

C A S E S T U D Y

Home Depot Canada

Canadian Business History
Professor Joe Martin

This case was prepared by Tabitha Fritz under the direction of Professor Joe Martin as the basis for class discussion rather than to illustrate either effective or ineffective handling of a managerial situation.

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Home Depot Canada

Introduction

Bernie Marcus and Arthur Blank looked across the table at one another in the boardroom of their Atlanta headquarters. It was nearing the end of 1992, and the company that the two men had started and grown together — The Home Depot — was widely regarded as the world’s leading retailer in the home improvement industry. Despite their success, however, they recognized that their rapid expansion in the U.S. would soon begin slowing down.

“Maybe we should start thinking about going into new countries,” Bernie said. “There’s got to be a market for us in more places than just the U.S.”

“I’ve been thinking the same thing,” said Arthur. “But we’ll also have to think about things like foreign exchange risk, and how to make sure we’re selling products that fit the building standards wherever we go.”

“Those things are all manageable, Art.” Bernie replied. “Besides, once we get to another country and the people start coming to the stores, they’ll realize they love us, and we’ll actually grow the market.”

“I think you’re probably right,” said Arthur. “So, where should we start looking?”

Note: Although the above conversation is based on actual events, it is a fictional account of the author’s own creation, and has been included only as exposition. Neither Bernie Marcus nor Arthur Blank was interviewed for this case.

Considering International Expansion

Founded in 1978, Home Depot was widely regarded as the world's leading retailer in the home improvement industry. The company operated full-service, warehouse-style stores that averaged about 100,000 square feet, and sold around 35,000 different products under one roof to do-it-yourselfers and those in the professional building trades. (See Exhibit 1 on page 21.)

Home Depot was lauded for being a leading innovator, not just in the home centre sector, but in the entire retail industry, for combining the economies of scale inherent in a warehouse retail format with a level of personalized customer service generally seen in much smaller stores.

By 1992, the founders realized that expansion in the U.S. would necessarily slow, and the company began exploring the idea of international expansion. The two founders likely looked first to Europe, where several home improvement retailers had already begun expanding the market. In France, the country's laws against building the large, warehouse stores that were a hallmark of Home Depot prohibited expansion in that country; furthermore, the home centre retailer Castorama, established there in 1969, was firmly entrenched in the market. Britain was the next logical consideration, but there too was an established home centre retailer — B&Q — which was already planning to build large, warehouse-sized locations in 1994.

Closer to home, analysts predicted that Home Depot would enter the Mexican market, but when the Mexican government devalued the peso in December 1994, the value of that currency was cut in half and inflation soared, sparking a severe recession in Mexico. The company was only weeks away from signing lot contracts for its first two Mexican stores when the crisis struck, and Home Depot was forced to put its plans for Mexican expansion on hold.¹

Home Depot instead turned its attention towards its neighbour to the north: 80 per cent of the Canadian population lived within 100 miles of the U.S. border, the country had high rates of home ownership and the \$8 billion in annual industry sales made Canada a logical choice for international expansion.² The company announced plans to enter the Canadian market in May 1993.

Canadian Home Ownership and the Home Improvement Market

The growth of Canadian home ownership and the subsequent home improvement industry stretched over decades, and involved a wide range of cultural and economic forces. Before the mid-1940s, Canada had a rudimentary housing finance market. As WWII ended, the Canadian government faced the challenge of meeting the rapidly increasing demand for housing as veterans returned from war, marriage and birth rates soared, immigrants poured into the country, and post-war prosperity further intensified the demand for housing. On Jan. 1, 1946, the Central Mortgage and Housing Corporation was incorporated, in part to ensure that affordable housing was available for returning veterans.³

In the 1950s, the supply of mortgage funds began to constrain home ownership rates, leading the federal government to take measures to enhance and expand the mortgage market. Along with amending the Bank Act to allow chartered banks to enter the market, the government introduced

¹ A Mexican home improvement chain, Home Mart, had been established in 1993 as an obvious Home Depot imitation by Corona brewing heir Eduardo Sanchez-Navarro, right down to the do-it-yourself clinics and same style exterior and roof. Acquiring the fledgling family-owned business may have been a consideration for Home Depot.

² Statistics Canada (Table 080-0020: Retail trade sales by NAICS).

³ The name was changed to Canada Mortgage and Housing Corporation in 1979.

NHA mortgage loan insurance to provide banks with increased confidence in lending, as the government assumed a large portion of the mortgage default risk, enabling home owners to purchase homes with only a small down payment. With nearly 1.2 million housing starts over the next 10 years, housing stock reached 4.7 million units by 1961;⁴ over the next 50 years, the growth of both the Canadian home ownership rate and the rate at which new homes were built would continue to outpace the U.S. (See Figures 1 and 2.)

Figure 1
Historical Canadian and American Home Ownership Rates*

	1971	1976	1981	1986	1991	1996	2001	2006
Canada								
Home Ownership Rate	60.3%	61.8%	62.1%	62.1%	62.6%	63.6%	65.8%	68.4%
Total Households (in millions)	6.0	7.2	8.3	9.0	10.0	10.8	11.6	12.4
U.S.								
Home Ownership Rate	64.3%	64.7%	65.4%	63.8%	64.1%	65.4%	67.8%	68.8%
Total Households (in millions)	71.3	80.2	89.0	99.3	107.3	114.1	121.1	126.0
* Due to discrepancies in the timing of measurements and the data collection methods used, rates between Canada and the U.S. may not be directly comparable for the reported years.								

Sources:

"Sixty Years of Housing Progress in Canada", *Canadian Housing Observer*, Canada Mortgage and Housing Corporation.
Historic Housing Vacancies and Home Ownership Tables, U.S. Census Bureau.

Figure 2
Total Canadian and American Housing Starts per Decade (in thousands)

	1951-1960	1961-1970	1971-1980	1981-1990	1991-2000	2001-2010
Canada						
Housing Starts	1,200	1,600	2,460	1,250	1,460	2,050
Total Houses	4,700	6,300	7,160	9,100	10,800	12,850
U.S.						
Housing Starts	N/A	14,245	17,534	14,824	14,090	14,382
Total Houses	N/A	69,778	87,739	106,283	119,628	130,599

Sources:

"Sixty Years of Housing Progress in Canada", *Canadian Housing Observer*, Canada Mortgage and Housing Corporation.
Historic Housing Vacancies and Home Ownership Tables, U.S. Census Bureau.

⁴ "Sixty Years of Housing Progress in Canada". *Canadian Housing Observer*. CMHC. 2006.

High inflation as well as rising energy and land costs in the 1970s led to mortgage interest rates of 20 per cent by the start of the 1980s.⁵ Housing starts fell to their lowest levels in 20 years, and housing stock increased by only 1.2 million units throughout the decade. In 1986, CMHC introduced mortgage-backed securities to “improve the liquidity of the secondary mortgage market and widen the sources of funding”. In the 1990s, interest rates began to decline, and the total number of houses approached 10 million by mid-decade.

Expansion to Canada

Home Depot had recently opened stores in the Seattle, Washington area, and felt that opening its first Canadian stores in Vancouver, B.C. would be a natural progression from its entry into the U.S. Pacific Northwest region.⁶ The company began planning an aggressive expansion, declaring that it would open 50 Canadian stores within five years of entering, and preparing to establish five stores throughout 1994 and 1995.⁷ The founders then considered how the company would enter the Canadian market, finding they did not have to look far to find an acquisition target that would suit their needs.

Aikenhead’s was a chain of Canadian hardware stores located throughout Ontario. Founded by Joseph Ridout in 1830 as Ridout’s Hardware Store, the original store was located in downtown Toronto. In 1868, two employees, James Aikenhead and Alexander Crombie, became partners in the company, renaming it Ridout, Aikenhead, & Crombie. The name became Aikenhead’s in 1893, after James Aikenhead bought out the other two owners.

The Aikenhead’s stores were managed as a family business until 1971, when the Aikenhead family sold the chain to The Molson Companies of Montreal for just over \$3 million.^{8,9} Molson’s intent was to merge the chain with Beaver Home Centres, which the company had acquired the same year, to create its own home improvement warehouse. The merger never materialized, and by 1992, the Aikenhead’s enterprise was reduced to a single store in downtown Toronto. Molson was still determined to enter the burgeoning home improvement warehouse retail industry, and began searching for an executive who could capitalize on the familiar Aikenhead’s name to open Molson’s own home improvement warehouses.

Stephen Bebis was a Home Depot merchant who had been promoted to vice-president only months before Molson recruited him to expand Aikenhead’s in 1991. Shortly after he left, Home Depot sued Bebis, alleging that he prematurely exercised his company stock options. The case was settled out of court, and some bitterness may have lingered between the company and its former merchant.

In April 1992, Bebis opened the first Aikenhead’s Improvement Warehouse in the Toronto suburb of Scarborough, Ontario. At 125,000 square feet, and with 35,000 different items,¹⁰ the Aikenhead’s store greatly resembled Home Depot. One notable exception was the teal colour used for the store face, company logo, and associates’ aprons. (See Exhibit 2 on page 22.) The company’s retail strategy

⁵ “Sixty Years of Housing Progress in Canada”. *Canadian Housing Observer*. CMHC. 2006.

⁶ Vancouver is about 200 km north of Seattle.

⁷ Shields, Jerry. “The Home Depot’s first foreign market to be in Canada in Vancouver, British Columbia”. *PR Newswire*. May 18, 1993.

⁸ All values in the case are in Canadian dollars unless otherwise stated. Home improvement was not Molson’s first foray into diversification. Throughout the 1970s and 1980s, it purchased companies in industries as diverse as steel manufacturing, library and office supplies, business services, chemical manufacturing, and specialty laundry detergents.

⁹ “The Molson Companies Limited: Historical Reports”. *The Financial Post* Data Group. 1993.

¹⁰ *Ibid.*

was strikingly similar to that of Home Depot: a wide assortment of home improvement merchandise was sold by highly trained employees who gave customers tips and instructions on completing their home improvement projects. Aikenhead's opened two more warehouses in the Greater Toronto Area in 1993, and stores were also added in Edmonton, Calgary, and Surrey, B.C. (located 30 km south of Vancouver).¹¹

Home Depot Buys a Stake in Aikenhead's Home Improvement Warehouse

On Feb. 8, 1994, Home Depot purchased a 75 per cent stake in Aikenhead's for approximately \$200 million from Molson.¹² The terms of the original partnership agreement included an option for the company to purchase the remaining portion of Aikenhead's from Molson, at any time after Jan. 31, 2000, or Molson could force Home Depot to purchase that share.¹³ Also included in the deal was a non-competition agreement for Quebec.¹⁴

In a news conference announcing the acquisition, Molson's CEO Mickey Cohen told reporters that the deal made more sense than engaging in head-to-head competition with Home Depot, stating that the company's shareholders would be better off "with 25 per cent of a big, profitable pie than with 100 per cent of a competitive battle."

Home Depot executives estimated that the acquisition of Aikenhead's gave the company a three-year head start. This strategy allowed the company to become profitable much sooner than if it had entered Canada via greenfield investments that needed to be built from the ground up. "It really short-circuits the whole process," said Bernie Marcus. "We have cut out three years of pain, losses, start-up costs, aggravation, and also secured some very important real estate."

The acquisition gave Home Depot access to prime locations not only in the Greater Toronto Area (GTA),¹⁵ but also in the Vancouver market, where Aikenhead's had already staked out another six sites. Home Depot planned to open 20 stores in Canada over the next two or three years, and at least 50 stores within five years.¹⁶

Integrating Home Depot and Aikenhead's

From its first expansion into Florida, Home Depot had operated as a decentralized company. It placed a high value on local management and merchandising, and as it entered a new locale, or as stores became concentrated within a region, divisional management and buying offices would be set up nearby. The Canadian expansion was no exception, and the company located the corporate headquarters of the division in Toronto.

Despite its recent conflict, and to the surprise of the Canadian business community, Home Depot asked Bebis to head this new division as a subsidiary of the parent company in Atlanta. With Bebis overseeing the expansion, the company hoped to maintain some of Aikenhead's existing management team, as well as to leverage Bebis' familiarity with existing operational infrastructure.

¹¹ Kearney, Mark and Randy Ray. *Aikenhead's Hardware: I know that name!*. Dundurn Press. Toronto. 2002.

¹² "Molson sells Home Depot Canada stake for \$375 million". *Canadian Press NewsWire*. April 29, 1998.

¹³ "The Molson Companies Limited: Historical Reports". *The Financial Post Data Group*. 1996.

¹⁴ Molson co-owned the Reno-Depot, Brico and Val Royal home improvement stores in Quebec with Groupe Val Royal.

¹⁵ Aikenhead's had three stores and 17 sites reserved for future development in the GTA, Canada's largest market at the time.

¹⁶ Murray, Maureen. "U.S. giant invades Canada by buying hardware chain; Home Depot gets 75 per cent stake in Aikenhead's for \$200 million". *Toronto Star*. Feb. 9, 1994.

Bebis' first task as president of Home Depot Canada was to integrate the two companies, including all of Aikenhead's 3,000 employees. In a letter from Bebis to Aikenhead's associates, he reassured his employees of the stability of their jobs despite the merger. "Home Depot's desire to enter a partnership with us is a tribute to our success. They like what they see — from our friendly, well-trained associates and first-rate management team to the design of our stores. For these reasons, little will change in your day-to-day work; it will be business as usual... Home Depot realized, like we do, that you're the most important asset this company has and that Aikenhead's success has been built upon the expertise of associates like you." To emphasize this, a banner reading "Same People, New Aprons" was hung in stores. (See Exhibit 3 on page 22.)

During the week of Feb. 13, 1994, seventeen Home Depot executives from across several functional areas — including Finance, HR, Systems, Strategy and Merchandising — visited Aikenhead's stores, setting off a firestorm of rumours about mass firings and the imminent arrival of executives from the United States. Newsletters were published weekly between Feb. 10 and April 7 in an attempt to reassure employees and quell rumours about issues ranging from employee benefits to the hiring and firing of associates and executives. "Business as usual" became an oft-repeated phrase.

The final Aikenhead's newsletter, released on April 7, focused on the future: Home Depot Canada would be run autonomously with independent decision-making rights about product selection, hiring, promotion, and store location. Bebis also confirmed that he viewed his position at Home Depot Canada as long term, telling employees that his vision was to make Home Depot Canada "the jewel in the crown of Home Depot".

Slowing Expansion

By the end of 1994, Home Depot Canada's sales reached \$463 million, placing the company fifth in the industry behind Canadian Tire, Home Hardware, Rona, and Beaver Lumber.¹⁷ Early in 1995, the Canadian economy was sideswiped by the Mexican peso crisis, putting the "loonie" under strong downward pressure, and causing interest rates to rise sharply. It was the first full fiscal year of the Home Depot and Molson partnership, and the company reported sales of \$614 million, an increase from the previous year, but still considerably lower than had been expected.¹⁸

Division president Stephen Bebis blamed the low sales on the slumping Canadian economy: "The housing market, the economy is in a depression — not a recession. It's the worst it's been since 1982, and it affected our business." He estimated that Canadians had about one-third less real spending power than American consumers — mainly because of different tax levels — which greatly affected sales differentials between American parent companies and their Canadian subsidiaries.

The company management also struggled with cultural differences between Canada and the U.S. as they worked to incorporate existing employees into Home Depot's "bleeding orange" culture, as well as hiring and training new employees. (See Exhibits 4 & 5 on pages 23 & 24.)

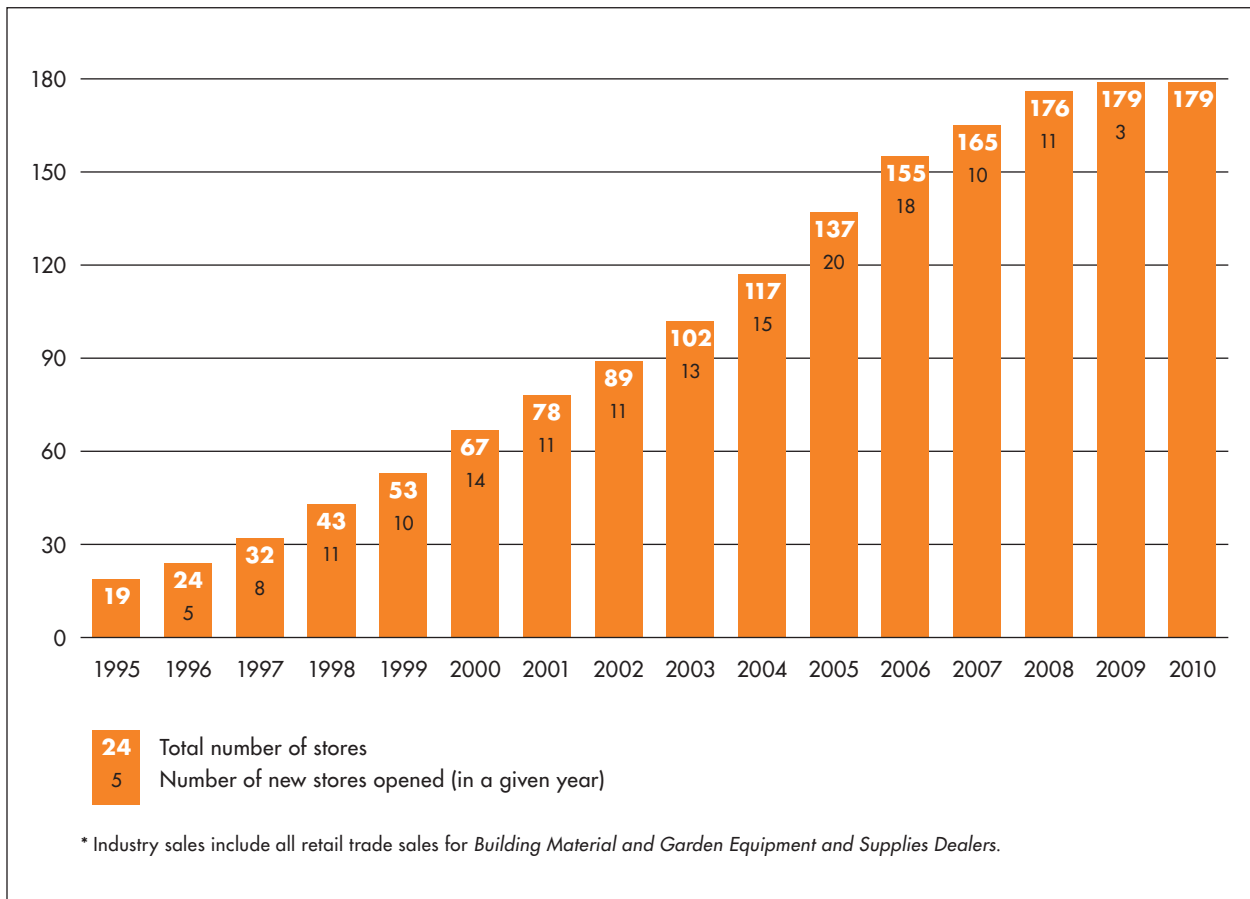
The combination of low sales and the costs of opening three new stores as well as those of converting Aikenhead's operations, resulted in an operating loss of \$4.4 million for the year.¹⁹ In June, the company announced that it would slow down its Canadian expansion plans, opening only five more stores that year, one less than it had planned. Additionally, the company revised its expansion plans for 1996, deciding to open only five stores — half of what it had originally planned. (See Figure 3.)

¹⁷ "Home Center Market Report". *Packaged Facts*. June 1, 1995.

¹⁸ "The Molson Companies Limited: Historical Reports". *The Financial Post* Data Group. 1996.

¹⁹ *Ibid.*

Figure 3
Number of Home Depot Canada Stores



Source: *Hardware Merchandising Magazine*, March/April 2011.

In a September interview, Bebis explained the reduction. “We had 10 stores last year at this time, and now we’re going to have 19. To double your size in one year is a huge strain on human resources. We just need to take some time.” Marshall Day, senior vice-president of finance, further elaborated. Day stated that plans were “subject to change depending on how successful we are with changing the operations up there and making a profit.”

Despite the apparent misgivings at the company’s Atlanta headquarters about the future success of its Canadian subsidiary, Bebis remained publicly optimistic about the company’s growth. “Some people seem to question (our success), but I really don’t know why. This year we doubled our size. We’re growing at 25 per cent next year. We’ve given people over 4,000 new jobs in Canada and next year we’re going to give them another 1,000. We’re committed.” He also outlined a more localized supply chain strategy that would separate the division into eastern and western buying teams. “Having the merchant in the market you do business in on a regular basis allows you to react quicker, respond to the seasonality of those markets and the nuances of those markets.”

Regardless of his outward confidence, Bebis announced his resignation from Home Depot Canada in December 1995, declaring that he had originally planned to leave Home Depot within two years of the acquisition. The company immediately announced a search for his replacement. “Given the projected growth in our Canadian markets during the next 12 to 24 months, we cannot afford to be without a strategic leader who possesses strong Canadian marketing experience,” said Arthur Blank.

The founders recognized that the irony of the Aikenhead’s acquisition (and subsequent expansion) was that even though the company was a copy of Home Depot, it needed a Canadian heading it. With the conversion of Aikenhead’s complete, the search was on for a Canadian retailer who understood local consumers and had first-hand knowledge of the country.

Finding a Canadian President

As the company began to sift through a list of potential presidents for the Canadian division, one individual stood out, from the perspective of founder Arthur Blank. Annette Verschuren was the president of the arts and crafts retail chain Michael’s Canada. Despite being only 39 years old, she had worked in industries as far flung as business development, coal mining and the privatization of crown corporations. She had only worked in retail for the past five years, but Blank felt that her distinct and entrepreneurial background gave her better perspective than others who had been in the industry their entire career. (See Exhibit 6 on page 25.)

Stephen Bebis’s difficulties with Home Depot’s adjustment to local labour laws and customer expectations provided another reason for the founders to seek a Canadian. Because retail is a local business that depends on local customs, the founders recognized that it would be advantageous to have a division president who was Canadian — and Verschuren had lived in Canada her entire life.

Blank was also impressed with Verschuren’s successful track record of greenfield expansion,²⁰ as well as her familiarity with big box retail. During her 28 months as president of Michael’s, she oversaw the construction and merchandising of 17 stores and the hiring and training of 900 employees, achieving sales of \$45 million during her final year with the chain.²¹

Blank viewed her potential more favourably than did Marcus, but both founders saw a number of other similarities between her work with Michael’s and the challenges she might face at Home Depot Canada. Both chains were big, warehouse-style stores that emphasized everyday low pricing and employed specialist sales forces that devoted time and energy to teaching skills to customers who wanted to learn them. “People really want to learn and be in a position to say, ‘I did this,’ whether it’s floral embroidery or renovation. There’s a need for that kind of personal satisfaction,” Verschuren said, when asked about the parallels between the two companies.

Verschuren had misgivings about leaving the still-growing Michael’s when she was approached by a Home Depot headhunter in March 1996. However, Blank was persistent. He continued to pursue her as a candidate for four months before she finally agreed to become president of Home Depot Canada.

²⁰ Greenfield investments are a form of foreign direct investment in which a parent company starts a new venture in a foreign country by constructing new stores or factories from the ground up.

²¹ “Home Depot backs a winner”. *Hardware and Home Centre Magazine*. May 1996.

Hiring a woman as president in a male-dominated industry raised many eyebrows, and Blank was initially criticized by some for his choice.²² The stores had catered to men since their inception, but the founders had begun to recognize the importance of hiring women, as they represented a fair portion of Home Depot's customers. "When you talk to a couple about remodelling a kitchen, remodelling a bathroom, the kind of window and wall treatment you might have in a room, the kind of lighting that might be in a room, it's the female shopper that is driving the decision more than the male shopper," said Blank.

Verschuren quickly became immersed in Home Depot's "bleeding orange" culture. In her first six months with the company, she visited other divisional presidents and stores around Canada and the U.S., where she spent time working in every key functional area of the company.

"In the beginning, Bernie wasn't sold on me," Verschuren said. "But once the decision (to hire me) was made, he became my mentor." The two spent hours walking the aisles of Home Depot stores together, Marcus teaching while Verschuren asked questions about merchandising and customers; the lessons she learned from Arthur Blank focused on operations and productivity. "I followed Bernie and Arthur's lead," she said, "really getting closer to the customer. I really got that piece, and that made a difference for us. When I went back (to Canada), I made some tough changes in my team, but it changed our attitude towards customers and stores."

Verschuren believed in the importance of diversity — both in management and at a store level — to ensure that voice of the customer was heard. "When I got to Home Depot," she said, "there were very few women in management. I wanted them in purchasing, merchandising, décor, everywhere. You need an understanding of how the customer thinks. There are men who understand how women think, and women who understand how men think, but in general, diversity and having different perspectives makes for better decision making in companies. During my second or third (executive) meeting in the company, I was trying to get a point across about the décor business, and I wasn't being heard by the others, who happened to all be men. I asked Arthur, 'If you were sitting around this table with 23 women, and you clearly understood what the male customer wanted, but couldn't get your point across, how would you feel?' He looked at me for a minute, and finally said, 'Annette, I never thought of it that way.' They listened to me after that."

Following her extensive training, Atlanta made it clear to Verschuren that her objective was the bottom line. After only three years in the country, Home Depot Canada had already grown to 23 stores with over \$1.8 billion in sales, but the plan for the next five years was to double that number with the addition of 30 more stores.²³ She quickly set about proving that she was a woman of action.

Verschuren did not view Atlanta's decision to rein in its initial 10-store expansion throughout 1996 as a retreat from the Canadian market. She stated that the plan to build five stores, each requiring 200 new employees, was a rapid rate of growth for the division. The most constraining factor for her was the need to train staff. "You can't get ahead of yourself and still take care of customers the way we want to," she explained. In keeping with the founder's vision for customer service, Verschuren focused first on enabling store managers to act as entrepreneurs.²⁴ "Unless we're prepared to listen to

²² "There were bets against me," Verschuren stated in an interview. "It was scary. A lot of people thought it was a joke, and people bet on how long I would last in the company... until they got to know me and see how focused and determined I am to get stuff done." Upon her hiring, Verschuren became one of only two women in Canada running major international corporate divisions. (American Diane McGarry was appointed CEO of Xerox Canada in 1995.)

²³ Caufield, John. "New Kid on the Block". *Hardware Merchandising Magazine*. March/April 2006.

²⁴ Arthur Blank's five-point action plan for all employees: (1) serve the customer, (2) serve the customer, (3) serve the customer, (4) serve the customer, (5) kick ass.

our associates, we're doomed," she stated. One example of such empowerment occurred in the Surrey, B.C. store: when the store manager realized that the special services desk — which handled custom orders — was too large, too intimidating, and inaccessible in its back-of-the-store location, he tore it down and built a smaller one right by the store entrance.

Verschuren also believed that promoting from within the store further strengthened associates' desire to provide the best customer service, and she worked to ensure that systems were in place within stores to identify, support, and train those associates who showed high potential for management. "I grew store managers from the ground up," she explained, "both men and women. I took one woman from cashier, to head cashier, all the way up to district manager. I never had any problem getting good people, especially because I was casting a wider net by recruiting both men and women. The pool was bigger."

Both the company and Verschuren believed that it would be far more valuable to show those employees the company values rather than tell them what they were. In 1997, Larry Mercer, executive vice-president of store operations, developed a learning and culture exchange program that sent high-potential Canadian managers to American stores, and similarly qualified managers in the U.S. to learn from stores in Canada. This ensured a consistent culture across all stores; Verschuren later stated that this exchange program was one of the greatest components of Home Depot's success.

Home Depot Enters Quebec

In 1992, Molson and Groupe Val Royale (which owned the Castor Bricoleur home improvement stores in Quebec) together created the Reno-Depot warehouse stores, creating a strategic marketing and merchandising alliance between Reno-Depot and Aikenhead's.²⁵ Since then, Molson had continued to divest businesses not related to its core brewing and sports operations; in April 1998, Home Depot Canada reached an agreement with Molson to purchase Molson's remaining 25 per cent stake in their partnership for \$375 million (Canadian), making Home Depot Canada a wholly-owned subsidiary of the parent company.²⁶

One year prior, in April 1997, the two majority shareholders of Reno-Depot — Molson and the Michaud family — had announced they were selling the 11-store Quebec chain.²⁷ Despite their relative success with the Aikenhead's acquisition, Home Depot Canada did not acquire the company, recognizing that it would be difficult to cultivate the bleeding orange culture among Reno-Depot's unionized employees. The stores were instead purchased by the French home improvement chain Castorama, and in 1998, the British retailing company Kingfisher acquired a large block of Castorama's shares, making the French company a subsidiary of Kingfisher.

The sale of Reno-Depot and the subsequent merger of Castorama and Kingfisher nullified the non-compete agreement that had previously kept Home Depot out of Quebec.²⁸ In June 1999, the company announced it would expand into eastern Canada, opening three stores in Quebec, two in Nova Scotia and one in New Brunswick within the year, as well as building 20 more Quebec stores within the next three to four years. The aggressive expansion plans were met with pugnaciousness by Yves Archambault, president and CEO of Reno-Depot. "If it's war they want, we'll give it to them,"

²⁵ Stephen Bebis sat on Groupe Val Royale's board of directors.

²⁶ Home Depot. "The Home Depot purchases partnership interest in The Home Depot Canada from the Molson Companies". *PR Newswire*. April 29, 1998.

²⁷ In 1999, Molson sold wholly-owned Beaver Lumber to Home Hardware for \$68 million cash and debt.

²⁸ When Home Depot acquired Aikenhead's in 1995, it agreed not to build stores in Quebec before March, 2004; in turn, Reno-Depot agreed not to build stores outside of Quebec.

he stated in an interview, adding that Home Depot's decision was based on an interpretation of the agreement that differed from his own. "Put it this way," he said. "By breaking the agreement, Home Depot gets access to a Quebec market of about eight million, but what we get is access to a potential market of 23 million, especially those in Ontario."

Industry experts noted that since entering Canada, Home Depot had seen its market share expand far more quickly than initially anticipated. However, such a rapid rate of growth was more difficult to achieve in Quebec, due to the number of home-grown hardware and home renovation chains already located in the province, including Reno-Depot and Rona, Inc.²⁹ "There have been many U.S. businesses that have come to Canada, but stopped at the Ontario-Quebec border," said one expert, adding that Quebec residents have a tradition of preferring to shop at businesses based within the province and must be convinced of the advantages of shopping with outsiders.

On August 24, 2000, Home Depot opened its first Quebec store in Laval, a suburb of Montreal. Throughout its history, Home Depot had focused on engaging with customers by providing local customization. Bill Lennie explains: "We localized our management teams, our merchandising teams, (and we used) local manufacturing. We understood that there were differences in what customers were looking for, and assorted our stores to the local market." The company would soon learn that its entry into Quebec would require the same focus.

Within weeks of opening its first stores in the province, Home Depot realized there were 5,000 products in inventory that were not right for the Quebec market. As the company scrambled to assemble the right product assortment for the Quebecois, Verschuren set about building a French-Canadian team that would challenge the status quo and enhance the product offerings. "I'm a generalist," she said. "I have a good understanding of merchandising, operations and advertising, but I really rely on the people that work with me to make the right decisions. We had people from Toronto running (our stores in Quebec) for a while, and it didn't work. We hired a strong local team, and even though the stores look the same, their assortments are a bit different. For example, the paint area is bigger, because Quebecers paint four times as much as the rest of the country." The new team re-merchandised the stores, emphasizing décor and home fashion items, and offering items that catered to the European influences favoured by residents.

As Home Depot adjusted to the Quebec culture and consumer, Reno-Depot entered the Ontario market, opening two 123,000-square foot stores under its new banner — Building Box — in November 2000. It also made plans to open 15 more Ontario stores over the next three years.³⁰ The company could not locate a suitable site within Toronto's city limits, and the stores were instead located in Scarborough, about 30 minutes east of downtown Toronto, and Cambridge, an hour west.

Rona was also shifting into growth mode and that company began to focus on acquisitions. In 2000, the company took over the 66 stores of Cashway Building Centre, the third-largest home improvement chain in Ontario. Following the acquisition of 51 Revy Home Centre, Lansing Buildall, and Revelstoke stores, Rona became one of Home Depot Canada's main competitors. In 2003, Rona bought all 20 of Reno-Depot's stores³¹ from Kingfisher, boosting its share of the Canadian home improvement

²⁹ Rona was formed in 1939 by a group of hardware retailers in order to secure better prices by pooling their orders. In 1998, the company opened the first of its 35,000 to 85,000 square foot home centre/warehouse hybrids, and by 1999, the dealer-owned co-op had more than 400 stores (including one in Ottawa) and sales of almost \$1 billion.

³⁰ Shalom, Francois. "Reno-Depot starts Ontario assault: Quebec hardware chain opens 2 outlets, but it's hard to nail good site in key Toronto market". *The Gazette* (Montreal). Nov. 30, 2000.

³¹ By 2003, Reno-Depot had 14 outlets in Quebec, and six Building Box warehouse stores in Ontario.

market from 11.3 per cent to 14.9 per cent, a share equal to that of Home Depot and ahead of the 13 per cent share enjoyed by Home Hardware.^{32,33}

As the hardware and home improvement industry became increasingly consolidated, the number of small retail stores began to dwindle, giving way to the industry's growing giants. (See Figures 4 and 5.)

Figure 4

Number of Canadian Retail Establishments by Employment Size Category

Year	Employment Size Category (number of employees)								Total number of retail establishments
	1-4	5-9	10-19	20-49	50-99	100-199	200-499	500+	
2008	2,601	2,067	1,500	969	294	89	162	1	7,683
2007	2,612	2,077	1,480	959	270	87	159	1	7,645
2006	3,279	1,538	1,302	929	285	102	140	3	7,578
2005	2,339	1,151	961	739	236	87	137	2	5,652
2004	2,999	1,562	1,248	937	224	84	128	2	7,184
2003	2,993	1,585	1,258	900	186	70	130	2	7,124
2002	2,800	1,604	1,301	906	211	68	125	3	7,018
2001	2,877	1,621	1,233	870	174	70	33	6	6,884
2000	2,971	1,568	1,300	800	123	34	15	5	6,816
1999	3,522	1,457	962	615	100	33	12	5	6,706
1998*	3,111	1,541	1,112	499	93	27	11	2	6,396
1997	1,937	1,132	940	431	37	10	5	1	4,493
1996	2,290	1,216	922	338	40	11	5	1	4,823
1995	2,381	1,270	969	346	38	11	8	1	5,024
1994	2,321	1,299	1,038	363	40	13	6	1	5,081
1993	2,307	1,262	1,035	384	38	14	3	0	5,043
1992	2,386	1,357	912	323	29	8	3	1	5,019

* In 1997, Statistics Canada began using the North American Industry Classification System (NAICS) instead of Standard Industrial Classification (SIC) codes. SIC industries tabulated for 1992–1997: (1) Lawn and Garden Centres, (2) Hardware, Paint, Glass and Wallpaper Stores, (3) Hardware Stores, (4) Paint, Glass and Wallpaper Stores. NAICS industries tabulated for 1998–2008: (1) Home Centres, (2) Paint and Wallpaper Stores, (3) Hardware Stores, (4) Other Building Material Dealers, (5) Nursery Stores and Garden Centres.

Source: Statistics Canada

³² “Rona buys Reno-Depot, putting it nose-to-nose with Home Depot in the battle to dominate Canada’s hardware/home renovation market”. *CanWest News*. April 23, 2002.

³³ “Home Depot Canada targeting smaller markets”. *Hardware and Home Centre Magazine*. Sept. 2004.

Figure 5**Percentage of Canadian Retail Establishments by Employment Size Category**

Year	Employment Size Category (number of employees) as a % of total								Total number of retail establishments
	1-4	5-9	10-19	20-49	50-99	100-199	200-499	500+	
2008	33.85	26.90	19.52	12.61	3.83	1.16	2.11	0.01	7,683
2007	34.17	27.17	19.36	12.54	3.53	1.14	2.08	0.01	7,645
2006	43.27	20.30	17.18	12.26	3.76	1.35	1.85	0.04	7,578
2005	41.38	20.36	17.00	13.08	4.18	1.54	2.42	0.04	5,652
2004	41.75	21.74	17.37	13.04	3.12	1.17	1.78	0.03	7,184
2003	42.01	22.25	17.66	12.63	2.61	0.98	1.82	0.03	7,124
2002	39.90	22.86	18.54	12.91	3.01	0.97	1.78	0.04	7,018
2001	41.79	23.55	17.91	12.64	2.53	1.02	0.48	0.09	6,884
2000	43.59	23.00	19.07	11.74	1.80	0.50	0.22	0.07	6,816
1999	52.52	21.73	14.35	9.17	1.49	0.49	0.18	0.07	6,706
1998*	48.64	24.09	17.39	7.80	1.45	0.42	0.17	0.03	6,396
1997	43.11	25.19	20.92	9.59	0.82	0.22	0.11	0.02	4,493
1996	47.48	25.21	19.12	7.01	0.83	0.23	0.10	0.02	4,823
1995	47.39	25.28	19.29	6.89	0.76	0.22	0.16	0.02	5,024
1994	45.68	25.57	20.43	7.14	0.79	0.26	0.12	0.02	5,081
1993	45.75	25.02	20.52	7.61	0.75	0.28	0.06	0.00	5,043
1992	47.54	27.04	18.17	6.44	0.58	0.16	0.06	0.02	5,019

* In 1997, Statistics Canada began using the North American Industry Classification System (NAICS) instead of Standard Industrial Classification (SIC) codes. SIC industries tabulated for 1992–1997: (1) Lawn and Garden Centres, (2) Hardware, Paint, Glass and Wallpaper Stores, (3) Hardware Stores, (4) Paint, Glass and Wallpaper Stores. NAICS industries tabulated for 1998–2008: (1) Home Centres, (2) Paint and Wallpaper Stores, (3) Hardware Stores, (4) Other Building Material Dealers, (5) Nursery Stores and Garden Centres.

Source: Statistics Canada

Along with Rona and Home Hardware — a dealer-owned cooperative — Home Depot Canada was facing increasing competition from the home-grown behemoth Canadian Tire. Forty per cent of Canadian Tire’s products competed directly with those of Home Depot, although Canadian Tire’s merchandise focus was much broader than that of Home Depot. In addition to its selection of tools, hardware, home décor, and garden products, Canadian Tire sold automotive products, sporting goods, recreational products and home electronics.

Home Depot Canada's Real Estate Strategy

As president of Michael's, Verschuren had been responsible for all aspects of real estate, including identifying those properties most strategically important to the firm, expertise that easily transferred to her role at Home Depot. "I really got a sense of how important it [location] was, from doing solid analyses on the economics of where stores should be, to maximizing our footprint in strategic areas," she said. Her strategy at Home Depot was to maximize the number of stores placed in urban locations in order to capture market share ahead of competitors, generally culminating with regional clusters of 12 to 18 stores. To achieve this, she took a number of steps, beginning with identifying areas that were concentrated with Home Depot's ideal consumer.³⁴ "Home Depot really serves middle- to upper-class customers, so we did real estate demographic analyses to determine where the stores should be." (See Figures 6 and 7.)

Figure 6
Households by Type of Renovation and Household Income

Annual Household Income	Total Owned Households in CMA [†]	Renovated (in 2011)		Type of Renovation*					
		No. of households	% of households	Repairs or Maintenance		Improvements or Alterations		Both	
				No. of households	% of households	No. of households	% of households	No. of households	% of households
Less than \$40,000	463,407	135,942	29	77,476	17	89,004	19	**	**
\$40,000–\$59,999	506,560	173,101	34	83,770	17	125,940	25	**	**
\$60,000–\$79,999	470,723	170,669	36	87,491	19	132,598	28	41,869	9
\$80,000–\$99,999	645,825	256,134	40	113,804	18	185,437	29	42,742	7
\$100,000+	1,407,050	618,174	44	248,985	18	474,988	34	124,734	9
Don't know/ No response	970,297	314,847	32	157,562	16	236,869	24	78,516	8
Total	4,463,862	1,668,868	37	769,088	17	1,244,836	28	353,570	8

[†] Households in the Census Metropolitan Area at the time of the survey whose owners owned and lived in their primary residence in the same CMA the previous year.

* As a percentage of those who performed renovations in 2011.

** Data suppressed to protect confidentiality or data not statistically reliable.

Source: *Renovation and Home Purchase Detailed Tables*, Canada Mortgage and Housing Corporation, 2012.

³⁴ Verschuren also used this information to identify strategic sites and purchase them ahead of competitors, a technique known as *land-banking*. The company engaged in this technique primarily in the Calgary region, in advance of Lowe's entry into Canada.

Figure 7
Households by Type of Renovation and Period of Construction

Period of Construction	Total Owned Households in CMA [†]	Renovated (in 2011)		Type of Renovation*					
		No. of households	% of households	Repairs or Maintenance		Improvements or Alterations		Both	
				No. of households	% of households	No. of households	% of households	No. of households	% of households
1920 or before	223,938	106,109	47	57,037	25	71,896	32	**	**
1921-1945	222,186	101,136	46	50,477	23	70,302	32	**	**
1946-1960	537,668	221,092	41	119,393	22	167,071	31	55,543	10
1961-1970	463,684	192,332	41	96,827	21	142,992	31	49,037	11
1971-1980	700,118	294,768	42	139,510	20	229,662	33	65,266	9
1981-1990	734,560	311,594	42	149,016	20	228,179	31	67,668	9
1991-1995	308,796	115,700	37	49,698	16	84,579	27	**	**
1996-2000	312,275	101,951	33	45,243	14	76,626	25	**	**
2001-2005	380,148	94,787	25	**	**	74,346	20	**	**
2006-2011	351,122	69,791	20	**	**	58,222	17	**	**
Don't know/ No response	229,366	60,608	26	**	**	**	**	**	**
Total	4,463,862	1,669,868	37	769,088	17	1,244,836	28	353,570	8

[†] Households in the Census Metropolitan Area at the time of the survey whose owners owned and lived in their primary residence in the same CMA the previous year.

* As a percentage of those who performed renovations in 2011.

** Data suppressed to protect confidentiality or data not statistically reliable.

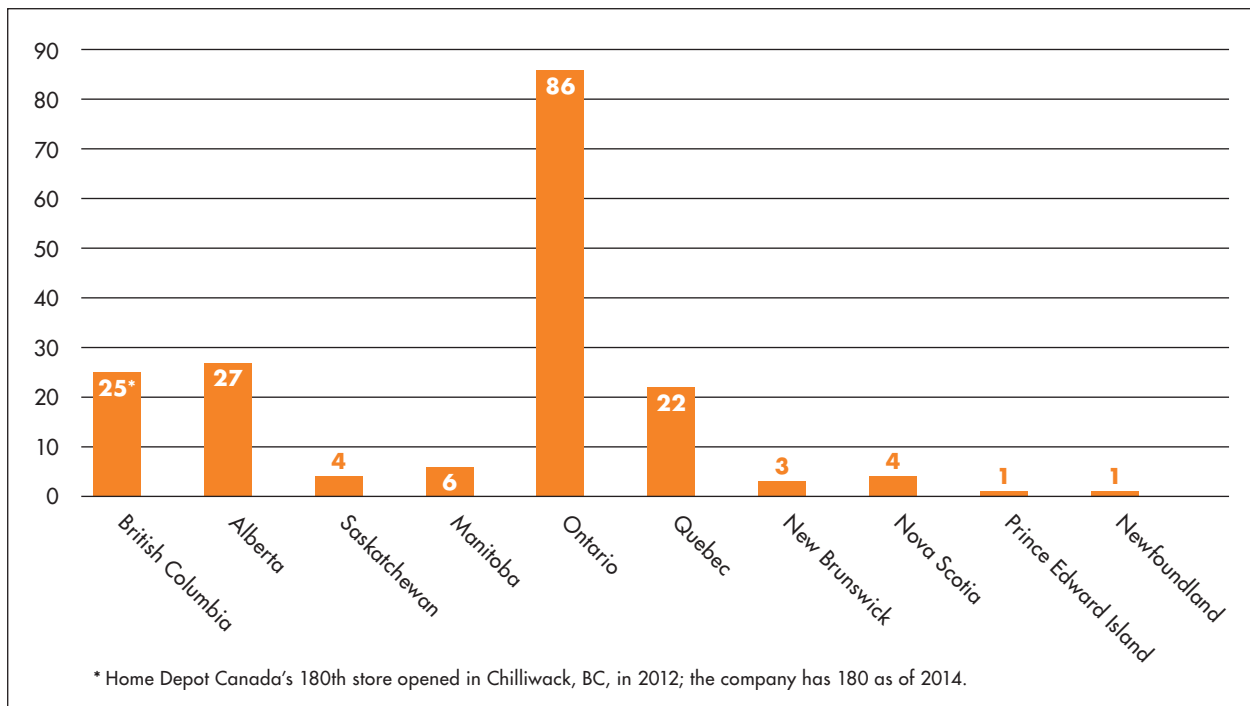
Source: *Renovation and Home Purchase Detailed Tables*, Canada Mortgage and Housing Corporation, 2012.

The age of houses in a given neighbourhood was another factor that influenced Verschuren's decisions. Stores built in areas with older housing stock became successful more quickly because of the need for renovations in those markets, while areas made up of newer houses took longer to build sales. "People don't invest as much into new housing stock," she said. "You paint your walls, and put new blinds in, but you've already got a new kitchen. After 10 years, though, those stores really start to take off." Stores in areas with newer homes would be less profitable in the short-term, but locating stores in these areas helped to stave off competitors, ultimately ensuring that home owners in those markets would develop into loyal Home Depot customers before their homes needed renovation.

When Home Depot entered an area, it first established stores in the most densely populated neighbourhoods in order to capture market share. “Take Toronto as an example,” Vershuren said. “We have 12 stores in the Greater Toronto Area, a region where it’s really hard to find 10 acres of land [for development].” Following that, the company opened outlets in “secondary” centres (or smaller cities) followed by the establishment of stores in even smaller cities throughout the region. Once the stores within Toronto’s city limits were well-established, the company opened locations in secondary centres such as Hamilton and St. Catharines, followed by stores in even smaller markets such as Huntsville, Ontario.³⁵ Although the company’s overall market share of Canadian shoppers grew to 20 per cent, that number rose to 45 per cent within large cities where the company concentrated its stores.³⁶

In 2005, Home Depot’s strongest American competitor, Lowe’s, announced it would enter Canada in 2007, opening six to ten stores in the Greater Toronto Area; long-term plans would include up to 100 stores across the country. Home Depot’s CEO, Bob Nardelli, advised Vershuren to build on the stable base she had created and to expand aggressively into the Canadian market. “I regularly talk to him about how we’re going to expand,” she said, adding that she found Nardelli to be direct and focused. (See Exhibit 7 on page 26.) During 2005 and 2006, Home Depot Canada engaged in its most aggressive expansion to date, opening 38 stores across the 10 Canadian provinces. (See Figure 8.) “By the time Lowe’s came in, there were only 10 really good locations they could take, and they were all expensive,” said Vershuren.

Figure 8
Home Depot Canada’s 179 Locations in 2011*



Source: Home Depot, Inc. Full Company Report, Mergent Online, 2014.

³⁵ The Greater Toronto Area’s population is 5.5 million; Hamilton (population: 721,000) is 70 km west of Toronto; St. Catharines (population: 392,000) is 112 km southwest of Toronto; Barrie (population: 187,000) is 100 km north of Toronto. (Source: Statistics Canada)

³⁶ Payne, Stephen and Robert Gerlsbeck. “Growing Home Depot”. *Hardware Merchandising Magazine*. July 1996.

In 2007, Nardelli stepped down as CEO of Home Depot, and was immediately replaced by executive vice-president Frank Blake, a former lawyer who had been with the company since 2002.³⁷ His appointment surprised many in the industry, including Blake himself. “I didn’t anticipate being in this position,” he said. “But that probably made it more obvious that I needed help. It made me say, ‘Okay, I’ve got to have a great team around me, because there’s too much I don’t know’.”

Blake’s first priority was to improve customer service, and he recognized that improving employee morale was crucial to achieving this. He set about reminding Home Depot’s employees of the “bleeding orange” culture. “We just went back to some foundational statements from Bernie Marcus and Arthur Blank in terms of our company values and what we stand for. People remembered what that felt like. If you take care of your associates and take care of your customers, everything else takes care of itself.”

The Flaherty Advisory Council

In late December 2008, as the impact of the American financial crisis spread around the world, the Canadian government revised its economic expectations, concluding that economic output would shrink by 0.4 per cent in 2009. It also projected a federal deficit of \$5 billion. Just three weeks earlier, the federal government had stated that it expected economic output to grow by 0.3 per cent and projected a federal surplus of \$100 million.³⁸

Canada’s Minister of Finance, Jim Flaherty, moved quickly to keep the Canadian economy afloat. Recognizing that he needed a permanent group with diverse perspectives and opinions on which to rely, he personally contacted 11 leaders from the Canadian business and finance world, including Annette Verschuren, telling them, “Your advice is needed for your country.” He offered them an honorarium of \$1. Each of the 11 executives agreed to join the council. (See Exhibit 8 on page 28.)

Just before Christmas, the council convened. It began by discussing spending and credit availability, as well as economic stimulus programs and tax cuts that would protect or create Canadian jobs. “At the very base of this is the individual family that is worried about paying the mortgage, looking after the kids and paying for university,” said a member of the council. “The ultimate question is: through this rough time that we know is going to happen, how do we keep as many jobs going, or started, so that individual families can cope with these events that are beyond their control?”

In addition to seeking long-term sources of economic stimulus, like supporting large-scale infrastructure projects, the council focused on short-term solutions to boost consumer confidence and spending.

In the spring of 2009, as a direct result of the work of the council, the federal government introduced the Home Renovation Tax Credit (HRTC), allowing home owners to deduct 10 per cent of their home renovations (up to \$1,350) from their income tax returns. The credit could be applied to many types of renovation projects ranging from landscaping to roofing.³⁹

“I was very proud of the work that we did on that advisory board,” Verschuren stated, “and I think if you asked Jim Flaherty, he would say it was one of the most successful things he did.”

³⁷ Blake had been recruited to Home Depot by Nardelli, with whom he had worked at GE, to lead business development and corporate operations. He was named vice-chairman of Home Depot’s board in 2006.

³⁸ Penner, Derrick. “Carole Taylor, Jim Pattison lead Flaherty’s advisory council; Board members will receive an honorarium of \$1 each to provide advice before the Jan. 27 budget”. *The Vancouver Sun*. Dec. 19, 2008.

³⁹ *Home Renovation Tax Credit Guide*. Canada Revenue Agency. Oct. 29, 2009.

Conclusion

As 2010 came to an end, Verschuren realized that it was time for her to move on. A total of 179 Home Depot stores were now operating across Canada, nearly double the founders' original vision of 100.⁴⁰ Although the economic downturn had led to some of the largest year-over-year sales decreases among home centres and hardware retailers, the Canadian division's 2010 sales were still strong, at an estimated \$5.5 billion, and Canada was weathering the downturn better than any other country.⁴¹

Verschuren was a self-described “growth person”, and knew that it was time to hand the business over to someone who would feel as excited about running the well-established company as she had been about growing it over the past 15 years. Home Depot had evolved into a mature business and growth had necessarily begun to slow. Verschuren recognized that the economic climate emerging from the rubble of the 2008 financial crisis would require someone at the helm of the company with an unflinching eye for gradual, long-term growth.

As she considered what undertaking to tackle next, Verschuren was certain that she would continue to collaborate and work with smart people. “I’ve never been one to tell people what to do,” she said. “I can harness the energy of people and set a company in the right direction. I really listen to people and rely on those who work with me to make the right decisions. I’m a big believer that all the great decisions come up from people who are closest to the customers.”

“If I’ve left something, it’s the sustainability of this company,” she continued, “from the way we ran the business to serve customers with great products, prices, and service, to how we responded to the environment and our employees. That legacy is the most important thing. Why build something that doesn’t have a life beyond you? That’s selfish... to think that the company is you. People who think that way are the dinosaurs of the past. The great business leaders of tomorrow are those who recognize that you can make money responsibly... and the people of the future share the success of their company with their people and their customers.”

⁴⁰ “And I negotiated the [establishment of the] 180th,” Verschuren stated in an interview.

⁴¹ Payne, Stephen. “A legacy of growth and change”. *Hardware Merchandising Magazine*. March/April 2011.

Questions

1. In February 2014, Target announced that its Canadian operations had produced a loss of \$8 billion to \$9 billion. Reasons included overly aggressive expansion, lack of inventory, inferior merchandise, and price differentials between Canadian and American stores. Given Target's struggle to capture the Canadian market, what lessons might it and other American retailers learn from Home Depot Canada that they could apply to their own companies?
2. How did Home Depot's activities over the course of this case bring about creative destruction in the Canadian hardware and home improvement retailing industry?
3. This case presents a variety of leadership styles: what qualities did the successful leaders have in common? What qualities did the less successful leaders share? How are the concepts of sophisticated management, as represented in this case, different from what you might have expected?
4. From the beginning, Home Depot's founders encouraged and empowered store managers to act as entrepreneurs. How did this contribute to the company's success?

Appendix

Exhibit 1: History of Home Depot

Bernie Marcus and Arthur Blank first worked together at the American do-it-yourself chain called Handy Dan Home Improvement Centers. Marcus (an outgoing, gregarious visionary) and Blank (a former accountant) made a good team. After they were unceremoniously fired for pitching a proposal for a 60,000-square foot store to the chain's executives, they teamed up with former Handy Dan investor Ken Langone. He agreed to raise \$2 million to help them establish their vision of a warehouse-type store that offered one-stop shopping for the do-it-yourself (DIY) home owner. The first two Home Depot stores opened on June 22, 1979 in Atlanta, Georgia, and were the home improvement industry's first warehouse-style stores, at 60,000 square feet each. Each store was designed to steer customers up and down aisles stacked high with the 25,000 SKUs (stock keeping units or products) that were available.⁴²

From the start, the founders focused on offering the best customer service in the industry; Home Depot revolutionized home improvement retailing by teaching customers how to engage in home improvement activities themselves. Stores offered clinics to guide customers through projects such as laying tile, changing fill valves, and handling power tools, and associates were rigorously trained in product knowledge.

From 1988 through 1993, leading home centre retailers averaged an annual growth rate of 11.1 per cent,⁴³ but Home Depot's growth rate averaged 36 per cent during the same period.⁴⁴ In 1993, industry sales exceeded \$100 billion, as chains opened new stores, enlarged existing stores, and pursued the professional market of contractors. Home Depot's 1993 sales exceeded \$9 billion, more than double those of its nearest rival, but the company only held a seven to eight per cent market share within the U.S.⁴⁵ By 1994, sales had reached \$12.5 billion, and earnings for the year set a company record.⁴⁶

⁴² Payne, Stephen and Robert Gerlsbeck. "Painting Canada Orange". *Hardware Merchandising Magazine*. July 1996.

⁴³ "Home Centre Market Report". *Packaged Facts*. June 1, 1995.

⁴⁴ Home Depot Financial Statements. Company Website: Investor Relations page.

⁴⁵ 75 per cent of Home Depot's U.S. stores were located in just five states.

⁴⁶ "Home Centre Market Report". *Packaged Facts*. June 1, 1995.

Exhibit 2: Aikenhead's Home Improvement Warehouse



Source: Home Depot



Source: Home Depot

Exhibit 3: Aikenhead's Banner After Merger with Home Depot



Source: Home Depot

Exhibit 4: Home Depot's Core Values

Home Depot uses two models to communicate its values, which have formed the basis for the company's Orange-Blooded culture, colloquially referred to by associates and executives alike as "bleeding orange." The first of these models is the Values Wheel, which lists the eight values the founders believed to be the fabric of the company culture and vital to the success of the organization.



The following are Home Depot's explanations of what each value means to the company:

Giving back to our communities

An important part of our culture is community service by giving time, talents and resources to worthwhile causes. We reach out to the communities where our associates live and work through our philanthropic, disaster relief and volunteer support.

Building strong relationships

Strong relationships are built on trust, honesty and integrity. We listen and respond to the needs of customers, associates, communities and vendors, treating them as partners.

Doing the right thing

Associates at Home Depot exercise good judgment by doing the right thing instead of just doing things right. We strive to understand the impact of our decisions, and we accept responsibility for our actions.

Respect for all people

In order to remain successful, our associates must work in an environment of mutual respect, free of discrimination and harassment where each associate is regarded as a part of the Home Depot team.

Excellent customer service

Along with our quality products, service, price and selection, we must go the extra mile to give customers knowledgeable advice about merchandise and to help them use those products to their maximum benefit.

Creating shareholder value

The investors who provide the capital necessary to allow our company to grow need and expect a return on their investment. We are committed to providing it.

Entrepreneurial spirit

Home Depot associates are encouraged to initiate creative and innovative ways of serving our customers and improving the business, and to spread best practices throughout the Company.

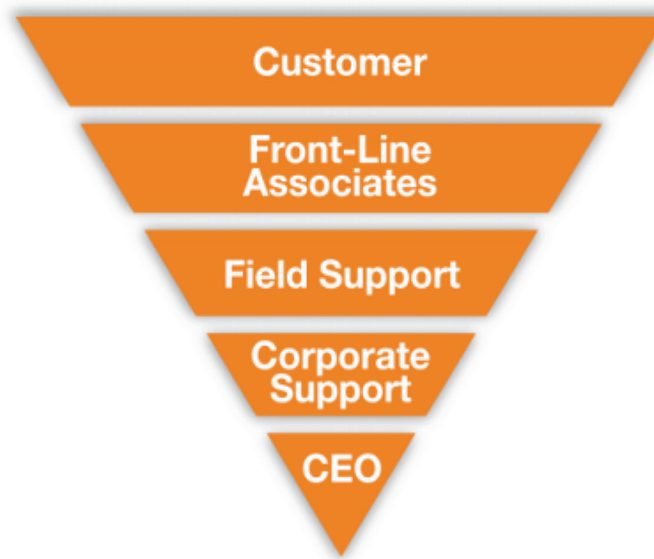
Taking care of our people

The key to Home Depot's success is treating people well. We do this by encouraging associates to speak up and take risks, by recognizing and rewarding good performance, and by leading and developing people so they can grow.

Source: Home Depot

Exhibit 5: The Inverted Pyramid

The Inverted Pyramid is the second model that the company uses to develop and communicate its culture. From the beginning, the founders of Home Depot viewed the company's structure as an inverted pyramid with stores and customers at the top and senior management at the bottom. Everything in the company, from senior management to corporate support systems, is designed to support and enable the success of associates and customers.



In one story told by Bill Lennie, Home Depot Canada's current president, an elderly customer arrived at a Home Depot after having just left a competitor's store. He told the associate that he needed to purchase special knobs for his kitchen drawers, since he had arthritis. He therefore found his existing drawer pulls difficult to use. In both stores, he found that the knobs would have to be trimmed

down in order for him to install them. In the competitor's store, they attempted to sell him both the uncut knobs and a small hand saw to cut them to the size he needed; in Home Depot, the associate realized that it would be difficult for the customer to cut the knobs himself. That associate took the drawer pulls to a colleague in another department who cut them to the customer's needed size.

Source: Home Depot

Exhibit 6: Annette Verschuren – Biographical Information

Annette Verschuren was raised on a dairy farm in Cape Breton, Nova Scotia, by Dutch immigrant parents. When she was 10 years old, her father suffered a heart attack, leaving Verschuren, her mother and four siblings to run the farm. “We learned to work at a very young age,” she said. “For one thing, you had to milk the cows morning and night, and I did that for years. And so I learned what business was like on the farm.”

As a teenager, she developed a serious kidney condition that resulted in four operations between the ages of 15 and 21. “Waking up from an operation and knowing you’re lucky to be alive gives you perspective,” she said in an interview. “When you’re sitting in a hospital bed for a long time, it helps you to focus, and I’ve always been a very focused person.”

As a 16-year-old, she was the first female and youngest-ever foreman’s clerk at the Canada National Railway ferry terminal in Cape Breton. There, she not only discovered that people love to be asked about their jobs, but that she loved learning from them as well. She asked questions of yard workers, stevedores and ship captains, learning everything she could about loading and scheduling. Her verve and enthusiasm eventually led the yardmaster to tell her she was one of the best foreman’s clerks he had ever worked with.

After spending one year at Mount Allison University in New Brunswick, she found herself “bored to death” with her studies in arts. Wanting more of a challenge, she transferred to Saint Francis Xavier University in Antigonish, Nova Scotia, to study business, where she found herself fighting an uphill battle. “I did these assessments, and I scored very high in accounting; I remember going to guidance counsellors who said accounting was for men. It wasn’t a choice. They would say you should be like your sister who’s a teacher.”

Undaunted, Verschuren switched her focus to business. After her graduation, she began working in the male-dominated coal mining industry at Cape Breton Development Corporation (CBDC). “During my nine years there... I was the only woman in management, and it was such a macho culture. They didn’t even want me at the job sites. It was considered bad luck for a woman to go underground, so I disguised myself. I remember when Judy Erola was the minister of mines, she went underground once and the absenteeism rate [that day] increased 20 per cent.”

After leaving CBDC, Verschuren joined the federal government’s privatization initiative where she spent three years selling federal crown corporations like Canadair to Bombardier, and De Havilland to Boeing. Purdy Crawford, a director of CBDC, recruited her to work at Imasco Ltd., where he was CEO. Verschuren agreed to become vice-president of corporate development on the condition that she be given the opportunity to gain operational experience by running one of Imasco’s companies.⁴⁷

⁴⁷ Imasco Limited was founded in 1970 to diversify the operations of the former Imperial Tobacco Company. The company held assets in three main industries: Tobacco (Imperial Tobacco, which included the Player’s brand and others, founded in 1912); Financial Services (Canada Trust, which it acquired in 1986); and Retail Drugstores (Shoppers Drug Mart). In 2000, Canada Trust was acquired by Toronto-Dominion Bank, Shoppers Drug Mart was sold to a consortium of institutional investors, and the tobacco business was acquired by British American Tobacco, who amalgamated the company with Imperial Tobacco Canada, Ltd.

“Women sometimes get pigeon-holed, and I wanted to get into a real leadership position,” Verschuren said. Crawford put her in charge of Den for Men, a 63-store chain that sold gifts for men, which she ran for one year before deciding she wanted to start her own business, Verschuren Ventures, in 1992.

Verschuren recognized that Canadian retailers were lagging behind their American counterparts in the adoption of new and innovative techniques, and she began searching for a U.S.-based retail chain to bring to Canada. She scouted Williams-Sonoma, Crate & Barrel, and several others before finally settling on the arts and crafts chain called Michael’s.

Despite never having met either the president or vice-president of Michael’s, she approached both men at a trade show in the U.S. and made a pitch to them in which she would bring the chain to Canada as a managing partner. “They weren’t interested at first, but I had done all my homework on the Canadian market, and eventually I got their interest,” she said of the meeting. “I think they also recognized that if I didn’t get them, I’d probably get one of their competitors to come to Canada.” Verschuren invested \$325,000 of her own money in exchange for a 13.5 per cent stake in the business and the title of president.

Exhibit 7: Robert (Bob) Nardelli – Biographical Information

Bob Nardelli started his career at General Electric in 1971, and grew with the company, eventually becoming CEO of GE Power Systems in 1996.⁴⁸ His colleagues at GE said he went out of his way to remember the names of factory workers and to recognize their accomplishments. “At GE, it’s always business first. But the difference with Bob was that he was really a people person. He never took credit himself. He always said it was the people who drove the forklifts and ran the equipment who were the heroes,” said an agent for a local GE union. “He’d go to the bar and have chicken wings and beer with the rest of us. He was just a regular guy.”

In October 2000, Arthur Blank jolted Home Depot investors with news that third and fourth quarter profits would fall well-short of forecasts due to the slowing economy. Spiraling costs, flat sales growth and bulging inventories were also factors. Within days, the company announced the appointment of Bob Nardelli as CEO, replacing Blank.⁴⁹ In November 2000, Nardelli became CEO and president of Home Depot; it was also announced that he would be given the role of board chair after one year.

Within weeks, Nardelli scaled back store openings, realigned divisions, tightened management duties, and began implementing Six Sigma protocols,⁵⁰ measuring everything from employee morale to the amount of time it took a cashier to ring up a customer’s purchase. The founders were impressed, and announced they would retire from the company, handing over the reins to Nardelli just six weeks after he began, and making him board chair a year ahead of schedule.

In his first four months at Home Depot, Nardelli travelled around the U.S., meeting store managers, vendors, analysts, and investors. As he focused on tightening operations and establishing a common set

⁴⁸ GE Power Systems makes equipment and generators for the energy industry.

⁴⁹ Nardelli had been passed over for the CEO position at GE one week earlier.

⁵⁰ GE was known for Six Sigma, which focused on measurement of a process to identify and remove defects, with the goal of achieving just 3.4 defects per million.

of best practices throughout the company, Nardelli closed or reduced regional buying offices, shifting decisions and divisional headquarters to Atlanta. The founders had always encouraged managers to use their own judgment in running stores. In contrast, Nardelli promoted “compliant entrepreneurship”. He wanted managers to be creative, but not too creative.⁵¹ Some executives expressed concern that Nardelli’s style of leadership would harm the company’s culture.

Nardelli regularly showed up unannounced at stores, checking empty shelves and assessing staff morale. “I’m not trying to catch (employees) off-guard or do some cloak-and-dagger thing. I just know if they know I’m coming, they’ll get the store ready for me and not the customers.” Store employees often recognized him immediately after he arrived, since the satellite TV system in employee break rooms had stopped showing soap operas and sports: they now played messages from headquarters 24 hours a day, including visuals of him. Nardelli also increased the mix of part-time store associates from 15 per cent to as much as 50 per cent.⁵² The young, inexperienced associates who were hired aggravated customers more than they helped. In metro Atlanta, Home Depot’s hometown, the number of unresolved customer complaints rose so high that the local Better Business Bureau temporarily suspended Home Depot’s membership.

On Jan. 3, 2007, Nardelli abruptly resigned his position as chairman and CEO of Home Depot. He was immediately replaced by Frank Blake, executive vice-president and vice-chairman of the company. Nardelli’s contract entitled him to compensation valued at about \$210 million, including a cash severance payment of \$20 million and an acceleration of unvested deferred stock awards valued at roughly \$77 million. His compensation package prompted U.S. Congressman Barney Frank, chairman of the House Financial Services Committee, to push for legislation that required public companies to allow shareholders to give input on pay for senior executives.⁵³

⁵¹ Managers often chose which promotions they’d participate in, and some made their own displays and signs. Nardelli viewed this as a waste of time, energy and money. “We weren’t getting a maximum return on advertising,” he said. “Because of the consistency and compliance now, we’re able to take more advantage of national ads.”

⁵² Managers typically relied heavily on full-time salespeople to help customers, while part-timers worked as cashiers and in operational jobs.

⁵³ At Home Depot’s annual meeting in May 2005, shareholder proposals that would have given investors a say on CEO compensation and restricted retirement benefits for senior executives were rejected.

Exhibit 8: Members of Federal Finance Minister Jim Flaherty’s Economic Advisory Council

Carole Taylor (chair)

Former finance minister of British Columbia

Geoff Beattie

Deputy chairman of Thomson Corp., the publishing and information services company, and president of Woodbridge Co., the Thomson family investment company

Paul Desmarais Jr.

Chairman and co-CEO of Power Corp. of Canada, the international management and holding company with interests in North American and European financial services, media and other industries

George Gosbee

President of Tristone Capital, the Calgary-based global energy advisory firm

Isabelle Hudon

Head of Montreal’s board of trade

James D. Irving

President of the multibillion-dollar Irving family business empire with interests in forestry, retail, trucking, media and energy

Mike Lazaridis

Co-CEO of Research in Motion, creator of the BlackBerry and one of Canada’s best known technology companies

Jack Mintz

University of Calgary professor, and former president and CEO of the C.D. Howe Institute, an economic think tank based in Toronto

James A. Pattison

Vancouver-based owner of the multibillion-dollar Jim Pattison Group of companies with investments around the world in industries including media, car dealerships, grocery store chains, advertising, real estate, forest products and financial services

Ajit Someshwar

CEO of CSI Consulting, the Toronto-based technology resource and management consultant

Annette Verschuren

President of Home Depot Canada, a chain of home renovation stores

Source: “The 11 members of federal finance minister Jim Flaherty’s economic advisory council”. *The Canadian Press*. Dec. 18, 2008.

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