s.[38] The decision to sell home appliances in Lowe's stores resulted in Lowe's ranking
n U.S. home appliance sales.[39] These successes translated into monetary gain: Lowe's
n average of $10 more per trip than Home Depot customers.[40]

's First Decades

0 years, Home Depot was widely known for its entrepreneurial spirit and focus on e and sales growth. Stores were run largely informally. Store managers had almost my in their own store operations.[41] They were not only allowed but even encouraged gement to ignore or send back directives from headquarters that they felt to be r own stores.[42] Because it was commonly believed that managers should spend their s floor with customers, company paperwork often ended up buried under piles on tossed in a wastebasket, or even marked with a company-supplied "B.S." stamp and head office. "The idea was to challenge senior managers to think about whether what ng out to the stores was worth store managers' time," said Tom Taylor, who started in 1983 as a parking lot attendant and in 2006 was executive vice president for nd marketing.[43]

, Store Operations, and Vendor Management

my was intended to encourage innovation and responsiveness to the needs and he local market. "Whether it was an aisle, department or store, you were truly in xplained a former Home Depot store manager.[44] Store managers decided on displays and promotions and set employee wages. Merchandising was based on each local market intuition and not on particular metrics, tools or data for quantitative egional purchasing offices negotiated separately with suppliers. Agreements would n to region. Blank believed that decentralization helped boost sales 15% to 20% epot buyers understood local needs.[45]

l purchasing meant that "the retailer was acting as if it were nine $5 billion r than a single $45 billion company, thus squandering the chance to drive down costs margins," wrote one industry observer.[46] Promoting autonomy and responsiveness ficulty in delivering on agreements with vendors. In one case, a purchasing center r garden furniture that included a 10% discount for Home Depot in return for ays in the stores in that region. But many store managers simply ignored the deal, play was not what their store needed.[47] Home Depot's decentralization also meant communication among managers, and limited ability to negotiate national deals.[48] any could generate nationwide store displays from its headquarters, it could not them with nationwide purchasing.[49]

Depot stores depended principally on full-time personnel who were knowledgeable provement. One analyst in early 2000 praised this strategy as one that kept h and turnover low. "Home Depot traditionally shies away from minimum wage

Need for Change

Despite Home Depot's astounding success, Marcus and Blank stated that further growth would require new ways of thinking and doing. The founders pointed out the need to apply new technologies, build efficiencies and reallocate resources, while still listening and responding to customers.[54] To bring more operational discipline to the company, the founders recruited Robert Nardelli from GE.

The Nardelli Era

In his first week as CEO Nardelli asked how to email all 1,134 stores and was told it was not possible.[55] The Atlanta headquarters generally communicated with store managers by fax.[56] In 2000, the company employed 227,000 associates, yet had no head Human Resources officer.[57] Despite its rapid growth and innovative store format, Nardelli said the company had been "in start-up mode for 20 years,"[58] and that the company's decisions were generally "based on emotion rather than data."[59] The retailer was years behind other retailers like Wal-Mart in technology. For example, bills and invoices were largely processed by hand[60] and for those items that did not have barcodes, employees had to manually go to a book to look up the code. There was no general counsel, no chief marketing function, and no CFO. Nardelli quipped, "Call me old-fashioned, but I kind of like the CFO reporting to the chairman."[61]

To respond to falling sales, rising costs and stiffening competition, Nardelli devised a three-part strategy: extending the business into new lines; expanding the market both geographically and with new types of customers; and making existing operations more sound and profitable.[62]

In 2001, Home Depot began providing "specialized products and services to smaller professional customers" and announced the intention of growing the professional business.[63] By 2003, Nardelli had expanded its wholesale business, Home Depot Supply, which provided products and services to a wide range of professionals including real estate developers, plumbers, electricians, construction crews and industrial contractors rather than to the ordinary do-it-yourselfer.[64] HD Supply grew largely through acquisitions,[65] and was a $12 billion business by 2006.[66] Nardelli also expanded Home Depot's market by announcing steps to move into other countries. Previous leadership had already taken the company into Canada, and Nardelli brought it to Mexico. In 2001, 2002, and 2004, Home Depot bought three separate home improvement chains based there. "We went from zero to number one in Mexico," said Nardelli.[67] To him, international expansion and diversification into the wholesale business were strategic responses to the declining U.S. housing market.[68]

Nardelli referred to the central strategy of improving existing operations as "enhancing the core."[69] Several initiatives fit under this banner, including major changes to fundamental retail functions such as merchandising, vendor management, and store operations. In keeping with this focus, Home Depot prominently displayed the new slogan "Improve Everything We Touch."[70]

Changes Introduced in Merchandising