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Taking a broad and timeless perspective, we are now living in the most complicated time in history. Before the first and second world wars, business and economy were a lot simpler than it is today. There were only few business innovations around and the growth of new industry was not nearly as vast as today. Today, almost all goods and services can be turned into a good business. In this paper, we are discussing the growth and evolution of the home improvement industry.

In earlier years, modern people were satisfied by using professional services to furnish their kitchen, crafting their cabinets, putting together their tables, etc. Today however, the ‘ do it yourself’ trend has made an apparent comeback. People are looking at hand-crafting activities as hobbies rather as jobs. Many of them find joy and satisfaction in making their own kitchen cabinets, book shelf, lamp accessories, and other things. These easy-to-make things have created a new and developing industry in America and other modern nations.

In this paper, we will elaborate the history of how the home improvement industry was created and grew along the decades. We will also use two of the largest home improvement equipment retail sellers in America, Home Depot and Lowe’s Stores, as examples of how the home improvement industry grow and faces the challenge in their markets. II. The Home Improvement Industry and its Development II. 1 Origins of the Industry The do-it-yourself phenomenon appeared about a decade after the Second World War. However, the retail hardware industry has been around as long as people have needed shelter.

It has the role of supplying the tools, materials and know-how to build, maintain, repair and improve homes. The retail hardware industry began right after the World War II has ended. The best way to describe how the home improvement industry began is by defining it as a form of business between common hardware stores and contractor-oriented lumberyards. Originally, the hardware stores and lumberyards were the more common form of the business, prior to the retail home improvement centers. Contractors who became steady customers of both types of stores generally handled home improvement jobs.

Hardware stores provided contractors with tools and lumberyards provided them with materials. As the stores developed and discovered new interest from the society, both types of retailers looked for new opportunities of expansions. The hardware stores added lumber and building materials and slightly moving into the home center format. The lumberyard also expanded hardlines shelfgoods offerings and moved into the home center category. The format of home improvement centers began in 1970’s. It vastly became the new and growing industry among others at the time.

Today, the national Retail Hardware Association and the Home Center Institute divided the business into three types, hardware stores, home improvement centers and material outlet. Corporate chains developed and price competition became the new game in the business (‘ Home Repair’, 2004). In the 1990’s the home improvement chains were opening stores of 100, 000 square feet and larger and expanding beyond major population areas into smaller markets. The three types of business contributed in average of $ 212 billion a year to US economy (‘ Home Repair’, 2004). II. 2 How the Industry Developed

Common people often wonder how these types of businesses could developed in such a vast rate that new home improvement stores and retailers seem to appear out of nowhere. There are considerable challenge in managing the home improvement business, especially when most of the products are long-lasting hardware that does not provide many chance of repurchase for many years. Many believed that they manage to survive because they form some sort of collaborations in the form of business chains or franchises. This speculation is largely untrue Independent stores purchase some of their merchandise from wholesalers.

Because wholesales would want a quick turnover rate of these retailers, they offer marketing and advertising support in exchange of frequent purchase deals. Today, independent retailers generally purchase 60% their products from a single wholesaler. Because independent stores often use the store identity program offered by their primary wholesalers, they appear to be chains or franchises to the common public. Actually, they are privately owned retailers who maintain a strong independence in managing their operations, as well as choosing products to buy (‘ The Retail Hardware’, 2006).

However, in the specific segment of home improvement center, the business is dominated by national chain operations that are difficult to compete. These stores tend to buy direct from manufacturers, but sometimes they also rely to some degree on wholesalers for special services. A home improvement center generally sells all merchandise offered by a hardware store with addition of commodity lumber and building materials. They seek to create a one stop source for home improvement and repair products. These stores could carry from 15, 000 to 50, 000 items.

Some focus on do-it yourself customers, others on professional customers (‘ The Retail Hardware’, 2006). II. 3 Home Improvement Center Business Today The home improvement center is generally located in a large facility –1000 square feet or more- in order to have stocks of lumber and building materials in the same roof with hardlines shelfgoods. This is important to provide customers with a single center where they can find any home improvement utilities and materials. They may also have outside lawn to provide space for lumberyards. Compare to other form of retail stores, these stores are generally aggressive advertisers.

They usually open for 24 hours and tend to do what they can to push prices as low as possible. Larger home improvement centers generally get their products directly from producers instead of wholesaler suppliers. The presence of home improvement giants like Home Depot and Lowe’s brought the image that the business is controlled by these companies and there is no more room for other stores to grow. This is generally not true. Chains are indeed important but they do not control the retail market. Although the market share of these large chains is continuously improving, the home improvement industry remains fragmented.

It was estimated that 25 of the largest home improve retail stores represents only 51% of the entire US market. The three largest players (Home Depot, Lowe’s and Menard’s) has only 41% of the entire market sales. That means approximately 60% of the business remain fragmented through small and mid-size chains and independent location. Growth of the industry remains strong as a whole. It is not as vast as the growth during the late 70’s, however, it is the highest within the decade. II. 4 New Trend The large warehouses of home improvement (Home Depot and Lowe’s) are still trying to find ways to increase their profit.

One of these efforts is by strengthening their relationship with their suppliers and strengthening their commitment toward providing the best value for customers. Recently they demanded that their suppliers respond quickly to their changing just-in-time inventory needs and do so with competitive priced products. Other effort of gaining more profit is by expanding market share to markets abroad. Like other industries trying to find a lower-costenvironmentto operate within, the home improvement industry of America is aligning themselves with Asian-based sources r simply making overseas investment within those Asian countries.

The new and popular destination of foreign direct investment (FDI) in this sector is China, which is known to the world to have an immense labor force. Furthermore, the government of China seems to have supported the flow of FDI into their country by providing tax incentives, and easy access to their country. As the new trend is to expand the business into foreign countries (mostly China), there is a considerable change in the industry in order to deal with that particular opportunity. Owners of large and small retailers are redesigning their business to create a compatible design to do business in Asia.

Some of the characteristics of the companies who expand to China are: ? Having high manufacturing labor content ? Having access to cheap raw materials in low cost environments ? Having cost-effective logistics ? Having little or lack consumer brand equity ? Having predictable sales volumes The last report indicated that there is considerable acknowledgement form the home improvement companies in the US about the new ongoing trend. Due to the high level of competition, all players within the industry must take advantage of this opportunity or become left behind by its competitors.

Therefore, the trend of exporting the home improvement business is likely to accelerate in several of the coming year, as the economy of China is also developing rapidly. There are several reasons why many companies including those in Home Improvement Industry look at China for their foreign investments. According to various studies, it is found that China has achieved remarkable success of attracting FDI by altering their foreign trade policy. The country also facilitates the FDI by building infrastructures to produce market size-growth and urged their political leaders to maintain stability both in politics and economy.

The success is the result of reformation of the country’s investment policy commencing 1978 in which China liberalized its restrictions on FDI with intentions to gain advantages from foreign presence inside the country. The advantages could come from foreign investments, technologytransfer, management skills transfer and foreign exchange benefits. In 1979 the Equity Joint Venture Law allowed legal entry of FDI in the Special Economic Zones (SEZ) and also established a statutory basis of building joint ventures in China (Berkun, 2001).

The decision seemed to be the right one since quickly after the policy is stated, thousands of multinational corporations invested in China bringing billions of dollars in the form of FDI and thus creating new jobs for urban workers III. Home Depot and Lowe’s III. 1 Background Home Depot was founded in 1978 in Atlanta, Georgia. Home Depot is practically known as the company who brought the do-it-yourself trend into life in the 21st century. They also have professional customers who serve the home improvement construction and building maintenance market segments.

The company currently stores up to 35, 000 different kinds of home improvement products, plus providing customers with unique services like free in-store clinics for home improvement skills, do-it-yourself consultation, truck and tool rental, home delivery, etc. Today, they are acknowledged as the world’s largest home improvement retailer, operating more than 1, 500 stores across the US soil. They operate in 50 states, the District of Columbia, eight Canadian provinces and Mexico. The company owned several stores in Puerto Rico and recently exported their business to China.

Together with Home Depot, Lowe’s is the leader of the US home improvement market. It is the second largest home improvement retailer in the world, and the 14th largest retailer in the US. By today, it has become a $26 billion retailer, providing tools and materials to approximately seven million customers through more than 800 stores in 45 states. Nevertheless, recent report indicated that the company is on the midst of aggressive expansion plan. Among the abundant new stores it opened within the last few months, people also recognize Lowe’s as active supporter of the community it serves.

It works together with the home Safety Council to provide civic groups with public safety projects. There are many driving forces that characterize the evolution of Home Improvement Industry. First is the intense atmosphere of competition in which the Home Improvement industry has no significant barrier that can prevents new competitors to enter the market in times of increasing market demands. This characteristic soon encourages new entrants to enlarge their companies by providing as many products they could serve.

Second is that the company realizes the importance of economic of scale in order to gain decent profit figures within the business. This is due to intense competition which forces profit margin to stay in minimum amount. Thus, large retailers like Home Depot and Lowe’s require a large amount of sales in order to keep their business running. New retailers with no significant market share will usually go out of business within a short time. By offering vast products, Home Depot and Lowe’s can enlarge their market share. Third is the customers’ characteristic to buy products that meet their needs.

This is in line with the terminology “ mass customization” implying the existence of various customers’ demands, which need products/services tailored in specific fashion. This characteristics immediately drive customers to visit stores that offer vast kinds of products that they specifically meet their needs. III. 2 Critical Success Factors In order to gain increasing profitability, the companies are striving to meet the necessities of the environments. The critical success factors of the home improvement industry are: ? Meeting the demands of the environments.

Recently, it has becoming clear that the customers of the industry prefers a one-stop shopping center with convenient location, excellent help from customer service officers and low prices. ? Aware of the tight competition. Most of the companies in the industry are now using the super store price-based concept. As mentioned previously, despite the 40% ownership of the market by only a few companies, the home improvement market is till fragmented in nature and have many local competitors. Most of them are trying to win the competition by providing a quality customer care.

? Taking on new opportunities. The home improvement sector is generally a creative sector. Thus, new tools and materials are always a new expansion opportunities. Companies within this industry are trying to have as wide product line as possible. Nevertheless, the wide product line must also be in balance with the ability to take advantage of economics of scale and cost efficiency. New opportunities also come in the form of new markets. Foreign markets and new stores are the expanding trend within the sector.

Furthermore, this expansion trend is in line with need to have educated, trained and resourceful sales forces to work with the barriers of new markets. III. 3 Strategies III. 3. 1 Strategies for Attracting New Customers For Home Depot, the key success factors to deal with the challenges mentioned in the previous chapter are excellent management, competitive prices, superior customer service, full range of product and expansive distribution channels. The company also made a considerable effort in making their presence acknowledge through the internet.

Home Depot’s e-commerce strategy has contributed considerably to the presence of the business (‘ Home Depot's Strategy’). Because of the currently high level of competition in the home improvement industry, in order to continue with the elaboration of Home Depot’s operational strategy, we need to include Lowe’s stores within the discussion. Both companies are each other’s strongest rival and thus, what one does affect the other considerably (‘ Home Depot's Cultural Evolution’). Lowe’s is targeting customers who are interested in shopping for big ticket appliances and high-margin home furnishings at its urban stores.

There is a strong believe among analysts that the company is trying to make up for lost times when it was ‘ derailed’ by Home Depot as the leader of the industry in 1980. Because Home Depot has saturated most of the largest markets, Lowe’s strategy is to fill in the retro areas and opening new stores there. In 2002, the strategy of Lowe’s paid-off, as its sales number increases higher than Home Depot (‘ Lowe’s big Plan,’ 2006). To further enhance their success in attracting customers, Lowe’s also implemented a unique strategy. It design its stores in a convenient way that it also looks appealing to women shoppers.

This strategy to attract female shopper is derived from the perspective that most of the improvement jobs performed at home are initiated by women. Lowe’s customers are now 50% women and its attracting increasing number of non-professional into the do-it-yourself activities (‘ Lowe’s big Plan,’ 2006). III. 3. 2 Price Competition As stated previously, lower prices are significant factors that influence the business in the home improvement industry. Nevertheless, Lowe implemented a slightly uncommon strategy of premium prices. In Lowe’s stores, the products have a slightly higher profit margin than Home Depot.

The recent year also brought even a higher increase in Lowe’s profit margin (Matthews, 2003). On the other hand, Home Depot practices a traditional strategy of low prices, lots of product selection and sales to professional contractors. However, as the plan of Lowe’s produces an apparent impact on their sales number, Home Depot has also made apparent effort to compete with Lowe’s in anyway they can. The company plan to meet the challenge brought by Lowe’s ‘ targeting women’ strategy by selling smaller neighborhood units designed for women.

In other segments, Home Depot is planning to build larger appliance sector following the success of Lowe’s in taking away more than 12% of the market share of major appliances (Matthews, 2003). III. 3. 3 Rental Segment The Home Depot has experienced a terrible time in the business when its share of market is tiny and its financial performance were mediocre. However, as the years brought the do-it yourself trend back into the market, Home Depot displayed a notable comeback into the industry. It brought innovations in the form of new store format, new sections of appliances and new methods of selling them.

One of the most notable forms of this innovation is the Home Depot Rentals segment. Although the rental format have existed before the 1990’s plunge, Home Depot has apparently discover a way to do it right (Roth, 2004). The strategy has gained much supporters as its great rival, the Lowe’s Home Improvement Stores has also reviving their NationsRent rental department. Nevertheless, there are also questions regarding Home Depot’s action of working with smaller contractors that national rental chains prefer not to do business with. Home Depot responds by offering and rents small earthmoving and aerial items to those smaller contractors.

Lowe has apparently followed Home Depot’s step by using its NationsRent to target the segment also (Roth, 2004). In anyway, the rental business for the Home Improvement industry is displaying a strong determination to stay. Home Depot currently has 930 locations in all around the nation. Home Depot’s acquisition with other companies also indicated that the rental business in the United States would grow in the next several years. Therefore, Lowe’s and other companies in the business will have to compete in developing their rental department to gain a chip of the reviving business segment (Roth, 2004).

III. 3. 4 Role of Information Technology The evolution of Information Technology (IT) also has a crucial role in the in home improvement industry. This is also a field of tight competition between companies in the industry. Home Depot, who was successful in the 1980’s have numerous difficulty in managing the overgrown company. New CEO are brought into the company and discovered several bright improvements. The new CEO stated that the technology that brought the company to achieve its first $50 million does not have the capability to take the company to achieve their second $50 million.

Thus, the company performed a major infrastructure change during the year 2002 (Demir, 2006). The company spent over $ 1 billion to install self-checkout counters, performing a LAN upgrade, installing an advanced data warehouse system for sales and labor management, price optimization software, etc. Management has full confidence that the new system will create much more efficiency in the future than its cost (‘ Retail IT – Home Improvement’, 2004). Lowe’s performs a similar but not the same strategy.

The company did not disclose many of its IT strategies, but the financial fillings indicated a system of real-time inventory monitoring, labor planning, item movement experience, and centralized inventory replenishment (‘ Analysts enamoured’, 2002). The company also has a state of the artcommunicationsystem that allowed operational integration between Lowe’s and its suppliers. Many believed that the company has streamlined the business more than its competition, the Home Depot. However, analysts recorded that the company has a slightly simpler technology appliances in some stations.

For example, as the Home Depot installed all-automated checkout counters, Lowe’s maintain their current traditional register system. However, the challenge of shorting-in the register line is solved by simply opening more registers. Management of Lowe’s stated that they will open new register if the spotted there are more than three people in one register line (Dignan, 2003).

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