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Alert Highlight



The Home Depot to Investors: Store-Centric IT Spending a Clear Priority

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[Scott Langdoc](#), [Robert Garf](#)

During a business review with investors, The Home Depot spelled out recent successes and a future vision that has allowed it to cross the \$80B revenue threshold. The Home Depot is now firmly established as not only the largest home improvement retailer in the world, but also the No. 2 retailer overall in the United States and the No. 3 retailer globally.

Among the results-producing elements of its "Enhance Core, Extend Business, and Expand Market" strategy was the importance of technology investments that have helped improve the store experience and provide a platform for optimizing financial and operational performance.

From a near-zero level in 2002 to a \$300M capital infusion in IT in 2003, The Home Depot has spent more than \$1.1B in technology over the past three years on top of an already aggressive \$2.3B spent on general store modernization projects.

Putting continued emphasis on store-associate productivity and self-service

It's no secret that The Home Depot struggled for years with its perception that customer service levels were in decline. To help turn the tide, much of the company's technology spending has been on optimizing the use of store-associate labor.

For example, The Home Depot's very successful self-checkout implementation, based on **NCR's FastLane** technology, is now installed in more than 1,200 locations. This resulted in the redistribution of 40 to 60 labor hours previously used for front-end activities to key consultative departments throughout the store, all while reducing checkout wait times by 35%.

A number of reengineered processes and supporting systems has also been deployed to proactively address out-of-stock conditions at store level. Not only does shelf availability improve, but the level of associate labor needed does as well.

Less time on tasks, more time on selling

Store associates at The Home Depot now spend approximately 40% of their current schedule on non-selling tasks, an improvement from 50% back in 2000, with the goal set at 30% by 2010. The company was an early adopter of **Reflexis'** task management technology, and has continually adjusted usage to create further consistency and help foster standards adoption and better performance metrics (see the AMR Research *Alert* article "**Real Benefits From Retail Task Management Software: B&Q and Sears Case Studies**").

Other improvements to associate availability will result from simplified staffing practices and the use of **SAP's Workforce Deployment** system, which was recently selected by the retailer.

Delivering pervasive interaction

Making sure customers interact with retailers at places other than checkout has never been more acute, especially when the merchandise and services are increasingly more complex

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than in the past (see the AMR Research *Alert* article "[Pervasive Interaction: A Model for Transforming the In-Store Customer Experience](#)").

The Home Depot is increasing its investment in contact centers to help consumers with the research component of their buying. It also has plans for 15,000 kiosks to increase access to product information and an extended virtual merchandise catalog, both of which are parts of its Special Orders and Services Improvement (SOSI) initiative. This will continue to improve conversion rates and increase market baskets.

Lowe's and The Home Depot attack supply chain challenges with a vengeance

To its credit, The Home Depot has put major effort behind rationalizing and improving its logistics model as well as developing its Centralized Automated Replenishment (CAR) strategy. However, Lowe's, its archrival, has been moving toward demand-driven inventory optimization a bit more aggressively and successfully.

Lowe's leadership in supplier collaboration and data warehousing are well known—Lowe's R3 (Rapid Response Replenishment) has emphasized forecast accuracy and store execution to improve stock levels and net costs. These threats will only put further pressure on The Home Depot to tighten its Demand-Driven Supply Network (DDSN) strategy regarding a more blatant cohesion between supply planning and supply execution, including more aggressive use of its visible technology partnerships with SAP and **SAS/Marketmax**.

The IT benefits are real and help further define retail leaders versus laggards

With The Home Depot's aggressive commitment to technology, it has been able to rapidly expand flexibility and improve financially in the metrics that matter to stakeholders: sales, costs, margin, and return on invested capital. Focusing on a new customer experience, demand-driven merchandising, and a global supply network model are critical to an IT strategy for any retailer not satisfied with tactical adjustments and mere survival. These are the strategic lynchpins of any winning retail IT initiative.

And if you're thinking this won't affect you if you don't directly compete with The Home Depot, think again—it has plans to open at least four convenience stores and fuel stations in 2006. If that isn't a clear case of retail channel blurring, we don't know what is.

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