

Swot analysis of the home depot



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Business model: Home Depots business model, the first of its kind in the home improvement industry has revolutionized the way customers shop for home improvement products. Their business model is focusing on selling home improvement products and services to DIY, BIY, and professional customers with wide variety of products and sales associates that are educated and knowledgeable about home improvement.

Well known brand name: The Home Depot, as an established corporation, has much strength behind its name. One of the largest strengths would be that of its brand recognition The Home Depot name has become synonymous with home improvement. Brand recognition is of strong significance to the consumer that provides a sense of trust to its customers.

Extensive product offerings: The Home Depot is one of the leading distributors in United States. It has wide variety of merchandise including different types of building materials, home improvement supplies, and lawn and garden products.

Convenience: It is no secret that if you want anything having to do with home improvement the first place to go is Home Depot. Home Depot has distinguished itself as the home improvement warehouse that has what you are looking for when it comes to home improvement. Their extensive product lines have made The Home Depot the one stop shopping in home improvement.

Training Employees in Safety: The Home Depot provides a strong focus during the training of their employees on safety. New hires complete a training curriculum that is designed for their specific job type.

Television Network(HDTV): Money saving device that allowed HD's top executives to get instant feedback from local managers, and allowed training and communication programs to be viewed in the stores.

Price: The Home Depot is committed to competitive pricing. It often prices its products

substantially below major chains. Home Depot has low price advantage due to economies of Low price scale.

Service: The company uses sophisticated selection criteria to select people with a customer-friendly orientation. They also value, but do not require, experience in the building trades.

Weaknesses

Counterbalancing the strengths of Home Depot, it also has a couple of key weaknesses that need to be addressed.

Growth: Is both a blessing and a headache for Home Depot. As they have expanded aggressively into new markets, they have seen their operating expenses rise in direct proportion with their growth in revenue. While this is would be expected in most instances. This means that Home Depot is not capitalizing on economies of scale in logistics and distribution provided to them by their market saturation strategy.

Decline in Customer Loyalty: One of Home Depot's noticeable weaknesses would be the declining customer loyalty. The decrease is not solely based on their customer service or product offering but that there is a strong presence of strong competition in their industry. Lowe's is Home Depot's number one

competitor in the industry. Over time Lowe's has followed Home Depot's way in product/service offerings and expansion. Consumers have more choices and Lowe's is continuously building on their brand recognition, which spreads the consumers thin between the two rivalries.

Focus of Consumers: Home Depot focuses on the male and professional segment of the market. They should consider catering to the women and families in the market segments.

Environment: Competitor Lowe's is generally regarded as having cleaner, smaller, brighter, more customer-friendly store.

Financials: With a new CEO, making drastic changes at HD and having expanded sharp decline in stock price, the morale of managers is down. As HD enters its nature stage, share returns have declined and management has become less enthused.

Lack of Local Market Focus: HD store managers were given great freedom in customizing their stores, from merchandising choices to employee relations.

Organization structure: The Home Depot former CEO's militaristic leadership style and centralized organizational Leadership style structure are main weaknesses. These are affected the performance of employee resulting in excessive layoffs.

Opportunities:

Because of Home Depot's size they have some interesting opportunities available to them.

With a solid foothold in North America, Home Depot will set its sights on other world markets to further expand and spread its business risk across many diverse world markets. Expansion will be the primary focus for growth into the year 2000.

Home Depot has an opportunity in the global sourcing of their products as their scope and reach becomes global. Sourcing from other countries may significantly grow their gross margin.

Home Depot's Service Performance Improvement (SPI) program is due to deliver huge paybacks in productivity of night team workers. Other IT projects pose great opportunities to increase efficiency, decrease costs and further increase margins.

HD is staying within its core competencies by expanding their new landscaping division.

- Through a strong marketing research program, HD should fully grasp what the consumer is wanting.
- HD's specialty in home improvement and strong name recognition, will allow them to capture a large portion of this market.
- HD's EXPO Design Centers are an opportunity to expand their market niche by providing potential customers with innovative remodeling suggestions.
- As the EXPO centers enter more markets, they will be taking sales directly from stores such as Pier One, Bed Bath&Beyond , Sears , Williams-Sonoma and SAKS 5th Avenue.

- By specializing in high and home improvement products such as small appliances and culinary ware, patio accessories, ceiling fans and Persian rugs, people should enjoy the trendy shopping experience.
- HD is taking the initiative to update the appearance of their older stores by investing \$250 million in store remodeling in the upcoming year.
- They intend to transform their somewhat outdated stores into cleaner, more user friendly stores to enhance the overall shopping experience.
- Tool rental services had a significant impact on HD` s Gross Profitability. As the number of centers increase, so will gross profit as a percentage of sales.
- HD recognized a strong market potential in smaller cities surrounding large cities. By initiating the new market penetration strategy of smaller cities, HD will benefit greatly.

Serving primarily to do-it-yourselfers, which is a largely recession-proof market. So, even during a recession Home Depot can survive and even make money.

Offering a broad line of products that can lead to an increase in the number of customers.

Restructuring management and organization is opportunity for Home Depot to improve its market

Globalization value: Globalization has always two sides like to sides of coin. The positive side of globalization is to get efficiency and economies of scale and expanding market by internationalization.

Innovation has opportunities and threats both. Opportunities are it allows Home Depot to leverage the space it has and display a multitude of product in warehouse setting so customer can see the products available and buy it on same visit.

Leveraging the power of brand leadership through inclusive marketing campaigns that target pros and active do-it-yourself customers among both men and women. At the same time, we market opportunities for store growth expect to shape our marketing plans to capitalize on our large scale and geographic advantages.

Providing customer benefits from investments in new point-of-sale systems, self-checkout, and

Threats:

The biggest threats that I see for Home Depot are its competitors such as Lowe's, which are trying to emulate or even take a step further every strategy used by Home Depot.

Wholesale outlets can also affect Home Depot by offering lower prices to professional business customers.

Serving to the DIY industry can also be a threat because it is a very competitive industry and the profit margin is very low. So, if the DIY industry is not managed properly, a company might end up selling it off, like Kmart with Builders Square.

Intense competition fuels business to be efficient in almost every way.

Intense competition is one of the biggest threats for Home Depot right now.

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Home Depot has more than 25 direct competitors including Lowe's, Menards, True Value, Ace Hardware, Do It Best, Sears, Target and Wal-mart.

Lowe's and Menards has significant market share right now.

High buyer power There are high buyer power and low switching cost due to many firms in market competing among each other.

Innovation The major threat of innovation is that each store must have and extremely efficient and organized warehouse supply chain operation.

Globalization The negative side of globalization is different economical, political and legal condition in different nations. Different culture, people attitude and local firm also threat for firm.

These risks and uncertainties include, but are not limited to, fluctuations in and the Economical conditions overall condition of the U. S. economy, stability of costs and availability of sourcing

Weather conditions and channels, conditions affecting new store development, the company's ability to attract, train

Competiton. and retain highly-qualified associates, unanticipated weather conditions, and the impact of competition and regulatory and litigation matters.

Because of the competitive nature of the retail industry, Home Depot's success depends on price, store location, customer service, and wide product selections. In each market that Home Depot serves there is a plethora of

specialty home improvement stores that have the potential to cutting into Home Depot's market share (Datamonitor).

Home Depot's overlap with primary competitor, Lowes, poses a potential threat. In the minds of consumers, Home Depot may be seen as interchangeable with Lowes which would in turn decrease customer loyalty. Also when a Lowes enters a market that is only served by Home Depot, Home Depot's sales have a tendency to decrease by up to 15% (Datamonitor).

As Home Depot and Lowes continue to compete head to head in primary markets and both continue their strategy of market saturation, the awareness of US market saturation becomes a very real possibility. According to Datamonitor, " The US home center potential is valued at approximately 3, 500 stores. With Home Depot and Lowes opening a combined 300 stores a year, the industry could reach saturation in the next few years."

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- HD is competing head to head with Lowe's. They have been stealing HD's market share with a positioning strategy of opening stores as close as possible to HD.

- Looming poor economic conditions present challenges for this retailer.

- Declines in GDP growth, employment, personal disposable income and customer sentiment are a threat to HD's sales revenues in the short term.

- Decreases in the economic factors would signify a worsening economy.

Consumer would start a larger portion of their disposable income

Questions for Discussion

1. What is your assessment of Nardelli's changes at Home Depot? Which had the greatest impact?

In my opinion Nardelli, during the years he was The Home Depot's CEO, did an overall great job. The changes he introduced to the business model were necessary to help The Home Depot to keep growing in the right direction.

The Home Depot, at the time Nardelli was appointed CEO, was a company with an old style management and operations that could have compromised the future of the company.

Nardelli focused on and achieved increasing sales and profitability, by 2006 sales had doubled from \$45.7 in 2000 to \$90.8, and profits had more than doubled from 2000 to 2005 to \$5.8 billion. Among all the changes he made, the ones that had the biggest impact were:

- Geographic expansion: Nardelli brought the company to Mexico where it went from zero to number one.
- Diversification: he expanded the wholesale business with the creation of Home Depot Supply, which provided products and services to professional customers.
- Cost cutting measures: he centralized Home Depot's merchandising and purchasing which led to an improvement of the buyer power with suppliers and better deals extending payment terms from 30 to 45 or 50 days. He also took the decision to switch full time store employees to part time employees and to reduce the number of employees in the stores.

This had actually a negative impact as it certainly contributed to the erosion of the share price during the years and it actually cost Nardelli his job.

Opening to different countries, having better communication system with stores and dealing with distributors in corporate level vs. locally deals. This had more potential on getting better deals.

2. How did Nardelli's changes affect profitability, labor productivity, and customer service? What metrics would you use to assess these impacts?

The main change that Nardelli introduced that affected profitability was the centralization of the merchandising and purchasing. It is true that before 2000 the store managers were able to be closer to customers and to decide what products stock in the stores, but at the same time that was highly inefficient from an operational point of view, leading to a mismanagement of stock levels. Thanks to Nardelli's new centralized approach the company was able to eliminate almost 20, 000 unprofitable items and to introduce other higher priced, higher-end products which contributed to increase sales and eventually profits.

Nardelli improved labor productivity thanks to heavy investments in information technology as the company was lagging behind its competitors.

He started the Front End Accuracy and Service Transformation (FAST) initiative, through which all stores were equipped with new point of sales terminals with touch screens. Other measures taken by Nardelli that contributed improved productivity were:

- Introduction of self check out registers.

- Standardizing

of in-store logistic activities.

- Introduction of cordless scan guns.

- Six Sigma Approach.

As mentioned above, Nardelli actually worsen the Customer service since he started his job, mainly switching the full time store employees to part time employees.

The result was that customers were unhappy about the level of customer service since the part time employees were not enough prepared as the full time workers. This eventually led to the share price erosion during the years.

Some of the metrics used by Nardelli to measure the productivity were pallets per hour for the monitoring of the freight flow process and inventory velocity to measure the length of time it took for products to flow through stores. He also used other sort of performance metrics such as financial, operational, customer and people skills metrics. He definitively should have monitored closer the customer satisfaction and people skills to avoid the problems he had at the end of his career with Home Depot.

Profitability increased, productivity increased however there was a decline in customer service.

3. What caused the decline in customer service?

Hiring more part time employees and having military backgrounder store managers. It is hard to carry a system when you have more part time

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employees than your full time employees. Each employee has to attend trainings and need to practice these with the customers. In this case it would be hard to monitor improvements in part-time employees and this also effects hiring and firing process. It would take more time to find out if an employee is valuable to the company. With this on mind, having more part time employees mean more job and safety training and spending more time in monitoring and hiring process.

On the other hand military backgrounder store managers can be seen as a strength however, compared to the previous managers they wouldn't necessarily have knowledge on materials to help their customers. Imagine a customer comes and asks about an item or a DIY project, even store manager has no idea about that.

The Home Depot`s main competitor Lowe`s has more customer oriented service and has a refreshing atmosphere with employees knowledgeable in their interested fields.