



## Home Depot's Resurrection: How One Retailer Made Its Own Home Improvements

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Home Depot released its quarterly earnings on August 20, 2013, the day before competitor Lowe's. Both showed strong earnings and strong sales for stores opened at least a year (a key retail metric, also known as 'comparable sales'). While both companies attributed gains to the recovering housing market and strong execution, Home Depot CEO Frank Blake went out of his way to also commend his associates for responding to the stronger demand. That's something I've come to expect from the management team under Mr. Blake's direction and tells a very important story. If we roll back to the last housing boom in the US, when Home Depot was under the stewardship of Robert Nardelli, we see a very different story and very different results.

I took a look back to Q3 2005, when that housing boom was in full swing. Lowe's reported comparable sales increases of 6.2%. Home Depot reported increases of 3.6%. In other words, Lowe's was outperforming its larger competitor by a factor of two. In fact, according to Wikipedia, during Mr. Nardelli's tenure, Home Depot's stock price remained essentially steady, while Lowe's shares doubled in price. In other words, a lot of opportunity was missed. Earnings were adequate, but they were riding on the back of cost-cutting, not sales improvements.

Today that's certainly not the case. In fact, at least one analyst at the Smead Value Fund gave Home Depot a slightly stronger buy rating than its rival, although both stocks are expected to perform well as the housing market continues to improve.

This begs the question: What has changed under the leadership of Frank Blake? What is Home Depot doing right? The answers can be found not today, but in the doldrums of the Great Recession, which Mr. Blake's team took as an opportunity to right a very shaky ship. Changes were steady, yet sweeping, and included marketing, technologies, stores, and human resource allocation.

Let's start with marketing. As we rolled downhill into the Great Recession, Lowe's was still running TV ads that basically exhorted consumers to redo their roofs, floors, fences, backyard swing sets, and other expensive projects that homeowners could no longer afford. A trip to YouTube will help you find them. Home Depot focused on...re-painting rooms. More interesting, the historic Home Depot customer was supposed to be male, perhaps a contractor. Yet it was women in those commercials who were doing the painting. And the company's new combination primer-paint, while earning disdain from some contractors, appealed to women. In other words, Lowe's was still back in the boom. Home Depot caught the bust and made it into an opportunity. Lowe's caught up, and by 2008 the chain was also marketing paint. Not a long term advantage, but a good stage-setting for the current era.

Moving on to the stores, there are some subtleties that aren't readily noticeable but make a big difference, especially if your goal is to appeal to someone other than contractors. Sealing floors makes them look shinier and really keeps the dust down. Broader aisles and a less cluttered front of house make the entries far more appealing to women. Lowe's knew this already. Home Depot made those moves. Bringing in some Martha Stewart product didn't hurt the cause either.



Back in 2012, I had the opportunity to hear Mr. Blake speak at the annual Global Retailing Conference put by the University of Arizona at their Terry J. Lundgren Center for Retailing. Mr. Blake spoke candidly about the chain's over-expansion – particularly into China. He also spoke about what he perceived to be Home Depot's most important asset: its employees. Those assets are now far better deployed than they were in years past.

In the Nardelli era, it was very hard to find an orange-aproned person on the selling floor. If you did, that person would likely tell you "This isn't my department" and walk away. That has certainly changed. In the early Blake era, they would even follow customers around the store trying to be helpful. Now I find there are more employees on the selling floor, they are very helpful, and as noted above, they know they are appreciated. What a change that has been! I could tell you a very sad tale of a cashier in 2005 who couldn't find anyone to relieve her, and danced in her seat waiting for that relief, but I'll go no deeper. It wasn't pretty.

Then there's the technology side of things. While Home Depot in the Nardelli era focused on implementing technologies that would provide more customer self-service in stores (and thus, fewer employees), we're seeing Home Depot in the Blake era with a different focus. As an example, knowing that we live in an era of price transparency, the company bought competitive price intelligence tech vendor BlackLocus as the starting application for its new Innovation Lab in Austin, Texas. Competitive price intelligence applications allow a retailer to find out how its prices compare with competitors. They allow a retailer to keep its "low price" promise. The list of new technologies Home Depot has bought is long. Many of my company's most innovative clients count Home Depot as their valued customer.

The company is working hard to improve the customer experience in digital channels as well. While we can't call it state of the art, it's certainly better than several years ago, and we see frequent incremental improvements.

On the product side, I think it's fair to say that Home Depot has a pretty basic assortment. Not a lot of bells and whistles, but everything you need to get the job done. Its private label line, Hampton Bay is serviceable and profitable and it has exclusive items from companies like Ryobi. Behr paint has made the previously mentioned primer-paint famous. Contractors remain, but women are also frequently in the store. I can speak from my own experience – I was able to remodel the kitchen and bath in my condo in the USVI for a really reasonable price, almost exclusively using Home Depot as my supplier.

I remember bemoaning the opportunity missed by Home Depot of the early 2000's. It's nice to see how well positioned it is to seize that opportunity now. It hasn't happened by magic. Just sound management principles, intelligent marketing, and the recognition that the customer really is King. And while the Six Sigma concept (a principle espoused by Mr. Nardelli and many other former GE / Jack Welch acolytes) may work on the shop floor, the customer represents the ultimate in variability. Retailers have no choice but to respond to that variability. Frankly for those of us who are hooked on retail, the variability is the fun part. It's what keeps us in the game. And that's how Home Depot got renovated.

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