

The Home Depot SWOT analysis

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Abstract: This SWOT analysis discusses the strengths, weaknesses, opportunities and threats related to Home Depot. Specifically, the analysis explores how the home improvement company has become the largest player within the consumer marketplace. In addition to this, the analysis explains how employees feel about the company. The analysis also examines the company's competitors and what they are doing to try and overtake Home Depot as the largest player in the home improvement industry. Finally, the paper explains the threats to the home improvement industry as a whole as it relates to the housing market, and how Home Depot's initiatives have not necessarily been able to correct many of the issues and problems that the industry faces.

Introduction

The Home Depot is a construction and home improvement retailer that operates in the United States, Mexico and Canada. Headquartered in Atlanta, GA, the company is considered the largest retailer of home improvement items. The company is renowned for its exclusive brands as well as conventional ones sold by other companies around the world. Since its inception in 1978, the company has dominated the space over rival, Lowe's, and continues to be the preferred selection by consumers because of the array of items that are available within the stores. One of the key aspects surrounding The Home Depot is its commitment to environmental sustainability and philanthropic arm. While it is true that Home Depot is a dominating force within the home improvement industry, there are weaknesses and opportunities that the company should assess so they can maintain viability and reputation going forward. The following SWOT analysis examines the strengths, weaknesses, opportunities and threats related to The Home Depot.

SWOT analysis of Home Depot:

Strengths:

- The largest specialty retailer in the United States is Home Depot. After Wal-Mart it comes on second number in the list of largest American retailers. There are 364,400 employees of Home Depot and therefore it is largest specialty retailer as well.

- Home Depot Experienced years of rapid growth and in the year 2000, Home depot made a revenue of \$45.7 billion and established a 1,134 stores home improvement retail chain.
- Home Depot is the biggest player in the home improvement market other than Lowe. It is also a principal driver of the home improvement retail industry.
- Approximately 60% of the market share of United States was captured by Home Depot and Lowe in the year 2006. The biggest players in the market of home improvement are Home Depot and Lowe.
- Arthur Blank, one of the founders of Home Depot believed that decentralizing purchasing could boost sales from %15 to 20%. Nine regional purchasing offices negotiated separately with suppliers. His believe was due to the reason that Home Depot buyers could understand the needs of the local customers.
- Home Depot offers excellent wages and other benefits to its employees and offers them great opportunities for growth. It offers excellent service to its customers and this is actually key to the success of Home Depot.

Weaknesses:

- The share price rose 2.3% the day after the change in leadership was announced. Blake faced significant challenges as successor to Nardelli as he faced the decision to continue or discontinue Nardelli's unfavorable initiatives
- Chief competitor of Home Depot, Lowe was steadily adding stores. It directly challenged Home Depot in its previously uncontested turf of urban markets.
- The industry reported \$12 billion in sales in the U.S. in 2006. So Nardelli decided to expand this by transferring business to other countries.
- When home depot buy products from vendors then it becomes vulnerable for home Depot because the levels of quality are not sufficient in this condition. For example now Home Depot has determined that it is important to declare many product recalls. A product that is in wall electronic timer, candle holders are patio umbrellas are currently found unsafe. These products recalls put a negative impact on the brand image of Home Depot.

Opportunities:

- Market over saturation is an opportunity for Home Depot to expand its business and revenues.

- It is an opportunity to compete with Lowes, True Value Hardware and Ace Hardware and Menards hardware stores in order to capture more market share.
- In 2006 the average size of a transaction for hardware stores as reported to be \$15 compared to an average transaction of \$41 for home centers
- The money spent by the customers of Lowes is \$10 more per trip as compared to the customers of Home Depot.
- The response of Home Depot to recent economic downturn has been done through readjusting the practices of the business and the focus of business. In the meanwhile, Home Depot has lagged behind its involvement in the ventures like Expo, HD bath business, Yard birds and THD design Center. Home Depot has made its focus completely towards the maximization of productivity at the existing stores and has closed fifteen stores for better efficiency.
- Home Depot will get benefit from the increasing demand of its power tools. In the year 2009, there was an increase in sales of more than 3%. The popularity of these power tools is actually due the increased demand of electric drills, electric screw drivers and saws. So because of the products like Milwaukee Lithium and Makita, Home depot is in a good position to the benefit of this increased demand.
- Moreover there is another opportunity for Home Depot. And this opportunity is in online sales. Home depot has the opportunity to take the advantage of projected increase in online sales. In 2009, the online revenues were projected to increase by 4.1 percent to \$142.4 billion in case of online sales. However it is expected that economic downturn will continue, still it is estimated that the online sales revenues will increases by 9.5% and 9.2% in the years 2010 and 2011 respectively. Home Depot has the opportunity to capture the market share through its websites that are homedepot.com.ca, homedepot.com and homedepot.com.mx. These advantages can be attained through these Internet sales. Additionally there will be another benefit that Home Depot will get through this and that will be the decrease in operating costs of Home Depot.
- Home Depot has planned to enhance the utilization of Rapid Deployment Centers. These centers permit to quickly restore the inventories from central locations to the individual stores. This increased utilization will decrease the lead times and will enhance the efficiency.

Threats:

- Despite all the changes made by Nardelli the Share price remained low. All employees, managers and customers were not a fan of Nardelli's changes because he was replacing full time employees with part time employees and that resulted in decline in share price.
- In 2007, Home Depot faced a downturn in the housing market. In the beginning Wall Street responded positively towards changes that were made by Nerdelli. It assessed the Nardelli's efforts that made Home Depot successful in its first 20 years. Later on the analysts said that there were too many strategic initiatives taken at once and this made Home Depot as less enthusiastic Company.
- The home improvement industry was fragmented as sales were divided among niche players such as hardware, lawn and garden, and pain and wallpaper stores.
- The deteriorating housing market negatively impacted the home improvement retail market in 2006
- In 2006, Lowe's received supplies from approximately 7,000 distinct vendors and this was a threat to Home Depot.
- Currently certain customers have faced those employees at the stores of Home Depot who do not know about the utility of a product or store inventory. This shows that they have not trained their employees well and this contributes to increase in number of complaints by the customers. According to a study almost half of the customers ask for employee assistance because they want to get more information about the product. So this lack of training of employees is a threat for Home Depot as it will affect the company image and its products in a negative way.
- There is also a threat of government investigation and inquiries to the Home Depot. This is due to the reasons that some of its products violate the environment protection rules.
- The continuous economic downturn in United States has lowered the demand of the consumers for home improvement products. As these products are included in major purchases. According to a report by Harvard University, this demand will decline with an annual rate of 12 percent. So this is a major threat for Home Depot.

Questions:

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

Answer: According to my view, Nardelli, when he was CEO of Home Depot, he did a great job. As I have made an assessment of the changes that Nardelli made, those changes were important for Home Depot to run in the right direction. When Nardelli was hired and elected as a CEO of Home Depot, at that time Home Depot was running on the basis of old style of management and operations. And if Nardelli wouldn't make those changes then the future of this company would have been compromised. Nardelli emphasized on the enhancement of profitability and sales and he was also succeeded in this. As a result of his efforts, the sales doubled from \$45.7 in 2000 to \$90.8 in the year 2006. The profits were also doubled from the year 2000 to the year 2005. The changes that Nardelli made in Home Depot that made the largest impact were

- Nardelli expanded the company on geographic basis. For example he led the company towards Mexico. In Mexico Company went from zero rank to number one.
- He made diversification in Home Depot. Nardelli enhanced the business of wholesales by developing Home Depot Supply. The professional customers were offered with the product and services through this Home Depot Supply.
- Nardelli also took steps to reduce costs. For example he made the purchasing and merchandising of Home Depot as centralized. This resulted in enhancement of the power of buyer and improved deals. The payment period was also extended from 30 days to 50 days.
- Moreover he replaced the full time employees of the store with the part time employees and also reduced number of employees in the stores of Home Depot. However this step made a negative affect and due to this the share price was dissolved. This led to termination of the job of Nardelli.

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

Nardelli made a change that impacted the profitability was the centralization of merchandising and purchasing. This was the most important change. There were other changes made in operations to enhance profitability and those changes were in personnel, six sigma approach, store operations and data analysis etc. These changes are served the requirements of centralized purchasing and merchandising. The 9

stores that had \$5 billion revenue on individual basis were combined in a company with the revenue of \$45 billion. Labor productivity was also increased as a result of this centralization. However under decentralization, every store manager had his own decisions regarding employee promotion, wages, benefits, store display and merchandising. But under centralized structure, these decisions were performance based. There was no discrimination among employees. The wages and promotions were decided on the basis of position and performance of the employees. This motivated the employees. As a result the productivity of the employees increased to a greater extent.

This combined purchasing system enhanced the purchasing power of Home Depot on overall basis. On the other hand, under decentralization, every store manager was unable to deal effectively with the suppliers and had little negotiating ability. But under centralization, the company was able to get exclusive deals. Home depot obtained more favourable terms of credit purchasing and it achieved best deals. Under decentralization there was less variety among the products in every store but after centralization there was more variation in the product mix. Moreover to improve labour productivity, he also invested heavily in technology. The metrics that I have used to assess these impacts are operational, financial and labour skills.

3- What caused the decline in customer service?

The decline in customer service was caused by lowering of the stock price of Home Depot. Moreover part time employees were hired on frequent basis and they were less knowledgeable and less experienced. It was also said that this hiring of part time employees had dismissed the purpose of staff i.e. to inform the customers about the product. Part time employees did not full fill this purpose as they had less knowledge about the products. However Nardelli rejected this objection. He defended that this would be a positive move especially for the customers as they would have more salesmen to attend them in peak hours. But the staffing cuts led to increased complaints that there were less knowledgeable customers at Home Depot stores to attend the customers.