Red Mountain Hardware Case

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Entrepreneur Background: **Kristan Holbert**

Kristan Holbert graduated from UNC Asheville. She started her career as a dedicated and compassionate registered nurse who, fueled by an entrepreneurial spirit, embarked on a remarkable journey to scratch her entrepreneurial itch, and acquire a business with great local brand equity. Recognizing an opportunity to create a positive impact in her community, Kristan set her sights on the hardware industry as an opportunity came up to acquire a local well-regarded business. With a passion for hands-on problem-solving and an ever-inquisitive mindset, she acquired a local hardware store. Drawing from her nursing background, Kristan implemented a customer-centric approach, fostering a sense of care and reliability within her store. Additionally, she focused on transforming and growing the popular local store. Through strategic management and a commitment to quality products, Kristan transformed the hardware store into a thriving hub, providing essential goods and services to both homeowners and contractors. Her transition from nursing to entrepreneurship showcases resilience, adaptability, and a determination to make a meaningful difference in diverse fields. Kristan’s story is an inspiring testament to the power of pursuing one's dreams and making a positive impact in unexpected arenas. It also shows that one does not need to hold an MBA or have entrepreneurship experience to successfully run a business venture. Along the way Kristan faced many challenges such as digitizing the business, negotiating with suppliers, and navigating a male dominated industry where her competency was often questioned.

**Red Mountain Hardware Acquisition**

Kristan Holbert is a female entrepreneur who owns Red Mountain Hardware, a small-town hardware store in Mill Spring, NC. The company was originally founded in 1996 by a couple who lived in the community. As the couple got older, they decided to sell their store. When potential buyers came to appraise the store, they were amazed at the size of the store. Kristan knew of the strong local reputation of the store and decided to throw her hat in the ring. Kristan acquired the store in 2022 through a mix of a small upfront cash investment and favorable seller financing. The humble store appeared small from the road, with only enough parking for 6 cars and required traffic halted for the delivery truck to park, but to Kristan this was the realization of her long held entrepreneurial dream. Since acquiring the business Kristan has grown top line revenue over 50% and has transformed the business into the digital age, trading the antiquated paper system for a digital POS system and utilizing social media to improve her relationship with the community and generate positive marketing.

Red Mountain Hardware represented a unique business opportunity because the store was a profitable venture due to strong customer relationships but with a bleak outlook because it had fallen into disorganization and lacked digitization. The store layout lacked structure, making it difficult for customers to find products, and backroom inventory was disorganized making it challenging for employees to restock it. Additionally, inventory was not tracked, making it challenging to keep accurate records and identify inventory needs. Initially, the owners ran the store independently throughout the week with family pitching in on weekends. However, as the owners aged, they needed to hire staff to help. The staff struggled to run the store efficiently because they did not know where goods were located leading to frustrated staff and customers. However, it had remained a profitable venture due to quality customer relationships who placed a high value on the convenient location, unique product offerings, and friendly staff.

Kristan took ownership of the store on September 6, 2022. Modernizing the store while maintaining daily operations provided an initial hurdle necessary to maintain solvency while ensuring future profitability. Co-managing these priorities required a delicate balancing act because customer relationships served as the foundation of the business and any customer inconveniences jeopardized the immediate and future profitability. Her first task was to learn the old cash register and paper receipt bookkeeping systems to keep the store functional and maintain revenue. Additionally, she needed to count inventory to ensure customer demand could be satisfactorily met. Once she could sustain daily operations, she modernized the store. First, she systematically organized the store layout to enable customers to efficiently navigate the store. Secondly, she standardized product offerings and instituted barcode labeling to streamline the checkout process and improve inventory management.

Simultaneously, Kristen had to earn the respect of her customers as a female business owner. Operating in a small, conservative town put Kristen at a disadvantage because many customers were skeptical of her business acumen. They were not used to working with independent females. However, by identifying and meeting customer needs and introducing valuable new products such as lumber, she developed a trustworthy reputation and earned her customer’s trust. Kristan took a deep dive into the hardware business gleaning everything she could to build her credibility and eventually became well known for her superior knowledge which was often compared to dedicated contract professionals.

A third obstacle Kristen faced in improving the store was raising her weekly credit limit with her main supplier, Orgill. A typical weekly order from Orgill had been $10,000 but Kristen needed to increase inventory to ensure she could consistently meet growing customer demand and maintain relationships. She soon hit her cap of $30,000. After contacting Orgill to extend her credit, the supplier could not understand the sudden need to increase her line and refused. However, she was able to negotiate a $100,000 credit limit by personally guaranteeing the accounts payable.

When Kristen bought Red Mountain Hardware, she understood that convenience and customer relationships represented her competitive advantage, while digitization and operational efficiency threatened the future of her business. Big box retailers such as Lowe’s and Ace offered a wider selection of products and could offer the lowest prices due to their operational efficiency and cost leadership. However, the closest big box retailer was an hour drive away and provided impersonal service. Therefore, Kristen focused on developing personal relationships with her customers and improving product variety to provide convenience to her customers. Growing a loyal customer base allowed her to grow store revenue by 47% to $1.2 million in her first 5 months owning the store. She hopes to grow revenue by another 25% in year two to $1.5 million.

**Evaluate**

This case represents a successful entrepreneurship through acquisition venture. Kristan recognized that Red Mountain Hardware was a distressed asset and she possessed business acumen necessary to turn it around. During the sale negotiation, Kristan leveraged the store’s bleak future and unreliable accounting system along with motivated older sellers to negotiate a favorable price and finance terms. She paid $692,500 for the company that was bringing in $740,000 of revenue annually. The EV/Revenue multiple of 0.936 reflects great value. Although EV/revenue ratios are not particularly reliable metrics, most enterprises have a 1-3x EV to revenue ratio, and these can be useful for businesses currently operating below their potential profitability. A value less than one often reflects profit loss, and although the accounting was messy, the store did not appear to be losing money which limited the additional capital Kristan had to put upfront. Additionally, she negotiated great seller financing rates of 6 years at 4%, which was less than the risk-free rate of the time of 4.5%. Although she was able to get very favorable financing her decision for a shorter-term loan did add some additional liquidity pressure, but served her goal of outright ownership in a shorter period of time. Additionally, a low complexity business such as a hardware store with a strong local reputation helped to de-risk her venture and greatly increased her chance of success. Many entrepreneurs may have viewed this deal as too good to be true, particularly after reading the Eric Wood case.

Kristan’s ability to balance maintaining the day-to-day operations of the store while modernizing enabled her success. She was able to pave the business’s future while maintaining customer relationships which provided the core value. This enabled her to increase revenue from $740,000 to $1,148,425 in under two years, a 55% increase. This was much higher than the global industry average growth rate of [~8%](https://www.globalsources.com/STM/knowledge/article/exploring-the-global-hardware-market-size-growth-trends-and-market-outlook/#:~:text=According%20to%20The%20Business%20Research%20Company%20%27s%20report,7.9%20percent%20to%20reach%20%24164.21%20billion%20in%202027.). This was in part due to her decision to expand the product offerings to include lumber. Kristan did a survey of current market offerings and saw there was a hole in the market in regard to lumber offerings. She jumped at this opportunity to serve her customer’s niche needs which enabled this large jump in revenue. This also gave her the opportunity to forge new supplier relationships which are extremely beneficial in low margin industries such as hardware retailing.

While this entrepreneurial venture was overall a success for Kristan, there were a few things she fell short on which would have improved her chance of success and maximized her own return on investment. The first is that Kristan did not have a great understanding of the company's financials and how this translated to a fair valuation for the business. While the price seemed favorable upfront, understanding the company’s balance sheet and profitability could have put her in a stronger negotiation position and ensured she fully comprehended the potential risks of the business. Additionally, she could have done a deeper search for a potential business to acquire which could have allowed her to buy something more favorable or at least understand what the competitive landscape was. Another thing Kristan could have done to improve her odds of success was to bring in an additional equity partner who had a strong understanding of business administration and finance. This would have helped round out her team’s skill set and enabled her to dedicate more time to learning the product and customer side of the business. Bringing on an additional partner would have also put her in a stronger position when negotiating with suppliers for credit line/term extensions as this was something Kristan had very limited experience in.

Finally, Kristan did not have a clear plan of how she was going to turn the company profitable. She did identify the key weaknesses of the business plan, namely lack of organization and digitization but did not have a concrete plan to fix these characteristics before purchasing the store. Identifying a plan, projecting the costs and associated changes in cash flows would have decreased the risk associated with purchasing the business.

Kristan’s willingness to take on the risk of entrepreneurship with limited domain expertise and break down gender barriers reflect her ambition and resiliency. Many entrepreneurs spend years learning the sector they hope to find a business in, believing that it will increase their probability of success. I admire Kristan’s willingness to forego this experience because she identified a distressed asset and realized that the market timing was good. This said, in the future, it may be wise to partner with a co-founder with either business or domain expertise who may be able to apply their experience to help inform critical decisions.

I also admire Kristan’s ability to identify and co-manage priorities. Many people in her situation would have temporarily closed the store to take, organize, and digitize the inventory. However, she realized that the customer relationships were the foundations of the business and that if she temporarily shut the doors, it could jeopardize those relationships and they could move to larger box stores with wider selection. Learning how to multi-task and evaluate priorities is an important business skill that allowed her to grow the business.

**Reflect**

Drawing lessons from the cases and concepts discussed in class, and the experience of Kristan, entrepreneurship does not require an entirely new innovation or invention. Like Kristan, an existing business can be remodeled into a successful business.

The principle lesson gleaned from this story is that distressed assets can provide strong opportunities for entrepreneurship by acquisition so long as they are properly valued. Aspiring entrepreneurs should pursue the market for undervalued assets and companies. We all encounter distressed assets in our daily lives but either lack the courage to take them on or assume the timing is not right. However, at some point if you want to make a difference, you must be willing to take the plunge. The details may not be neatly packaged and clear, but you can negotiate favorable sales terms and limit liability to decrease your personal risk.

A second lesson learned is that entrepreneurs do not need domain expertise in the sector they are entering. There are multiple ways to mitigate risk associated with lack of industry expertise. Entrepreneurs must simply remain humble and be honest about what they do not know so they can incorporate domain knowledge through advisors or employees, if not co-founders.

Also, debt financing can be a beneficial source of funding if you are able to negotiate favorable terms and the cash flows from the business can support your debt payments. Not all sellers are as hard-nosed as JC Cord and those who want entrepreneurs to succeed are willing to negotiate terms fair to both the buyer and seller.

I also appreciated that skills developed in different industries are often transferable to the business world. As a nurse, Kristan learned to develop strong patient relationships that gave her appropriate experience to maintain her customer relationships. Additionally, she gained analytical skills evaluating patients which allowed her to analyze the health of her new business and develop strategies to improve it.

A business idea should clearly specify how it can be turned into profit. Though Kristan initially did not have full grasp of how she would generate profit post acquisition of the hardware store, she was able to flesh out a specific business model that improved profitability and value of the store over the years.

Basic understanding of finance and accounting is required for an entrepreneur to successfully run any given business. This is an essential skill to have as an entrepreneur, to help with financial decisions and cash flow management. Speaking to Kristan, we identified that due to her background in nursing she lacked skills in finance and accounting which imparted the management of her business.

Importance of timing-when you see a good opportunity, Drive is more important than financial resources.

On top of the business from the hardware store itself, Kristan prided herself as an innovator and developed the idea to design a bear trash can for customers who own properties on the lake nearby so they can keep bears out of the trash. She has met with an engineer to design the trash cans. The goal is to start selling the product at Red Mountain then expand to selling through other hardware stores around Western North Carolina. Through her great relationship with her clientele, she was able to recognize this market need and has taken appropriate steps to commercialize her product.