."[130] Nardelli had received $200 million over the previous five years while shareholders
ative total shareholder returns of approximately -13%." Still, other analysts were bullish
ut Home Depot in late 2005 to place it above Lowe's as their top home center equity
positioning for future growth and its relatively low valuation.[131]

ce Under Nardelli

n to the doubling of revenue under Nardelli's leadership, his relentless focus on cost-
een successful in pushing gross margins from 30% in 2000 to 33.8% in 2005. Between
Home Depot had a 12% average annual growth rate in sales. Riding the same housing
had managed to increase its sales by an annual average of 19% over the same time

Nardelli successfully slashed costs and improved Home Depot's financial management,
r the share price. In December 2000, when Nardelli took the reins as CEO, Home
rice was trading slightly under $37 per share. Six years later when Nardelli left Home
ck was only slightly better off (refer to **Exhibit 3**). By mid-2006 total return to
as down 6%. During the same six-year period, Home Depot's rival Lowe's saw its
tock price rise more than 200%.[133] (See **Exhibit 10** for a comparison of share price
tween Home Depot and Lowe's.) Analysts explained the poor share performance as a
li's approach to management; one analyst noted that the "numbers were quite good
hat this retail organization never really embraced his leadership style."[134]

ice

ggested that the slide in customer service was likely related to Home Depot's
rice.[135] "He's made Home Depot much more profitable and more streamlined, but
thing that has to do with serving the customer," said one analyst. "They've got
working for less money and are less knowledgeable and less experienced. It's all
, at the cost of serving the customer."[136] Increased use of part-timers was a source
ny. While part-time employees were generally cast in the role of cashiers or shelf-
mers undercut a fundamental customer service premise—that of giving the do-it-
fidence that prepared staff in orange aprons were available to help. "We built the
ound the idea that a customer could come in and ask us how to do anything—fix a
, whatever—and we'd tell them how to do it," said a supervisor at a Florida store.
ids who don't even know what the products look like."[138]

d the notion that an emphasis on part-time staff was inconsistent with excellent
He defended the shift as a positive move for customers who would have more
end to them at peak hours. Like the self check-out machines, Nardelli saw
ber of part-time employees as a way to ensure better coverage on the floor, and
ustomers.[139] Investments in store processes and technologies meant that two to
sociates could be redeployed to the selling floor per store per week to assist
tments in store modernization made stores more attractive.ii The centralized
em resulted in higher in-stock ...

fairly good job at making the stores as self-serviceable as possible. It's easier to find product than it was before and stores are cleaner and easier to shop."[142]

Yet, many employees who had grown up in the Marcus and Blank era felt the new focus and strategies prevented them from delivering excellent service. Some insiders began referring to the chain as "Home GEpot" or "Home Despot," monikers that leaked out to the business press.

Business Week reported that Nardelli had "alienated customers just as thoroughly as he did employees. Staffing cuts led to persistent complaints that there weren't enough workers in Home Depot's cavernous stores to help do-it-yourself customers."[143] In the summer of 2002, the Better Business Bureau's Atlanta chapter—in Home Depot's hometown—suspended the retailer's membership in response to the skyrocketing number of customer complaints that had remained unresolved.[144] The University of Michigan's annual American Customer Satisfaction Index in 2005 ranked Home Depot at the bottom of the heap of major U.S. retailers in customer service (**Exhibit 11**).[145] The retailer received a score of 67 that year, down from 73 in 2004. The ranking put Home Depot 11 points behind Lowe's and 3 points behind Kmart. (See **Exhibit 12** for readers' comments to *BusinessWeek*'s story.)

By 2006, the CEO and his top executives had realized they had a customer service problem, and elevated the issue to one of their top priorities. Various initiatives were announced to support better merchandising and customer service.[146] Nardelli announced an employee bonus program, called "orange juiced"[147] that would award up to $10,000 bonuses to sales associates for outstanding customer service;[148] Nardelli said, "We open every board meeting with customer service data."[149]

The Road Ahead

Nardelli's departure had been prompted by the quarrel over executive compensation and share price, and not by any rejection of the changes he had introduced to Home Depot. There was widespread agreement that Nardelli had ushered in a technological revolution that had brought the company out of the IT dark ages, and established a series of useful business functions and processes that had not existed under the prior leadership. Yet questions lingered regarding the impact the command and control approach might have had on what had previously been the prized centerpiece of Home Depot's brand: its customer service.

Blake had to decide which of his predecessor's strategies to consolidate, which to alter, and how to go about strengthening a culture of customer service at Home Depot. These decisions would inevitably take place within the pressure of a declining housing market and growing competition in Home Depot's urban markets from the ever more confident Lowe's.