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## White Paper

# Lowe's 2010

Steve Spiwak
Author of *Lowe's 2010* and Manager of the Retail Forward Key Account Program on Lowe's.
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This white paper is an excerpt from the full report entitled *Lowe's 2010* available only to members of the Retail Forward Key Account Program on Lowe's.

#### **About Retail Forward**

Retail Forward, Inc. (www.retailforward.com) is a global management consulting and market research firm specializing in retail intelligence and strategies. The company's syndicated research and executive development program known as the Retail Forward Intelligence System™, provides members with an authoritative perspective on the retail and consumer products industries.

Retail Forward offers two Key Account Programs on Lowe's and The Home Depot. In these programs Retail Forward's analysts identify emerging company issues, examine significant trends and analyze relevant consumer research to help you better understand the shoppers at these leading retailers. Timely reports and databases deliver informed insights into company activities and provide a strategic and forward-looking perspective on how these activities will affect competitors and suppliers. To learn about the benefits of membership in the Retail Forward Key Account Programs on Lowe's and The Home Depot, visit the Retail Forward Web site at www.retailforward.com or contact kclarke@retailforward.com.

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Retail Forward, Inc. Two Easton Oval Suite 500 Columbus, Ohio 43219 614-355-4000 TEL 614-355-4059 FAX

## Lowe's 2010

Since opening its first big box stores in the early 1990s, Lowe's growth has exploded. The retailer has gained ground on The Home Depot, which had a 15-year head start with large warehouse stores, in recent years. Lowe's should gradually narrow the still-sizeable gap further through 2010 and beyond. Although Lowe's is only about half the size of The Home Depot in terms of U.S. revenues, its stronger growth rate is giving its larger competitor a run for its money. To sustain industry-beating growth, the retailer will continue to roll out stores at an aggressive pace. Moreover, Lowe's is innovating across the organization, from supply chain enhancements to a broadening services offer. It also is on the doorstep of Canada.

## Did you know...?

- Sales forecast 2010: Growth to downshift, but remain strong. Lowe's will continue to record strong sales
  gains through 2010, albeit at a slower pace than the stellar growth of the last 10 years as the housing market
  downturn takes a near-term toll. However, given that its domestic sales are nearly double those of Lowe's, The
  Home Depot will remain the industry leader in the United States for the foreseeable future.
- New store runway remains through 2010. Lowe's continues to enjoy substantial new market opportunities in the United States, particularly in large metropolitan areas, while The Home Depot is rapidly running out of prime real estate to open new stores. Consequently, Lowe's will continue to open stores at a rapid pace in the coming years, particularly in markets where its saturation levels are relatively low, such as the Northeast and West.
- Market share continues to increase. Based on Retail Forward's projections, the gap in market share between
  industry leader The Home Depot and number-two Lowe's should narrow to about 7 percentage points by 2010,
  compared with a difference of about 9 percentage points in 2005, as Lowe's growth continue to outpace its rival.
- Lowe's evolution: Survival of the second mover. While it did not create the big box home improvement store, Lowe's has been a successful second mover. To continue to thrive in The Home Depot's shadow, Lowe's is innovating in the areas of merchandising, store formats, special order services, pro contractor services, installation services, and supply chain efficiencies. It also is on the doorstep of Canada.

#### What lies ahead?

- Leveraging smaller store footprints. The majority of Lowe's new store expansion will be with its 117,000 sq. ft. prototype store as the company looks to improve penetration in top metropolitan markets, areas that Lowe's has begun to tap only in the past couple of years. The company also will attempt to capitalize on opportunities in smaller and urban markets with smaller prototype stores. Having a smaller footprint store will allow Lowe's to exploit strong new store opportunities in the United States at least through 2010.
- Making stores easier to shop. Lowe's has managed to
  effectively differentiate itself from The Home Depot with
  brighter, easy-to-navigate stores that attract a broader
  customer base, particularly women. The company plans
  to continue to invest heavily on store improvements.
  Better displays, improved signage and self-checkout
  registers are part of the investment (Figure 1).

Figure 1
Lowe's multi-lingual signage simplifies shopping for people who speak Spanish



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- Merchandising: Broadening the appeal. The addition of compelling new product lines and exclusive merchandise will be critical to closing the gap with The Home Depot and staving off the Wal-Mart threat. Look for Lowe's to add both national brand and private label products as it seeks to add excitement to the stores and appeal to a wider range of shoppers. Efforts also will include diversifying up and down the good-better-best spectrum to boost selection and margins.
- Ramping-up specialty sales with the "Big 3." Installation services, special order sales and commercial business customers are a key focal point for growth—Lowe's calls them "The Big 3" because they generate larger than average tickets. These initiatives will allow the retailer to get more out of existing stores by increasing store traffic, boosting margins and making the retailer more competitive with an enhanced one-stop shopping model (Figure 2).
- Multichannel model multiplies. Significant investment in online shopping capabilities has only occurred recently at Lowe's and the pace of implementation has been gradual. But times are changing. Expect Lowe's to make the improvement of its multichannel offer a priority going forward as it looks to leverage the online space to enhance the shopping experience, add products and services, de-

to enhance the shopping experience, add products and services, deliver more product information and provide more customer touchpoints.



Figure 2

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- Keeping up with the growth—distribution capabilities. Lowe's will continue to invest in its Rapid Response
  Replenishment (R3) initiatives to improve the supply chain infrastructure and increase its flexibility, enhance
  in-stock positions in stores, reduce markdowns and boost profitability. Direct sourcing also will see more
  investment. Bolstering supply chain efficiencies will be absolutely crucial as Lowe's competes with The Home
  Depot (and Wal-Mart) in more markets, foreign and domestic.
- Canada: Lowe's next market. Lowe's will become an international company when it enters the Canadian market in 2007. The retailer will face plenty of challenges as it takes its first step outside the United States, including stiff competition from The Home Depot and strong Canadian retailers. Still, Lowe's can be a formidable competitor if it can successfully transplant its highly effective merchandising and service model north of the border. However, don't expect the retailer to venture into additional countries before 2010 to avoid stretching its resources too thinly.

### Lowe's Implications

The Home Depot remains firmly entrenched as the home improvement industry sales leader. Though The Home Depot is easing back on new store openings in the face of impending market saturation, it continues to search for other strategic growth avenues and is doing so aggressively. This will keep the pressure on Lowe's to innovate. Besides the formidable challenge from its chief competitor, Lowe's will face a number of other challenges in the years to come. Menards continues its slow-but-steady expansion and will go head-to-head with Lowe's in more markets in the future. Housing market fluctuations, changing demographics, increased regulatory pressures, the growing need to find qualified associates and competitive pressure from non-traditional sources, namely Wal-Mart, will all test Lowe's management.

## **Competitor and Supplier Implications**

Competitors will need to innovate service and merchandise offers, tap under-penetrated market segments and build new customer touchpoints to survive amid the dominance of Lowe's and The Home Depot. Supplier survival strategies include supporting new retail growth initiatives, developing supply chain enhancements and offering innovative new products and services.