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Bus 439

The Home depot - process management

an analysis of process management techniques

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# Executive Summary

## Background and Purpose

There are many lenses through which a business can be analyzed to determine success. Most of the time, businesses are graded on the finished product they produce or the financial statements they publish. One lens that is often neglected in a company’s evaluation is the analysis of its processes. This oversight can prove to be costly because effective processes are the drivers of a company’s final results. For this reason, it is vital that companies understand their processes, and how those processes are designed, implemented, controlled, and continually improved. This report analyzes how The Home Depot’s process management approach has contributed to the satisfaction of the firm’s stakeholders: Its customers, owners, suppliers, employees, environment, and community.

## Scope

This paper was written to show how The Home Depot is performing across the four aspects of effective process management techniques: design, implementation, control, and continuous improvement. The report draws information from

Methods

The Home Depot’s corporate website, its annual report, and various professional and news articles found online. No specific information was found online regarding The Home Depot’s effect on its environment Corporate Social Responsibility Report???, so this report focuses on the satisfaction of The Home Depot’s owners, customers, employees, suppliers, and community.

## Findings

Historically, The Home Depot has achieved a high degree of success due to effective process management. However, in the early 2000’s, The Home Depot grew lax in the management and control of its primary and support processes. This poor adherence to the principles of good process management slowed growth, led to poor results, and created unsatisfied stakeholders. However, by 2007 The Home Depot realized that it was losing ground to its competitors. Since then, The Home Depot has made huge strides in revamping its primary and support processes to incorporate good process management techniques. These changes have contributed to a revitalization in revenue, growth, and profits over the past few years for the firm.

## Recommendations

This report concludes that the changes The Home Depot has made over the past few years have been effective in bringing good process management techniques to the company. Progress has been made in many areas, especially in the company’s procurement, distribution, training, and administrative processes. This report recommends that The Home Depot continue its commitment to continuous improvement by monitoring the changes they have implemented. The report also recommends that The Home Depot find some way to spread the principles of effective process management to other processes throughout the company. The formation of a ‘continuous improvement team’, consisting of employees that have already implemented changes in their departments, would be a great way to accomplish this recommendation.

# Introduction

The Home Depot (referred to in this report as THD) is the largest home improvement retailer in the world, and ranks in 34th place in Fortune’s list of the 500 largest companies in America. It is headquartered in Atlanta, Georgia, and has over 2000 retail locations in North and South America. In 2007, THD’s CEO stepped down and a new management team, with a radically different approach, took over the company. This new management team, led by CEO Francis Blake, has renovated many aspects of the business and has largely succeeded in making the firm more competitive and profitable.

Now that you are out of the ES try not to say “This Report” Just talk about THD.focuses on how THD altered its primary and support processes to incorporate more effective process management techniques. Specifically, the report analyzes the procurement, distribution, sales, training, and administrative processes. The paper showcases the deficiencies or the excellence in the design, implementation, control, or continuous improvement of these processes.

# Primary Processes

The primary processes of a company are the basic operational duties that allow it to function, such as logistics, operations, and sales. These processes are the most vital to a firm’s attempt to create the “correct product,” which is the product that will provide the most value and satisfaction to all of its key stakeholders (a firm’s owners, customers, suppliers, employees, environment, and community).

The Home Depot’s primary operations can be grouped into three categories: Purchasing goods from suppliers, transporting those goods from those suppliers to local Home Depot stores, and selling those products to customers.

## Procurement Process

“Our suppliers and providers are the lifeline of our business” is the slogan that greets visitors to THD’s supplier website (*Suppliers & Service Providers*). The design of The Home Depot’s supplier application process shows a commitment to this statement. THD has established a simple process in which potential suppliers fill out an online application form to become a candidate to be a THD supplier. The application process is supported by webpages outlining what THD purchases, how to apply, supplier qualifications, a calendar of events, and frequently asked questions. Once a candidate’s application is complete, THD guarantees that the application will be acted upon within 72 hours and that the selection process will be finished within 60 days.

THD recognizes that a well-designed, easy-to-use procurement process is vital to the success of its business. This simple, efficient process design encourages companies to apply and is easy-to-use, which contributes to supplier stakeholder satisfaction. The process also encourages a diverse supplier base, which contributes to customer satisfaction by increasing the types of products available to them. A diverse supplier bas also satisfies owners and employees by keeping costs down and minimizing stock-out risk. In addition, the community stakeholder is satisfied due to THD’s focus on including minority-owned, small-business suppliers (*Outreach Efforts*).

Unfortunately, aside from a few awards listed on the supplier page (*Suppliers & Service Providers*), THD has not published details as to whether the implementation even if they do not directly give details about how they implement their procurement one can assume that it was implemented well since the process is doing well. of this supplier application process has succeeded. If there is tangible evidence of successful implementation, such as an increase in the total number of suppliers or awards received for supplier quality, I recommend that this evidence be displayed prominently on the website in order to encourage other companies to apply. If there is no such tangible evidence, I recommend that THD investigate application process to make sure that it is working as intended.

THD’s management and control of this process is centered on a Supplier Diversity Team, whose mission “is to form mutually beneficial partnerships with small and diverse businesses that allow us to deliver superior and innovative products and services and superb customer service, which ultimately increases shareholder value.” The formation of a full-time team to monitor the supplier acquisition process shows a commitment to managing, controlling, and continuously improving 🡨 Expand on CI (how does this team lead contribute to CI) the company’s supply-chain situation.

## Distribution Process

In 2007, THD’s distribution process was poorly designed, resulting in a huge competitive disadvantage for the company *(SCDigest).* The process relied on direct deliveries from suppliers to stores. At that time, over 37,000 employees in the company could place orders to ship inventory to stores. This process was cumbersome, complicated, and poorly designed. It resulted in high infrastructure costs, high inventory levels, and inefficiencies. With a process as poorly designed as this, it did not matter how well it was implemented, the result was never going to satisfy stakeholders. Good!

However, THD can be praised for the management, control, and continuous improvement of its distribution process. THD’s management team recognized the competitive disadvantage that direct store delivery process was creating, and decided to improve it.

Starting in 2007, THD began to radically redesign its supply-chain process. THD’s management began to implement a new design, involving shipping from suppliers to newly constructed “rapid deployment centers,” where inventory can flow quickly and efficiently to individual stores. The implementation of this process has been rapid and impressive, with THD now operating 18 RDCs, greatly reducing the cost and improving the responsiveness of the distribution system. In fact, this process has been so well redesigned and implemented that THD’s Chief Financial Officer, Carol Tome, stated that “a faster and cheaper supply chain was the main reason (THD’s) gross margins rose in the third quarter” of 2013. Supply chain improvements were responsible for three quarters of the growth in the operating margin that quarter *(Supply Chain Aging).* This process changes has resulted in higher owner satisfaction due to higher profits and higher customer satisfaction from faster delivery times and less stock-outs.

THD can also be praised for its focus on continuous improvement even in a process that is now contributing to so much success for the company. Even now, the management of THD’s distribution process has identified areas to improve. THD has noticed that some of its online competitors, such as Walmart and Amazon, have been testing same-day shipping technology. THD currently takes 2 to 7 days to fill online orders. In order to compete with Walmart and Amazon, THD has revealed plans to invest $300 million to open new fulfillment centers that will enable THD to achieve same-day delivery capabilities *(Same-Day Shipping)*. While the implementation, management, and control of this specific process has not yet happened, it is certain that THD’s commitment to continuous improvement will positively affect the firm’s ability to compete with competitors, satisfy customers, and raise profits.

## Sales Process

As a retail company, The Home Depot’s sales success is driven by two factors: the availability of its products and the level of customer service given in stores. Product availability has already been discussed in depth in the distribution section of this report. The customer service factor of the sales process will be discussed in depth Support Processes section of this report, because it is related to the success of THD’s training and HR processes.

# Support Processes

The support processes of a company are those that aid the primary processes, but do not directly drive the firm’s business. Examples of support processes include finance, accounting, human resources, information systems, and administration. The Home Depot’s website and annual report do not go into much depth regarding many of these processes, such as information systems or accounting. However, two of THD’s support processes, human resources and administration, are extensively discussed in the company’s annual report and in other locations online. In the company’s HR department, the training process stands out for its overall excellence in design and control. Also, THD’s administration has developed a goal-setting process that is focused on continuous improvement.

## Human Resources - Training Process

THD’s Human Resources department is aware of its purpose as a support structure, which is to help the primary processes to come as close as they can to making the correct product. THD realizes that its HR processes are an ideal way to drive sales in the company. One process that is designed to accomplish higher sales is the employee training process.

THD’s management is in the middle of implementing a new training process called Customers FIRST. Previously, employees were told to memorize short slogans, such as “Put customers first”. This training process was too vague and did not teach employees the specifics of how to provide quality customer service. The new training process goes deeper in covering specific tasks that employees need to perform to provide good customer service, such as searching for customers that look lost and making suggestions based on what is already in the customer’s cart *(Hess).* THD’s 2012 letter to the shareholders states that the company now dedicates over 10 million hours each year to training its employees in customer service *(2012 Annual Report)*.

In addition, the new training program has re-designed the sales associate’s workplace. The training program cuts down the amount of tasks, reports, and messages that each employee performs, giving them more time to interface with customers. The training initiative set a “60/40” goal of dedicating 60% of an employee’s time to direct customer service, and only 40% to other tasks, such as stocking shelves, unpacking boxes, and checking inventory *(Hess).*

The training program was implemented in 2009, and all store associates were re-trained in the initiative in 2012, showing THD’s commitment to continuous improvement. According to an analysis found online, one major reason that this initiative succeeded was because THD’s management followed-up with internal and external customer surveys *(Rosenborg)*. This follow-up shows that the process was well controlled and managed.

This new training process has been heralded as an unmitigated success. Not only did THD increase 11 points on the American Customer Satisfaction Index *(Rosenborg)*, but sales in the first three quarters of 2013 were higher than forecast. A portion of this revenue increase is likely due to the quality of the re-training process implemented in 2012.

## Administration – Goal-Setting Process

Administrative processes, though not primary to a company’s operations, are still important to a company’s success. A firm’s administration sets the example for the rest of the company; if administrative processes are poorly designed and ineffective, the company’s primary processes will follow the same pattern. If a firm’s administrative processes are well designed, implemented, controlled, and always improving, it is likely that this culture will affect the rest of the company’s processes.

The Home Depot’s corporate governance has a similar design to many other large companies, with detailed by-laws, financial reporting procedures, and other guidelines *(Corporate Governance Overview)*, but one potential concern is that there is no mission statement to be found online. I recommend that THD create a 2-4 sentence company mission statement in order to assist in implementing the company’s purpose and culture. A mission statement would contribute to overall satisfaction by guiding employees to ensure that all of their other processes are contributing to the overall mission.

There is one area of THD’s administration that deserves special recognition as an example of good process management. That area of excellence for THD is the process by which upper management sets goals for the company.

THD, like most other large companies, sets financial goals for each quarter of the year and then measures how the firm is performing relative to those benchmarks. Effective process design is displayed in the creation of these goal, good implementation is shown in publishing them, and good control practices are shown in measuring the company’s progress. However, the aspect of process management that really stands out in THD’s goal-setting process is the firm’s commitment to continuous improvement.

In August of last year, THD announced that the company had met its financial goals for the 2nd quarter of 2013.

"The second quarter results exceeded our expectations as our business benefited from a rebound in our seasonal categories, continued strength in the core of the store and the recovering housing market in the U.S.," said Frank Blake, chairman & CEO. "Our associates did an outstanding job of responding to the strong increased demand.  I would like to thank them for their hard work and dedication." *(2nd Quarter Results)*

It would have been easy for the administration to pat themselves on the back and proceed as planned. Instead, the administration showed how their goal-setting process is focused on continuous improvement by revising their 2013 goals to make them more difficult. In professional writing make sure that you assign a subject. Try not to start sentences with “this” or These” What change? Please specify. This change will help the company to stretch itself rather than be content and risk stagnation. What is “this”? This will result in employees, shareholders, and customers that are more satisfied by the product that THD is creating. This goal change shows that THD’s administration knows that the goal-setting process can be used as a tool to positively influence the rest of the processes in the company.

# Recommendations/Conclusion

Overall, The Home Depot has made great changes to their processes to improve their design, implementation, and control. The company’s processes are now vastly improved compared to the state they were in before the management change in 2007. It is impressive how sweeping these changes have been, ranging from taking care of supplier stakeholders through the design of the procurement process, to using employee training as a means to boost sales and improve employee, customer, and owner satisfaction. This report recommends that THD continue to monitor the processes described here to ensure that they are maintained. This report also recommends that THD find a way to encourage similar process improvements in other areas of the business. One possibility would be the formation of a ‘continuous improvement’ team. Good! This team would consist of employees that were a part of the improvements made in the processes mentioned above. This team’s goal would be to find other areas of the business where process design, implementation, or control could be improved in similar ways to the methods explained above.

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