

Home depot analysis essay sample

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The Home Depot is the world's largest home improvement retailer (The Home Depot, Inc., 2012). At the end of January 2012, the company employed approximately 331, 000 people (The Home Depot, Inc., 2012). With a workforce larger than many small cities, it is imperative that the Home Depot adapts to changing markets to satisfy the needs of all company stakeholders. The business of home improvement retail is heavily dependent on housing market conditions. The Home Depot posted its largest profits in 2007, \$6. 62 Billion (The Home Depot, Inc., 2012), just as the housing bubble was about to burst.

“ In March 2007, the United States' subprime mortgage industry collapsed due to higher-than-expected home foreclosure rates, with more than 25 subprime lenders declaring bankruptcy, announcing significant losses, or putting themselves up for sale” (Wikipedia, 2012, Subprime Mortgage Industry Collapse, p. 1). The mortgage industry collapse marked the start of a global economic decline that would create ongoing hardship right through to 2012 (Wikipedia, 2012). In 2007, the leadership team at The Home Depot predicted the harder times to come. The team made organizational and operational changes that allowed the company to adapt to the changing markets. The changes included modifications in distribution, expansion into new markets, modifications in growth strategy, and changes to human resources management. Because of the new strategies and tactics, the Home Depot remained profitable throughout the economic decline that began in late 2007. Effects of Recent Economic Trends

The economic downturn that began in 2007 had a negative effect on the Home Depot. Sales at the Home Depot peaked in 2007 at \$77. 349 Billion.

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Sales fell to a five-year low in 2009 at \$66. 176 Billion (The Home Depot, Inc., 2012). A decline of more than 12% from 2007. In 2011, sales rebounded slightly to \$70. 395 Billion (The Home Depot, Inc., 2012). Sales figure are not yet in for 2012, but they are expected to be near \$73. 6 Billion, a 4. 6% increase more than 2011 and nearing 2007 levels (Brown, 2012). It has been five years and sales figures have not yet recovered from the peak that was achieved before the bubble burst on the housing market. The economic downturn forced the Home Depot to make difficult decisions regarding the size of its workforce. There were 331, 000 employees of the Home Depot at year end 2007. The number of employees dropped to 317, 000 at year end 2009 (The Home Depot, Inc., 2012).

The economic downturn forced layoffs and restructuring at the company, resulting in 14, 000 lost jobs. As sales began to increase in 2010, the labor force was also increased. In 2011, the company once again reached 331, 000 total employees (The Home Depot, Inc., 2012). The downturn in the economy and housing market could have been detrimental for home improvement retailers like Lowe’s and Home Depot, but the news was not all bad. “ Homeowners chose to redo or spruce up their homes instead of selling, and headed to places like Home Depot and Lowe’s for the supplies” (Brown, 2012, p. 2). The Home Depot shifted its focus from new construction to capitalize on revenues from renovation projects and remain profitable.

Strategies for Adapting to Changing Markets

A common strategy for adapting to changing markets is to cut costs. The Home Depot underwent organizational changes that eliminated 14, 000 jobs

between 2007 and 2009. The job cuts were at the management level and not at the associate level, which emphasized the focus on customers and associates. In addition to cutting jobs, the Home Depot halted construction of new stores to free up capital for its existing stores (Benner, 2012). Other cost cutting measures included changes in the distribution and supply of products through the development of Regional Distribution Centers (RDCs) and incorporating more direct-to-store shipments from vendors (“ Home Depot SWOT Analysis,” 2011). As the market declined in 2007, customer needs began to change. Small Renovation projects became the customer focus, rather than large construction projects. The average ticket price dropped from \$57.48 in 2007 to \$51.76 in 2009 (The Home Depot, Inc., 2012).

A new revamped website, improvements with in-store communications, and the number of associates on the floor are three of examples of the Home Depot’s strategy of increasing customer focus. Another strategy the Home Depot has employed to ensure they are successful in an ever-changing market is differentiation. The Home Depot currently has more stores, 2,252 (The Home Depot, Inc., 2012) than its closest competitor, Lowes, which has 1745 stores (Lowes, 2011). Possessing more stores indicates that the Home Depot is more convenient, but that advantage will shrink as Lowes continues its rapid growth in square footage of sales area. To remain competitive, the Home Depot will need to differentiate in categories, such as customer experience and products carried. The focus will be on getting more sales per square foot rather than increasing the total square footage (Colvin, 2009).

Tactics Implemented to Achieve Strategic Goals

Cost Cutting

One of the most significant costs in Home Improvement retailing is the cost of handling goods. In fiscal year (FY) 2011, the Home Depot completed its roll-out of 19 Regional Distribution Centers (RDC's). The regional distribution centers revamped the product distribution process. Before utilizing RDCs for distributing goods, 80% of merchandise was supplied through direct-to-store shipping and 20% was supplied through transfer facilities (" Home Depot SWOT Analysis," 2011). Currently, 70% of the cost of goods is handled through RDC's, with a goal of 75% by 2013 (" Home Depot SWOT Analysis," 2011). The revamped distribution process has reduced product lead time by 25%, improved trucking efficiencies and will " yield significant cost and process efficiencies" (" Home Depot SWOT Analysis," 2011). Because the Home Depot employs more than 300, 000 people, an easy way to reduce costs is to reduce the size of the workforce. The Home Depot trimmed 14, 000 jobs between 2007 and 2009 (The Home Depot, 2012). Many of the jobs cut were in the human resources (HR) division. Prior to 2007, the Home Depot utilized an HR manager at each store. In November 2007, executive vice president of HR, Tim Crow announced the " Aprons on the Floor" (Grossman, 2008, p. 70) campaign.

The goal of the campaign was to increase the number of quality associates in each store by spending a total of \$180 million. The money was to come through cutbacks in HR staffing and by finding ways to provide HR services for less money (Colvin, 2009). The Home depot went from one HR manager in each store to 230 HR district teams, consisting of one district manager and three generalists, which oversee six to ten stores (Colvin, 2009). The

reorganization of the HR department resulted in cuts of 1, 200 (Colvin, 2009) jobs and enough savings to hire two full-time associates to replace each HR person. The reorganization has been good for the HR managers and the store managers. The store managers went from having one HR partner working in the store to a team of four HR partners helping them out. Even though there is not a full-time presence at each store, there is the expertise of four people working collectively to provide solutions to each store. Carol Tome discussed the cost cutting measures in a 2009 interview with Geoff Colvin from Fortune magazine. Tome stated: We made some really hard decisions last year, including the closing of 15 stores.

We removed 50 stores from our new-store-opening pipeline. We exited our [high-end] Expo business, 34 stores that we closed earlier this year. We reduced our support staff by over 2, 000 people. We made the right choices to take care of the customer and preserve the company for the long term. Part of the choice that we made was looking at our square-footage growth and saying, Hey, this country is over-stored. We're going to rationalize square-footage growth and reallocate capital into activities inside our stores that should help the customer experience. (Colvin, 2009, page 3) As Carol mentioned, another tactic successfully employed by the Home Depot to reduce costs was to reduce the number of new stores opened on an annual basis.

The Home Depot grew at a rate of nearly 75 stores per year between the company's incorporation in 1978 through 2008 (The Home Depot, Inc., 2012). From 2009 through 2011, the number of stores grew by a total of

eight (The Home Depot, Inc., 2012). Tome said in a 2009 interview: You can't win the game by square-footage growth. You win by customer experience, making sure that service is there and the products are there at the right price. We realized over the years that you could continue square-footage growth because there's plenty of real estate out there, but you'd dilute returns. That is not in the best interest of the customer or shareholder. (Colvin, 2009, p. 4). Tome realized that the Home Depot had reached a point of saturation in the market and that return on investment in new stores would diminish. The Home Depot reallocated the money they would have spent on new stores and invested in existing stores. Their actions were similar to those taken by homeowners throughout the market collapse and recession; rather than move or build new, renovate. Customer Focus

The Home Depot states in their 2011 form 10-K, "our customer service initiative is anchored on the principles of putting customers first, taking care of our associates and simplifying the business" (p. 2). The Home Depot serves three primary customer groups, do-it-yourself, Do-it-for-me, and professional customers. Information technology improvements and a new associate scheduling system allow the Home Depot to allocate more associate hours to assisting customers. In FY 2011, 53% of store labor hours were dedicated to customer-facing activity. The goal is to reach 60% (The Home Depot, Inc., 2012). The "Aprons on the floor" (Grossman, 2008, p. 70) initiative was sparked by a need to cut costs, but it resulted in more associates on the floor assisting to customers' needs. Vice president of HR, Tim Crow, said in 2008, "This is about an environment forcing change on an

organization and people rallying around a back-to-basics message and facing tough decisions” (Grossman, 2008, p. 71).

It was a difficult decision to cut HR positions, but more associates were hired for the floor because of the capital freed up from the cuts. The emphasis is on associates, because they are the front-line employees who interact with the customers. The additional associates on the floor will enhance the customer experience, ultimately increasing sales. To increase the emphasis on customers, the Home Depot introduced “ power hours” (Colvin, 2009, p. 3). Power hours refer to the hours when traffic in the store is heaviest.

During power hours all activity not customer facing-pack-down is halted and 100% of the time is spent taking care of customers. This means that everybody working in the store, even those working in receiving or in the vault, are out on the floor tending to customers (Colvin, 2009). The power hours are a great example of how the customer comes first. Stopping all other activity and tending to customers’ needs supersedes any other activity, which demonstrates how the customers’ needs are the top priority.

In addition to improving the in-store experience for customers, the Home Depot has made improvements to its website to enhance the customer experience and boost online sales. The company offers more than 300, 000 products through homedepot. com (The Home Depot, Inc., 2012).

The company states on page 14 of their 2011 Form 10-K: During fiscal 2011, we also implemented enhancements to our website to improve our customers’ experience when shopping online. These include Buy Online, Pick-up In Store (BOPIS), which allows our customers to choose how they

would like to receive merchandise ordered online, and “ SuperSku,” which provides greater flexibility in how items are displayed online and minimizes the number of clicks necessary to find a product. In February 2012, we rolled out a significant upgrade of our website, which enhances the layout, visual appearance and responsiveness of the site, as well as further reducing the number of clicks necessary to navigate our pages. (The Home Depot, Inc., 2012, p. 28) The changes the Home Depot made in 2011 and early 2012 are part of their migration toward “ interconnected retail” (The Home Depot, Inc., 2012, p. 28) that makes more products available and makes the products available through multiple channels, making it easier and faster for customers to make purchases. Differentiation

The Home depot is using the strategy of differentiation to set themselves apart from their competition. The company states “ As part of our focus on product differentiation, we have formed strategic alliances and exclusive relationships with selected suppliers to market products under a variety of well-recognized brand names” (The Home Depot, Inc., 2012, p. 29). An example of product differentiation is in 2009 when the company entered into partnership with Martha Stewart Omnimedia to offer exclusive products, including outdoor furniture and paint (“ Home Depot SWOT Analysis,” 2011). By offering products exclusive to the Home Depot, the company can draw customers into the store, or online, which would otherwise shop elsewhere. The customers targeted are looking for specific items because they carry a brand name that the customer has an interest in.

Another tactic the Home Depot is using to differentiate itself from its competitors, which is similar to offering exclusive products, is to offer a vast assortment of proprietary brands. “ The proprietary brands also enhance the exclusivity of a company. Apart from this, proprietary brands are generally priced lower than national brands, which is increasing the appeal as the customer budgets are still constrained” (“ Home Depot SWOT Analysis,” 2011, p. 8). In tough economic times, the appeal of proprietary brands increases due to the price differential as consumers are squeezing their wallets. In the second quarter of 2012, the private label penetration for the Home Depot was at 21. 5% (“ Home Depot SWOT Analysis,” 2011). “ A portfolio of exclusive and proprietary brands is an effective differentiator and will increase customer footfall leading to growth in revenues and profits” (“ Home Depot SWOT Analysis,” 2011, p. 8).

The Role of Human Resources Management

The role human resources plays in helping the business to achieve its business goals has been touched on with the discussion about reducing the number of staff in HR and getting more associates working on the floor; however, the role of human resources goes far beyond hiring and firing. HR is responsible for taking care of employees, providing security to employees and families, creating a positive work environment, developing training programs, providing opportunities for employees to grow, and most important, creating policies and benefits that will help to retain and attract the best workforce possible. The emphasis on the importance of HR at the Home Depot is evident at the top levels in the company. In a 2009 interview when asked how the company has responded to the tough economic

conditions, company CFO Carol Tome responded: In an environment where a lot of companies were cutting back, we said no. We are going to invest in those associates. We're going to pay merit increases, pay bonuses, and [sic] make contributions into the 401(k) plan. We're going to be singularly focused on them [associates] so they can take care of the customers. (Colvin, 2009, p. 3)

Tome's statement demonstrates how a good HR management strategy leads to employees who are able to focus more on customers, which results in increased sales and profits. The investment made in associates creates more sales, which provides more capital to invest, creating a loop that will help grow the company grow and increase jobs. " One of Home Depot's core values is ' taking care of our people" (Davis, 2012, p. 8). An example of an HR decision that demonstrates the Home Depot's commitment to its employees is the opening of an onsite childcare facility at the company headquarters in Atlanta. The onsite facility has space for 278 children and summer camp for school-age children that can accommodate another 48 children (Davis, 2012).

One employee states " It helps me to be more productive and just to have peace of mind while I'm at work, knowing that my girls are onsite" (Davis, 2012, p. 8). Employees who do not have children at the center are also pleased with the benefit. Company Director of Benefits, Brant Suddah, says of feedback he has received from employees who do not have children at the center, " they are happy with the solution and don't even have children" (Davis, 2012, p. 9). Suddah goes on to say that the childcare center is a

powerful differentiator for the Home Depot. He says Atlanta is home to many large employers all competing for the same talent and the child care center is a way to attract individuals to the organization (Davis, 2012, p. 9). Suddah concludes “ that’s one of the reasons that [child-care center] helps us stay competitive” (Davis, 2012, p. 9). Conclusion

The home improvement retail industry is heavily dependent on market conditions, specifically the housing market. The housing market burst in 2007, marking the beginning of a five-year period of difficult economic times. In the past five years, the Home Depot has remained profitable, despite the slow economy. The leadership at the Home Depot used a multi-strategy approach to increase efficiencies, cut expenses, differentiate their products and shopping experience, increase customer focus, and improve employee benefits. All of the strategies and tactics used helped the company to remain profitable, despite a decrease in sales by 14% from 2007 to 2009. In each of the past four years, net earnings and diluted earnings per share have increased steadily (The Home Depot, Inc., 2012). The strategic changes over the past four years have enabled the Home Depot to meet the needs of all of its stakeholders, including employees, customers, and stockholders. The Home Depots has had a better recovery than its closest competitor, Lowes, showing more improvement in sales and profits over the past three years.

The Home Depot has not shown good profits, sales, or growth when compared to Tractor Supply Company (TSCO). Sales figures from TSCO (Tractor Supply 2011) show that there is room for the Home Depot to improve by capitalizing on niche markets. There is a possibility for growth by

constructing smaller, more specialized stores, but that is not where the core competencies of the company are. Management will need to decide whether to stick to their existing model or to invest in different ventures that mirror the TSCO model as the market continues to change. The Home Depot's greatest strength is its brand awareness. The Home Depot is the number one retailer in both Mexico and Canada. The company is the fourth largest retailer in the United States and ranks 127th in Forbes' Global list of the 2000 largest companies (Marketing Teacher Ltd, 2012).

The company has expanded into Mexico and Canada in recent years. It will need to continue that expansion into global markets to increase sales as the North American market becomes saturated. Challenges from other home improvement retailers will reinforce the need for the Home Depot to continue to cut cost and expand into global markets. Throughout the tough economic times, the Home Depot has remained focused on customers. The Home Depot states in their 2011 form 10-K, "our customer service initiative is anchored on the principles of putting customers first, taking care of our associates and simplifying the business" (p. 2). Information technology improvements and a new associate scheduling system allow the Home Depot to allocate more associate hours to assisting customers, and have resulted in rebounding sales. Investment Decision

A company that can survive the collapse of an industry in which all of its sales are based, is a good company to invest in. The Home depot has not only survived, it has remained profitable. If the economy remains stale, the Home Depot will remain a good investment. The company and its

management team have demonstrated the ability the Home Depot has to change and meet consumer needs. If the economy recovers faster than expected, sales will increase and the Home Depot will be a better investment than it would be if the economy remains stagnant. There are other companies that have shown more growth and profit margins in the past five years, but the Home Depot has a proven history of being a good long-term investment. The Home Depot has remained prosperous throughout the largest economic recession since its incorporation in 1978. Good leadership and foresight have allowed the company continuously to satisfy stakeholder's wants and needs. Strong leadership, an established history, ability to adapt to changing markets, customer orientation, and a focus on maintain good associates are all signs of a strong company. Those signs, coupled with profits and stock values shown over the past five years, indicate that an investment in The Home Depot would be a wise one.

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