

**VIRGINIA COMMONWEALTH UNIVERSITY**  
**School of Business**

<b>Business Policy and Strategy</b> <b>Summer 2021</b> <b>Case Assessment</b>
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Apply key content and learning covered in our strategy course to respond to the following questions. Your written response may not exceed **four single spaced** pages. You have until 9pm to complete this assignment. Your responses may be single or double-spaced. Please email your word document to [rskelley@vcu.edu](mailto:rskelley@vcu.edu).

**Case Questions –assume you have been hired by an investment firm to provide a strategic review of Lowes.**

1. Conduct an industry analysis for the market space that Lowes has operated in since their inception.

History: The home improvement retail industry sells a variety of home repair and maintenance goods including hardware, tools, electrical goods, lumber, structural material for construction and renovations and now much more. The history of home improvement goes way back, well, all the way when people started building and maintain their own homes to pretty much the beginning of civilization. The rise of renovation contractors (or professionals with skilled trades) increased the need for home improvements products.

The first major movers were Home Depot (1978), Lowe's (1946) and Menards (1960). These types of stores have expanded to offering items such as Lawn, garden and farm equipment supplies, household appliances, kitchen goods, décor, and other home enhancements, as well as also offering the services by contractors, tradespeople, and other workers who help to build, install, modify, and upgrade homes. Since the pandemic and everyone spending more time in their homes, the U.S. home improvement industry is stronger than it has been in over ten years. The annual revenue for the

industry is \$228.1bn with profit of \$31.5bn, profit Margin of 13.8% comprising of 4285 businesses and 857k employees. The current lifecycle is mature with medium/steady barriers to entry and competition. Home Depot has 50.2% market share while Lowe's has 36.8% and Menards has 6.4% with others having 6.6%. These retailers cater to a wide variety of markets, including professional, do-it-for-me and do-it-yourself customers. As the US economy rebounds from the coronavirus pandemic, industry revenue is expected to grow an annualized 1.1% to \$240.8 billion over the next five years to 2026.

2. How is the Lowes **brand** positioned in their industry? Compare and contrast with key rivals? Use specific examples to support your opinion.

Customer experience, price, quality, availability, product assortment, delivery options, store location and appearance as well as presentation of merchandise distinguish the competition. Lowes positions their brand as more of a do-it-yourself layout, design and feel to the store with white and blue colors, a culture of caring, low isles that you can mostly reach, and patio sets or holiday decor items while Home Depot is tailored toward the do-it-for me market meaning a work zone like orange color scheme and very high shelves that you need a forklift to reach to. Lowe's has also made an effort to attract women since they "influence over 70% of the purchases that happen in home improvement".

When it comes to brand awareness, Lowe's foot traffic increased 21% overall in 2020 compared to Home Depot's 12% however Home Depot still maintains a 20% traffic lead over Lowe's. Customer engagements for Lowe's improved more than Home Depot with increasing nearly 20% year-over-year verses 10% for Home Depot.

3. Perform an **environmental assessment** of Lowes. Be specific with your rationale.

As mentioned earlier, Lowe's has 36.8% of the market share with Home Depot having 50.2% and Menards 6.4% with others having 6.6%. Key external driving forces include Per capita disposable income, Private spending on home improvements, housing starts and number of households.

Lowe's reported sales for fiscal 2020 that increased 24.2% to \$89.6 billion. It had net income of \$5.8 billion, up 36% however in result of Lowe's trying to keep up with Home Depot, they announced in 2019 they were closing down underperforming stores and have not had great success attempting to expand internationally (closing all 13 stores in Mexico just after 10 years of entering along with 51 stores in the U.S. and Canada). This was also in result of bad inventory control resulting in low same-store sales resulting in the need for restructuring its business model. In 2018, the changed CEO's along with management teams and implemented a new ("Total Home") strategy devoted to strengthening retail fundamentals – merchandising, supply chain, operations and customer engagement. The new CEO's vision "lit a fire among his associates and unleashed their hidden potential". Newly appointed vice president of marketing and branding Marisa Thalberg implemented a Halloween program offering curbside trick-or-treat for families concerned about going door-to-door and an out-of-the-box New York Fashion Week collaboration to put Lowe's on the map as a fashionable home decor destination. The "Total Home" movement continues to provide items for the place for living, growing, sharing and loving.

Lowe's strengths include their distribution and reach, low-cost structure, social media presence and skilled workforce. Their weaknesses include global presence and investment in new technologies while their opportunities are the strength in the housing market, increasing product and service offerings along with new customers from online segment. Threats are the recovering pandemic and individuals not being home so much as well as inability to shortage of skilled workforce and growing strengths of some local distributors.

4. Identify and explain the three most important strategic opportunities/dilemmas that should be addressed. Provide **evidence**.

An opportunity for Lowe's is in the online volume. Their website traffic was up 49% or 1.5 billion visits in 2020 however their counterpart Home Depot's was up 55% to expand it's lead to 2.6 billion visits. They do not share their online sales but they announced it grew by triple-digits as well as 30.1% comparable sales growth during the third quarter 2020. Since their online presence has increased so much, the opportunity is to improve technology capabilities, like using AI to answer customer questions, adding online measurement tools to enable virtual in-home measurements and introducing video chat technology to allow its Pros to conduct virtual home visits.

Online presence also leads to increasingly focusing on delivery services, customers seeking faster, guaranteed delivery times and low-price or free shipping.

Capturing more of its do-it-for me (pros) customer segment is an opportunity since they shop on average, 80 times a year, compared to four or five times for a DIY customer.

A significant opportunity is the strength of the housing market. Inventory for used homes been decreasing along with a new home shortage is faring well for the repair and remodel industry. Two-thirds of everything Lowe's sells are related to repair and maintenance. Lowes just conducted a survey of 2,000 adult consumers about their vision of their homes for this year. 45% plan to create or improve their outdoor living spaces this year with 65% saying they will plant something new in the garden or in pots on the patio. Just under 40% of consumers said they used a new type of tool for the first time in 2020.

Expanding on their independent contractor business to include more than ceiling fan and floor installation (interior), roofing, siding and fencing installation (exterior).

5. Suggest three creative, yet realistic **strategies** to address (from the opportunities/dilemmas that you have identified above) in order to position the brand as a long-term successful company. Make sure you provide the evidence to support your recommendations.

Continued investing in online ecommerce. A series of website conversions happened earlier in the year in result of visitors staying on the page longer, clicking around to more pages during their visit and less likely to bounce off the site as well but continued improvements will help accelerate market share. (Also, a partnership with last mile delivery services such as DoorDash could significantly increase faster delivery times.)

Investing in Machine Learning and AI to help more effectively improve customer service online and expand their service to individuals at home.

Rolling out a plan to partnership more with the professional contractors and attract them to the store. High volume visits will benefit greatly.

## References:

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