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DISSERTATION

A COMPANY ANALYSIS OF HOME DEPOT IN THE DIY RETAIL MARKET

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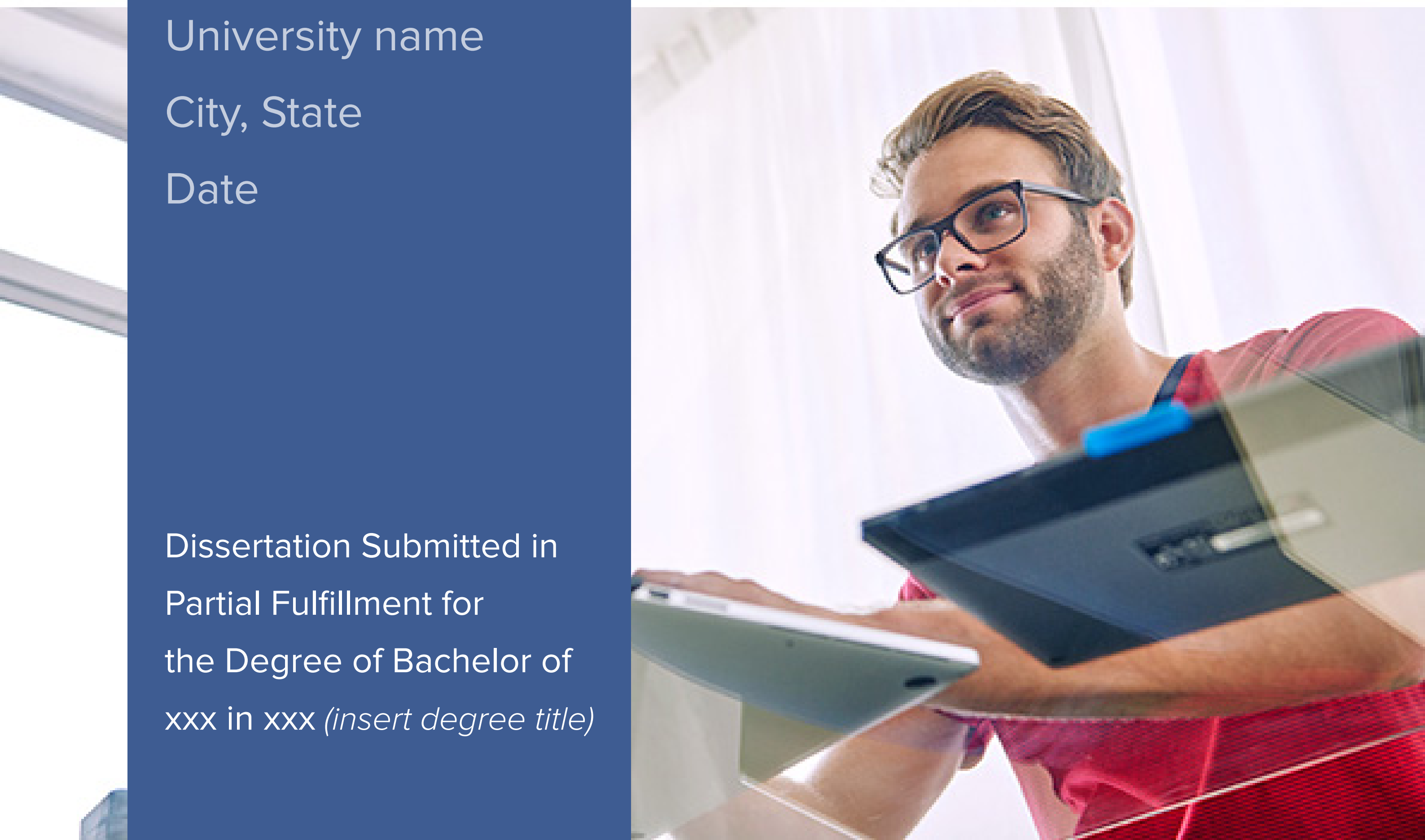

Dissertation Submitted in Partial Fulfillment for the Degree of Bachelor of xxx in xxx *(insert degree title)*

ABSTRACT

Home Depot, Inc. is the largest home improvement retailer in the world thanks to its pursuance of a rapid growth strategy. This company's quick success and growth is widely attributed to its corporate strategy. The strategy is focusing on the DIY segment of market, keeping costs low through purchase discounts and low overhead. It is also focused on high inventory turnover; attracting consumers through competitive pricing and aggressive advertising and providing high quality service to its clients.

Goals and Objectives: The major goal of this study is to conduct a company analysis of Home Depot.

Methods: This analysis will involve a comparison of past and present financial and other related performances together with factors that have led to the analyzed performances. In this respect, this comparison will involve certain statistics and financial ratios for standardization purposes. Subsequently, a qualitative research approach is preferred as a lot of secondary data will be used.

Findings: Home Depot's success can be attributed to its cost leadership growth strategies.

Conclusion: A company analysis of Home Depot reveals that its success is strongly linked to its corporate strategies and in particular its pursuance of a cost leadership strategy early on. This strategy has enabled Home Depot to offer to customers better value than competitors as well as better services.

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1. INTRODUCTION

Home Depot, Inc. has famed itself as the globe's biggest home improvement retailer, thanks to its pursuance of a rapid growth strategy. According to Camillo (2015, p. 169), this company's rapid success and growth is widely attributed to its business or corporate strategy of focusing on the DIY segment of market; keeping costs low through purchase discounts, low overhead, and high inventory turnover; attracting consumers though competitive pricing and aggressive advertising; and providing high quality service to its clients. Moreover, this retailer has historically utilized a regionalized managerial structure with an entrepreneurial administration panache, centering on the merchandising stores (Hitt, Hoskisson & Ireland 2014, p. 156). In this sense, store administrators are provided with a great degree of autonomy, and stores are manned with a well-trained and knowledgeable workforce that can give guidance and assist consumers get the items they needed quickly. In addition, Home Depot placed an enormous stress on building customer-friendly atmosphere. However, profits from retail stores started to decrease in the 1990s as the home improvement sector reached maturity and came to be saturated (Hitt, Hoskisson & Ireland 2014, p. 156). Also, during the period of CEO Robert Nardelli's leadership between 2000 and 2006, Home Depot's stock prices dipped and were trading slightly under $37 per share (Ferrell & Hartline 2014, p. 590).

There was a need to find the next pronounced idea that would encourage progression and increase returns to investors. Ultimately, the major source to this giant retailer's achievement was its acquisitions and the incorporation of the businesses into Home Depot. Nonetheless, acquisitions have not been Home Depot's core focus, although strategic acquisitions have taken place. Home Depot's recent acquisitions have concentrated on improving the home enhancement experience of consumers (Ferrell & Hartline 2014, p. 590). Home Depot's success lies in its corporate strategies that have helped position it a market front-runner in the home improvement and housing markets that are full of uncertainty. This study is a company analysis of Home Depot, focusing on why it is doing well, why it is better positioned to tackle existing endogenous challenges, and why it is also best placed to take advantage of future business opportunities.

1.1. Background Information

Home Depot is a home improvement and construction retailer that sells a comprehensive assortment of construction materials, products intended for refining homes together with garden and lawn products. It also provides a plethora of services all over the United States as well as in Puerto Rico, the US Virgin Islands, and Mexico, Canada, and Guam (Hawawini & Viallet 2011, p. 50; Camillo 2015, p. 173). Home Depot has over 2,260 warehouses that vend a wide-ranging collection of home improvement merchandise, building materials and turf and kitchen garden products (Home Depot 10-K 2014). Home Depot is individual among Delaware Corporations incorporated in 1978 and headquartered in Atlanta, Georgia (Home Depot 10-K 2014). In North America, Home Depot operates under the SIC and NAICS codes 5211 and 4419 respectively (Home Depot 10-K 2014). The company went public on the NASDAQ stock exchange in 1981 and then moved to the NYSE three years later with a stock symbol of HD (Home Depot 10-K 2014). Home Depot's fiscal financial year culminates every February.

Home Depot is estimated to control close to 20% of the local portion of the home improvement segment (Camillo 2015, p. 174). On the international front, Home Depot started its operations in Canada by purchasing the 1994 Aikenhead's Hardware, and in Mexico by purchasing Total HOME in 2001 (Camillo 2015, p. 175). Home Depot's main rival is Lowe's, especially in the home improvement segment of the DIY retail market. According to Camillo (2015), the home improvement segment of the DIY retail market generated annual revenues of close to $129 billion, with Home Depot contributing 58% of this and Lowe's contributing 39%. A number of effective strategies have helped Home Depot become a dominant player in the home repairs industry. This dissertation will focus on Home Depot which operates in the home improvement segment of the DIY sector. It argues that Home Depot is well prepared to deal with the endogenous challenges that lie ahead. Furthermore, this dissertation contends that Home Depot is well positioned to take advantage of new business opportunities in the future.

1.2. Goals and Objectives of the Study

The major goal of this study is to conduct a company analysis of Home Depot. In order to realize this objective, this study will:

I. Explain how Home Depot's company strategies have contributed to its success.

II. Explain how Home Depot is better positioned to tackle existing endogenous challenges.

III. Explain why Home Depot is also best placed to take advantage of future business opportunities

1.3. Research Questions

I. What are Home Depot's corporate strategies? How have they contributed to its success?

II. How has Home Depot's business environment influenced its success?

III. How has Home Depot's corporate social responsibility influenced its success?

1.4. Scope of the Study

The scope of this study will be limited to carrying out an analysis on Home Depot in addition to building an argument on why Home Depot is performing so well in its industry. Primary information will be obtained from peer-review articles, books, and credible web sources.

2. LITERATURE REVIEW

The DIY retail segment has been described by a number of studies as a mixed, dynamic, and uncertain environment that can change sometimes subtly, and sometimes in more abrupt and recognizable fashion (Widnt 2012, p. 46; Krafft & Mantrala 2010, p. 66; Chi 2015, p. 28). The nature of this market requires business to learn to thrive on change and uncertainty and not merely cope with them (Goldman, Nagel & Preiss 1995, p. 78). In this respect, firms have to increasingly concentrate on flexibility as a way to gain a competitive advantage. Ideally, the flexibility factory will enable these firms to respond to customer orders in a more timely manner, provide a broad range of products, or even introduce new products to the range effortlessly (Synnot 2015, p. 67; Brandenburg, Govindan, Sarkis & Seuring 2014, p. 65; Devine & Syrett 2012, p. 56). Apart from being flexible enough to meet the changing needs of the market and the dynamic nature of the competing environment, firms should consider key success factors that influence their corporate strategy and its results of financial performance. According to Widnt (2012, p. 46), the entire range of factors that influence a firm's strategy can be divided into three broader categories: external/macro, competitive and internal environment factors. These factors forms the environment of the business often defined as anything outside of the organization that may affect its present and future activities (Widnt 2012, p. 46).

The internal environment factors are found within the organization and the firm is able to influence them to improve its financial performance. In terms of Home Depot, its internal environment is comprised of its top management, research and development strategies, finance and accounting principles, manufacturing, purchasing, company image, and its organizational problems (Home Depot 10-K 2014). The macro environment consists of issues related to demographic forces, technological factors, economic factors, legal and political forces, and social and cultural forces among others (Widnt 2012, p. 46). The competitive arena consists of factors related to strategy, competitors and how to beat the competition and stay ahead of the pack. These three environments can be influenced to some extent to realize effective financial performance and growth through an operational corporate strategy. According to Krafft and Mantrala (2010, p. 68), a firm's corporate strategy refers to those approaches related with the wide-ranging and long-term demands of the type of business the firm is currently undertaking or wants to do and what it wants to make sure of with those businesses. Still, tasks involved in the corporate strategy include moves of entering new businesses, actions taken to lift collective performances of businesses, ways of capturing concerted effort among connected businesses, and instituting savings main concerns and coxswaining business wealth into most striking units (Krafft & Mantrala 2010, p. 72).

A corporate strategy is among the three strategic choices that a firm can make in order to remain competitive. The other two are business or competitive strategy and directions or methods of development. Competitive strategy involves looking at the bases of competitive strategy, sustainability of a firm's competitive advantage, competition or cooperation, game theory, and strategies in hypercompetitive environments (Krafft & Mantrala 2010, p. 75). According to Reichheld (2008, p. 81), directions and methods of development involve looking at protecting and building within the firm's market, market development, product development, diversification, and acquisitions and alliances. It is worth noting that strategic choices should be pursued with an aim of reaching the organizational major goal. Daziano and Achtnicht (2014, p.

169) state that all possible strategies should be objectively, systematically, and comprehensively analyzed in terms of their strengths and weaknesses and ability to achieve organizational goals. It is thus important for firms to select the most favorable strategies that will allow them reach the goals in the most efficient manner possible. Daziano and Achtnicht (2014, p. 172) outline three types of corporate strategies: growth strategy, renewal strategy, and stability strategy. The growth strategy is focused on the firm's attempt to augment the number of its markets or products it offers to consumers. According to Daziano and Achtnicht (2014, p. 172), the major purpose of this type of strategy is to increase the firm's market share and revenue. This a strategy that Home Depot has mastered as outlined by the number of stores it has in the US, Canada and Mexico among others (Home Depot 10-K 2014).

In their corporate strategy classifications, Daziano and Achtnicht's (2014, p. 172) note that the stability strategy is concerned with what the business is continuing to do, and what it has been doing, especially when the benefits are much or the risk associated with shifting is high. This strategy includes measures like continuing to serve the same customers by offering the same services or products. This strategy is focused on maintaining the firm's existing market share and sustaining its current business operations (Daziano and Achtnicht 2014, p. 172). The third strategy, renewable corporate strategy, is mostly applied in situations where the business is in trouble and needs to enact major changes. According to Daziano and Achtnicht (2014, p. 172) managers come up with renewable strategies for the purposes of addressing a businesses' worsening performance. It is worth taking into consideration that changing business environments requires business to be innovative and aggressive in their corporate strategies. One aggressive corporate strategy is that of growth through diversification. In a study by Wolf and McQuitty (2014, p. 204), firms can either diversify organically, through alliances, or through acquisitions and mergers. This is for the purposes of reducing transaction costs, accessing capabilities, achieving economies of scale, achieving financial synergies, gaining growth and market power, and satisfying managerial interests.

Focusing on the DIY retail segment, especially the home improvement industry, it is clear that players that do well are those that support innovation, have strong corporate strategies, or those that are involved in mergers and acquisitions to grow. This notion is supported by Wolf and McQuitty (2014, p. 204); Albinsson, Wolf and Becker (2015, p. 137); and Litz and Pollacks (2015, p. 437) who have observed strategies employed by Home Depot's competitors, namely Lowe's, Menards, True Value, Do It Best, Ace Hardware, Target, Sears, and Wal-Mart. Lowe's pursues a view point analogous to Home Depot of providing customers with the lowest prices and the utmost quality home improvement merchandise, but has differentiated itself by targeting individual customers, especially women. Furthermore, Lowe's strives to distinguish itself from the rest of its competitors by endorsing and intensifying by way of selecting labels or private brands, stone countertops, and premium kitchen cabinets (Wolf & McQuitty 2014, p. 204). Menards, conversely, uses innovation to bring unique customer experiences through features like stores with escalators, newfangled boutique departments, broader aisles, and lower and additional appropriate merchandise shelves (Albinsson, Wolf & Becker 2015). It is worth noting that the players in this industry have affected Home Depot's position not only by the approaches they use, but also by the affiliations they maintain with suppliers (Litz & Pollacks 2015, p. 437).

It has been observed that in an attempt to respond to the changing business environment in the home improvement segment, the players have come up with strategies to transform themselves into home improvement centers (Collins & Hansen 2011, p. 144; Camillo 2015, p. 173). According to Cramer (2014, p. 1) at the heart of this revolution or transformation lies the warehouse concept and the strategy of scrambled merchandising. Didonet, Simmons, Villavicencio and Palmer (2012, p. 759) also noted that big-box companies like Home Depot and Lowe's, which control almost the entire home improvement retail segment in the US, have taken advantage over the rest. They have continued to increase their footprint domestically and abroad with the hope of growing their corresponding market shares. In view of Chi (2015, p. 36) and Goodman (2014, p. 233), the only way of surviving in this segment by way of dealing with endogenous challenges that lie ahead and taking advantage of new opportunities in the future, which requires effective market share acquisition/domination strategies. In some instances, controversial retail management decisions may have to be employed to sustain market share and leadership dominance (Markides 2008, p. 68).

In a study by Wolf and McQuitty (2014, p. 204), competing and surviving in a dynamic market requires a business to satisfy the minimum standards in each of its value disciplines. Becoming a market front-runner, conversely, will oblige the business to go beyond minimum criterions and excel in the delivery of its worth disciplines (functioning excellence and product leadership) (Wolf & McQuitty 2014, p. 204; Albinsson, Wolf & Becker 2015, p. 137; Litz & Pollacks 2015, p. 437). This can be grasped by the business generating higher customer value in their preferred value disciplines. When businesses strive for only minimal standards in all their value disciplines, they will only achieve mediocre success (Wolf & McQuitty 2014, p. 204). Findings by Goldman, Nagel and Preiss (1995, p. 78) and Albinsson, Wolf & Becker (2015, p. 137) show that dynamic markets require two market leader approaches. The first option is fighting, maintaining or enhancing the market. The second is flight, exit or fortify. In line with the first option, a firm should focus on increasing its business as per market growth and investing in advertising and selling on that basis to maintain its market share. They should also- increase their market share at a bigger or faster pace than market growth to enhance their market share.

In their findings, Goldman, Nagel and Preiss (1995, p. 88), Albinsson, Wolf and Becker (2015, p. 137), Wolf and McQuitty (2014, p. 204), Litz and Pollacks (2015, p. 437), and Albinsson, Wolf and Becker (2015, p. 137) argue that in real life scenarios, firms only plan to maintain their market share. In most cases, they end up losing their market share. If they plan to enhance, they may only be able to maintain their market share as competitors are also in line with their plans. Every business should strive to always stay ahead of the competition through gaining and maintaining a leading share in the market. In line with Porter's generic strategies, this can be done by applying the firm's strengths on cost advantage and/or differentiations. Their application results into focus, differentiation, and cost leadership (Markides 2008, p. 69). The cost leadership strategy will empower the low cost producer to gain more market share by selling products below the industry price. Companies that produce more cheaply often remain lucrative for longer time periods (Goodman 2014, p. 240 Markides 2008, p. 69).

In addition to Porter's generic strategies, Goodman (2014, p. 245) proposes the effective use of the BCG Growth-Share Matrix to determine the strategic position of each of the firm's activities and based on that analysis, to choose the right and optimal strategy. This matrix places relative market share percentage to annual real rate of market growth percentage into four categories: question marks, stars, dogs, and cash cows (Goodman 2014, p. 245). In the question mark level, the cash flow is negative and earnings are still not forthcoming. In this scenario, the direction of activities is question marked as the company's position is somehow weak, yet the perspectives of the market's development is quite attractive (Goodman 2014, p. 245). In the dog situation, the company's weak market position is combined with low growth rates (Goodman 2014, p. 245). Directions of activities in this scenario are usually hopeless and firms try to eliminate such activities through separation of investment and harvesting strategies.

The cash cow scenario is characterized by the company having a strong presence on the mature market. The company's activities bring it high steady income, but there is no growth expected. In the scenario, the company has an aim of keeping its market share at its existing level. The main objective of firms in this scenario is to maximize profits over a short time period. Cash cows also refer to firms with large market shares in mature but slow growing industries that require little investment to generate cash to be used in investing in other business units (Goodman 2014, p. 245). The stars scenario is a perfect case that makes use of the market's high growth prospects and strong market positions. In this level, earnings are high stable, and growing and a growth strategy should be pursued (Goodman 2014, p. 245). It is worth noting that, irrespective of strategy a firm employs, what remains impotent is capturing a large chunk of the market share through effective corporate strategies. A number of approaches have been fronted by different scholars, but the most effective one is having good corporate strategies and the right people to achieve the strategies.

3. SOURCES AND METHODOLOGY

For the purposes of carrying out a thorough and reliable research and analysis of Home Depot, there is need to consider carefully which research method will provide the most optimal research results for the dissertation. In this respect, a variety of research approaches were assessed in order to augment the cogency and dependability of the research process. Crucial among these methods are the quantitative and qualitative research approaches. Wen and Li (2009, p. 67) define quantitative research as the systematic and scientific investigation of quantitative properties and phenomena and their relationships. The main aim of quantitative research is to explain, examine, control and predict phenomena of interest (Rose, Spinks & Canhoto 2014, p. 83; Davies & Hughes 2014, p. 56; Bryman & Bell 2011, p. 92). Qualitative research, on the other hand, has been viewed as a way of exploring phenomena in a variety of ways including interviews, observation and/or documentation of experiences, events and observations as they take place (Shapiro & Varian 2013, p. 67). According to Venkatesh, Brown and Bala (2013, p. 23), and Daymon & Holloway (2011, p.104) qualitative research is one of an exploratory nature that is used to get a deeper understanding of underlying opinions, motivations and opinions.

Qualitative research looks at the richness of an occurrence or experience and strives to document it effusively concentrating on any or all possible facets of that event or experience (Shapiro & Varian 2013, p. 67). According to Wen and Li (2009, p. 57), the research agenda influences greatly the research approach to be used and from the surface, these two methods appear to offer many benefits to this dissertation's research. However, the crucial objective of this dissertation is to conduct an analysis on Home Depot. This analysis will involve comparisons of past and present financial and other related performances together with factors that led to the analyzed performances. In this respect, this comparison will involve certain statistics and financial ratios for standardization purposes. Subsequently, a qualitative research approach is preferred as a lot of secondary data from financial reports and related websites like Bloomberg and Securities Exchanges Commission (SEC) will be used. Daymon & Holloway (2011) argue that the exploratory nature of qualitative research makes it useful in scenarios that lack predictability and where there is a need to develop an approach or define the problem. This fits well with Home Depot's scenario making qualitative research approach the best fit.

Quantitative approaches, as opposed to qualitative designs, are decisive in their resolution, and attempts to quantify problems and fathom how predominant the problem is by seeking for projectable results to a large population (Wen and Li 2009, p. 56; Rose, Spinks & Canhoto 2014, p. 84). This is more in line with Davies and Hughes (2014, p. 56) purpose of qualitative research which is to better understand the nature of a specific phenomenon and to describe its scope and impact. This analysis cannot be effectively achieved using a quantitative approach which is more analytical rather than interpretive. In addition, given the subjectivity of the academic scholarly articles, qualitative approach will give room for more flexibility for extraction of data, narrative analysis and the utilization of case studies. The source of data collection will be entirely secondary data from peer-review journals, books, and relevant and credible websites.

4. FINDINGS

4.1. Key Industry Growth Drivers

The home improvement retail segment includes stores that vend construction materials, lumber, utilizations, plumbing, kitchen fittings and extra household improvement products (Daziano & Achtnicht 2014, p. 169). In line with Widnt (2012, p. 46), the mandate for these merchandises is decidedly interrelated with the demand for housing. Due to this, any changes in sales of existing and new homes significantly influences the performance of this segment. Given that about 85% of all homes in the US were built before the 1980s, they require improvements at recurrent intervals (Widnt 2012, p. 46). This forms a most important growth driver for this segment. The home improvement retail segment is an established industry categorized by a great level of homogeneous product lines and market concentration. This segment generates $129 billion in annual revenues with Home Depot; the industry leader accounting for 58% of this and Lowe's, the second-largest firm in the industry, taking in 39% of this total (Home Depot 10-K 2014). These two firms differ widely in terms of the marketing strategies they have in place to drive consumer numbers. Home Depot focuses on enhancing customer service, whereas Lowe's focuses on offering discounts to boosts its sales numbers (Widnt 2012, p. 46). The home improvement segment has three types of buyers generally classified as do-it-yourself (DIY), do-it-for-me (DIYM) and the professional clients (Krafft & Mantrala 2010, p. 66; Albinsson, Wolf & Becker 2015, p. 137).

Studies by Cramer (2014, p. 3), and Wolf and McQuitty (2014, p. 204) established that the home improvement segment has of late been viewed as a good place of doing business. This has been attributed to the slow but steady rebound experienced in the housing market that has pushed consumer spending in America to its highest pace since the onset of the 2008 global recession (Cramer 2014, p. 3). According to Daziano and Achtnicht (2014, p. 167), investment in residential improvements hit a quarterly low of about $365 billion at the tail-end of the 2010 housing crisis, but rose to $585 billion in 2014. Additionally, revenues from this segment have increased at 4.5% per annum since 2009 (Daziano & Achtnicht 2014, p. 169). This progress has been credited to the United States' economic recuperation and ensuing enhancement in housing doings. It is also estimated that the home improvement segment's yearly development rate will remain at or rise above 4.5% over 2015-18 (Cramer 2014, p. 3). These improvements have made this sector attractive to investors and businesspersons alike.

Findings by Goodman (2014, p. 237), Markides (2008, p. 69), and Zentes, Morschett and Schramm-Klein (2015, p. 21) show that the home improvement retail segment provides a number of investment chances to investors with large appetites for risk. This industry is not recommended for risk-averse individuals given that it is highly cyclical and the stocks of firms operating in it have yielded low dividend compared to the once in the past (Markides 2008, p. 69). For instance, Home Depot and its main rival Lowe's give lesser dividend vintages of 2% and 1.6% respectively as they accumulate cash reserves for purposes of staying buoyant in the course of downturns when demand diminishes (Camillo 2015, p. 190). According to Reddy and Pellegrini (2013, p. 96); Baker (2013, p. 67); Garndner and Sheppard (2013, p. 66); and Reichheld (2008, p. 78) this industry is low-priced for shareholders related to others within the same segment. It is largely due to the statement that the S&P 500 Home Improvement index's long term PE growth compound of 1x is lower than consumer discretionary sector 1.3x multiple. However, in instances where economic downturn occurs, this industry will be affected more compared to the others operating within the same sector.

Findings by Reddy and Pellegrini (2013, p. 99); Baker (2013, p. 69); Garndner and Sheppard (2013, p. 56); and Reichheld (2008, p. 79) showed that the home improvement retail sector appeared to be attaining maturity and its revenue growth rates were expected to be on the decline starting in 2014. An increase in mortgage rates and an ensuing fall in home sales has the potential to negatively affect demand resulting in a contraction in this industry's valuation multiple. Investing in this industry at the present seems risky, and smaller players might not be in a good position to deal with these challenges nor take advantage of future opportunities. However, Home Depot, unlike its competitors, has the ability to succeed at both.

A major driver for the home improvement segment is the Same Store Sales (SSS) which is directly correlated to sales of existing and new homes (Krafft & Mantrala 2010, p. 68; Wolf & McQuitty (2014, p. 204). SSS's are more reliant on the sales of the existing as opposed to new homes given that they drive demand for products like kitchen fittings, plumbing, and electrical appliances. These contribute a bigger portion of the home improvement segment's total revenues. According to Chi (2015, p. 32), the first quarter of 2009 saw the home improvement segment SSS growth improve from -5.4% to 7.2% in the third section of 2013. This followed the US progress in household sales. The progress in household trades had been facilitated by a reduction in thirty-year mortgage rates (Chi 2015, p. 34; and Wolf & McQuitty (2014, p. 204). According to Cramer (2014, p. 5), these 30-year mortgage rates had fallen from about 5.1% in Q1 of 2009 to 4.4% in Q3 of 2013. However, Chi (2015, p. 36) argues that changes in mortgage charges are dependent on the Fed's elongated measures. If the Fed intends to completely do away with its bond-purchasing package or else increase interest rates, then mortgage charges will increase. The end result will be a decline in housing activity, leading to a decline in demand for home improvement products.

4.2. Home Depot Growth Strategies

In a study by Zentes, Morschett and Schramm-Klein (2015, p. 7) on the growth strategies employed by Home Depot, the authors attributes their success to a cost leadership strategy and the ability to capture a big chunk of the market early enough. Home Depot's cost leadership offers customers better value than their competitors. They offer better services through effective personal commitment to store managers by top-echelon management (Zentes, Morschett & Schramm-Klein (2015, p. 13). In addition, Home Depot also offer a formula for rapid growth in a highly motivated trainer-trainee environment. According to Camillo (2015, p. 56), Home Depot arrived at a decision to expand store size and evolve into a home improvement center superstore. In this way, Home Depot re-designed itself to operate as a category-killer store in an attempt to destroy all competition in its specific product category.

Other initiatives employed by Home Depot include the Red Beacon and Myinstall (Camillo 2015, p. 190; Home Depot 10-K 2014, p. 3). These initiatives have been focused on improving margins and reducing costs. The Myinstall initiative enables consumers to timetable schedules and track their developments using the online platform. The Red Beacon, on the other hand, helps DFIM clients get specialists to assist finish their home improvement jobs. Unlike Home Depot's Red Beacon and Myinstall, Lowe's trademarked credit value scheme impacts negatively on its margins. Even though this program enables consumers to advantage a 5% discount on purchasing and assists the company improve sales and drive traffic, it impacts negatively on gross margins (Camillo 2015, p. 190).

According to Synnot (2015, p. 77) and Devine and Syrett (2012, p. 56), the home improvement retail segment operates with an average higher gross margin of 34.6% as compared to other wider consumer discretionary industry's margins of around 32.3%. This difference in margins is due to the fact that consumer discretionary industry also comprises of low-margin sectors like the home builders and manufacturers industry (Synnot 2015, p. 69; Brandenburg, Govindan, Sarkis & Seuring 2014, p. 68; Devine & Syrett 2012, p. 66). These low-margin businesses can effortlessly increase gross margins by placing exceptional prices for their differentiated products that they sell. By contrast, the home improvements retail segment has a smaller occasion for novelty in merchandises like lumber, millworks, and building materials. These are the products that push margins for firms functioning in home improvement segment lower. Among the key industry players, Home Depot's 34.7% gross margin is higher than Lowe's 34.9%. The difference is due to the fact that Home Depot has managed to expand its margins mainly by using better inventory management (Daziano & Achtnicht 2014, p. 179).

Conferring to Daziano and Achtnicht (2014, p. 169), businesses in the home improvement segment have fixated themselves on acclimatizing their supply chains through consolidating their processes. A significant advance in this respect has been the upsurge in Rapid Deployment Centers (RDCs) (Didonet, Simmons, Villavicencio & Palmer 2012, p. 757). In Chi (2015, p. 34), these RDCs play a vital role in assisting companies in this segment improve their gross margins. It is because they permit accretion of orders commencing a number of sources and the rapid inventory deployment, which minimizes the requirement for conveniences to provide accommodations to infinite catalogs.

5. DISCUSSION

5.1. Home Depot's Success Story

Back in the early 1990s, Home Depot was projected by a number of business forecasters to become the Wal-Mart of the 1990s, and by 1995 it was ranked among the top five "most admired" firms in America (Hitt, Hoskisson & Ireland 2014, p. 153). Founded on June 29, 1978 by Arthur Blank and Bernie Marcus, who had previously been high-level executives at Handy Dan Improvement Centers, Home Depot was born with a vision of availing warehouse stores fully filled from ground to roof with a variety of merchandises at the cheapest prices (Sivakumar 2014, p. 173). Home Depot's growth was rapid in a short duration of time and became public in 1981. It surpassed the $1 billion sales mark in 1986 with fifty warehouses that stretched out into eight arcades (Ferrell & Hartline 2014, p. 582).

Home Depot transformed the home improvement industry by offering a variety of commodities, cheap prices, and grander consumer service to equally specialized outworker along with the do-it-yourself patrons. Home Depot's in-store inventory comprised first-class merchandise traded in from over forty countries including 40,000-50,000 diverse varieties of construction materials, lawn and garden merchandises, and home improvement purchases (Home Depot 10-K 2014, p. 3). Additionally, 250,000 more products are available on special order. The merchandise in every store is also localized to equal the area's unambiguous arcade desires.

At present, Home Depot is the prevalent home improvement merchant on the globe (Sivakumar 2014, p. 173; Hitt, Hoskisson & Ireland 2014, p.

153), with over 2,100 stores located throughout Canada, China, Mexico and the United States, and employs roughly 335,000 people (Home Depot 10-K 2014, p. 3). This home improvement retail giant also runs 34 EXPO design centers, two floor stores, and 11 landscape supply stores (Hitt, Hoskisson & Ireland 2014, p. 153). Home Depot has also become one among the leading diversified wholesale distributors in the US due its former HD supply division. HD supply centers are focused on meeting the needs of the professional contractor for municipal infrastructures and home improvement. There are over 1,000 such centers in the US and Canada (Home Depot 10-K 2014, p. 3). Marcus and Blank put into place a regionalized arrangement with an empire-building panache of administration that encompassed an easy-going company identified for the unconventionality of its store executives. According to Ferrell and Hartline (2014, p. 582), Marcus and Blank intended for Home Depot to become a 'one-stop shopping for the do-it-yourselfer' by providing vast home improvement stores akin to warehouses that would avail a broad assortment of tools and products, and staffed by knowledgeable experts in customer service and home improvement.

Home Depot popularized the concept of do-it-yourself (DIY) where homeowners and other individuals bought tools and products and then built, repaired, and improved homes on their own (Hitt, Hoskisson & Ireland 2014, p. 153). The firm facilitated the DIY concept not only by prioritizing customer service, but also by availing customer with training clinics and workshops to teach them on how to go about "laying a tile, changing a fill valve, or handling a power tool" (Ferrell & Hartline 2014, p. 582). Home Depot's sales associates underwent rigorous training in product use before attending to customers (Ferrell & Hartline 2014, p. 582). From the outset, this firm was characterized by a close focus on the consumer, with Marcus and Blank championing a customer service philosophy of “whatever it takes” (Sivakumar 2014, p. 173). This philosophy was to encourage sales associates to build relationships with consumers rather than viewing sales as a transaction.

According to Reddy and Pellegrini (2013, p. 96), competition compels companies to be resourceful in virtually all aspects, by forcing them to regulate their costs, create innovative products, and remain ahead technology-wise. Establishments that deliver comparable services are mandated to distinguish themselves from their competitors. All these features of rivalry are found in the home improvement trade. This industry has over 25 direct competitors that challenge Home Depot. They include Menards, Lowe’s, True Value, Do It Best, Ace Hardware, Sears, Target, and Wal-Mart (Hitt, Hoskisson & Ireland 2014, p. 153). Only a few of these pose a true competitive threat to Home Depot.

In January 2014, Home Depot bought Blinds.com for the purpose of gaining market share in the do-it-yourself (DIY) online segment. Since 2007, Home Depot’s present Chief Executive Officer and Board Chairman has been Francis Blake, who has been with Home Depot from 2002 (Home Depot 10-K 2014). Before Blake became CEO, Robert Nardelli operated as Home Depot’s president, CEO and board chair from December 2000 until January 2007 (Home Depot 10-K 2014). Though Nardelli had lacked retailing experience, he brought to Home Depot a fresh administration approach grounded on Six Sigma approach (Home Depot 10-K 2014; Hitt, Hoskisson & Ireland 2014, p. 154). Using this Six Sigma principle, Nardelli centralized Home Depot’s management structure. He did it by eradicating and amalgamating division managers, initiating procedures and reshuffling processes like the hi-tech automated inventory system. He also compacted supply orders at the Atlanta headquarters (Hitt, Hoskisson & Ireland 2014, p. 154).

Additionally, Nardelli removed focus off the retail outlets, touching beyond the fundamental US big box trades to triumph over new markets by means of constructing the Home Depot Supply division and expanding into China. It is worth noting that under Nardelli Home Depot's transactions over a five-year time frame soared from $45.7 billion in the year 2000 to $81.5 billion in the year 2005 (Hitt, Hoskisson & Ireland 2014, p. 154; Home Depot 10-K 2014). However, stock values fell during Nardelli's six-year tenure at slightly above $40 for each share (Home Depot 10-K 2014). The feeble financial incomes and Nardelli's result-driven administration style, which supposedly impacted Home Depot's prized culture, resulted in a hostile response and ultimately led to his resignation in January 2007.

5.2. Home Depot's Corporate Strategies

Home Depot's strategy has been to expand its company. This choice of corporate strategy of horizontal growth is key to a business' long-term existence. Home Depot chooses it specifically to improve the performance of its core competencies and to spread its financial risk. According to Baker (2013, p. 67), horizontal growth can be realized by increasing the range of products and services a firm produces or by expanding the company's products into other geographic locations. Home Depot realized early on that for it to beat competition, the number of stores and their locations would be critical. Presently, this strategy still plays an important role amongst Home Depot's numerous core competencies as competitor's Menards and Lowe's are aggressively pursuing their own horizontal growth strategies. Home Depot's core competencies include adaptability, virtuous quality products, accomplished labor, high inventory returns and incredible buying power. Others are exceptional customer service, and lucrative location of stores together with large number of stores (Home Depot 10-K 2014,

p. 3). These fundamental competencies take account of their consumer service, retail stores, low prices and extensive assortment of products (Home Depot 10-K 2014). Home Depot's idiosyncratic competencies are low prices, speedy expansion and an eclectic assortment of products that comprises exclusive products provided by way of strategic product alliances.

Home Depot projects themselves as a value-driven business with eight fundamental principles. These principles comprise taking care of this firm's people, exceptional purchaser service, doing the "right" thing, giving back and reverence for all people. Others include generating shareholder worth, building robust relationships, and empire-building spirit (Home Depot 10-K 2014). They also strive to stay ahead of the competition through a number of avenues. These include constructing many large warehouse type stores in lucrative localities and utilizing a state-of-the-art recording system, which sustains positively high rate of inventory turns. It also encompasses supplying an immense quantity of merchandise that allows for tremendous buying power with suppliers at the same time keeping costs to customers low (Home Depot 10-K 2014, p. 3).

In 2010, Home Depot proposed a three-pronged initiative aimed at fueling more business. The new strategy reviewed merchandise transformation, supply chain transformation, and customer service (Sivakumar 2014, p. 177). The supply chain initiative included the rolling out Home Depot's new Rapid Deployment Centers (RDC) to keep the stores serviced faster and more meritoriously. According to Didonet, Simmons, Villavicencio and Palmer (2012, p. 759); Reddy and Pellegrini (2013, p. 96); Baker (2013, p. 67); Gardner and Sheppard (2012, p. 66); and Reichheld (2008, p. 78), efficiencies in the supply chain allow key players in any market to rein in cost through keeping inventories lean.

This consequently results into cost leadership and increasing market share.

By rolling out 18 RDC's in its Atlanta base, Home Depot made its supply chain more flexible and efficient. Home Depot further has plans to take their RDC count to twenty-four in the near future (Home Depot 10-K 2014). In Litz and Pollacks (2015, p. 437); and Chi (2015, p. 34)'s idea of transaction cost efficiency of the supply chain management, certain kinds of transaction cost, as opposed to typical productions costs, can influence the allocative efficiency of the supply chain. In relation to allocative efficiency, the theory of transaction cost asserts that costs related to transactions can be alleviated through adoption of suitable exogenous organizations forms which may in turn reduce the costs of asymmetric information. The result of this will be a reduction in allocative inefficiencies (Litz & Pollacks 2015, p. 437; Goodman 2014, p. 233).

Apart from the supply chain transformation, Home Depot's strategies also focus on merchandise transformation and customer service. Merchandise transformation focuses on reestablishing Home Depot's commitment to great value and reinstating product authority (Sivakumar 2014, p. 177). Customer service strategy, on the other hand, emphasizes taking care of Home Depot's associates and taking care of Home Depot's customers. These two aspects assist in easier return process. Bonus as well as guaranteed price matching (Sivakumar 2014, p. 179).

5.3. Home Depot's Business Environment and CSR and How They Influences Success

The business environment comprises of the macro-environment, meso-environment micro-environment, and the firm. An analysis of Home Depot Business environment will be carried out using the PEST/PESTLE analysis, SWOT analysis and five force analysis.

5.3.1. SWOT analysis

5.3.1.1. Strengths

I. **Brand name awareness:** Home Depot boasts of being the largest home improvement retailer in the globe, with more than 300,000 workers and yearly sales of about $80 billion (Camillo 2015, p. 176). Every week, Home Depot retail outlets are visited by approximately 22 million individuals.

II. **Strategic product alliances:** Home Depot's fast growth in the US was attained by its tactical alliances with added business front-runners. It allowed them to deliver select products to DIY and outworker consumers, like; RIDGID tools, Ryobi tools, LG appliances, BEHR paint and Toro and Cub Cadet lawn equipment (Camillo 2015, p. 190)

III. **Shareholder Minded:** In fiscal year 2013, this company re-acquired a total of $8.5 billion bonds of unsettled stock to yield worth to shareholders (Home Depot 10-K 2014). Since 2002, Home Depot has repurchased close to 1.1 billion dividends and returned an extra $46 billion to stockholders

5.3.1.2. Weaknesses

I. **Privacy and Security:** Information systems are continually vulnerable to threat of continually evolving cyber-security risks, and firms must constantly look at ways to increase security. In 2014, Home Depot experienced a data breach that compromised close to 56 million customers' debit and credit cards and damaged the firm's reputation (Home Depot 10-K 2014).

II. **Decline in customer loyalty:** A noticeable weakness with Home Depot has been the decline in customer loyalty due to their product offering or customer service and the presence of strong competition in the industry.

III. **Reliant on third-party suppliers:** This firm is tasked with continuously identifying and developing associations with practiced dealers who can meet the company's high-quality standards and are capable of providing merchandises in an opportune and well-organized manner. The challenge is unfavorably affected by supplier non compliance with laws, supplier's financial instability, and currency exchange rates and so on.

5.3.1.3. Opportunities

I. **Further expansions in Mexico, the US and Canada:** Home Depot has an ambitious enlargement plan established on demographics. This firm seeks regions with numerous DIY clienteles and expenses of expansion where they are be able to appeal to more outworker regulars.

II. **Increased demand for interconnected retail:** more and more shoppers are turning to the Internet to place their requests and at the same time look for low prices. In keeping up with this desire, Home Depot is revamping its online options through order online, store to store, order online, and pick up a store among others. (Home Depot 10-K 2014, p. 56).

5.3.1.4. Threats

I. **Rivalry from competitors:** Home Depot operates in a highly competitive market and faces obstacle not only from national firms like Lowe's, but also from home-grown improvement stores like Friedman's in Northern California. These "go-local" initiatives encourage citizens to shop at locally owned stores (Home Depot 10-K 2014, p. 67). Additionally, many of Home Depot's products are in competition with specialty stores and there is an increased competition in the internet.

II. **Legal Proceedings:** Home Depot has found itself involved in a number of legal proceedings, counting government investigations and inquiries, employment and consumer tort resolutions and other litigations emanating from the conventional progression of business. The outcomes of these proceedings and other eventualities often necessitate them to take, or desist from taking measures that could affect operations.

5.3.2. PESTLE/PEST analysis

I. **Political:** Government policies usually influence the housing market. Home Depot is influenced by local and state regulations and has to remain in compliance within all the geographic regions it operates at.

II. **Economic:** The recession saw more consumers doing more and more DIY projects instead of paying professionals to do these projects on their behalf. This trend has continued even as the US continues to recover from recession.

III. **Social:** Changes in income have led to customers shying away from discretionary products. Additionally, lower availability of credit to customers has seen sales being adversely affected.

IV. **Technological:** Home Depot has totally transformed its supply chain and has added 24 RDC's.

V. **Environment:** Home Depot is dedicated to carrying out its trade in an ecologically accountable way in line with the "green" movement.

VI. **Legal:** Employee disputes have arisen and are bound continue in the future. Other issues like product liability disputes, foreign trade issues, and workers' compensation claims have affected Home Depot.

5.3.3. Five forces analysis

I. **Industry Competition:** despite having more than 25 competitors in the DIY industry, Home Depot is by and large the market trailblazer in this industry. Its closest rival, Lowe's is far behind. According to Camillo (2015), the home improvement segment of the DIY retail market generated annual revenues of close to $129 billion, with Home Depot contributing 58% of this and Lowe's contributing 39%. A number of effective strategies have helped Home Depot becoming a dominant player in this industry.

II. **Threat of new entrants:** This threat is quiet low due to high startup cost associated in addition to this industry being quiet risky, dynamic, and affected by a number of variables. Home Depot's large size provides it with a noteworthy purchasing power that new entrants or small competitors cannot enjoy. It is also very risky and hard for new entrants to get in a market that requires huge upfront investments and already has established competitors with robust brand identifications.

III. **Suppliers:** Home Depot has greater buying power and thus can command the lowest prices out of its suppliers. The power makes it hard for suppliers to impose high prices on Home Depot.

IV. **Customers:** Home Depot has an advantage over other retailers in terms of its customer after-sales services that none of its competitors, including Lowe's, can match. Furthermore, this company boasts of a robust brand name associated with quality. Furthermore, its presence all over the US market results in it being a more desirable place to shop.

V. **Substitute product:** Threats of substitutes is relatively low given that home improvement and building merchandises are not luxuries but essentials.

5.3.4. Financial analysis

The crucial ratios have already been worked out in table 1 below and in the section of appendices (other supporting graphs and charts are in the appendix). The current ratio is relatively improving since the last five years from 1.2 in 2009, 1.34 in 2010, slight drop of 1.33 in 2011, and increases again to 1.55 in 2012, dropping to 1.34 in 2013, increasing to 1.42 in 2014, and dropping again to 1.36 in 2015. The liquidity ratios in general have improved from 2009 to 2015 (see table 1 below). This current ratio position infers that the company's liquidity is decreasing. However, the values of these ratios were within normative value inferring the company's liquidity is still high.

Liquidity Ratios	2015	2014	2013	2012	2011	2010	2009
Current Ratio	1.36	1.42	1.34	1.55	1.33	1.34	1.20
Quick Ratio	0.37	0.39	0.34	0.34	0.16	0.23	0.13
Cash Ratio	0.87	0.91	0.22	0.21	0.05	0.14	0.05
Profitability Ratios	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
profit margin	7.63	6.83	6.07	5.52	4.91	4.02	3.17
ROE	68.06	43.00	25.51	21.70	17.67	13.72	12.71
ROA	15.88	13.29	11.04	9.58	8.32	6.51	5.49
operating profit margin	12.59	11.63	10.39	9.46	8.59	7.26	6.11
debt/equity	0.77	0.69	0.61	0.60	0.52	0.50	0.64
debt/capital	0.45	0.42	0.38	0.38	0.34	0.33	0.39
time interest earned	12.89	12.67	12.43	11.01	10.95	6.95	6.67
inventory turnovers	7.50	7.30	6.98	6.82	6.40	6.50	6.68
total asset turnover	1.95	1.92	1.82	1.74	1.69	1.62	1.73

Table 1 Home Depot financial ratios

Profitability ratios on the other hand, are also getting better meaningfully with ROE increasing from 12.71 in 2009, to 13.72 in 2010, to 17.67 in 2011, to 21.70 in 2012, to 25.51 in 2013, to 43.00 in 2014, and to 68.06 in 2015. The time interest ratio has also been improving throughout this same time period. The inventory turnover deteriorated from 2008 to 2011 but started to rebound in the following year. Total asset turnover also declined in 2010 but has since started improving. The reasons behind the inventory and the two related sales ratios slowdown in 2010 is the effects of the recession that greatly hit specifically the housing marketplace. The market value ratio has been increasing, indicating that Home Depot is attaining value in the stock market. Connecting Home Depot's ratios to that of Lowe's and that of the overall home improvement industry, it is clear that Home Depot is doing much better than its foremost rival and the industry overall. Figure 1 in the appendix shows Home Depot's stock performances against Lowe's. In general, Home Depot is doing well in this recovering economy.

6. CONCLUSIONS

In conclusion, the analysis of Home Depot reveals that its success is strongly linked to its corporate strategies more so its pursuance of a cost leadership strategy early on. This strategy has enabled Home Depot to offer to customer's better value than competitors, better services through personal commitment to store managers by top-echelon management, and a formula for rapid growth in a highly motivated trainer-trainee environment. Additionally, Home Depot has used a clear operating strategy based on four key initiatives of consumer service, product authority, disciplines capital allocation efficiency and productivity, and interconnected retail. In terms of customer service, Home Depot centers on building an emotional association with its regulars by placing them foremost and taking concern of Home Depot's associates. In terms of product authority, this company focuses on delivering product value, assortment and innovation. This is facilitated by the portfolio strategy and merchandising information.

In terms of growth strategies, Home Depot has utilized geographic expansion methods to expand into Mexico where it now has more than 100 stores, and into Canada. Home Depot has also focused on acquisitions, though this is not among its core aspects, it has resulted in a number of strategic acquisitions like the Red Beacon website. Their latest acquisitions have been focused on enhancing customer experience. Additionally, the use Same Store Sales (SSS) which is directly correlated to sales of existing and new homes has contributed to Home Depot's success. These SSS's are more dependent on the sales of the existing as opposed to new homes given that they drive demand for products like kitchen fittings, plumbing, and electrical appliances. In terms of financial position, Home Depot has more financial muscle, bigger purchasing power, and better stock performance than its competitors. Home Depot's ratios compared to Lowe's and the overall home improvement industry, reveal that Home Depot is doing better than its main competitor and the industry altogether.

APPENDICES

Appendix 1 - **Table of Home Depot Financial Ratios**

Liquidity Ratios	2015	2014	2013	2012	2011	2010	2009
Current Ratio	1.36	1.42	1.34	1.55	1.33	1.34	1.20
Quick Ratio	0.37	0.39	0.34	0.34	0.16	0.23	0.13
Cash Ratio	0.87	0.91	0.22	0.21	0.05	0.14	0.05
Profitability Ratios	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
profit margin	7.63	6.83	6.07	5.52	4.91	4.02	3.17
ROE	68.06	43.00	25.51	21.70	17.67	13.72	12.71
ROA	15.88	13.29	11.04	9.58	8.32	6.51	5.49
operating profit margin	12.59	11.63	10.39	9.46	8.59	7.26	6.11
debt/equity	0.77	0.69	0.61	0.60	0.52	0.50	0.64
debt/capital	0.45	0.42	0.38	0.38	0.34	0.33	0.39
time interest earned	12.89	12.67	12.43	11.01	10.95	6.95	6.67
inventory turnovers	7.50	7.30	6.98	6.82	6.40	6.50	6.68
total asset turnover	1.95	1.92	1.82	1.74	1.69	1.62	1.73

Table of Home Depot Financial Ratios

Appendix 2 - Table of Home Depot other financial ratios

Profitability ratios:-	Feb 1, 2015	Feb 2, 2014	Feb 3, 2013	Jan 29, 2012
Return on Total Assets	15,88%	13,29%	11,04%	9,58%
Return on Capital Employed	34,79%	28,44%	24,38%	19,48%
Return on Shareholders' Funds	68,06%	43,00%	25,51%	21,70%
Net Profit Percentage (based on profit after interest and tax)	7,63%	6,83%	6,07%	5,52%
Gross Profit Percentage	34,81%	34,75%	34,57%	34,47%
Operating Profit Percentage	12,59%	11,63%	10,39%	9,46%
Liquidity Ratios:-	**Feb 1, 2015**	**Feb 2, 2014**	**Feb 3, 2013**	**Jan 29, 2012**
Current Ratio	1,36	1,42	1,34	1,55
Quick Ratio (Acid Test)	0,37	0,39	0,41	0,45
Efficiency Ratios:-	**Feb 1, 2015**	**Feb 2, 2014**	**Feb 3, 2013**	**Jan 29, 2012**
Inventory Turnover	7,51	7,13	6,98	6,82
Accounts Receivable Turnover	56,05	56,37	53,59	56,54
Stock Holding Period (days)	40,91	57,99	86,8	92,8
Debtors Payment Period (days)	6,51	6,47	6,81	6,46
Creditors Payment Period (days)	41,57	43,44	43,31	42,51
Cash Conversion Cycle (days)	7,56	8,93	12,18	10,3
Solvency Ratios:-	**Feb 1, 2015**	**Feb 2, 2014**	**Feb 3, 2013**	**Jan 29, 2012**
Debt-to-assets	0,77	0,69	0,57	0,56
Debt-to-equity	3,29	2,24	1,31	1,26
Gearing	4,29	3,24	2,31	2,26

Table 2 Home Depot other financial ratios

Appendix 3 - **Chart 1 Home Depot Share Price Perfomance**

DuPont Identity	ROE	Net Profit Margin	Asset T.O	Leverage
2013	25.51	6.07	1.82	2.31
2012	21.71	5.52	1.74	2.26
2011	17.67	4.91	1.69	2.12
2010	13.72	4.02	1.73	2.11
2009	12.71	5.68	1.75	2.50

Chart 1 Home Depot Share Price Perfomance