% in March after falling 0.2% in February. In the 12 months through March the CPI increased just 0.9%. Core prices, which strip out volatile food and energy costs, rose 0.1% in March after increasing 0.3% in February. In the 12 months through March core inflation was up 2.2%. Falling energy prices and the strong dollar are primarily responsible for holding down inflation. Wells Fargo believes that greater stability in commodity prices in recent weeks should help inflation rebound in the coming months, with overall CPI reaching 1.9% in the fourth quarter and the core CPI continuing to run above 2.0%.

UNEMPLOYMENT STEADY AT 5%

The unemployment rate remained at 5% in April, but hiring slowed, with employers adding just 160,000 jobs, the fewest in seven months and job gains for March and February were revised lower by a combined 19,000, although they remained healthy at 233,000 and 208,000, respectively. Average hourly pay rose 2.5% in April from a year earlier, above the sluggish 2% annual pace that has been typical for the past six years. Job growth fell sharply in retail, construction and government, and remained weak in manufacturing. Retailers shed 3,100 jobs, down from an average gain of 52,500 in the first three months of

the year. Construction hiring slipped to 1,000 from an average gain of 24,000, and government shed 11,000 after adding an average of 16,000 jobs per month in the first quarter. Unseasonably cool weather in the Northeast may have delayed shopping for summer clothes, causing stores to cut workers. Job gains in higher-paid industries, such as management consulting and computer systems, picked up from March. Growth has sagged in the past six months as slower economies overseas and a stronger dollar cut into U.S. exports of factory goods. Low oil and gas prices have also caused energy companies to sharply curtail the construction of new rigs, lowering overall business spending.

DURABLE GOODS ORDERS RISE 0.8%

New orders for durable goods rose 0.8% in March after falling a downwardly revised 3.1% in February. The increase was less than expected as demand for automobiles, computers and electrical goods slumped. Orders for non-defense capital goods excluding aircraft, a category that serves as a proxy for business investment spending, were unchanged after dropping a downwardly revised 2.7% in February. Shipments of core capital goods, which factor into GDP calculations for business spending, rose 0.3% after slipping a downwardly revised 1.8% in February. Over the first three months of the year overall orders for durable goods are up 1.4% compared to the first quarter of 2015. The durable goods report is often both volatile and subject to sharp revisions. Oxford Economics expects that the headwinds that are constraining growth, including the strong dollar, weak foreign demand, bloated inventories and low oil prices, will remain for much of the year and limit real GDP growth this year.

CHICAGO PMI FALLS TO 50.4

The Chicago PMI fell 3.2 points to 50.4 in April after rising to 53.6 in March. The decline was led by a big drop in New Orders and Order Backlogs. Only Production and Supplier Deliveries posted increases for the month. Inventories increased to the highest level since October 2015 but remained in contraction for the sixth consecutive month. Employment retreated back into negative territory after rising to the highest level since April 2015 in March. Chief Economist of MNI Indicators Philip Uglow said the report was a disappointing start to the second quarter.

WHOLESALE PRICES FALL 0.1%

The Producer Price Index (PPI) fell 0.1% in March after falling 0.2% in February and was down 0.1% year-over-year. The core PPI, which excludes food, energy and trade services, fell 0.1% after being unchanged in February and was up 1.0% from March 2015. The overall decline was due to an unexpected 0.2% drop in the price of services, which account for roughly two-thirds of the overall index. It was the first decline in that category since October 2015. Economists had expected the overall PPI to increase. The PPI for inputs to construction rose 0.3% in March after falling 0.1% in February but was down 3.4% from March 2015.

Q1 GDP RISES 0.5%

GDP grew just 0.5% in the first quarter, the weakest pace of growth in two years and slightly below expectations of 0.7% growth. GDP grew 1.4% in the fourth quarter. Consumer spending, which accounts for about 70% of economic activity, grew 1.9% in the first quarter, down from 2.4% in the fourth quarter and the weakest showing in a year. Business investment dropped 5.9%, the biggest quarterly drop since the height of the recession in 2009. The decline was led by a record 86% plunge in the category that covers oil and gas exploration, due to the fact that U.S. energy companies have cut back sharply in response to falling global oil prices. Businesses also responded to weaker spending by ordering fewer goods; inventory grew by \$60.9 billion, down from \$78.3 billion in the fourth quarter of 2015. However, since the recovery began nearly seven years ago, GDP has been weak in the first quarter of each year, averaging 0.8%, and has then rebounded in the spring, with second quarter growth averaging 3.1%. Economists are expecting a similar pattern this year, forecasting second quarter growth of around 2.8%.

JOB OPENINGS RISE

There were 5.4 million job openings in February, down from 5.5 million in January, according to the latest Job Openings and Labor Turnover Survey, or JOLTS report. Economists had forecast 5.5 million openings. The report also showed that hires increased to 5.4 million, while separations were little changed at 5.1 million. The quits rate was 2.1%, up from January's 2.0%. In the 12 months through February, the economy created a net 2.7 million

jobs, representing 62.1 million hires and 59.4 million separations. Economists say that while the monthly swings in job openings can be wide, the level of openings seems to have stabilized, although it remains extremely high. The Fed regards the rebounding quits rate as an indication that workers are confident about their job opportunities, and increasing hires indicate that businesses are confident about demand forecasts. However, strengthening employment also means the Fed is more open to considering interest rate increases, thus far delayed by global growth concerns. The JOLTS report is one of Fed Chair Janet Yellen's preferred economic indicators.

FED LEAVES RATES UNCHANGED

The Fed decided to leave the federal funds target rate unchanged at their April FOMC meeting, and plans to continue to evaluate incoming data for greater conviction on where the U.S. economy is headed. The Fed downgraded their assessment of the economy, noting that growth in household spending moderated, and softness in business fixed investment and net exports continued. The Fed highlighted continual improvement in the labor market as well as solid gains in households' real income. Analysts noted that both acknowledgments indicate that the Fed believes consumer spending growth may pick up and help lead to a rebound of GDP growth in the second quarter. Inflation continues to run below the Fed's 2% target, and the committee reiterated that they need to see both real and expected progress. Analysts noted that the statement did not remove the possibility of a June rate hike, which may depend on the data over the next two months.

WHY GAS PRICES AREN'T BOOSTING CONSUMER SPENDING

It may take more than one year of low gas prices before consumers start to feel the change is "permanent" and relax about how they use the money they're saving, according to a recent study by the Federal Reserve Bank of San Francisco that called the expected boost from cheap oil "elusive." The economic study went on to say that consumers won't start spending their gas savings until they're convinced lower prices are here to stay. Meanwhile, they're saving what they don't spend at the pump.

HOUSING & CONSTRUCTION

HOUSING STARTS FALL 8.8%

Housing starts fell 8.8% in March to a seasonally adjusted annual rate of 1.089 million units after rising to 1.178 million units in February. **Single-family starts fell 9.2%** to 764,000 units after jumping to 822,000 units in February, which had been the highest level since November 2007. Multifamily starts dropped 8.5% to 312,000 units after rising 356,000 units in February. **Regional starts were mixed.** Starts fell 25.4% in the Midwest, 15.7% in the West and 8.4% in the South. Starts rose 61.3% in the Northeast. Builders continue to be plagued by a shortage of lots and skilled labor. Wells Fargo expects starts to gain momentum throughout the year, ending 2016 up 11% to 1.2 million units and reaching 1.25 million units in 2017.

BUILDING PERMITS FALL 7.7%

Building permits fell 7.7% in March to a seasonally adjusted annual level of 1.09 million after falling to 1.17 million in February. **Single-family permits fell 1.2%** to 727,000 units after falling to 731,000 units in February. Multifamily permits dropped 20.5% to 359,000 units after falling to 436,000 units in February. **Permits fell in all regions**, dropping 17.9% in the Northeast, 3.1% in the Midwest, 3.2% in the South and 15.4% in the West. Permits have been above the one million level for eleven consecutive months, the longest stretch in seven years.

NEW-HOME SALES FALL 1.5%

Sales of new single-family homes fell 1.5% in March to a seasonally adjusted annual rate of 511,000 units from an upwardly revised reading in February. January sales were also revised up. The inventory of new homes for sale rose to 246,000 homes, a 5.8-month supply at the current sales pace. The increase in inventory suggests that builders are adding inventory in anticipation of future business, according to the NAHB. **Regional sales were mixed.** Sales were flat in the Northeast. Sales rose 18.5% in the Midwest and 5% in the South, and fell 23.6% in the West. Sales of new homes are tabulated when contracts are signed and are considered a more timely barometer of the

housing market than purchases of previously-owned homes, which are calculated when a contract closes.

EXISTING HOME SALES RISE 5.1%

Existing home sales rose 5.1% in March to a seasonally adjusted annual rate of 5.33 million homes after falling to a downwardly revised 5.07 million in February. Sales were 1.5% higher than in March 2015. **Single-family home sales rose 5.5%** to a seasonally adjusted annual rate of 4.76 million in March after falling to 4.51 million in February. Sales were 2.6% higher than in March 2015. Total housing inventory at the end of March increased 5.9% to 1.98 million existing homes, but is still 1.5% lower than it was in March 2015. Unsold inventory rose to a 4.5-month supply after rising to a 4.4-month supply in February. **Sales were up in all regions**, rising 11.1% in the Northeast, 9.8% in the Midwest, 2.7% in the South and 1.8% in the West.

BUILDER CONFIDENCE STEADY

Builder confidence was unchanged in April after holding steady at 58 in March. It was the fourteenth consecutive month the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) remained above 50. The component measuring sales expectations for the next six months rose one point to 62, still well off its cycle-high of 75 reached in October 2015. The component gauging current sales conditions fell two points to 63 and the component charting buyer traffic increased one point to 44. Looking at the three-month moving averages for regional HMI scores, all four regions suffered slight declines, with the Northeast falling two points to 44, the West falling two points to 67, the Midwest dropping one point to 57 and the South falling one point to 58.

REMODELING INDEX FALLS TO 54

The Remodeling Market Index (RMI) fell four points to 54 in the first quarter but remained positive. An RMI above 50 indicates that more remodelers report market activity is higher compared to the previous quarter than report it is lower. Among its four components, calls for bids dropped from 58 to 51, work committed fell to 52 from 57 and appointments for proposals dropped to 52 from 60. The backlog of remodeling jobs dropped three

points to 58 after hitting a new high of 61 in the last quarter of 2015.

MORTGAGE RATES FALL SLIGHTLY

Freddie Mac reported that the average interest rate on a 30-year fixed rate mortgage (FRM) fell to 3.66% at the end of April after rising to 3.71% at the end of March. At the end of April 2015 mortgage rates averaged 3.68%. Freddie Mac expects mortgage rates to rise to 4.7% by the end of the fourth quarter of 2016. Rates may fall further in response to the Fed's decision to leave interest rates unchanged at their April meeting.

POWER TOOL INDUSTRY

ROBERT BOSCH

Robert Bosch CFO Stefan Asenkerschbaumer said that Bosch's reported 2015 revenue of EUR 70.6 billion makes Bosch the supplier with the highest revenue in the world. He also noted that Bosch is no longer a classic supplier, but is changing into an IT group, whose major investments will go to projects connected to digitalization and networking. Their goal is for each electronic product to be Internet compatible.

STANLEY BLACK & DECKER

Q1 revenues rose 2% to \$2.7 billion, driven by a 5% increase in organic growth. Positive volume of 4% and a 1% increase in price more than offset the 3% negative effect of currency.

Net sales in Tools & Storage rose 4%, with volume up 7% and price up 1%, offsetting a 4% negative impact from currency. Favorable weather conditions in much of the U.S. contributed approximately one to two points to growth for Tools & Storage in the quarter. Tools & Storage delivered 8% organic growth for the quarter despite difficult comps and slower industrial end markets.

Net sales in Security dropped 1% and net sales in Industrial dropped 5%.

SB&D raised their guidance for the year, and now expects organic growth between 3% and 4% compared to previous forecasts of 3% growth. They attributed the increase in guidance to stronger organic growth within Tools & Storage and lower than expected headwinds from foreign currency. Positives are expected to more than offset slightly higher than planned expenses relating to a major Tools & Storage launch in the second half of 2016.

From their Q1 Conference Call with Analysts:

All global markets were up for the quarter, with the U.S. up 6%, Europe up 3%, the total emerging market group up 3%, led by global Tools and Storage, and the rest of the world up 1%.

Total Tools revenue growth was 4% after allowing for a 4% negative impact from currency. North America led the way with revenue growth of 10%.

Within Global Tools & Storage, Power Tools posted 10% organic growth with their underlying product lines: professional, consumer and accessories, which each individually generated 10% growth. Hand Tools & Storage grew 5% organically.

They are preparing for a major new power tool rollout in the second half of the year that will be a breakthrough innovation.

They typically have an outflow of cash in the first quarter because Tools & Storage inventory levels rise so they can make sure they are prepared for second and third quarter demand.

Profitability for Tools & Storage overall moved to modestly positive from flat for the year. First quarter performance in Tools & Storage got a boost from an unusually mild winter in the Northeast; they expect growth will be closer to 6% to 6.5% going forward.

Brands do well online. The Black & Decker brand for DIY users is extremely popular, but the real driver is DeWalt, the brand targeted at Pros. They promote DeWalt because prior to the merger DeWalt was not available

online. DeWalt is their single biggest dollar contributor to the online business.

A couple of years ago they did a complete refresh of the Black & Decker business because it had lost its identity and gotten stale. During the refresh they tried to bring a millennial focus to Black & Decker, and added lifestyle elements related to the millennial population, as well as Ecosmart features, which include the sustainability of some of the products and packaging. Since then the B&D brand has made a lot of progress and become the choice of this up and coming demographic. That's why they think Black & Decker has tremendous potential for the medium to long term as the generational shift continues.

Other News:

DeWalt introduced an android smartphone designed for the construction industry in the U.K. They teamed up with Global Mobile Communications, the U.K. leader in rugged phone technology. The phone is dustproof, waterproof and weatherproof and can withstand a two-metre drop onto solid concrete. It works with gloves on, and has a rear camera and a battery that provides seven to eight hours of talk time and wireless Qi charging. The MD501 is about \$615 in U.S. currency.

NEWELL BRANDS

Newell Brand's Q1 sales increased 4.0% to \$1.31 billion. Core sales grew 5.6%, with growth in all five segments and all four regions. NB expects core sales growth for this year to range between 3% and 4%.

Tools net sales declined 0.4% to \$179.7 million, driven by a 440 basis point negative impact due to foreign currency. **Core sales grew 4%** with strong growth in North America, Europe and Asia Pacific partially offset by continued weakness in Brazil.

Newell said it plans to offload a number of businesses with annual revenue of \$250 million to \$300 million in the next two to three years, the majority of which will be from the Jarden portfolio. The Jarden acquisition added about 120 brands to Newell's portfolio, including Sunbeam appliances, Yankee Candle and Crock-Pot cookware.

Newell Rubbermaid closed their deal to acquire Jarden and changed their corporate name to Newell Brands in mid-April. Newell Brands will be under the direction of former Newell Rubbermaid CEO Michael Polk. The company is anticipating incremental annualized cost synergies of about \$500 million over four years. The acquisition is expected to immediately add to the bottom line.

NB has hired Cohn & Wolfe to support the transformation of their public relations. Edelman remains the company's corporate PR firm; Cohn and Wolf is taking over PR duties previously handled by Newell's ad agency BBH. Global VP of marketing operations, Jen Hogan, said that hiring a specialist PR agency will allow them to take a more sophisticated approach to public relations. Public relations for individual brands will still be handled by in-house teams. The new agency has a presence in almost all of the 17 countries NB plans to market in. Some brands will be launching outside the U.S. for the first time.

TTI/TECHTRONIC INDUSTRIES

Milwaukee Tool wants to double the size of their headquarters in Brookfield, Wisconsin. The \$33 million project would be funded in part by \$6 million in tax incremental financing from the City of Brookfield. Milwaukee is also asking for additional tax benefits from The Wisconsin Economic Development Corp.

Milwaukee has more than tripled their workforce at the Brookfield campus since 2009. There are now more than 700 employees on site, and expansion plans would add 300 to 500 more in the next five years. Plans call for a four-story, 200,000-square-foot building.

President Steve Richman joined Milwaukee Tool in 2007, two years after the company was acquired by TTI. Richman recently gave an in-depth interview to *Milwaukee Biz Times*, and told them that when he took over, the company was very internally focused; since then they have changed their focus to the needs of their target customers, professionals. Richman said the process they use of disruptive innovation extends from products throughout the organization. At the time he took over Milwaukee made corded power tools and had few accessories, no

hand tools and a 3% share for cordless tools in North America.

From 2005 through 2015, Milwaukee was issued 327 patents, and has been assigned 9 patents through the first 50 days of 2016, including one for a tablet case that uses a power tool battery.

Richman said their culture is focused on high expectations, rewards performance and values collaboration above all else in order to innovate at the speed they expect. They rely heavily on input from their users.

Milwaukee Tool is now on its eighth generation of lithium technology for batteries. The teams have a rapid prototyping center at their disposal in the building, with a goal of improving speed to market. One of the goals of the renovation of their headquarters is to give the advanced concept development teams more room.

Milwaukee has recently expanded into lighting, and Richman told *Biz Times* that the company has plans for other product lines he couldn't discuss.

TRIMBLE

Trimble's Q1 revenue of \$583 million was flat as compared to the first quarter of 2015. Engineering and Construction revenue was up 4% to \$309.8 million.

RETAIL

RETAIL SALES FALL 0.3%

Retail sales fell 0.3% in March and February sales were revised from down 0.1% to flat. Retail sales have been flat or down in four out of the past five months. Core retail sales, which exclude automobiles, gasoline, building materials and food services, rose 0.1% after rising by 0.1% in February. Sales at building materials and garden equipment stores rose 1.4% compared to February and were up 11% year-over-year. Economists had expected core retail sales to rise 0.3%. Analysts say that consumers appear to be using savings generated by cheap gasoline to

pay down debt and build up bank accounts. The personal savings rate in the first quarter of the year was the highest since the end of 2012. Faltering consumer spending is a real drag on the economy, and poor retail sales are clouding economic forecasts for the rest of the year. Analysts had expected core retail sales to rise 0.3%. Retail sales account for about one-third of all spending, with services making up the other two-thirds.

ADOBE LAUNCHES DIGITAL PRICE INDEX

Adobe has launched a new digital price index (DPI) that tracks the price of goods online. They crunch big data collected on millions of online transactions they track through their online marketing service. Adobe says that many items are consistently cheaper when bought online. For example, the price of household appliances dropped 5.7% online between February 2014 and February 2015, while prices dropped only 2.7% in the Consumer Price Index. Adobe partnered with two well-known economists to create the DPI. The new price index is meant to complement the traditional Consumer Price Index released by the Labor Department. The BLS conducts surveys with shoppers each month and then inspectors go out into physical stores to check out the prices of about 94,000 individual items. They update about an eighth of the basket every six months. The Adobe index tracks about 1.7 million consumer goods, all online, in real time. Not all online prices are lower; grocery prices showed more inflation online.

IMPROVING CHIP-ENABLED CARD DELAYS

Visa and Walmart are taking steps to cut the amount of time it takes to process chip-enabled credit and debit cards. Visa is introducing new software that allows customers to remove their cards from terminals more quickly, which will shave about 18 seconds off transaction time. The software was designed in response to complaints about increased waiting time at checkout. Walmart announced they've cut 11 seconds off chip-card transaction time by eliminating a prompt that asked shoppers to confirm the amount of the transaction, among other steps. Both customers and merchants have been complaining about the increased time it takes to process chip-enabled transactions. A study by JDA Software Group

found that using a chip card typically added eight to 12 seconds to the checkout process.

THE HOME DEPOT

CEO Craig Menear's total compensation rose by 13.7% in 2015, according to proxy statements. Menear earned about \$11.6 million in total compensation last year. Home Depot's profit grew 10.5% to \$7 billion in 2015.

LOWE'S

Rona's shareholders voted overwhelmingly in favor of accepting Lowe's takeover offer. Lowe's has promised not to slash jobs as well as keep head office operations intact and continue buying from local Canadian suppliers. Rona's CEO Robert Sawyer is expected to be replaced by Sylvain Prud'homme, currently president of Lowe's Canada.

WALMART

Walmart came in last among discount and department stores in customer satisfaction on the American Customer Satisfaction Index with a score of 66. Nordstrom took the top spot with a rating of 82. The closest chain to Walmart was Sears at 71. The survey was based on interviews with more than 9,000 customers in November and December 2015.

Walmart has invited manufacturers to The Open Call, an opportunity to pitch their products at Walmart's home offices in Bentonville, Arkansas. It's part of Walmart's 10-year commitment to buy an additional \$250 billion in American-made products over 10 years. The summit will be June 28. Walmart says that every year companies that attend the event have products chosen for distribution.

Walmart is in talks with WPP Group's Haworth Media & Marketing about the possibility of hiring Target's former lead media agency to take over Walmart's media account. Target recently moved their media and planning business from Hayworth to GroupM. Target had been with Hayworth since 1970. Longtime Target chief marketer Michael Francis joined Walmart as a marketing consultant the first of the year. Walmart is ranked No. 13 on *Ad Age's* list of

the top media spenders, and spent more than \$900 million on measured media in the U.S. in 2014.

Walmart will expand their curbside pickup of groceries to eight new markets, including Kansas City, Missouri and Austin, Texas. Ecommerce COO Michael Bender told Reuters that Walmart is confident they can leverage the strategy on a larger scale, and plans to expand to a more sizable portion of their nearly 4,600 U.S. stores.

SEARS

Sears Holdings will close 68 Kmart and 10 Sears stores across 27 states this summer as part of their plan to accelerate the closing of unprofitable stores. All of the Sears stores and nearly all of the Kmart stores are slated to close in late July; two Kmart stores will close in mid-September. Sears says the slate of closings follows a review that took into account historical and recent store performance and the timing of lease expirations. Sears expects the closures to generate a meaningful level of cash from the liquidation of store inventory and from the sale or sublease of some of the related real estate. Together with more than \$1.2 billion in debt financing that Sears raised earlier in April, CEO Eddie Lampert thinks they are making important progress toward their goal of making Sears a profitable company once again.

W.W. GRAINGER

Grainger's first quarter sales rose 3%, and daily sales increased 1%. Daily sales growth included 4% from Cromwell acquired on September 1, 2015 and a 1% reduction from foreign exchange. Excluding acquisitions and foreign exchange, organic sales dropped 2%, driven by a 3% reduction in price and a 1% reduction in lower sales of seasonal products, partially offset by a 2% increase from higher volume. By month, daily sales were up 4% in January, 1% in February and down 1% in March. Sales in the U.S., which accounted for 75% of total company revenue in the quarter, were down 2% on a daily basis, driven by a 3% decline in price and a 1% decline from lower sales of seasonal produce, partially offset by 1% growth in volume and a 1% contribution from increased sales to Zoro, their single channel online business in the U.S.

On a segment basis, government was up in the mid-single-digits, light manufacturing and retail were up in the low-single-digits, commercial was down in the low single-digits, contractor and heavy manufacturing were down in the mid-single-digits, reseller was down in the low-double digits and natural resources was down in the mid-teens.

Sales in Canada declined 25% on a daily basis and 17% in local currency, consisting of a 14% decline from lower volume and a 6% decline from the SAP implementation, partially offset by a 3% gain from price. Canadian sales were dragged down by weak oil, gas and commodity prices.

Grainger narrowed their sales guidance for the year and now expects flat to 6% sales growth compared to the previous forecast of a 1% decline to 7% growth.

Company daily sales dropped 1% in March compared to March 2015. Sales results included 4% from acquisitions and foreign exchange was essentially flat. Excluding acquisitions, organic daily sales dropped 5%, driven by a 3% decline in price, a 1% reduction from the timing of the Easter holiday, a 1% reduction in lower sales of seasonal products and a 1% reduction in lower sales of Ebola-related products, partially offset by a 1% gain in volume.

Daily sales for March in the U.S. dropped 5%, due to a 3% decline in price, a 1% reduction from the timing of Easter, a 1% reduction in lower sales of seasonal products and a 1% reduction in lower sales of Ebola-related products, partially offset by a 1% contribution from increased sales to Zoro.

Grainger closed five branches in the U.S. in the first quarter and expects to close 50 more over the remainder of the year.

AMAZON

Amazon reported first-quarter revenues of \$29.13 billion, up 28% from the first quarter of 2015. Despite tough competition, Amazon Web Services sales rose 64% to \$2.57 billion, beating analysts' expectations. North American sales rose 27% to \$16.99 billion, easily beating expectations. For the second quarter, Amazon expects net sales of \$28 billion to \$30.5 billion, which would mean growth between 21% and 32%.

Amazon is in talks with BMW, Daimler and Audi about taking a stake in their high-definition digital mapping company HERE. Last August the consortium of German automakers paid \$2.8 billion for Nokia's mapping business as part of plans to develop self-driving vehicles. However, they need to know that maps can cope with live updates on traffic and road conditions collected from thousands of cars. Analysts say that is undoubtedly where Amazon's cloud computing services come into play.

Amazon is expanding the Amazon Dash program. They are tripling the number of brands being offered through Dash to more than 100. Dash debuted on April 1, 2015, and at first was thought to be an April Fool's Day joke. Amazon said the addition of more brands has been driven by customer requests. Amazon says that over the past three months Dash Button sales have gone up 75%. Currently only Amazon Prime members can make purchases using Dash Buttons. The Wi-Fi-connected buttons reorder products that are delivered via Prime's free two-day shipping. Each Dash Button costs \$4.99, but the cost is refunded after the first use.

Amazon bought Orbeus, a start-up artificial cloud computing company. Its Phototime app recognizes and organizes the content of photos in real time. The goal is to create ways to teach computers to "see" much as people do. Analysts report that Amazon is investing heavily in artificial intelligence in order to automate warehouse operations, improve delivery systems and add new products to the Amazon Web Services cloud offering.

In a recent letter to shareholders, Amazon CEO Jeff Bezos said that Amazon does not fundamentally see itself as an online retailer, but rather as a service platform underpinned by a massive IT and logistics infrastructure. Bezos said that Amazon Prime, Amazon Web Services and Amazon's third-party seller marketplace are their three big offerings, and they are hard at work on finding a fourth big offering.

In addition to being the world's largest online retailer, Amazon is also the world's largest public cloud service provider, a major online streaming service profiler, a

seller of digital content and a major provider of fulfillment and advertising services to third-party retailers.

Amazon is aggressively exploring distribution options, and is now hiring part-time delivery drivers, applying for ocean freight licenses, prepping delivery drones, and leasing a fleet of Boeing 767s.

Seeking Alpha analyst Eric Jhonsa says that Amazon identifying Prime as a big offering could indicate that they are willing to allow non-Prime sales to suffer in order to increase their subscription business. Bezos said they want Prime to be such a good value, "you'd be irresponsible not to be a member." Bezos also made it clear that while he wants Amazon to be a large, successful company, he also wants them to exhibit the "speed of movement, nimbleness and risk-acceptance mentality normally associated with entrepreneurial startups."

MARKET TRENDS

TECHNOLOGY UPGRADES NEEDED TO IMPROVE CONSTRUCTION INDUSTRY

The construction industry, which faces a critical labor shortage, has too much waste and inefficiency, says Dustin Burns, the information technology director at McCownGordon Construction. He suggests taking advantage of technology and learning how to use data and analytics to become more efficient. He believes the industry will move to business-intelligence dashboards that present complex data simply and concisely and workforce management that allows construction managers to track where people are on the site, along with the step-by-step process they use to handle tasks. As older, more experienced workers retire or transition out of the marketplace, younger, less-experienced workers will need more data to make informed decisions.

MOBILE DEVICES IN PHYSICAL STORES

Only 21% of shoppers use mobile devices, including smartphones and tablets, to assist their in-store buying experience, according to a new survey from Bizrate

Insights. Nearly three-quarters (73%) of online buyers use mobile devices to shop online. When mobile devices are used in-store, it's not always to the benefit of the retailer. The study showed that 63% of those who use mobile devices in-store look for competitors' coupons and prices and 58% compare a retailer's in-store and online prices and coupons. When interviewed, those shoppers say that it is very important for retailers to offer consistent discounts and pricing across channels. However, 39% of consumers use mobile devices to check to see that an item is in stock before heading to the store.

MOBILE APPS CHANGING RETAIL

The "appification" of shopping promises to transform the retail industry by creating new shopping habits, reshaping sales tactics and carving out winners and losers, according to *The Wall Street Journal*. Instead of placing one big order from their computer, people are increasingly making smaller purchases in short bursts of shopping throughout the day, a phenomena retailers have dubbed "snacking." Last year sales from mobile devices jumped 56% to \$49.2 billion, doubling the previous years growth, although desktop sales are still much greater, reaching \$256.1 billion last year. However, the annual growth rate of sales from desktops slowed to 8.1% from 12.5%, according to comScore. Successful retailers are training customers to think of their smartphones as an all-day impulse aisle and buy whenever they have a spare moment. Amazon has the top-ranked app, according to Apple. Selling merchandise on phones still poses problems for retailers and fulfillment can drive up shipping costs. Nearly 40% of desktop transactions in the fourth quarter took place after a customer had visited the retailer's app or mobile site, according to consulting firm Criteo. According to an eMarketer study, smartphone and tablet users spend three times longer within apps than they do surfing the mobile web.

TOP RETAIL TRENDS ARE TECH-DRIVEN

Of the top ten retail trends for 2016, eight are IT-focused, according to consumer financial services company Synchrony Financial. Among the more interesting is the trend to use voice-enabled searches, which are up to four times faster than searching via type-and-click. Synchrony predicts innovations in language recognition will

give voice a bigger role in online commerce, retail search strategies and shopper engagement. The use of virtual reality experiences can immerse consumers in sensory and personalized experiences and enable them to interact with products and services. Growing video-on-demand traffic and the increased likelihood that someone will purchase a product after watching a video provide opportunities for retailers to consider online streaming video for product demos, display or customer service. Social Network Buy buttons make it easier for shoppers to purchase while within a social app.

NETWORKING 3D PRINTERS

A network of printers forms what is essentially one big 3D printer that can churn out projects at high speed, much faster than is possible with tediously slow conventional methods that print about an ounce an hour, making 3D printing impractical for big or heavy projects. The software for Autodesk's Project Escher divides a large printing task into parts and assigns each part to a separate 3D printer arranged in a network that can be expanded to any size to accommodate the object being printed. This method is said to be 90% more efficient. Uses are seen in the construction, aerospace and automotive industries.

TINY HOUSE TREND

84 Lumber is producing four "Tiny Living" lines of custom tiny houses at their millwork facility. A company spokesperson said that they're the first major retailer and only large building materials firm tapping into the market for custom-built houses no larger than 200 square feet. A typical home in the U.S. is 2,600 square feet. The American Tiny House Association says that they consider homes between 400 and 1000 square feet to be small. Packages start at \$6,884 for a DIY project and go up to just under \$50,000 for a fully-outfitted home. A typical home can be built in 8-10 weeks. The line is being marketed to gas well employees, mobile nurses and outdoorsman. Right now tiny houses on wheels are generally required to be in RV parks and sometimes must be RVIA certified. Some cities have minimum requirements for the size of homes while others do not.

GOOGLE ENCOURAGES ENTREPRENEURIAL EMPLOYEES

Google is building a startup incubator called Area 120 in hopes of preventing entrepreneurial employees from leaving Google in order to start their own business.

Teams of employees will be able to submit business plans to join the initiative, according to insider reports. Those accepted will work on their projects full-time for a few months, after which they'll be able to pitch Google on creating a new company that the parent firm would take a stake in.

MICROSOFT'S SMART TOWN

Microsoft has teamed up with development specialists 22 Capital Partners to create a 16-acre smart town in Ashburn, Washington.

Integrating technology with construction, smart buildings will be at the heart of the \$500 million mixed-use community with apartments, a hotel, retail and high-tech space. Microsoft will help build the blueprint for what is described as an intelligent living platform that will be aligned with, if not directly a part of, Microsoft's CityNext program, which focuses on neighborhood management, smart buildings, operations management and sustainable land use. The full extent of Microsoft's involvement has not yet been disclosed.