Swot analysis case study example

Business, Company

Introduction

The Home Depot is a retailer based in the United States of America. The retailer predominantly stocks construction and home improvement products. The company was founded in 1978. It has operations in all the states in the country. The Home Depot also has operations in all the provinces in Canada, District Columbia, Mexico, Puerto Rico, Guam and the Virgin Islands. The Home Depot has several departments that store the various products it vends. Some of the departments at The Home Depot include plumbing, flooring, storage and organization, heating and cooling, and lawn and gardens among others (The Home Depot, 2013). Like other businesses, The Home Depot is subject to forces in the market. Additionally, elements within the organization also influence the performance of the company in the market and the reaction to changes within the retailing industry. This paper analyzes the current situation of The Home Depot, and internal and external analysis of the company, the strategic issues facing the company and the recommendations to navigate the strategic issues.

Overview/Current Situation

The results of the company’s performance in 2014 showed that the company was doing well from a financial perspective. For instance, the net sales of the company increased to 83. 2 billion, an increase that amounted to 5. 5%. The operating income also rose to 10. 5 billion dollars, an increase that amounted 14. 2% from the previous financial year. The diluted earnings for every share in the company increased to 4. 71 dollars, a figure that represents an increase of 25. 3% from the previous financial year (The Home

Depot, 2015). The company also generated their operating cash flow of 8. 2 billion dollars. The return on the capital invested in the company was estimated at 20. 9% in the financial year ending 2013.

This parameter increased to 24. 9% in results for the financial year ending 2014 (The Home Depot, 2015). Another parameter that can be used to measure the performance of the company is the value of the return to the shareholders of the company. This can be indicated by the growth of the stock price of the company. Other indicators include the amount paid to the shareholders in dividends and the amount of shares purchased in the stock exchange where the company is listed. In the financial year ending in 2014, the stock price of the company increased by 39% (The Home Depot, 2015). The amount paid to the shareholders in dividends was reported at 2. 5 billion dollars. The amount of company shares that were repurchased amounted to 7 billion dollars (The Home Depot, 2015).

Internal Analysis

Strengths

Robust financial performance: the steady growth of the company in sales, generated income, and the value of their stock offers the company an advantage. As highlighted above, the financials of the company are relatively impressive. The overview showed sustained increases in the various indicators. The impressive financial performance gives the investors of the company confidence over the future growth of the company.

The network of the store: the company has an extensive network of retail stores. It is the industry leader in home development retail in the United States, Mexico, and Canada. In the financial year ending 2015, the company had 2, 269 retail stores in total. 1, 977 of these were located in the United States, 181 were located in Canada with 111 located in Mexico.

Diversified portfolio: in addition to the products sold, the company also offers services in the construction and home improvement. Besides this, the company also has several departments that allow it to store a diversified product portfolio.

Weaknesses

High debt: the long-term debt as reported in the balance sheet for the financial year ending 2015 was at 16. 8 billion dollars. This was an increase of 14. 8% from the previous financial year. The higher interest expense affects the profitability of the company (Bloomberg Business, 2015).

Low turnover of inventory: the company takes longer to clear the inventory. This leads to more inventory costs compared to competitors. Higher inventory carrying results have a detrimental effect on the operating performance of the company.

Opportunities

Growth in the domestic retail market: between 2009 and 2015, there has been an increase in the retails sales in the American market. Even though there have been slumps in sales, they have recovered swiftly (Jamrisko, 2015). The Home Depot can exploit this opportunity for growth.

Online retail: The Home Depot online sales strategy allows the company to tap into the online retail industry.

Threats

Cybercrime: the online retailing strategy of the company is threatened by internet crime. Cyber crime might deter online retailers, a factor that threatens the business.

Labor wages: the increase in the minimum wages threatens to increase the operational costs, a factor that would affect the profit margins of the company.

Strategies

The Home Depot had employed various strategies. One of the strategies employed is the creation of a customer friendly experience in all its stores. As such, the emphasis was on giving the managers in its stores the autonomy in decision making, training the staff and ensuring they were knowledgeable on its product portfolio. Additionally, the stores ensured that the shelves were well organized, the inventory well stocked and the aisles were clean. The evolution of another strategy was prompted by the decrease in profits (Hitt, Ireland & Hoskisson, 2008). The new strategy was based on centralization where the arbitrary management systems were replaced with a strict system based on operational excellence. This strategy caused more harm as evidenced by poor customer service, low knowledge on products and diminishing employee morale (Hitt, Ireland & Hoskisson, 2008).

The company adopted the strategy through which they pursued the acquisition of wholesalers in order to form the Home Depot Supply. This strategy effectively oversaw the entry of the company into the supply industry. Rather than rebrand the acquired wholesalers, the company opted for cultural continuity (Hitt, Ireland & Hoskisson, 2008). The company also shifted its strategy in response to conditions in the market. Rather than focusing on growing the company through increasing its stores, the new strategy seeks to improve the performance of the stores the company has currently and also seeking web presence. This is a response to changing consumer preferences with more customers shopping online (Townsend, 2015).

External Analysis

Five Forces Analysis

Competitors

One of the main competitors of The Home Depot is the Lowe's Companies, Inc. Over time, this competitor has transformed into a nationwide operator with superstores featuring home improvement products. This competitor is ranked a close second in the domestic market after The Home Depot. It has 1835 superstores spread over fifty states in the country. The competitor also has forty stores in Canada and Mexico (Hoover's, 2015). Another competitor of The Home Depot is the True Value Company. This is the product of the merger between ServiStar Coast to Coast and Cotter & Company. This competitor operates 4, 600 retail stores spread in over fifty countries (Hoover's, 2015).

Strategic Issues

The Home Depot recently adopted the strategy to promote the performance of the existing stores and increase its presence on the web at the expense of seeking growth through the expansion of physical stores. This meant increased online sales to its customers. This strategy was faced with one significant issue. The company experienced a widespread breach of the customer's data. The threat of cyber crimes is real for The Home Depot as it seeks to expand its online sales. Such threats can reveal the credit card data of many customers as well as their personal information. The Home Depot has vulnerable to hackers as was evidenced in this breach (Halzack & Peterson, 2014).

Another strategic issue for The Home Depot is the bulging long-term debt. As highlighted earlier, the long-term debt of the company is at 16. 8 billion dollars. Such a huge debt does not inspire confidence in investors. Additionally, the huge debt can stifle the growth prospects of the company, especially now that it has shifted emphasis from the growth on the physical stores to growth in terms of online sales. The newly adopted strategy requires substantial investments in order to develop the infrastructure necessary to thrive.

The third strategic issue is brought about by the decision by the management to centralize its purchasing options also came with changes to the organization structure. The original organizational culture of the company was relaxed, with the store managers having the autonomy to price and market the products in their stores independently (Charan, 2006). The new changes saw a stricter organizational culture that was not as cohesive as the original culture. Performance measures were used evaluate productivity. The restructuring of the company was done hurriedly without the adequate deliberations with the store managers and other stakeholders. This brought about resistance to change. This poses a threat to the company (Charan, 2006).

Recommendations for the Strategic Issues

Invest in appropriate infrastructure in order to reduce the vulnerability to cyber attacks that expose confidential information belonging to the customers. This will enable The Home Depot attain the reasonable standards where they can protect the integrity of their systems.

The Home Depot should restructure its debts. Even though restructuring will not reduce the debts, it can help The Home Depot increase its disposable income. The disposable income can be used to service the long-term debts that the company owes.

Finally, The Home Depot should create a consultative framework through which the new organizational culture can be implemented.

Conclusion

The Home Depot is a company that has experienced long periods of stellar performance. This is shown by the many stores that the company operates and the fact that these stores are located in different markets around the globe. The financials of the company also show a sustained improvement in the performance of the company. It is foreseeable that the company will grow upwardly in its performance. This is evidenced by the change in strategy to exploit the opportunities in the market such as online sales. However, there are threats such as the high debt, cyber crimes, and competitors that the company needs to address. By exploiting is strength and establishing frameworks through which the new organizational culture can gain cohesion, The Home Depot will continue to dominate the retail industry.

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