OnLine Case 13.2

Albertson's and Home Depot – two retail turnarounds

Albertson's and Home Depot are both large American retail chains. They are in separate industry sectors; they do not compete with each other. They are, however, connected. When Jeff Immelt was chosen by General Electric to replace 'legendary' CEO Jack Welch when he retired – see the case on GE - , two other nominated contenders for the post were disappointed and they sought other senior positions. One, Bob Nardelli, was recruited to be CEO at Home Depot; the other, James McNerney left to run 3M. At around the same time, a third GE Divisional Head, Larry Johnson, left to take over 'the hot seat' at Albertson's..

Albertson's is the second largest grocery retailer in America. It achieved this position with the acquisition of American Stores in 1999. The combined turnover was some $38 billion from 2400 stores and 220,000 employees.

The acquisition in reality merged 3 supermarket brands, Albertson's, Jewel and Acme, with two drug store chains, Osco and Sav-On. The Jewel-Osco stores had been a mixture and foods and drugs. Fusing all these interests was tricky as there were both cultural clashes and intensified competition from Wal-Mart, which was aggressively growing its food interests.

In April 2001 Albertson's appointed a new Chief Executive, Larry Johnson, who inherited the challenge of completing the effective integration of the merged businesses. Johnson came from General Electric (GE) where he had been for 28 years and had risen to be General Manager of GE's Appliances Division. He was, of course, steeped in the Jack Welch style of management, and it seemed inevitable he would bring at least some of this style to Albertson's.

In his first 9 months he spent some 170 days 'on the road' visiting stores and 'motivating staff'. It was commented that he ran the business from a hand-held e-mailer which he used at airports whilst waiting for connections.

In reality he introduced a number of important changes to simplify the business before experimenting with a new style of store.

He closed 165 under-performing outlets and came out of certain cities where he thought the competition was too intense.

He cut 20% of management above the store level. He placed much greater emphasis on information technology for streamlining the supply chain - an area where the US had tended to lag behind the UK, but something upon which Wal-Mart had focused aggressively. It seems inevitable there would be potential savings from linking the distribution of the two groups of products.

He tightened the communication links between the stores and head office staff.

He started up 'Swift quality teams' (along the lines of GE's Six Sigma programme) in a search for efficiency improvements.

He determinedly focused on 'quality, choice and convenience' to position Albertson's as different from the price-led Wal-Mart strategy. It has been estimated that 35% of American customers put price first in their purchasing decisions.

He tailored product ranges to local neighbourhoods with greater precision.

Johnson then began to experiment with new combo-store formats. He wanted to combine the supermarket and drug store formats in a single outlet and yet keep them separate. The combo stores have two names and two separate entrances but it is easy to walk through from one to the other. Shoppers can pay for everything they pick at a single check-out point; they do not need to queue twice. The return on capital employed percentage from these combo stores is greater than the average for either the existing specialised supermarkets or drug stores when examined individually.

In 2004 Albertson's bought the east coast Supermarket chain Shaws from Sainsbury's.

But at this time the non-unionised Wal-Mart was continuing to grow aggressively. Albertson's suffered a setback in 2004 when it was hit by a strike in southern California. Staff were objecting to reductions in health care benefits as the company tried to reduce costs. Wal-Mart was not affected. In 2005 the business offered itself for sale.

Home Depot saw its share value halve in 2002 as sales revenue fell. To some analysts the chief culprit was new CEO, Bob Nardelli, who had been recruited from General Electric in 2000. He had been head of GE's Power Systems. But Nardelli was part-way through his turnaround strategy; and in 2003 sales rose rapidly once again.

Home Depot had been founded in 1978 by two entrepreneurs - Bernie Marcus and Arthur Blank – and it held the record for having reached sales of $50 billion faster than any other retailer in history. The stores were in reality huge warehouses which sold broad ranges at very low prices. The nearest UK equivalent would be a B&Q Warehouse, selling a complete range of home improvement products. But Home Depot 'never put in place the necessary systems, processes and disciplines' for the business it became. The 1500 store managers still ran largely independent businesses, typically setting their own prices. Although buying was not at store level – it was, in fact, done by nine separate (and independent) regions – stores chose their own product ranges. Whilst this devolution encouraged local enterprise, it was an atypical retail model. Home Depot was not achieving the maximum purchasing economies, and margins were compromised with the very tight pricing strategies. As a consequence there was a lack of investment in the stores and many looked 'shabby'. Because the company had grown as fast as it had nobody had worried too much about this detail! But Nardelli did.

He began by:

- centralising purchasing and mechandising
- appointing new directors for marketing, finance and human resources
- introducing overnight replenishment of shelves in stores to free up staff to concentrate on customer service during trading hours
- refitting many stores.

Initially there were stock-outs and so it seemed inevitable that sales would fall – but they would recover just as quickly. Rather than feeling he did too much too fast (which some accused him of) Nardelli felt 'he did not do enough quickly enough'. In particular he felt he should have speeded up the introduction of new computer systems.

In 2003 more 'up-market' brands were introduced. Home Depot also grew to be Number Three in the market for home appliances. In some cities older stores were closed and replaced by newer and bigger ones. The company also stated it was considering targeting 'professionals' as well as the domestic DIY (do-it-yourself) customer – in part because this sector is much larger. In the UK this market remains largely separate. In 2004 Home Depot diversified into installation services. It did not employ the workmen it used; rather it acquired service businesses which worked on behalf of independent tradesmen, acquiring business on their behalf, mainly from the retailers of the products they installed. Replacement windows, external wall coverings and roofing were all involved. Home Depot simply takes a margin for bringing two parties together – a potentially very lucrative business. But this strategic development was not welcomed by everyone – after all, Home Depot's reputation might suffer if these sub-contract installers let customers down or provide poor service.

In 2006 Home Depot bought Hughes Supply, distributors of construction and building maintenance products, an acquisition clearly linked to its desire to target ‘professionals’. But sales to home consumers remained dominant. At the same time it was clear that the company was exploring investment in related businesses in China. Up to this point overseas expansion had been limited to Canada and Mexico. It seemed this type of expansion would be essential if Nardelli was to achieve his declared growth targets. The move into China took place at the end of the year.

In 2006 Home Depot also bought Chem-Dry, which operates some 4000 carpet and upholstery cleaning franchises.

In January 2007 Nardelli resigned. There had been reported shareholder unease with his remuneration package. The Board was split in its support for him. Six months later Nardelli was installed as the new CEO at Chrylser.

Questions: Evaluate the strategies followed by Johnson at Albertson’s. Whilst they might be expected to yield cost savings, how effective do you think they might be for integrating the two businesses, generating synergies and encouraging new growth?

Do you agree with Nardelli’s decisions to target ‘professional’ builders, plumbers and electricians and to diversify into installation and other services? Can a single store service both the professional and domestic markets effectively or is there a real risk of losing focus?