

LOWE'S COMPANIES, INC.

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INTRODUCTION

With the housing boom coming to an end, rising interest rates, and decreasing consumer spending on home improvement products, the home improvement industry is on the brink of change. The industry is seeing increased costs for fuel, raw materials, and lumber in addition to shortages of raw materials. Past years' sales growth rates are expected to slow as the industry reaches maturity. Will Lowe's Companies' domestic growth strategy be sufficient in the years to come? Robert Niblock, Lowe's chief executive expressed confidence in the company's ability to maintain its momentum when he stated, "Recent data suggest continued favorable trends in employment levels and income growth which will offset some of the monetary pressures consumers are facing, such as rising fuel prices and interest rates." He also stated, "As trends in the housing market normalize from the rapid growth experience over the past few years, we believe we have the programs in place to continue to capture share and deliver solid earnings growth."

OVERVIEW OF THE CASE

Lowe's Companies is the #2 firm in the home improvement industry behind The Home Depot. By mid - 2006, Lowe's operates over 1,235 stores in 49 states and 11 regional distribution centers with plans to enter the Canadian market in 2007. It employs 185,000 people and serves about 12 million customers per week. Fiscal year end (February 23, 2006) sales were \$43.2 billion and earnings were \$2.8 billion. Lowe's focuses on the do-it-yourself and the do-it-for-me retail customers as well as building professionals. To better service this set of customers, the company offers installation services, provides customers with the opportunity to order unique items not stocked in the store, and provides one-stop shopping for commercial customers. Lowe's offers everyday low prices to customers and financing via a proprietary credit card and Lowe's project card. The company is currently pursuing opportunities to better serve the growing Hispanic and African-American customers. Growth plans call for 155 new stores in 2006 and 150-160 new stores in 2007.

Lowe's carries over 40,000 products in its stores, many of which are brand-name merchandise. Products are purchased from 7,000 vendors worldwide. The 11 regional distribution centers ensure that store inventory levels are maintained. Numerous marketing channels are used to reach out to customers. Television is used to build brand awareness, newspapers and magazine ads remind customers of the every day low price promise and product selection, internet and email are used to share information, and direct mail campaigns are used to develop relationships with current and potential customers. Lowe's is highly committed to being a good corporate neighbor by supporting entities such as Habitat for Humanity and the American Red Cross. In addition, the company is conservation-minded and is phasing out wood purchases from endangered forests.

The home improvement industry has experienced about 9% growth in recent years but it is predicted annual growth will be about 4-5% during the next 5 years. There are approximately 41,600 stores in the industry. Three types of stores have been identified: hardware stores, home improvement centers, and lumber/building material outlets.

Numerous macro-environmental changes are affecting the industry: changes in bankruptcy laws and credit criteria, personal income growth, employment growth, demographic changes relating to Generation X and Millennial Generation home buyers, and changes in technology that affect home products. Internationally, European firms are beginning to expand to markets outside of the EU and the Chinese home ownership market is growing.

Three companies are considered direct competitors of Lowe's. The Home Depot is the world's largest home improvement chain. In 2006, Home Depot has 2,051 stores in all 50 states, Canada, Mexico, Puerto Rico, and St. Thomas with plans to open stores in China. Between 400-500 new stores are planned to open by 2010. True Value is one of the world's largest cooperatives. In 2006, True Value has 6,200 stores in 54 countries, 12 regional distribution centers, 3,000 associates, and has reported over \$2 billion in revenues in 2005. Menard's is a privately held company with 210 stores in ten states. It is the 3rd largest home improvement chain in the U.S.

SUGGESTIONS FOR USING THE CASE

The case is ideally suited for a Strategic Management course but might also be considered for a Principles of Management course. The industry information provided in the case would allow students to apply industry analysis tools such as identifying industry characteristics, Five Forces competitive analysis, macro-environmental analysis, and key success factors. There is an overview of 3 major competitors so it may be possible to complete a strategic group map analysis. With the company information, a SWOT and financial analysis can be conducted. In addition, the case can provide a basis for discussing a fragmented industry and appropriate competitive strategies. Because Lowe's is the #2 company in the industry, it would be appropriate to discuss "follower strategies".

Teaching Objectives and Suggested Assignment Questions

Objectives:

1. Apply tools to analyze the industry environment
2. Apply tools to analyze the internal operations of the company
3. Assess the success of the company and how well its operations match the industry environment

Assignment Questions:

1. What is the home improvement industry like? What are the characteristics of the industry?
2. What macro-environmental forces are driving changes in the industry?
3. What information does a Five Forces competitive analysis of the industry provide?
4. What information does a SWOT analysis provide about the condition of Lowe's Companies and its internal operations?
5. What is your assessment of Lowe's financial condition?
6. What is Lowe's competitive strategy? Is this an appropriate strategy for a follower firm in the home improvement industry? Can Lowe's continue to successfully compete with The Home Depot?