

By D. Bruce Merrifield

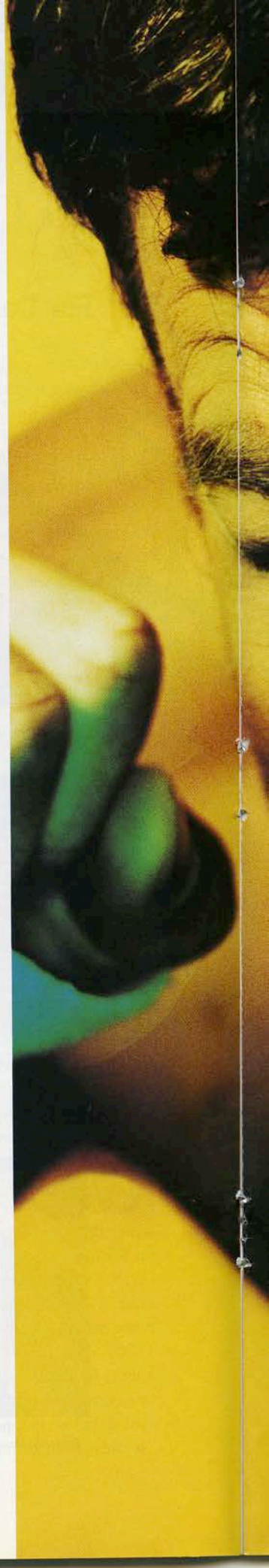
Battling the Giants

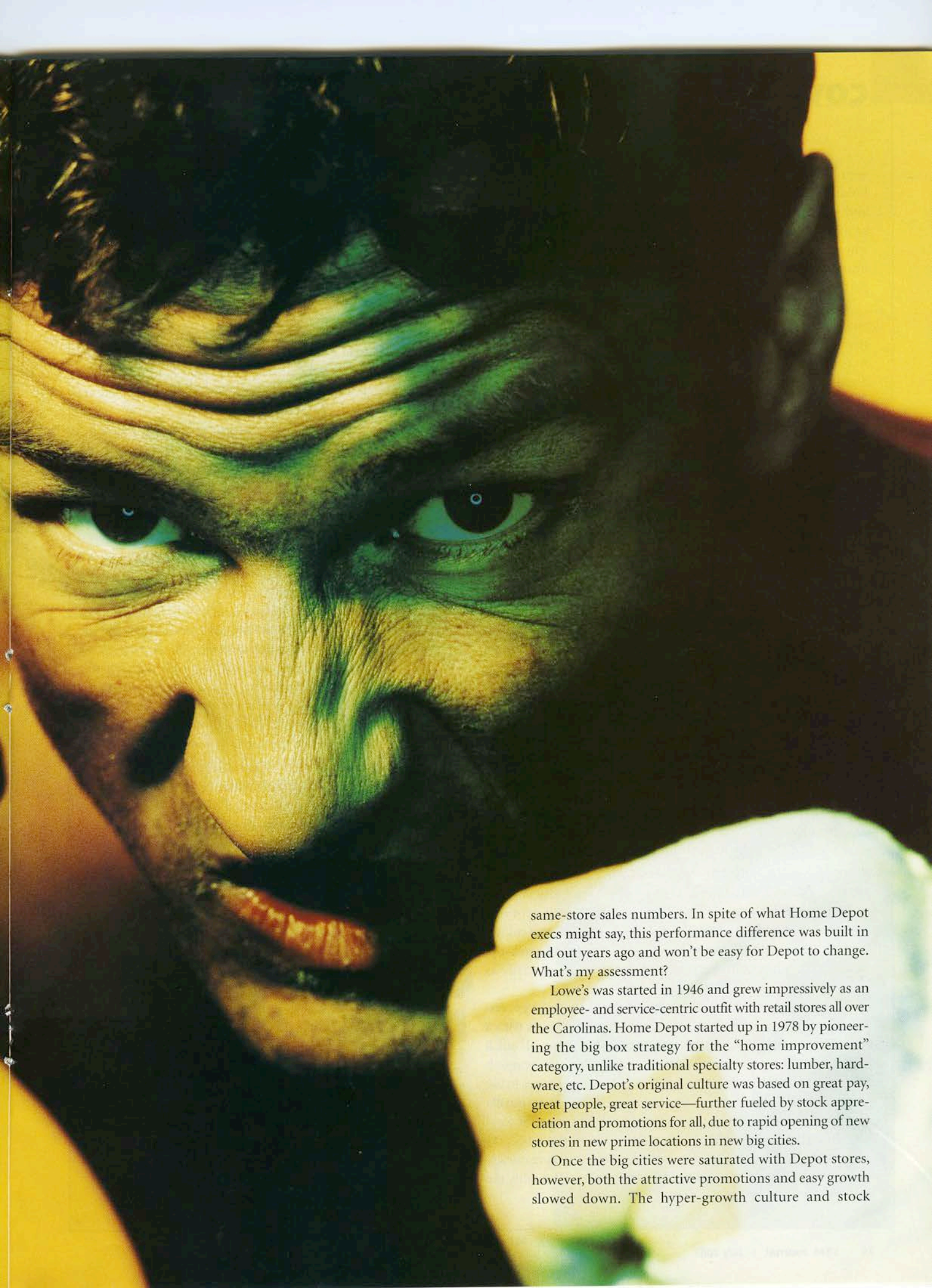
As Home Depot and Lowe's duke it out for market share and margins, it's clear that victory will be linked to service. **And that's where independents hang their hats.** As the boxes lick the wounds of turf wars, **are you prepared to pull ahead in the race?**

It's interesting to witness the decline of Home Depot due to obsessing on numbers and growth instead of the service quality that makes growth with profits happen. On February 25 Home Depot announced historical financial news results; both its quarterly sales and profits for the quarter ending January 31 dropped for the first time in history. Sales were off 2 percent from the same quarter a year earlier; profits were down 3.4 percent and same-store sales were down 6 percent. The day before, Lowe's had announced its own quarterly results. Sales were up 16 percent, profits were up 46 percent and same-store sales were up 4 percent.

This ten-point difference in same-store sales is one of the best illustrations I have ever seen in the head-to-head power of service-retention economics. Lowe's has better fill rates and service, so it doesn't drive away as many customers to Home Depot as HD is driving to Lowe's. The average for the two firms is a minus-1 percent same-store growth, which is consistent with the slowdown in both consumer spending and housing. This further illustrates that it is possible to grow quite profitably in a contracting industry at the expense of a competitor that is focusing on financial strategies like "buying lower, consolidating suppliers and centralized spend-management."

Let's dig deeper into the differences between the two in both performance and longer-term momentum. This was the seventh quarter in a row in which Lowe's has beaten Depot in





same-store sales numbers. In spite of what Home Depot execs might say, this performance difference was built in and out years ago and won't be easy for Depot to change. What's my assessment?

Lowe's was started in 1946 and grew impressively as an employee- and service-centric outfit with retail stores all over the Carolinas. Home Depot started up in 1978 by pioneering the big box strategy for the "home improvement" category, unlike traditional specialty stores: lumber, hardware, etc. Depot's original culture was based on great pay, great people, great service—further fueled by stock appreciation and promotions for all, due to rapid opening of new stores in new prime locations in new big cities.

Once the big cities were saturated with Depot stores, however, both the attractive promotions and easy growth slowed down. The hyper-growth culture and stock