**Lowe’s Companies, Inc. – 2013**

Forest R. David

1. **Case Abstract**

The second largest home improvement store in the world, Lowes trails only Atlanta based Home Depot in number of stores and revenues. The company is a *Fortune* top 50 company operating over 1,800 stores. Lowe’s builds two store sizes, one for large markets and one for smaller markets. Lowe’s stores tend to carry several thousand more items than Home Depot, and Lowe’s stores have better lighting and wider isles to make for a more pleasing shopping experience. With stores in the USA, Canada, and Mexico, Lowe’s operates in the same areas as arch rival Home Depot. Lowe’s recently entered into a joint venture with Australian Woolworths Limited as a one third owner to develop Lowe’s themed stores in Australia. Lowes’s sales in 2012 increased 0.6% to $2.0 billion, but total customers declined from 810 million to 804 million. Home Depot reported 2012 sales of 50 percent more than Lowe’s.

1. **Vision Statement** (actual)

We will provide customer-valued solutions with the best prices, products and services to make Lowe's the first choice for home improvement.

1. **Mission Statement** (actual)

We are committed to delivering better customer (1) experiences across the entire home improvement spectrum (2), by pulling together the best combination of possibilities, support and value for customers wherever and whenever they choose to engage.

 (proposed)

We are committed to exceeding the expectations of our customers who home builders and homeowners (1). We offer superior home improvement products and expert advice (2) (7) at nearly 2,000 Lowe’s stores in the USA, Canada, and Mexico (3). We have a best-in-class electronic in-store tracking system (4) to help customers. By forming great relationships with our customers, we strive to expand our business (5) and continue to create jobs (8) in all communities where we operate. At Lowe’s, up to 80 percent of our employees work are on a full-time basis (9). We put customers first and empower them to change their homes for the better (6).

1. Customers
2. Products or services
3. Markets
4. Technology
5. Concern for survival, growth, and profitability
6. Philosophy
7. Self-concept
8. Concern for public image
9. Concern for employees
10. **External Audit**

**Opportunities**

1. Private brands offer differentiation from brand names and also offer higher margins.
2. Home prices and home construction are rising again in the USA with new home sales up 15% as of June 2012 from the previous year.
3. 30 year fixed rate mortgage rate is low at 3+%, but rising.
4. A large Canadian-based home improvement store, Rona could possibly be acquired by Lowe’s.
5. Mexican economy is steady improving with 5.5% GDP growth.
6. Top homebuilders DR Horton, KB Homes, and PulteGroup are growing.
7. Many customers desire weekend workshops to learn how to do home improvement projects.
8. As new homes are built, existing homeowners often refurbish their homes before listing on the market.
9. Australia’s GDP is about 6%.
10. Consumers can do comparative price checks easily with smartphones.

**Threats**

1. Home Depot reported February 2013 revenues of $75 billion or 50% more than Lowes and operates 500 more stores than Lowe’s.
2. Credit scores of 720 used to be automatic for a home loan but not so any more.
3. Unemployment rates are still over 7% in the USA.
4. Many customers consider home improvements as a cost rather than an investment into their home.
5. Industry has a heavy reliance on the housing market and overall economy.
6. In addition to Home Depot, Wal-Mart, True Value, and many mom and pop home improvement stores are fierce competitors.
7. Home Depot is crushing Lowe’s regarding online sales.
8. Home Depot is much more proactive than Lowe’s in preparing for seasonal changes.

**Competitive Profile Matrix**



Sherwin-Williams is a much more limited in scope than either Lowe’s or Home Depot competing mostly on paint and paint-related products. Lowe’s offers a wider selection of products, higher quality products, and better store lighting than Home Depot. Home Depot offers lower prices than Lowe’s on some products.

**EFE Matrix**





Lowe’s EFE score of 2.36 is slightly below average. Although Lowe’s is handing most of their opportunities well, the firm is struggling to compete with Home Depot that reported 50% more revenues in 2012. Lowe’s, like Home Depot, relies heavily on the overall health of the US housing industry.

**E. Internal Audit**

**Strengths**

1. Second largest home improvement store in the world with January 2013 revenues over $50 billion.
2. Operates 1,715 stores in the USA with excellent market penetration in all geographic areas.
3. Operates two styles of stores: 117,000 sq. ft. in large markets and 85,000 sq. ft. store in smaller markets.
4. Receive products from over 7,000 venders; the largest vender only supplies 7% of total purchases.
5. Plumbing, Appliances, and Tools & Outdoor Power Equipment each account for around 10% of revenues.
6. Lowe’s has private brands for tools, paint, plumbing, flooring, lumber, and much more.
7. Lowe’s stocks 40,000 items - up to 10,000 more than Home Depot and has wider isles and better lighting.
8. No goodwill on the balance sheet.
9. Lowe’s has a price matching policy.
10. Has a third party agreement to develop 150 stores in Australia.

**Weaknesses**

1. No meaningful growth in any product category between 2010 and 2012.
2. Cabinets & Countertops accounted for only 4% of revenues in each of the last 3 years.
3. Lowe’s has 69 to 89% full-time employees, while Home Depot only has 59%.
4. $2 billion increase in long-term debt in 2012.
5. Quick ratio is 0.2 compared to 0.5 of Home Depot; inventory turnover is 3.3 vs Home Depot’s 4.2.
6. Operates only 34 stores in Canada, 5 in Mexico.
7. ROE is only 13.7% compared to Home Depot’s 27.5%.
8. Lowe’s online sales efforts and performance lags Home Depot badly.
9. About 25% of Lowe’s sales come from professionals, compared to 35% for Home Depot.
10. Lowe’s lags Home Depot badly in directly calling on banks and contractors to offer services.

**Financial Ratio Analysis**

|  |  |  |  |
| --- | --- | --- | --- |
| **Profit Margin Percent** | **Lowe’s** | **Industry** | **S&P 500** |
| Gross Margin | 34.32 | 34.48 | 38.49 |
| Pre-Tax Margin | 6.25 | 8.77 | 16.93 |
| Net Profit Margin | 3.91 | 5.49 | 12.48 |
|  |  |  |  |
| **Liquidity Ratios** |  |  |  |
| Debt/Equity Ratio | 0.68 | 0.77 | 1.12 |
| Current Ratio | 1.2 | 1.3 | 1.4 |
| Quick Ratio | 0.2 | 0.4 | 1 |
|  |  |  |  |
| **Profitability Ratios** |  |  |  |
| Return On Equity | 13.76 | 22.95 | 22.74 |
| Return On Assets | 5.5 | 9.3 | 7.6 |
| Return On Capital | 7.8 | 13.2 | 10 |
|  |  |  |  |
| **Efficiency Ratios** |  |  |  |
| Income/Employee | 12,325 | 13,606 | 125,800 |
| Revenue/Employee | 315,350 | 253,438 | 1.04 Mil |
| Receivable Turnover | NA | 33.8 | 14 |
| Inventory Turnover | 3.3 | 3.9 | 13.3 |
| Asset Turnover | 1.4 | 1.6 | 0.8 |

Lowe’s is doing well financially but could work on improving its profitability ratios.

**Net Worth Analysis** (in millions)

 

 

Top competitor Home Depot is worth over three times Lowe’s, using methods 3 and 4 in the Company Worth Analysis. However, both firms have a much closer equity value when taking into account $1.1 billion in goodwill for Home Depot to Lowe’s $0 in goodwill.

**IFE Matrix**





**F. SWOT**

**SO Strategies**

1. Increase private label brands by 20% by 2015 (S1, S2, S4, S6, O1).
2. Continue with plans to expand into Australia with 150 stores (S1, S10, O9).
3. Add 10 additional stores in Mexico by 2015 (S1, O5).
4. Market and provide increased tutorials on weekends at Lowe’s stores once a month demonstrating how to do home improvement projects (S1, S5, S6, S7, O7, O8).

**WO Strategies**

1. Market and provide increased tutorials on weekends at Lowe’s stores once a month, demonstrating how to do home improvement projects (W1, W2, W5, O7, O8).
2. Continue with plans to expand into Australia with 150 stores (W6, O9).
3. Add 10 additional stores in Mexico by 2015 (W6, O5).
4. Increase marketing efforts to builders by 20% (W9, W10, O2, O6).
5. Redevelop website through using analytics to create a personally tailored page for each visitor (W8, O10).

**ST Strategies**

1. Continue with plans to expand into Australia with 150 stores (S1, S10, T1).
2. Increase private label brands by 20% by 2015 (S1, S2, S4, S6, T1, T4).
3. Market and provide increased tutorials on weekends at Lowe’s stores once a month demonstrating how to do home improvement projects (S1, S5, S6, S7, T1, T4, T6).

**WT Strategies**

1. Form a strategic alliance with DR Horton to provide discounts for customers choosing to use products from Lowe’s (W9, W10, T1, T5, T6).
2. Market and provide increased tutorials on weekends at Lowe’s stores once a month, demonstrating how to do home improvement projects (W2, W2, T1, T4, T6).

**G. SPACE Matrix**

 





Lowe’s is in the Aggressive Quadrant of the SPACE Matrix. The company is well positioned in a growing industry and should consider expanding store locations in the USA, especially in areas where there is a mild climate. Further expansion into Mexico and Canada are also appropriate strategies.

**H. Grand Strategy Matrix**

 

Having a strong competitive position in a moderately fast growing market, Lowe’s should continue to expand, especially into Mexico and Australia. One of the more pressing issues at all Lowe’s stores is increasing the customer base that feels confident enough to undertake do-it-yourself (DIY) projects. Increasing educational workshops on the weekends would greatly help in producing more DIY customers.

**I. The Internal-External (IE) Matrix**

 

|  |  |
| --- | --- |
|  | **2012** |
| **Segment** | **Total Sales (in millions)** | **%** |
| Plumbing | $5,448 | 11 |
| Appliances | 5,210 | 10 |
| Tools & Outdoor Power Equipment | 4,967 | 10 |
| Lawn & Garden | 4,390 | 9 |
| Fashion Electrical | 4,049 | 8 |
| Lumber | 3,448 | 7 |

Lowe’s is a well diversified company in the home improvement space. The IE above provides the six top revenue producing product categories. Lowe’s provides eight additional product categories with revenues ranging down to the poorest performing (in respect to revenues) category Cabinets & Countertops which reported $1,817 million in sales in 2012. Due to the well diversified nature, multiple product categories, and homogeneity of sales data, segment data is not plotted within the IE Matrix.

**J. QSPM**

 

 

 

 

With many potential customers feeling uncomfortable undertaking home improvement projects on their own, increasing DIY workshops is the most attractive strategy for Lowe’s according to the QSPM. Further expansion outside the USA market is also an alternative strategy.

**K. Recommendations**

1. Increase private label brands by 20% by 2015.
2. Continue with plans to expand into Australia through a joint venture with 150 stores at a cost of $100 million
3. Add 10 additional stores in Mexico by 2015 at $20 million
4. Market and provide increased tutorials on weekends at Lowe’s stores once a month demonstrating how to do home improvement projects at a cost of $1 million
5. Increase marketing efforts to builders at a cost of $20 million
6. Redevelop website through using analytics to create a personally tailored page for each visitor at a cost of $5 million

**L. EPS/EBIT Analysis** (in millions expect for EPS and Share Price)

 Amount Needed: $146

 Stock Price: $41.60

 Shares Outstanding: 1,070

Interest Rate: 3%

 Tax Rate: 35%

 

 

The EPS/EBIT Analysis reveals that debt financing is slightly better alternative than using equity to finance. However, $146 million is not a substantial amount for Lowes; the firm could finance through cash.

**M. Epilogue**

Lowes’ earnings for Q1 of 2013 increased 2.5 percent to $540 million, while the company’s sales for Q1 of 2013 decreased 0.5 percent to $13.1 billion. Comparable sales decreased 0.7 percent mainly due to a 3.7 percent decrease in the number of comparable transactions, partially offset by a 3.1 percent increase in comparable average ticket. Revenue in Lowes stores open at least one year in Q1 of 2013 rose 3 percent for indoor products such as paint, but declined 7 percent for outdoor products. Lowes’ results stood in contrast to those reported a day earlier by Home Depot showing an 18 percent rise in net income. Lowes’ indoor products accounted for 66 percent of the company’s Q1 2013. During Q1 of 2013, Lowes paid $178 million in dividends and repurchased approximately 23.5 million shares of common stock totaling $1.0 billion through our share repurchase program.

Sales of new U.S. homes climbed in April 2013 to the second-highest level in almost five years as job gains drew more buyers into the market. Home purchases rose 2.3 percent to an annualized pace of 454,000 homes from 444,000 the prior month. Demand for new and previously owned homes is sustaining progress in residential construction and helping home-improvement retailers like Lowe’s, but Home Depot is doing much better than Lowes.

Home Depot continues to outperform Lowes on almost all measures. Home Depot was ready in early 2013 as the home building market improved as it had loaded up on such products as plywood and fast-drying paint, set up dedicated checkout lines and loading services for contractors, and sent employees to make sales calls at building sites.  In contrast to Lowes, Home Depot had also arranged with banks and private-equity firms turnkey programs to spiff up properties in foreclosure. As a result, Home Depot saw 35 percent of its revenue come from professionals, compared with 25 percent at Lowe’s in Q1 of 2013.

Home Depot is also beating Lowes on the Internet. In Q1 of 2013, Home Depot customers could route any online order to the nearest store. Customers chose this option in almost 25 percent of the time for their online purchases, and one in five of those folks bought more items when they swung by to collect their goods. Lowe’s is rapidly trying to play catch-up online. For all of 2012, Home Depot turned over its inventory in less than 80 days, compared with 93 at Lowe’s – another area in which Lowes is losing the competitive battle with its key rival.

A positive note for Lowes is that in mid- 2013, the company took over the #80 spot from Walgreen Co. in terms of market capitalization value of USA firms. Lowes needs to be worrying, however, more about Home Depot than Walgreens.

**Chapter 9: Lowes Companies**

**10 Basic Questions**

1: B

2: B

3 A
4: D

5: C

6: C

7: C

8: B

9: D

10: A

**15 Applied Questions**

**Porter’s Five Forces Model**

1: D

2: D

3: D

4: A

5: B

**Value Chain Analysis**

1: D

2: A

3: C

4: B

5: C

**Environmental Sustainability**

1: D

2: D

3: B

4: C

5: D