

## **Ajax Home Improvement Centers**

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*Ajax Home Improvement Centers, based in Kendall, FL is a chain of home improvement centers with 541 locations in the United States and revenue exceeding \$15.5B. Melissa Santos was hired by Ajax Home Improvement Centers in June 2006 after graduating from the University of Central Florida. Following the completion of an intensive training program, Ms. Santos joined the Marketing Department, where she was promoted on several occasions as a result of her accomplishments. In 2014 she was promoted to Chief Marketing Officer with responsibility for leading “Project Flourish”, the acquisition of Starr – Rent – A Truck from private equity firm Sunlight Partners, by Ajax Home Improvement Centers. In support of the acquisition, Ms. Santos and her marketing team would have responsibility for developing a marketing strategy and implementing a marketing plan to drive incremental revenue profitably.*

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### **INTRODUCTION**

Early on the morning of Tuesday, September 1, 2015 Melissa Santos, Chief Marketing Officer (CMO) for Ajax Home Improvement Centers was driving to her office in Kendall, FL.

Last night, Ms. Santos, CMO celebrated the completion of ten months of long hours and hard work with the “Project Flourish” team at a restaurant in downtown Miami. “Project Flourish” was the name given to the confidential research, analysis and business case development underway by a small number of Ajax employees on a \$2.25B offer to Sunlight Partners, a private equity firm, for Starr Rent – A – Truck.

The acquisition was completed on August 31, 2015. Ajax Home Improvement Centers assumed control of over 2,500 Starr locations, 55,000 employees, thousands of vehicles and over \$1.25B in revenue.

Ms. Santos knew that starting this morning under her leadership, President and CEO John Streuder would expect her marketing team to have a lead role in driving the successful integration of the two companies, including the development of a marketing strategy and implementation of a marketing plan to

drive incremental revenue profitably. She was thrilled with the challenge and realized that this was an outstanding opportunity for her to further her career and earn recognition for her team.

She exited the Palmetto Freeway near Ajax corporate headquarters and thought to herself, “This is the most important marketing challenge of my career. What will a successful marketing strategy and marketing plan look like? Now the real work begins!”

### **MELISSA SANTOS**

Melissa Santos accepted a summer marketing internship with Ajax Home Improvement Centers in 2005 between her junior and senior year at the University of Central Florida (UCF). Mr. Streuder recruited for both corporate and in-store positions from his alma mater.

In May 2006, Ms. Santos earned a B.S. in Business and Economics from UCF, majoring in both Marketing and Management and minoring in Spanish. She graduated with high honors and was President of the UCF Student Chapter of the American Marketing Association.

Upon graduation, Ms. Santos received an offer from Ajax Home Improvement Centers to join ten other new hires at their Kendall, FL headquarters in a one-year “Salaried Employee In-Training” (SEIT) Program. The SEIT Program was a structured training program for a select number of college graduates seeking a career at Ajax’s Corporate Headquarters. Exhibit 1 outlines the SEIT Program.

### **EXHIBIT 1**

#### **AJAX SEIT PROGRAM**

<b>Department</b>	<b>Duration of Rotation</b>	<b>Cumulative Duration of Rotation</b>
Human Resources	1 month	1 month
Information Technology	1 month	2 months
Finance	2 months	4 months
Marketing	4 months	8 months
Operations (Headquarters)	2 months	10 months
Real Estate and Development	1 month	11 months
Sales and Sales Training	1 month	12 months
In – store Assignments	18 months	30 months

Following completion of a job rotation at Corporate Headquarters, SEIT's were placed on an 18-month assignment in two to four retail locations. The commitment Ajax made to its in-store front-line employees with training, compensation, benefits, and opportunities for advancement, it made to its headquarters staff as well. Mr. Streuder was hands-on, working directly with the Human Resources department to develop the SEIT program, benchmarking with four "Fortune 100" companies.

Upon completion of her training and 18-month in store assignment in November 2008, Ms. Santos joined the Marketing Department as a Senior Marketing Associate. Her responsibilities included the Ajax website and development of their online strategy, working closely with various marketing agencies.

In subsequent years, Ms. Santos was recognized by both Ajax and the local business community for her many accomplishments, receiving several promotions. See Exhibit 2.

## **EXHIBIT 2**

### **MS. SANTOS – CAREER HIGHLIGHTS**

2006	<ul style="list-style-type: none"><li>• Hired by Ajax into their SEIT Program</li></ul>
2008	<ul style="list-style-type: none"><li>• Joined Marketing Department as a Senior Marketing Associate</li></ul>
2009	<ul style="list-style-type: none"><li>• Oversaw implementation of a new and "award – winning" Ajax Home Improvement Center Website based on a customer survey of retailer websites</li><li>• Promoted to Manager, Marketing Strategy</li></ul>
2010	<ul style="list-style-type: none"><li>• Developed a B2B Marketing Strategy resulting in a 12% increase in corporate revenue</li><li>• Promoted to Director, Marketing Strategy</li></ul>
2011	<ul style="list-style-type: none"><li>• Ajax Home Improvement Center Marketing Campaign recognized with four industry awards; worked with Blue Sky, their "agency of record"</li></ul>
2012	<ul style="list-style-type: none"><li>• Gained Board of Director approval to expand the Marketing Department by 15 employees</li><li>• Promoted to newly created position of Vice President, Marketing Strategy</li></ul>
2013	<ul style="list-style-type: none"><li>• Completed a ten year strategic plan for Ajax</li></ul>
2014	<ul style="list-style-type: none"><li>• Promoted to Chief Marketing Officer</li><li>• Proposed acquisition of Starr Rent – A – Truck</li><li>• Appointed to lead "Project Flourish"</li></ul>
2015	<ul style="list-style-type: none"><li>• Acquisition of Starr Rent – A – Truck completed</li></ul>

In October 2014, Mr. Streuder, CEO assigned Ms. Santos to lead “Project Flourish.”

### **JOHN STREUDER – AJAX FOUNDER**

Ajax Home Improvement Centers was founded in 1990 by John Streuder in Miami, FL. Mr. Streuder graduated in 1981 with a B.S. in Finance from the University of Central Florida (UCF), and earned his MBA in 1985 through an evening program at the University of Miami. Upon graduation from UCF, he went to work for a large, national “big-box” home improvement retailer, quickly advancing his career within the organization. In 1987 he was appointed Chief Financial Officer.

Mr. Streuder had a strong entrepreneurial spirit. Reflecting on his college years and his career, he wasn’t satisfied. After spending countless hours in the stores, listening to customers, and honing his skills in Finance while working with his business partners in Marketing, Information Technology and Retail Operations, he realized there was an unmet opportunity.

“Big-box” home improvement centers were successful in offering a large selection of merchandise. However, they were much less successful in hiring, training and retaining knowledgeable employees to provide outstanding customer service. Although Mr. Streuder had “an eye for the numbers” with his education and experience in Finance, he also realized the importance of investing in the hiring and the training of the right employees. This was critical to delivering outstanding customer service and creating customer loyalty. Outstanding customer service and customer loyalty could drive profitable sales growth and expansion, creating career advancement opportunities for employees.

In 1990, working with his contacts in the investment community, friends and alumni, he quit his CFO position and ventured out on his own, opening the first three Ajax Home Improvement Centers in the Miami, FL area.

### **1990 – 2000: NATIONAL EXPANSION**

Mr. Streuder’s commitment to investing in hiring and training the right employees paid off. In the Miami area, Ajax was consistently recognized by media outlets such as the *Miami Herald* and *Florida Trend* as one of South Florida’s “best” employers, offering excellent employee training, an above average compensation and benefits package for what was typical in retail and opportunities for career growth. Employees were proud to work for Ajax and to represent the Ajax brand.

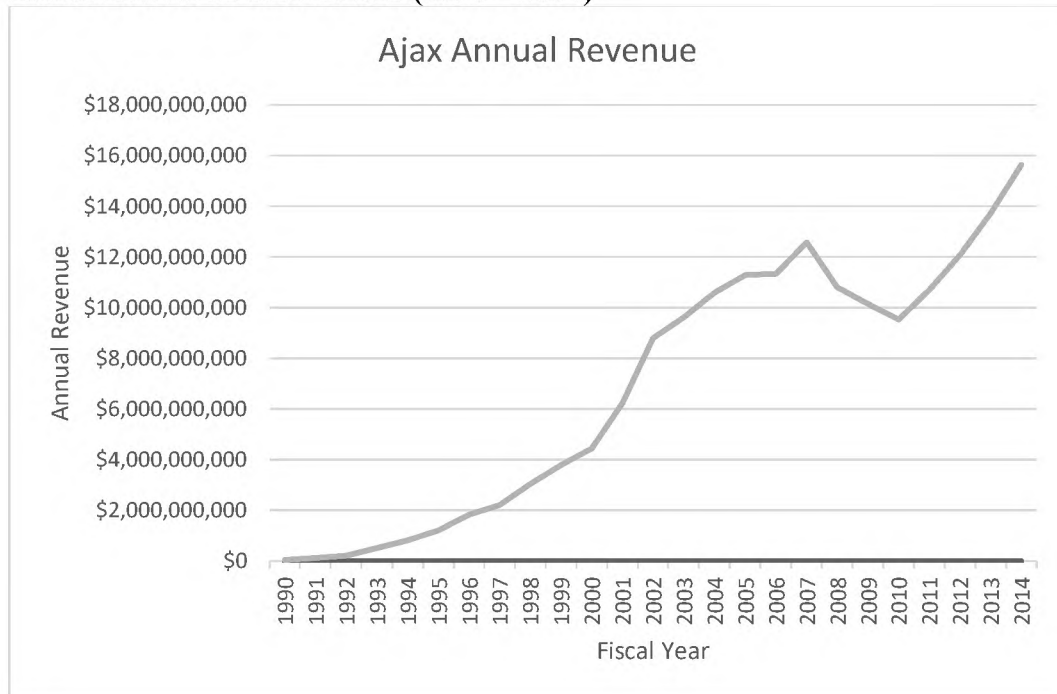
The local business community and the Miami/Dade Chamber of Commerce realized the value of Ajax as well. When marketing to entrepreneurial start-ups or businesses considering relocating to Miami/Dade, Ajax was cited as a success story. Mr. Streuder oftentimes commented on how proud he was for Ajax to receive this recognition from the various media outlets and the Miami/Dade Chamber of Commerce when attending numerous local, state and national events and conferences.

His attendance at these gatherings enabled him to build relationships and influence suppliers, regulators and politicians to view Ajax as a successful business with high standards for ethics and social responsibility.

By 2000, Ajax had grown to 149 stores throughout the United States. By 2014 store count increased to 541 locations and annual revenue exceeded \$15.5B. See Exhibit 3. Although each retail location could vary in size from 75,000 to 125,000 square feet, store layouts were consistent making it easy for customers to shop and find merchandise across stores.

### **EXHIBIT 3**

#### **AJAX ANNUAL REVENUE (1990 – 2014)**



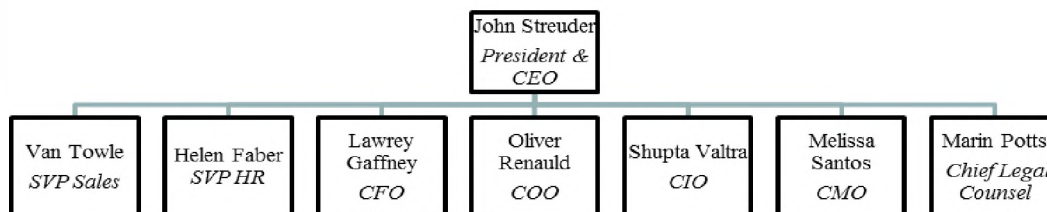
At a 2014 retail trade conference when asked about the reasons for Ajax's success in the highly competitive home improvement center retail space, Mr. Streuder replied "It's about investing in our employees who provide the type of service that one used to find in small 'mom and pop' retail stores, along with an excellent selection of merchandise that goes beyond what you find in most big-box home improvement stores today." When further asked about expansion plans, Mr. Streuder said "Our goal is to be the best with fewer and more profitable stores than our competition. With outstanding customer service and an excellent selection of merchandise, customers will drive a little further to shop at Ajax."

#### **2001 – 2014: A CHANGING BUSINESS MODEL**

From 2001 through 2014 Ajax was successful in the highly competitive home improvement center market space. Ajax leveraged rapidly evolving technology and made smart cost control decisions during the worst recession in United States since "The Great Depression." Ajax adapted its merchandise assortment to the changing needs of customers, launched internet selling, opened new store locations and began servicing the Business to Business (B2B) market. For most customers, shopping in-store, online or over the telephone was a seamless experience since Ajax could readily recognize customers and their purchase history. Ajax remained privately held by Mr. Streuder and a select number of private investors. Over the years, Ajax had provided an excellent return on their initial investment.

#### **EXHIBIT 4**

#### **AJAX ORGANIZATIONAL CHART**



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#### **AJAX ORGANIZATIONAL STRUCTURE**

The Ajax Senior Officer team included Mr. Streuder, President and CEO, and seven executives, including Ms. Santos. See Exhibit 4 above.

As CMO, Ms. Santos had responsibility for all aspects of marketing and communications including marketing and business strategy, investor relations, pricing, advertising, promotions, e-commerce marketing, brand management, real estate and sponsorships. Five vice presidents reported to Ms. Santos with responsibility for Marketing Strategy; Investor Relations; Pricing, Advertising, Promotions, Sponsorships and Brand Management; and Real Estate respectively.

The annual marketing budget for advertising, promotions, sponsorships and brand management typically ran between 1.5% and 2.5% of projected annual sales revenues. In 2014, the marketing budget was \$325,000,000 or approximately 2.0% of projected 2015 sales revenue.

### **STARR RENT – A – TRUCK**

Starr Rent – A – Truck was founded in 1985 by Charlie Starr, while attending college at The University of Georgia (UGA) in Athens, GA. Like many of his fellow third year students, Charlie decided that two years of dorm life “was one too many” and he decided to move to an off-campus apartment for both his junior and senior years. To do so, he had to rent a truck to move his belongings not only from his dorm, but from his room at his parent’s home in Greenville, SC to his new off-campus apartment in Athens.

According to Mr. Starr, his experience was terrible. The truck he rented was dirty, there were hidden fees to pay, and boxes and packing materials were unavailable. Furthermore, both the location and operating hours for picking up and dropping off the truck were inconvenient. When he arrived to pick-up the truck, availability was so limited, he had to rent and pay for a much larger truck than what he needed.

Like John Streuder, Charlie Starr had an “entrepreneurial bent,” though he was much different from John. John was organized, attentive to detail, possessed strong financial acumen and had a genuine concern for people. Charlie, on the other hand was much more of a free-spirit, often shooting from the hip, and as some would say, much more of a “right-brain creative type.” One friend commented that Charlie “had a lot of charisma, was one of the best looking guys on campus and could sell sand to anyone in the desert.”

During his junior year at UGA, Charlie acted on his “entrepreneurial bent” and launched Starr Rent – A – Truck in both Athens, GA and Clemson, SC. The target market were college students in both these communities looking for short

distance, clean, reliable and economical smaller moving vans and moving supplies. In his first year of operation, sales totaled \$75,000. By 2014, Starr Rent – A – Truck had expanded to over 2,500 locations with annual sales revenue in excess of \$1.25B.

All Starr retail locations were company owned and operated. Decision making was decentralized and store managers were empowered to take control and make decisions that were best for their customers in the local market area and the “bottom-line” of the store. Products, services, pricing and marketing were targeted to the specific needs of the local market. Each store manager worked directly with local and national suppliers to determine which products to stock. New products and new services would be developed by individual store managers. Customers and sales associates provided input on new products and new services. Charlie was pleased as long as each individual store was profitable.

Inconsistencies among individual retail locations existed in employee recruiting, training and development, inventory systems, point of sales systems, product and service offerings, and pricing. One store manager said, “You may find the greatest variety of boxes and packaging supplies in one location, but drive to another location and there could be few, if any, in stock.” Another store manager commented, “While all of our stores are company owned and operated, this is the closest you’d ever come to seeing company owned and operated stores acting and behaving like independent owner operators.”

2014 marketing expenditures totaled \$10.5M, or less than 1% of annual sales revenue and never exceeded 1% of annual sales revenue in any given year. Starr’s corporate marketing department included one director, three managers, five marketing associates and one administrative assistant. The director reported directly to Charlie Starr. Departmental responsibilities included national trade shows, sales support materials, pricing, and executing directives from Mr. Starr.

Mr. Chance Jacob, VP IT summed it up this way: “With decentralization of the marketing and selling functions to each individual store manager, there’s really no need for a large centralized marketing staff. In fact, I proposed to Charlie on a few occasions that Marketing report to me as this would facilitate greater collaboration on our point of sale system, among other things.” In the fall of 2011, Charlie decided to retire and pursue other ventures, selling Starr – Rent – A – Truck to Sunlight Partners, a private equity firm for a “nice profit.” He leveraged his tough, no-nonsense negotiation skills.



## **PROJECT FLOURISH**

Ms. Santos believed a diversification strategy was critical to sustaining profitable revenue growth at Ajax. “What were the right opportunities?” she had been asking herself and her team.

Ms. Santos commissioned a research study to be led by her Director of Marketing Research and an outside marketing agency, Superlative, with existing customers, potential customers and employees to understand what the right opportunities were. The analysis suggested that co-locating truck rental products and services onsite with home improvement centers made sense to existing and potential customers. Specifically, 86% of respondents stated that they would be “extremely likely or highly likely to rent a truck from a home improvement center retailer.” Respondents cited location convenience, availability, easy ingress/egress, hours of operation, and truck rental services complementing existing products and services sold at home improvement centers as key reasons why.

Working with a small team including members from her organization and with representatives reporting to her peer senior officers, Ms. Santos gained their support to go forward to the Board of Directors with a recommendation to seek out a co-branding opportunity or perhaps, an acquisition of a truck rental company. Ms. Santos realized the value of the Ajax SEIT program years earlier, as the relationships she formed back then were valuable in gaining support for this Marketing-led recommendation for growing revenue profitably. Lawrey Gaffney, CFO commented, “Sometimes Marketing can get way ‘out there’, without completely providing a quantifiable ROI for investments, particularly in advertising, promotions and sponsorships. Finance has a responsibility to keep Marketing accountable. In this case, working closely with Melissa and the small team on evaluating the pros and cons of co-branding versus an acquisition opportunity, acquisition is the way to go. The due diligence was done!”

Ms. Santos knew that Sunlight Partners, which owned about 80 percent of Starr Rent – A – Truck, was interested in selling. Sunlight had removed cost from the Starr business model, maintained adequate levels of customer service, and strengthened bottom – line profitability. At the Board of Directors meeting she was prepared to pitch this acquisition opportunity, should they react favorably to expanding into the truck rental market. Working with Lawrey Gaffney, Marketing and Finance were on the same page. Ms. Santos knew she could count on Mr. Gaffney’s support for an acquisition recommendation to the Board.

At the September 2014 Board Meeting, President and CEO John Streuder and the Board of Directors gave their support to the proposal and recommendation put forward by Ms. Santos to acquire a truck rental company. They asked Ms. Santos

if she was aware of specific opportunities enabling Ajax to move quickly and in a bold way. She spoke to the Starr Rent – A – Truck opportunity with the Ajax Board members and specifically to the fact that since the economic recession of the late 2000's, Ajax earnings as a percentage of net sales averaged between 8% and 10% per year. At Starr, earnings as a percentage of net sales averaged between 16% and 20% per year.

Two weeks after the Board Meeting, Ms. Santos was promoted to Chief Marketing Officer (CMO).

In October 2014, “Project Flourish” was launched. “Project Flourish” would last ten months, and it was the working name given to the highly confidential work underway by a small number of Ajax employees in support of the research, analysis and business case development for a proposed \$2.25 billion offer to Sunlight Partners for Starr Rent – A – Truck. Ms. Santos led this effort.

#### **SEPTEMBER 1, 2015**

As CMO, Melissa Santos realized that Marketing must deliver incremental and profitable revenue to Ajax. Never short on confidence, Ms. Santos knew that she and her team were ready for the challenge. She had established excellent working relationships with her peers and was well respected throughout the organization for the results she delivered throughout her career.

Ajax's acquisition of Starr required that a decision be made regarding the future branding strategy. Ajax and Starr recently completed marketing research indicating that both brands enjoyed a very high level of unaided brand recognition among their targeted customers.

Advertising and promotional marketing strategy and tactics were important to consider. Ajax engaged in online media advertising and promotion through social media platforms such as Facebook, as well as investing heavily in paid search. Ms. Santos believed that an optimum level of investment in advertising and promotion included both traditional media such as television, print and radio, as well as online media and search. Television advertising and weekly inserts in both the online and print versions of the Sunday edition of newspapers were “staples” in the communities where Ajax had a retail location. The Ajax brand was presented in a consistent manner wherever the customer interacted with the brand, including advertising and promotion. Blue Sky was Ajax's “marketing agency of record.”

Starr was different. Starr had a national presence with over 2,500 locations. Advertising and promotional tactics were decided locally by each store manager.

There was little consistency in how the brand was presented to the customer. For example, if you compared the promotional materials produced by two locations, such as Athens, GA and Austin, TX, the messaging and the “look” of the brand were very different. Each store manager either worked with a small, local marketing agency to develop marketing materials, promotional campaigns and advertising or created them on their own. Charlie Starr believed that the local managers understood their markets best, and therefore were given the autonomy for creating all advertising and promotion. Starr did not invest in any “national” advertising. Each store manager decided which marketing channels to advertise and promote in.

There was the issue of location, service and merchandise rationalization given the 541 Ajax locations and the 2,500 Starr locations. Ajax store footprints varied in square footage, but store layouts were consistent from one store to the next. Starr locations varied significantly in square footage, lot size and merchandise offered.

Pricing strategies differed as well. Ajax prices were either competitive or slightly higher than their competition, depending upon the merchandise category and the specific item. The weekly Sunday newspaper insert featured specials and new merchandise. Ajax also had a loyalty program that rewarded customers with tiered discounts based upon year-to-date spending. The loyalty program was very profitable for Ajax and enjoyed high customer retention and usage rates. Starr did not have a loyalty program.

Starr was founded to meet the needs of cost conscious college students. While their customer base had expanded beyond college students to include customers seeking to move locally, Starr always maintained a pricing strategy that was more aggressive than the competition. While margins were solid, ranging between 16% and 20%, they were lower than the competition. Lower margins on a per rental basis were offset by a higher volume of rentals and the sale of highly profitable packaging materials. Customers used Starr because of their low rates. Pricing for services and merchandise sometimes varied among each location.

Point of sale systems varied between Ajax and Starr. Ajax had invested to build a “benchmark” retail point of sale system that made in-store, on-line and telephone shopping seamless. Customers were immediately recognized at all points of interface with Ajax by providing either their loyalty program number or credit card number. Ajax had a powerful marketing database with the data collected through their point of sale system and loyalty program.

Starr’s point of sale system varied widely across their 2,500 locations. Providing a credit card number enabled customers to be recognized in some locations but

not others. There was no way to recognize customers who paid by cash or check. Starr's database was not robust. As customers did not repeat purchase with Starr that often, a robust point of sale system and marketing database were never seen as a priority.

The culture, roles, responsibilities and the organizational structure of the marketing departments at Ajax and Starr were vastly different. This would all need to be rationalized.

### **THE CHALLENGE**

"Where to start?" Ms. Santos asked herself. Recalling her days at UCF, she focused on a model and a process that would help her and her team to identify and prioritize the issues to be resolved in developing a marketing strategy and implementing a marketing plan for driving profitable revenue growth.

She owed the Board a draft Marketing Strategy in two months, at the November 2015 Board meeting.

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