Analysis to create a Strategic Management Plan For Lowe's Home Improvement

Strategic Management 434

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Introduction

In every business, strategic management can be an important factor for company growth. It is a means of gaining and sustaining competitive advantage which requires a unique plan based on different sectors such as corporate performance, positioning, and/or products to support its company environment which can include their customers and stakeholders . As of 2018, CEO of Lowes, Marvin Ellis said that Lowe's strategic plan as a company and their management was to “strengthen retail fundamentals – merchandising, supply chain, operations and customer engagement”. Three years later this year, the annual reports for 2020, 2019 and 2018 demonstrate that these proposed goals were achieved by assessing a plan and analyzing past systems. Lowe’s financial performance has changed over time since the business started, however establishing a strategic management plan through creating unique company goals and tactics has created success in achieving their goals for Lowes.

History and background

Lowes is a home improvement chain retail store based in the US and Canada. The company was founded by Lucius Smith Lowes. It’s main headquarters now is located in Mooresville, North Carolina. They operate 2,197 home improvement and hardware stores in North America and are the second-largest hardware chain in the US next to Home Depot. Although their biggest competitor, Home Depot, is the largest hardware store, Lowes does fall behind drastically. Lowes' company also has their advantages and distinctions that create differentiation.

Key positioning, business strategy and competitive advantage that have guided the brand

Key positioning are the choices a company makes about the value they're going to create. This also includes what they will be creating that is different from their competitors. For the last decade, Lowes key positioning started out with their slogan “Never stop improving” and now has changed to “Do it right for less”. In addition to this, their mission statement is “Together, deliver the right home improvement products, with the best service in value, across every channel and community we serve”. Through understanding their mission and slogan, we can see what is a top priority for Lowes which is their customers. In addition to this, their competitive advantage is connected because of their goal for growth. The competitive advantages that Lowes has are their products, store layout and customer engagement. For example, Lowes store layout is larger than Home Depots, stocking a larger and more diverse selection of supplies/products then Home Depots. They also have strong customer relations with a higher hiring percentage rate than Home Depot. Lowes also has in the past created several business strategies to address issues and create goals to achieve. An example of past business strategy goals have been to create a stronger presence for themselves in specific regions where there are less customers by establishing more stores in areas that have high growth markets however are not recognized. Another was to create a better customer service experience which although is more simple, is a business strategy that has enabled Lowes to have higher annual sales due to more quality service.

Current environmental assessment

To make a strategic assessment, a SWOT analysis of internal and external factors can be made. SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. This occurs within both internal and external current environments. What is internal are anything that is within the company's control like strengths and weaknesses. Whatever is external such as opportunities and threats to a business are outside of their control.

To begin with strengths, Lowes throughout the years has always has an established financial position being one of the two largest retailers in home improvement stores. Lowes has always had a large and diverse product selection to go with the stores aesthetically pleasing layout in comparison to Home Depot. For weaknesses, Lowes has less store locations than competitors. They also did not expand internationally in terms of store locations and overall has limited distribution centers. For external factors, there is a opportunity to establish a stronger presence in certain regions in the United States. Lowes has also had a strong sales growth in their industry. Lowes has many growth opportunities in orders sales and commercials. The threats that Lowes faces are rising prices of inputs and many direct competitors.

Understanding the SWOT analysis for Lowes helps shows which type of growth and strategy would work best. The current environment for Lowes requires them to expand and exceed the standard set by Home Depot however, in their own unique strategic management plan. For example, as a chain retailer, Lowes strategy implementation for growth and expanding is a plan in which competitors Home depot cannot control and therefore is a strength. In addition to other strength factors that are internal.

<u>Explanation of financial performance for 2018, 2019 and 2020</u>

By assessing past and current annual reports, companies are able to improve their financial performances as the years continue. For Lowe's home improvement, the highest year for net sales was 2020 reaching $89,597 mil following the years 2019 which was $72,148 and 2018 being The lowest year hitting $71,309.

FINANCIAL HIGHLIGHTS

Dollars in millions, except per share data	2020	2019	2018
Net sales	$ 89,597	$ 72,148	$ 71,309
Gross margin	33.01%	31.80%	32.12%
Operating margin[1,2]	10.77%	8.75%	5.64%
Net earnings[2,3]	6.51%	5.93%	3.24%
Diluted earnings per common share	$ 7.75	$ 5.49	$ 2.84
Adjusted diluted earnings per common share[4]	$ 8.86	$ 5.74	$ 5.11
Cash dividends per share	$ 2.30	$ 2.13	$ 1.85
Total assets[5]	$46,735	$ 39,471	$ 34,508
Shareholders' equity	$ 1,437	$ 1,972	$ 3,644
Net cash provided by operating activities	$ 11,049	$ 4,296	$ 6,193
Capital expenditures	$ 1,791	$ 1,484	$ 1,174
Comparable sales increase[6]	26.1%	2.6%	2.2%
Total customer transactions (in millions)	1,046	921	941
Average ticket[7]	$ 85.67	$ 78.36	$ 75.79
Selling square feet (in millions)	208	208	209
Return on invested capital[8]	27.7%	19.9%	11.2%

[1] Operating margin is defined as operating income as a percentage of sales.

From Lowe's 2020 annual report

Through analyzing the data, across the board there has been an increase in every financial sector for Lowes besides shareholders equity and selling square feet (in millions). From 2019 to 2020, selling square feet stayed consistent, therefore, did not increase. Through analyzing balance sheets, we can see an overall 54% increase in Adjusted Diluted Earnings Per Share to $8.86 per share, driven by total sales growth of 24%.

There was also a total of $1.7 billion in dividends in 2020 which was higher than the previous year. This information is valuable to guide creating a proposed financial strategy which is a part of driving future growth in the next 5 years. For Lowes, the sectors that could benefit from increased growth is shareholder equity. The balance sheet for Lowes could forecast trends In addition to use the information to create equations to assess fiscal goals such as increasing dividend and shareholder equity as a possibility.

Three proposed strategies that will drive future growth over the next five years.

To address proposed strategies for Lowes, it is important to first look at the goals that Lowe's has for the future in their strategy plan and annual report. Lowe's in 2020 annual report, mentioned that their goals expanded across the board to both finance and corporate operation sectors such as customer relations, operations sales etc. In order to achieve these goals, there needs to be some indicator of success factors, tactics and key performance indicators or KPI. To simplify this terminology, a tactic is an action taken to achieve a specific critical success factor. A critical success factor defines the mark of achieving a certain strategy. Both are measurable over a defined period of time. Tactics are what you do, and for every critical success factor, there are a number of tactics. A Key Performance Indicator is a metric show and indicator of whatever tactic. Based on the given annual report analysis, and additional material, three proposed strategies that Lowes could and should implement for the next five years are to invest in high growth products, increase their percentage for shareholder equity, and to expand Lowes internationally.

For Lowes, Investing in high growth products would allow a increase in sales growth in relation to customer growth as a whole. This would also be strategic because it is factoring in both strengths and opportunities of the internal and external factors in the SWOT Analysis. From the current data in 2020, the percentage of growth sales was 7% for Lowes.

In comparison to Home Depot which in 2020 increased 8.1%, there was a 1.1% difference between the two. Although there are many reasons why there was a 1% difference between Home Depot and Lowe's, the most evident fact Is that a need to increased sales and investment in high growth products would increase the percentage of sales and growth.
A success indicator would be the numerical percentage to be above Home Depots. Some tactics that Lowes can implement would be to find the highest selling products and invest in marketing and management assessment for these products. In this case the key performance indicator would be the percentage and forecasting sales growth over a five year period time series in addition to the success indicator.

To increase Shareholder equity, Lowes would need to assess their balance sheet every year for shareholder dividends, equity and assets and create formulas that forecast A specific attainable goal over a five-year period. A success indicator would be meeting their goal every year in the GAPS analysis. A key performance indicator would be showing the numerical increase through data analysis and predictions. With shareholder equity and dividends it is a little bit more complex to assess as there are many unpredictable factors that can occur that change markets and stocks throughout time. An example could be how the pandemic in 2020 had changed a lot of stock investment decisions, making buyers decisions in different companies are very unpredictable . Although this would be hard to attain for Lowes, it is not impossible even in comparison to their competitors.

The last goal that I think could be implemented over a 5 year period by Lowes would be to expand their company internationally. Although Lowes had attempted to expand in

Mexico in the early 2010s which ultimately failed, I believe that based on their current goals of increasing sales growth and distribution, Lowes would benefit from creating relationships with suppliers overseas. With Lowes reputation of having a diverse product selection and larger stores, it would be ideal that Lowes should invest in having a additional larger market and customer relations in more parts of the world. A success indicator for reaching this goal would be to have a couple different locations in one country in addition to a few distribution centers in that same country. Knowing their market, a key performance indicator would be to have the location chosen based off where consumer percentages where home improvement buyers are most likely to live and also to create custom relationships within employers and operations.

Conclusion

Through analyzing Lowe's Home Improvement company in detail, three strategy proposals were created to be implemented to potentially drive future growth for the company in the next five years. To create these plans, it was important to assess the company's general history, annual reports throughout the year, 10-k and to create a SWOT Analysis on their current environment. By doing so, Lowes could potentially see gradual or fast growth in which would be the deadline for the goal to be achieved. The tools to assess these goals such as key performance indicators and tactics provide a benchmark for when the goal should be how to meet these goals and to track progress in general and can also be implemented in detail as much as a company such as Lowes would desire.

Sources

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