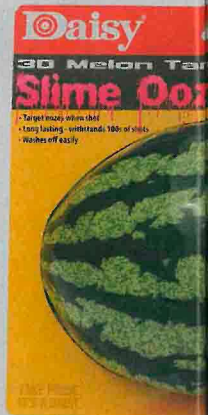
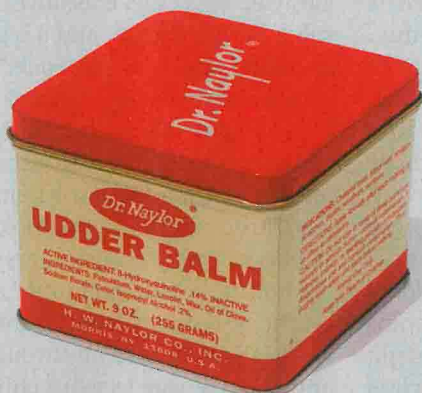


Outstanding In Its Field

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CAROLINE TOMPKINS

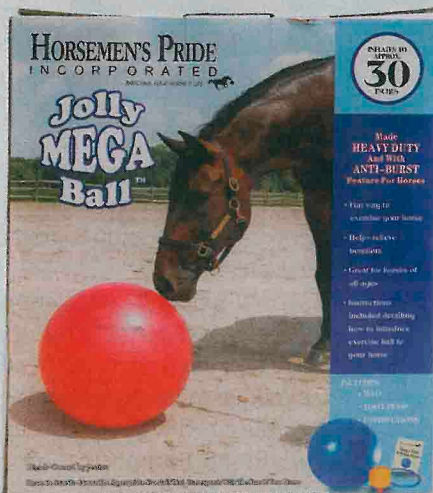
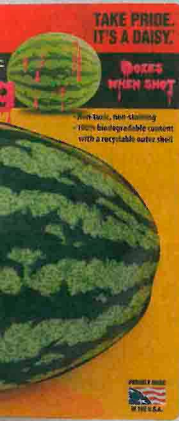




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How Tractor Supply perfected its niche

BY KYLE STOCK



Tractor Supply
\$7.3b
Revenue, 2017

Livestock and pets	Hardware and tools
47%	22%
	Other
	31%

Some of the best retail theater in the world takes place far from the runways of Paris and the display windows of Fifth Avenue. Twice a year Tractor Supply Co., a chain of 1,900 stores scattered across rural America, trucks in millions of chirping chicks and herds them into pens. The little birds fetch \$1.99 each, or \$2.99 for those that have been “sexed.”

“Chickens, for us, have absolutely exploded,” says Steve Kinney, manager of 13 Tractor Supply locations.

Last year about 8,200 stores in the U.S. shut their doors for good, according to the International Council of Shopping Centers. It’s hard, however, to disrupt a chick, which might not fare so well in a next-day-delivery economy. Niche rural retailers such as Tractor Supply, which sells obscure and often unwieldy products from fencing to llama kibble, have proved resilient. The 80-year-old business has seen sales grow 56 percent in the past five years, to \$7.3 billion. Since 2012, Tractor Supply has added 723 locations, and it plans to open 500 more in the U.S. over the next decade. Apparently the retail apocalypse hasn’t hit the hinterlands.

Tractor Supply’s profits have increased at an annual average of 9 percent since 2012, revenue at stores open more than a year has risen for eight consecutive years, and the company now collects \$257 in annual sales per square foot of store. (Macy’s Inc. is at about \$195.)

“When it comes to retail,” says Brian Nagel, an analyst at Oppenheimer & Co., “it’s really one of the few remaining true growth stories out there.”

Tractor Supply’s headquarters are nestled among churches the size of shopping malls a few miles south of Nashville. The LEED-certified building—completed in 2014—is filled with natural light and is comfortably cool on a 100-degree June day. In the entryway sits a red 1938 Farmall tractor, the type of machine the company focused on when it started during the Great Depression as a mail-order parts supplier based in Minot, N.D. The axles wouldn’t fit through the doors, so the structure was literally built around the tractor.

The company’s tag line hangs over the entrance: “Everything you need for life out here.” It’s a vague mantra but one that informs every decision at Tractor Supply. The farmers, ranchers, and hobbyists the company caters to tend to have above-average income and below-average cost of living. They often don’t have the time or inclination to wait for products to come from the internet.

“You have to remember, these people are choosing this lifestyle,” says Chief Executive Officer Greg Sandfort. “There’s value in that choice, and a big part of that life is going to a store and talking to someone.” Sandfort has a soft Southern accent and the air of a country pastor. He looks and talks like John Lithgow’s Reverend Shaw Moore character in *Footloose*.

His customers, he reasons as he putters through the building in a button-down shirt emblazoned with the company logo, are sometimes overlooked. “Our belief is that in our segment, with the customers we serve, we are going to be the holistic solution, period,” Sandfort says.

The best way to understand what Tractor Supply is (and isn’t) is to take a stroll through one of its stores. Racks of apparel give way to wind chimes and dog food, then, just past the baby chickens, more esoteric feed: horse cookies, ferret chow, and goat vitamins.

There are aisles full of gear—winches, hitches, water pumps, hand trucks, and gun safes—interspersed with lighter ephemera—owl decoys, hummingbird nectar, and pickling vinegar. The bulkiest items are piled up outside the store: paddleboats, log splitters, riding mowers, and stacks upon stacks of fencing and fence posts.

Wall Street analysts and investors say they don’t fully understand the particular merchandising magic of this assortment. But they gather it’s tricky to ship a gun safe, and they kind of get that goat supplements are uncommon enough to be overlooked by internet-emboldened entrepreneurs. Specialty products have been more protected from retail’s brutal disruption of late. They’re safe, how-

ever, only until an e-commerce giant takes notice, and then they aren’t (see: mattresses and diapers). The inventory at Tractor Supply demonstrates the company’s deep knowledge of its customer base.

“Lubricants, for example, are a big category,” says Oppenheimer’s Nagel. “The Tractor guys say, ‘If you live this life, you’re constantly lubricating things.’ I don’t even know what that means.”

About half of Tractor Supply revenue is tied to livestock and pets; another quarter or so comes from hardware and tools. Roughly 15 percent of all products in a particular store are unique to the region. In New Jersey, for example, the salt licks are laced with selenium, a bone-strengthening mineral that’s in short supply in the local soil.

Having built up a loyal base of shoppers, Tractor Supply recently rolled out a handful of its own private-label products,



Sandfort and Barbarick outside a College Grove, Tenn., store...

taking a page from Costco Wholesale Corp.'s playbook: Huskee riding lawn mowers, 4Health Untamed dog food, and JobSmart tools, to name a few. One-third of its revenue dollars comes from these in-house brands, which represent a line of defense against online sellers.

The final say on which products hit the shelves falls to President Steve Barbarick, a 20-year company veteran who grew up on a Missouri hog farm. Wearing the same uniform as Sandfort does, he travels the country running town hall meetings with dozens of store managers at a time. They sit on bags of feed and discuss what's selling and what isn't. Sunflower seeds are a yes, for example; indoor paint a no. When he isn't sure about a certain product, Barbarick says he asks himself: "Would my father or grandfather have used this?"

"You know what 80 years of being in business does to a retailer that listens?" Barbarick asks. "You just get better and better and better," he says—at merchandising, creating a corporate identity, and knowing what the customers will ask for. When tuned just right, he says, a Tractor Supply store is what the company calls a "trip consolidator," saving shoppers the time and effort of having to run from Home Depot to Petco to Walmart to find just the right mix of what they're looking for.

Rural America isn't immune to the seismic changes of the past decade in how people shop. Apps work just fine in the middle of most cornfields. E-commerce accounts for 1 in 10 retail dollars in the U.S. And by the end of the year, Amazon.com Inc. is expected to account for half of that revenue, some \$258 billion, according to EMarketer Inc.

But recently, some of the retail sector's strife has played to Tractor Supply's strengths. In the past five years, almost 1,600 Sears stores have shuttered, and the company's bankruptcy filing will mean more closures, all of which leaves a growing crowd of customers looking for a place to buy car batteries and ratchet sets. When Quality Stores Inc., a Michigan-based agriculture supplies rival, went bankrupt in 2002, Tractor Supply bought the leases on 85 of its locations.

Refresh Appalachia, a nonprofit in West Virginia that teaches former coal miners how to farm, spends thousands of dollars every month at Tractor Supply. "Sometimes there were other options in another valley," says founder Ben Gilmer, "but it can take for hell and ever to get from one side of the mountain to the next."

When Tractor Supply is confronted with risks, they tend to be tied to the macro economy. Its fortunes can rise and fall on farming operations in rural America and the fluctuating prices of corn, soybeans, and other crops. In oil country, its executives sweat what the price of crude will do to the thousands

of wildcatters buying wrenches, steel-toed boots, and lockboxes for their pickup truck beds. The escalating trade war with China is shaping up to be a mess for Tractor Supply's customer base.

Outside of urban centers, the U.S. population is getting older and smaller, shrinking by 0.5 percent from 2010 to 2017. One-third of residents in nonmetro areas are now over 55.

Realizing as much, the company is expanding its e-commerce efforts, albeit at the pace of an arthritic ranch hand. In 2016 it began letting customers buy products online and pick them up at a local store, some five years after Home Depot rolled out a similar service at its U.S. outlets. "We've been very measured in our approach," says Letitia Webster, a Tractor Supply vice president.

Taking a page from Amazon, the company has giant lockers in about 400 of its stores so customers can claim a digital purchase without having to check out or make small talk. And each location has a computer kiosk where a customer can order any of the company's 100,000 items. "It's a really interesting way of taking a 15,000-square-foot box and making it as large as you want it," Sandfort says.

In March, Tractor Supply began offering subscription sales on a couple of hundred products online, making scheduled shipments of thousands of bags of dog food, matching similar services at web retailers such as PetSmart Inc.'s Chewy.com. It also introduced a rewards program called Neighbor's Club in April of last year that's amassed 8 million registrations.

When it comes to iPhone addiction, a 16-year-old Snapchat savant has nothing on a 62-year-old soybean farmer, whose livelihood depends on a steady, real-time drip of commodity prices and weather updates, typically far from a desktop computer. Tractor Supply is increasingly seeing its best customers place orders from their pastures. If the customer has some extra time, maybe she'll park and use one of the stores' new dog-washing stations.

"Culture can beat strategy," Sandfort says. "Though it's really powerful when you have both of those things, which I think we do."

Tractor Supply also has developed a content play, like any self-respecting 21st century retailer. Its web team publishes a steady stream of how-to videos and articles on a variety of topics, including feeding deer and grooming horses. As the traffic on articles about DIY beekeeping ticked up in early 2018, Barbarick decided to stock more hives, smokers for calming the colony, hoods to keep rookie beekeepers safe, and honey buckets for the eventual harvest. It also started selling the bees themselves through its website. Call it bee-commerce. **B**



...and a slice of Tractor Supply's eclectic mix of goods inside