

# Home depot essay

[Business](#), [Company](#)



Home Depot, Inc. is the world's largest home improvement retailer with sales last fiscal year topping \$74 billion (Figure 1). Home depot sells a wide inventory of products ranging from building materials and home improvement products to lawn and garden products. In addition it provides various home improvement services including bathroom and kitchen installation. Its main consumer base consists of do-it-yourself consumers- those homeowners who do their own home improvement projects, do-it-for-me consumers- those homeowners who hire others to do their home repairs, and professional contractors.

Home Depot operates on a large economic scale in a highly competitive home improvement industry and competes in areas of customer service, price, store location and appearance, quality, and availability and assortment of merchandise. Its major competitor Lowe's operates on a similarly large economic scale and provides a highly similar range of products and services. Lowe's had revenues of more than \$50 billion the past fiscal year (Figure 2). Like Home Depot, Lowes is a highly recognizable brand.

Other competitors include home improvement stores such as Ace and smaller regional and local hardware stores which operate on maller economies of scale and provide a similar but smaller range of products and services. Additional competitors including electrical, plumbing, and building supply houses, lumber yards, specialty design stores, showrooms, discount stores, mail order firms, warehouse clubs, independent building supply stores, and installers of home improvement products compete with Home Depot in specific product or service areas. Supply houses can sell directly to

consumers due to low capital requirements for entry into the industry and directly compete with Home Depot.

Additionally there is growing competition from online and multichannel retailers as consumers increasingly shop online for home improvement goods. Consumers have many choices in the competitive home improvement industry which drives down prices as firms try to compete for business. In turn, businesses have differentiated to set themselves apart. Figure 3 illustrates the various forces at play in the competitive home improvement industry. The home improvement industry, as gauged by revenues of its two biggest firms, has experienced recent growth the past 2 fiscal years after more than 2 years of decreasing revenues (Figures 1, 2).

These years of decreasing revenues are tied to the economic recession and corresponding slump in the housing market. The home improvement industry is intimately tied to the housing and construction market as consumers and businesses who cannot buy or build houses generally do not buy home improvement goods. However, the upswing in the housing market in recent years, as the economy recovers, has seen a corresponding increase in the home improvement industry. As overall economic conditions recover, the unemployment rate drops, financing become more readily available, and people have more disposable income, the home improvement industry should continue to recover and see growth.

However businesses must still adapt to an increasing consumer focus on environmentally responsible products as well the trend toward online shopping as new online merchants enter the industry if they hope to remain profitable in the future. Figure 4 illustrates the various environmental forces

shaping the home improvement industry. Home Depot's core capabilities include its focus on customer service, product authority for home improvement, disciplined capital allocation, productivity, and efficiency, and interconnected retail (Figure 5). To develop its customer service, Home Depot invests ten million hours a year in training for its associates. Additionally, it recently acquired Red Beacon website which helps do-it-for-me customers find professionals to help them complete home improvement projects. This move enables them to deliver on consumer expectations by making it easier to get projects done, helps professional customers find jobs, and builds relationships with customers.

Its online feature MyInstall allows customers to schedule appointments and track projects online. Finally, its financing options for consumers, through third party creditors, contributed to 22% of sales in the last year. These customer service measures, though imitable, are important for Home Depot to compete in the area of customer service. In fact, according to analysts their revenues have been growing faster in recent years in comparison to Lowe's due in part to a better customer service experience (CNBC). Home Depot strives to be the product authority for home improvement by pushing product innovation, assortment, and value.

It has enhanced the customer experience by ensuring the availability of products and information. It stocks 30,000-40,000 products a year including name brand and value brand products. It offers the latest technologies as well as proprietary and exclusive brands. Through its global sourcing program it is able to obtain high-quality products directly from manufacturers around the world. Also its EcoOptions program was launched to account for an

increasing consumer demand for environmentally responsible and cost saving products.

While these initiatives have helped home depot become the industry leader in home improvement, it still faces competition from Lowe's in being able to sustain that competitive advantage. Home Depot's disciplined capital allocation, productivity, and efficiency are meant to keep down costs and maximize profits to keep themselves marketable in a competitive industry. Home depot invests a portion of its revenues to build competitive advantages in information technology and supply chain efficiencies.

Improved inventory management systems and mechanization of rapid deployment centers have also contributed to efficiencies and cost saving. This internal process of efficiency may be hard to imitate by other home improvement businesses and should help Home Depot sustain a competitive advantage. According to analysts, lower costs have been the reason for Home Depot gaining market shares at Lowe's expense in recent years (CNBC). Home Depot has recognized the importance of interconnected retail as more consumers shop online. It has leveraged technology to provide a seamless shopping experience to improve the customer retail experience and provide better access to information and products. To this end it has upgraded its online platform, provided support for mobile devices, built new call centers, and provided new buy online initiatives.

Having an online presence is fairly easy to imitate but Home Depot's competitive strength lies in its inventory of product and information not many competitors can match. Home Depot's focus on its core capabilities has helped it become the leader in home improvement retail. It is currently

positioned as a cost leader, operating with a broad competitive scope within the industry and with its source of competitive advantage coming from a cost leadership model. This strategy seems to be working with Home Depot posting increasing revenues for three consecutive years and taking market shares from Lowe's- its major direct competitor (Forbes). In addition, demand for home improvement products expects to see a 2-3 percent growth in the next few years (Forbes). Thus, Home Depot is currently in a strong position within the industry.

However, in order to sustain this position Home Depot must seek to differentiate itself by continuing to develop its online presence and improving upon its inventory of products and expertise. Its online site should be a one-stop shop for home improvement, from conception to fruition, with all necessary supporting information, goods, and services. Whether in-store or on-line, the consumer should be provided all the materials, guidance, and labor they need to complete all their home improvement goals in one setting. This focus on consumer convenience will differentiate them from other stores, supply houses, and online vendors and provide a model for success moving forward.