

# Analysis of the business cycle

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Analysis of the Business Cycle Tira Williams Managerial Economics and Globalization Introduction The Current Economic Condition: The current economic conditions surrounding home improvement stores such as Home Depot and Lowes are closely tied to the recent housing crisis and recession. Wahlstrom (2010) indicated, macroeconomic trends such as single family housing turnovers and the residential housing market reached it inflection point and are moving towards equilibrium. This gradual turn around should have a positive impact on Home Depot and Lowes.

The two companies were able to endure during the crisis; therefore they should begin recover from economic losses experiences during pendulum shift. The Firms Chosen: Home Depot: Home Depot is a public traded company on NSDAQ. Not only is this company the largest home improvement retailer in the United States, it also has made it stake internationally in places like Canada, Mexico and China. Home Depot has laid the frame work for home improvement retail through product alliances and making professional products readily available to individuals wanted to embark upon do-it-yourself projects. Lowes: Lowes follows closely behind Home Depot.

This home improvement company began as a simple hardware store in 1946, and is now publicly traded on the New York Stock exchange (NYSE: LOW). As the demand for housing increased, the need for professional quality supplies increased, developing a lasting relationship between Lowes and builders. It was not long before Lowes became a multi-million dollar company. Since its inception, the company has evolved, the new and improved Lowes caters to the areas in which they serve, for example the stores in metro areas are

largest and the stores square footage decreases according to the market. Like Home Depot, Lowes has expanded outside of the United States borders, lending services to Canada and Mexico.

Analysis Stock Performance: After closely reviewing the stock performances for Home Depot and Lowes, it appears that the company's stock performances are looking up for fiscal year 2011. Home Depot plans to increase dividends 6 percent which would yield returns of \$. 25. Both companies have indicated that they will use excess cash to purchase shares (Q4 2010 Home Depot Inc Earnings Conference Call, 2011). Please refer to the table below for performances for Fiscal Year 2010: Home Depot:| Lowes:| Open: \$25. 59 \* 52Wk High: \$30.

74 \* 52Wk Low: \$25. 05 \* Average Volume: 23. 05 million shares \* Dividend: \$0. 22 per share \* P/E: 18. 49| \* Open: \$19.

94 \* 52Wk High: \$60. 55 \* 52Wk Low: \$13. 00 \* Average Volume: 18. 64 million shares \* Dividend: \$0. 09 per share \* P/E: 13. 37| Current and future sales revenue: Tax credit incentives still do not significantly increase big ticket item purchase.

Consumers were conservative in their spending for large ticket items; therefore, overall sales for fiscal year 2010 came from low ticket items. Nevertheless, the Home Depot Fourth Quarter Results (2011) announces overall sales were 15. 1 billion dollars, which is a 3. 8% increase from 2009. Home Depot is expecting a 2.

5 percent growth in sales for 2011. According to Lowes fourth quarter fourth quarter sales and earnings (2011), sales for the same period were 48.8 billion with a net earnings increase of 1.3 percent. Total sales for Lowes is expected to increase 2 percent for the 2011 fiscal year. Current and future profits: The housing market has had a significant on profits earned at home improvement stores.

Although the market is slowly improving, both Lowes and Home Depot are still taking a somewhat conservative approach as it relates to profits. Lowes has indicated that the restructuring of management and the development of weekend teams will help to increase profits. They anticipate this increase because they will have more staff available to assist customers during peak hours. Labor costs: It appears that both Home Depot and Lowes have developed solid plans to cut labor costs. The two companies have completely revamped their customer's shopping experiences through the use of technology. By making their online services user friendly and offering a wider selection of merchandise, they can cut their labor cost tremendously.

Hiring decisions: Home Depot: According to PRN News wire (2011), Home Depot associates amount to approximately 300,000 individuals in preparation for the spring Black Friday rush Home Depot is planning to create sixty-thousand positions across the nation. However, these positions are not intended to launch careers within the organization. These newly created positions will extend past the spring Black Friday rush, but are not likely to last past five months. Lowes: Executives hosting the fourth quarter conference call (2011) reported, Lowes has made a decision to freeze hiring to completely revamp their management structure and hiring process. The <https://assignbuster.com/analysis-of-the-business-cycle/>

decision was made to consolidate management teams into single level store manager, employing one manager per store.

By eliminating multiple managers within the stores, assistant managers are authorized to make management decisions in the specific areas in which they are assigned. In addition to restructuring management, Lowes had developed a strategy termed “ Weekend Teams”. Weekend Teams will consist of part time employees assigned primarily to one zone on the sales floor, but may be required to work in other areas specifically focusing on providing quick, friendly customer service. Lowes has discovered the customer traffic is higher on the weekends. By implementing Weekend Teams, they feel that they will be able to operate effectively in a slow growth economy.

Summary When comparing the two companies one would think that there would be a great deal of similarities. However, in monopolistic competition, companies have to find a way to make themselves different from their competitors. In the case of Home Depot, they continue to lead in terms of stores and international growth. Their international presence in China may help them offset the obstacles that they are facing domestically. Lowes has made its mark slowly by opening new stores while still keeping its original relationship with contractors. Although both companies have been severely impacted by the recession and housing crisis they should begin to see some relief as the market recovers.

Recommendations It may be difficult to make recommendations to a company where the majority of their products are elastic. Home Depot and

Lowes are companies whose profits will heavily center around the housing market. When the market unstable their profits are directly affected. In order to continue to be relevant in their market they have to continue to reevaluate the needs of their consumers and make those needs relevant to their businesses.