

# Executive summary

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**Task Executive Summary Purpose** The purpose of the case study is to evaluate the future growth prospects available to the management of Home Depot and Lowe's based on past performance review and review of financial forecast.

### Background

This case study is about the retail building supply industry, estimated to be worth 175 billion with major players being Home Depot and Lowe's. These two companies account for two-thirds of the current industry sales. They are currently applying the same strategy of rapid expansion but are faced with internal and external challenges in the attainment of their objectives.

Currently Home Depot has a total equity capitalization of 59 billion with a share worth \$ 25 compared to Lowe's that has a total equity capitalization of 29 billion and a share worth \$ 37 each.

### Findings

#### Home Depot

Home depot management is seeking to improve profitability by; reducing costs through product review, purchasing improvement and increasing number of rental centers, address the current declining customer service and increasing its revenue by between 15% and 18% to be achieved partly through acquisition.

#### Lowe's

Lowe's company seeks to improve profitability by; introduction of new merchandise, changing its pricing strategy. It expects to open up more branches in its predominant rural areas as well as metropolitan areas, currently dominated by Home Depot. The management also seeks to maintain its current revenue growth 18% to 19%.

## Recommendations

### Home Depot

The recommendation available to Home Depot as a means of enhancing its profitability include

Acquisition; the management of Home Depot should focus on acquisition as a way to drive revenue growth as it has a large cash reserves compared to Lowe's and its success in previous acquisitions.

Alternate products; Home Depot has the ability to diversify its current operation by expanding into alternative products as a means of boosting profitability. The new 'at home' product has a growth potential of 30% annually compared to the overall company's growth potential of 15%.

Alternative retail format; Home Depot should focus on new methods of ensuring that its customers are taken care of. This should involve focusing on the new program of Service Performance Improvement as a value addition to its customer since preliminary studies show that it's outperformed the current do-it yourself program in terms of productivity, operating margins and inventory turnover

### Lowe's

Head to Head Competition; this involves competing Home Depot directly in metropolitan areas that are predominantly for Home Depot.

Alternative product; the current market is made up of hardware's, lumberyards and larger-format home centers. By consolidating its market share gains in the new category of appliances, the company stands a chance to operate more profitably.

International expansion; Lowe's is currently a major participant in the domestic market but does not have international presence, compared to

Home depot whose revenues from foreign markets make up to 10% of total sales.

#### Conclusion

Although both companies are currently implementing growth strategies, future growth opportunities available for them vary. Home depot can successfully improve profitability by acquisition, developing alternative products and implementing alternative retail format. Lowe's profitability can be improved by directly competing Home depot in the metropolitan areas, focusing on the alternative products and expanding internationally.

#### Work cited

Damodaran, Aswath. Applied Corporate Finance. Hoboken, NJ: John Wiley & Sons, 2011. Print.