

Orange Update

Home Depot, the largest construction materials retailer, and wholesaler, in the country, recently issued its 2000 annual report. Having recently written an update article for TED on alternative channel competitors (March 2001), HD's annual report provided a further glimpse into where it has been and where it is going. The following are excerpts from the report, with some commentary.

Sales Performance

1. 2000 was a year of growth, with 204 new stores and total sales growth of 19%, but comparable store sales were up only 4%. In 1999, the company opened 189 stores but had comparable store sales growth of 10%. (*Comment: Was the reduction in comparable growth due to the economy, maturing of local markets or management focus on new stores?*)
2. Number of tool rental centers grew to 342 stores at year-end, with more than 200 products per store available to the DIY or professional customer. According to the annual report, "this provides strong financial results for shareholders."
(*Comment: By inference, this means that tool rental has high margins. Could this be an opportunity area for distributors to better serve customers? Consider purchasing more expensive tools from manufacturers, especially in the datacomm arena, and rent them out to your customers, or create a relationship, with preferred pricing, with a local tool/equipment rental company in your area.*)
3. Home Depot plans to more than double sales in the next few years. Growth will be driven by new stores, comparable sales increases in existing stores and through adjacent businesses (see 2001 initiatives).

Business Drivers

As everyone knows, Bob Nardelli became President and CEO of Home Depot in late 2000. Coming from GE he has a reputation for focusing on the operational and people aspect of the business. In considering the following business drivers, notice his emphasis on people.

1. "In a recent study, Home Depot associates ranked 40% higher than the competition in customer service and product knowledge." (*Comment: The study was not mentioned in the annual report, but you can assume that Lowe's and perhaps other similar regional companies were the "competition", not distributors. What this points out, however, is that customer service and product knowledge are still the keys to customer retention and penetration. This is important as you consider HD's 2001 initiatives.*)

2. “Listening and responding (*sic* to customers and associates) is a key to our success (Bob Nardelli)”
3. Nardelli emphasized five business imperatives for 2001: customer service and loyalty; innovation and entrepreneurship; merchandising and advertising excellence; operational efficiency and competitive leadership; and talent and leadership development. (*Comment: Again, notice the focus on people issues. Also, he is staking out the marketing leadership role. Your people and your marketing efforts will differentiate you from not only your competition, but also to your customers. This is important as a growth strategy.*)

2001 Initiatives

As it relates to our business, the following Home Depot initiatives may affect you. Aside from opening more new stores (if history is a precursor of the future, anticipate another 185-210 stores), adding more Expo stores (currently 26 throughout the country with a projected growth rate of 70%) and test marketing some other ideas (Villager’s Hardware), Home Depot has other plans that could impact distributors.

1. Professional contractors represent about 30% of Home Depot’s business today, approximately \$13.7 billion, and are the fastest growing segment for the company. At the end of 2000, 165 stores offered pro services and by 2002, another 600 stores will offer. (*Comment: In researching similar companies, plumbing and electrical are typically 11-14% of sales, so this would mean that about \$1.7 billion would be “pro” sales of electrical and plumbing products!!!! Assume a 50% split, and you have an \$850 million distributor!!!! Also, by 2002, 765 stores of a projected 1,500 stores would be selling to contractors – this is why it is important for you to focus on customer relationships through your people, the training you offer (to customers and staff) and marketing to your customer base.*)
2. Home Depot will accelerate the rollout of its professional customer programs in fiscal 2001, focusing resources on the fastest growing segment of its business.
3. Computer savvy pros in selected markets can also order online. (*Comment: E-business is there if the customer wants it, however, HD acknowledges that this is a tool to drive people into the store, which means it is a value-added resource for customers and a differentiator for HD. How can your website be more valuable to your customers, even if they don’t use it to place orders?)*
4. Home Depot has identified a growing market in the buy-it-yourself market (consumers who buy the materials and hire labor). While HD is the largest construction materials retailer, it only has 2% of the product installation market. Currently it is testing selling and installing Trane HVAC products in the Southeast. This opportunity came about due to its acquisition of Apex Supply.



Could similar opportunities be created in the lighting industry with their Georgia Light acquisition? (*Comment: For those with lighting showrooms, could you offer retail customers installation, or referral?*)

Depending upon the market you serve, Home Depot may or may not be a competitor, however, a number of HD's success factors, and ideas, can be relevant for any business – especially their commitment to people and marketing. Competing with them is a matter of understanding your customer and your business. Through a focused effort, growth can be achieved.

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