

The Rise and Decline of an American Retailer
The Home Depot and Robert Nardelli

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Abstract:

The Home Depot was started by two men with a common purpose of creating a unique customer experience that focused on customer service and providing the same goods accessible to professional contractors. Since its founding The Home Depot has become the fastest growing retailer in world history and the second largest in America behind Wal-Mart. However as The Home Depot started to become a mature business multiple issues in regards to customer relations, management and leadership arose which lead to a decline in value of The Home Depot. This paper examines how The Home Depot grew to become the giant retailer of the nineties and how a change in management affected the image and fiscal results of the company. This paper also serves as a critic of the management style of Robert Nardelli who is largely responsible for where The Home Depot currently stands, including how Nardelli's management style was formed and how it affected the firms, including The Home Depot, he has led during his career.

Table of Contents

Part One: The Making of The Home Depot	Page
I. History	4
II. Marketing	6
III. Finance	8
IV. Management	10
V. Nardelli's The Home Depot	12
VI. Analysis	13
VII. Recommendations	14
 Part Two: Nardelli's Management Style and Effectiveness	
I. Foundations of Management	15
II. Beginnings at The Home Depot	17
III. Nardelli's Investment in HD Supply	19
IV. Nardelli Comes Under Fire	21
V. Nardelli's Next Test of Leadership	24
VI. Analysis	25
Appendix	26

Part One: The Making of The Home Depot

I. History

Bernie Marcus and Arthur Blank were the CEO and CFO respectively of Handy Dan, one of the first home improvement chains. Marcus and the CEO of the Handy Dan's parent company got into several disagreements over how the business ought to be run. Ken Langone a minority shareholder in Handy Dan protected the Marcus and Blank from the attacks of the parent company's CEO. Once Langone sold his shares in Handy Dan Marcus and Blank were immediately fired and the next day the two met to begin founding their own home improvement chain. Ken Langone immediately stepped in to provide his assistance in financing the venture. In a little more than a year the business partners had opened their first two stores.

In 1978 Home Depot was founded on the premise of building a one-stop shop for do-it-yourself homeowners. Home Depot's founders Bernie Marcus and Arthur Blank teamed up with investment banker Ken Langone and merchandising expert Pat Farrah and opened up the first two Home Depots in Atlanta, Georgia in 1979. The company went public in 1981 and in 1984 was listed on the New York Stock Exchange. Today The Home Depot exists as the fastest growing retailer in U.S. history and until 2000 doubled in size every four years. The Home Depot has become an example for some of the world's most successful retailers.

The Home Depot started by trying to create warehouses larger than of those owned by its closest competitor and opening these warehouses to individual consumers instead of just commercial contractors. The founders hired employees who once worked in the industry or had the training so they could offer tips to customers on how to use a product not just its features. The first stores had over 25,000 different products and over 60,000 square feet, much smaller

than a store today. Old boxes were put on the upper shelves to make the illusion that the store had even more products so that customers would be even more impressed.

Initially the founders partnered with an investment banker to raise the capital needed to start up the two original stores, and the other early stores that would be made in the early years. Even before the company went public the founders had a strong policy of rewarding shareholders. While dividends were paid at first, after the company went public the dividends stopped for several years. However the stock split four times between 1982 and 1983. Creating shareholder value was one the principle tenets that the founders listed at the company's founding and it continues to be a top priority for management.

The Home Depot had an aggressive expansion plan from the beginning with its original two stores and expanded to add another two stores later that year. Since then The Home Depot has added hundreds of stores in several different countries to become the world's third largest retailer. From The Home Depot's two stores in Atlanta a 30 billion dollar business was built and today over 22 million people each week enter The Home Depot.

After leading The Home Depot since its inception Bernie Marcus stepped down as CEO at the insistence of Ken Langone who hired one of the three people vying for the CEO position of GE, Bob Nardelli. Ten minutes after Jack Welch fired Nardelli he was offered the CEO position at The Home Depot. While Nardelli brought many new business and managerial ideas to The Home Depot he was brought in to move the once rapidly expanding Home Depot into a mature business. The Home Depot has never seen the returns since the founders left The Home Depot. Since then the company has been slower to expand and its stock price has been essentially stable while its closest competitor, Lowe's, stock price doubled during the last ten years.

II. Marketing

The Home Depot's founders built their store on improving the customer experience from that of their old company. They designed the store to resemble a large warehouse not only for its functional purpose but also to give customers the feeling that they had the same access to the same materials as commercial contractors. The first stores used the empty boxes to take up additional shelf space to give customers the illusion of a fully stocked store with a variety of products. Industry analysts have attributed much of the success of The Home Depot to combining a large storefront with a high level of customer service.

For the first nine years The Home Depot limited its market the south. In 1988 Home Depot opened its first stores in the Northeast on Long Island. Here is where Home Depot began to use a larger "big box" store. The size of these stores were more than twice of the original store size and now average 105,000 square feet with an additional 24,000 square feet of outdoor space for a garden center. With the additional size these stores housed nearly 35,000 products as opposed to the 26,000 the original stores held.

One of the greatest marketing strengths of The Home Depot is derived from the wide array of products sold. Home Depot has broken the product lines down into building materials, appliances, lawn and garden and home improvement supplies. Today more than half of The Home Depots sales revenue comes from its core business of building materials and home improvement products.

Home improvement retailers have largely focused on print ads in their marketing efforts. While more specialized stores such as lumberyards only market during certain periods of the

year, which represent their peak seasons, large home improvement retailers must market year round. Most of this advertising takes the shape of print marketing. Major home improvement retailers have used the inserts in Sunday newspapers as a major channel through which they may market their products. Market research however shows that this method is typically only effective in bringing in return customers and rarely creates new customers. However now the more costly method of imbedding the advertisements into the newspaper is being more widely used as many are simply throwing away the Sunday inserts. This method was also proved more effective in gaining the attention of a wider customer base.

In the early nineties The Home depot began to use other mediums to reach their customers in addition to print. Radio advertisements were popular as they were inexpensive and many contractors and do-it-yourselfers listen to the radio when working on projects. Television also used as a medium, which smaller and local stores found too expensive but large chains, such as The Home Depot, found quite effective especially with new customers.

Home improvement retailers have found it increasingly harder to segment the market as marketing costs have increased. While it is easy to distinguish between small contractors and do-it-yourselfers there are many segments in the do-it-yourself market. The Home Depot has segmented this market by age in its efforts to retain the largest customer base. Retailers have found several important statistics that have driven the marketing efforts of the large chains. The most important is that the majority of customers come from within a five to seven mile radius to the stores. This has helped the major retailers geographically segment the market and has also helped in accessing future store placement. This has also fueled many of the direct marketing campaigns by these retailers although The Home Depot has rarely utilized these, yet they have been more popular with smaller firms.

Large retailers such as The Home Depot have also capitalized upon using manufacturers to help in selling their products. While the most prevalent example is that of Craftsman and Sears The Home Depot has greatly profited off of the marketing efforts of Black and Decker who is the largest manufacturer that advertises products sold at The Home Depot. Manufacturers such as Black and Decker take much of the burden off of The Home Depot mainly during the Christmas and Father's Day holidays. The Home Depot also stocks products that are specific to certain markets. Product specialization has been one of the largest tasks for marketers especially after natural disasters and entry into international markets.

To supplement the needs of the hundreds of stores thirty-nine distribution centers are located in the United States and several more are designed for the international markets. These house many of the custom products the customers can order online and well as all the products destined for the stores. It was not until late 2000 that The Home Depot computerized its entire inventory tracking system. This has greatly reduced inventory costs and made the business more efficient. Trucks are moving every day of the year to supply the hundreds of The Home Depot locations.

III. Finance

The Home Depot is the fast growing retailer in American history and is currently the third largest in the world. One of the core values of the company is to create value for shareholders, which is most often measured in profit. While The Home Depot had an initial operating loss of over a million dollars things turned around quickly. The company hasn't seen

sales decline until February of 2008, still raking in multi million dollar profits. Much of The Home Depot's success can be attributed to its initial financing.

Opening the first two stores was a costly investment for The Home Depot. Thankfully the ambitious investment banker Ken Langone provided his skills and wealth in investment banking to provide the capital needed to start the company. Most of the initial monies were that of only a small number of wealth investors until the IPO of The Home Depot in 1981. Adjusted for stock splits his investment appreciated well over 600 times its initial value measured to January 1, 2000. The initial public offering was comprised of 750,000 shares and more and more shares were offered each quarter. The number of shares initially offered doubled within weeks of the IPO.

For investors The Home Depot has been a dream investment. The Home Depot has used a variety of tools to fund its growth. The Home Depot has used much more stock than bonds but since the early nineties maintained a AAA bond rating. Having a successful investment baker on the board helped The Home Depot to constantly take fiscal actions to increase its stock price. The company has a strong history of issuing a consistent dependable dividend. The Home Depot as has even in times of economic hardship bought back stock to increase shareholder value. Since 2002 The Home Depot has repurchased over 35% of its outstanding shares. The Home Depot does this by maintaining a large cash account. While some analysts argue that this cash could be put to better use the trend in stock price may beg to differ. In fact in all but two of the years up to 1999 when the founders retired the stock price of The Home Depot increased.

The Home Depot serves as an example of how important financing is to new and expanding businesses and shows the value of investment banking. The Home Depot has become the fastest growing retailer in history by taking on debt to expand as well as selling stock to

investors. This gave the company the cash it needed to expand into new markets try new ideas and it was an integral part in allowing The Home Depot to hold onto its reputation for an entrepreneurial spirit throughout the late nineties. Cash is king and thanks to the investment bankers such as Ken Langone The Home Depot had plenty of capital to expand faster than any other retailer and become the world's third largest retailer and largest home improvement retailer.

IV. Management

Business historians have attributed much of the success of The Home Depot to the shared vision and experience of the founders and initial employees. Both of the founders and the first employee stayed with the company until Bob Nardelli took over the company in 2001. The two founders of The Home Depot both had the experience of running a large hardware chain from the ground up and their first employee Pat Farrah had a similar vision of creating the "big box" store concept. As an expert in merchandising Farrah helped the two first stores pick and sell the 25,000 products held in the first stores. Combine these three with the finance expertise of Ken Langone the team was very well rounded. It was however the vision and the leadership of Marcus and Blank that led the company on its path of success while Farrah and Langone gave them the tools to do so.

Until the departure of the founders The Home Depot was a company focused on expansion and entrepreneurship from all levels. Similar to the management style imposed at 3M a hefty percentage of the bonus of managers is based upon entrepreneurship and a focus on creating new and innovative ideas for the business. Trying new things was encouraged and

managers said that one of the greatest aspects of their job was the ability to have their own vision and put it into action. Many of the new and innovative ideas including the lawn and garden center were based off of the ideas of local managers. This became a staple of the fast growing chain in the nineties.

The management structure of The Home Depot is a self described inverted pyramid with the stores on top and their ideas and innovation filtering down to the executives. The Home Depot does not have a corporate headquarters it instead has a store support center and the executives try to keep this in perspective for they know stores drive the business and they must be responsive to them to be successful. The support center has implemented a vision, which it hopes will increase pride in the company and guide the companies as it continues to grow. The values that drive the vision are:

1. Taking care of our people
2. Giving back to our communities
3. Doing the right thing
4. Excellent customer service
5. Creating shareholder value
6. Building strong relationships
7. Entrepreneurial spirit
8. Respect for all people

These values are the guiding principles of The Home Depot and have been mostly unchanged since its founding. The first principles the founders identified as key to the firm are doing the right thing, creating shareholder value and the entrepreneurial spirit. The founders identified

these principles as the reason they wanted to start their own business and state the much of their success is a strict adherence to these principles.

V. The End of an Era and Nardelli's Home Depot

When Marcus retired in 1999 Blank took over as CEO for less than a year before retiring himself. Ken Langone who was on the board of directors brought in Jack Welch to replace Bob Nardelli. Nardelli had a successful career but had no retail experience when he first joined The Home Depot. He used much of the knowledge he gathered from the management training at GE and business school principles and implemented such quality control tools such as Six Sigma at The Home Depot. This worked effectively at reducing costs and Nardelli then moved to consolidate power and departments in a more traditional style. He stated he was going to move The Home Depot into a mature business and it was time to reign in the entrepreneurial spirit of The Home Depot.

Nardelli failed to lead by example. His predecessors were highly regarded by the company as model employees who took care of their people and allowed employees many freedoms that Nardelli took away. Nardelli demanded much larger salaries than the founders did and provided little results for the pay he received. Some said this was a double standard as Jack Welch took home well over 90 million dollars with little repercussions. Bob Nardelli however made 45 million and was berated by shareholders and eventually forced out. Many analysts noted that his style was more like that of a king than of a partner with the employees in the organization.

Nardelli did succeed in cutting costs and streamlining the organization but when he failed to increase the value of the stock price he demanded that The Home Depot make new investments. Instead of trying to expand stores and further dominate the market Nardelli tried to break into a new market by buying commercial building supply stores. This was a great risk especially for someone with no experience in the market or in retail in general. The new venture was called HD Supply and it also bought out White Cap Supply, which spent billions buying out commercial supply companies. The venture cost billions lost money and took away the focus of The Home Depot from its retail business. Bob Nardelli argued that it was the only way the retailer could continue to rapidly expand, yet shareholders saw it as a losing proposition. One of the first items the new CEO did once Nardelli was replaced in 2007 was selling HD Supply and White Cap to three private equity firms lead by Bain Capital who each own a third of the company.

VI. Analysis

The Home Depot presents an interesting case to a retail executive, as there are two distinct stages in the life of The Home Depot and two distinctively different management styles. Studying how The Home Depot was so successful can provide an important lesson in business management and expansion. To do what The Home Depot did all of the functional areas must work together for a common goal. The synergy between the founders and the other two members created a prefect environment for a business to flourish. As the business began to expand Ken Langone had an easier time convincing investors to add to the capital of The Home Depot and

the bigger the firm got the faster it grew. At one point in the nineties The Home Depot was growing at a point of over eight stores a week.

During the entire period of this expansion the same two men were running the company that first started it. These same two men were fired for their management style at a similar store. That store went under several years after the founders of The Home Depot were opening up their first location in the northeast. By creating a one stop shop The Home Depot brought in more customers than ever before. Recently, The Home Depot has been providing free workshops to anyone who signs up on home improvement. This has brought new people into the store and expanded the base of customers as well as showing off the expertise of the employees at The Home Depot. While some retailers such as Target try to foster a team atmosphere by not using the word employees but rather team members, The Home Depot calls their employees associates and according to its structure it intends to treat each employee as an associate with the respect that goes along with that relationship. As previously mentioned, The Home Depot views its main office as a support center while the headquarters of the business are the stores it operates creating an environment of inclusiveness and accountability among store level employees.

VII. Recommendations

There are several important lessons to be learned from The Home Depot. By sticking to its original business model The Home Depot was widely successful. When the firm moved into an unfamiliar market with little expertise the firm struggled. Expansion is important but it is important to expand within the business model whenever possible especially when that business model is successful. The second important lesson is take care of your people. The Home and

Garden center was an idea that first came from the store level and it has become widely successful. In fact many of the management practices and products The Home Depot uses come from ideas at the store level. There executives must remember an expression CEO Marcus said, “The wider the base the higher the peak” in regards to customers. The Home Depot has used workshops to expand its customer base. It argues that regardless of why you bring people into the store it is important to bring in as many as possible to create a bigger base of customers. With these recommendations in mind The Home Depot has become the world’s largest home improvement retailer and it may continue down its path of success and reverse the course of the last several years. By expanding wisely, encouraging associates to innovate and creating a greater base of customers The Home Depot can continue to find great success.

Part Two: The Management of Robert Nardelli

I. Foundations of Management Style and Road to The Home Depot

Bob Nardelli is described by some as the epitome of the American Dream. Growing up in a small rural Pennsylvania town Nardelli rose to become a senior executive and leader in some of the worlds most revered companies. Nardelli started as an engineer at General Electric and rose through the ranks to lead GE’s Power System unit. Much of that unit was eventually sold off and Nardelli became in charge of GE Transportation which during his tenure and still today has the highest margins in the company. It is here where Bob Nardelli developed his management style. He pushed for more international competition and GE made great gains in China and India under his tenure, which GE still enjoys today.

Bob Nardelli also implemented his controversial Six Sigma strategy first at GE Transportation. His goal was to increase operational effectiveness and decrease defects and costs

ultimately increasing value and quality in the division. Since the major product made at the plant Nardelli oversaw was locomotives there was a huge assembly line that was broken out into over eighty separate buildings. Using the Six Sigma approach Nardelli some say became obsessed with focusing on the production line and increasing efficiency. Industry analysts looking retrospectively have commented that Nardelli's focus could be taken off business development in this period because General Electric had the vast majority of the market share and international demand was growing at such a pace that overtime was commonplace at the plant to match demand. Nardelli may have found this acceptable as he began to craft his leadership style around focusing in the internal processes of the business instead of the Drucker approach of managing to create a customer. While GE Transportation saw record revenue and profits and workers had immense job security Nardelli was praised as a visionary leader and quickly saw his value grow within the company. Was Nardelli's success due to the strong international demand or Nardelli's management style? While the answer isn't clear, an examination of Nardelli's future management style and effectiveness may give an indication to what led to Nardelli's early success.

Nardelli was promoted to not only CEO of GE Transportation, but also Senior Vice President of GE and had a great amount of exposure to the very top executives at GE including revered CEO Jack Welch. Nardelli by some was called "Little Jack" because Welch became Nardelli's mentor. Jack Welch by many is considered one of the greatest CEO's of all time and Nardelli had his sights on succeeding him as CEO of General Electric.

When Jack Welch announced his retirement in 1999 there was frenzy over who would succeed this management titan at one of the worlds largest companies. The board of directors with Jack Welch's blessing had three candidates in mind Nardelli, James McNerney (currently

the CEO of Boeing) and Jeffery Immelt. While this succession planning story became one of if not the most watched in US history Jack Welch had a plan all along. As new stories occasionally broke GE stock price would immediately react as investors hung on every story or bit of information that was revealed. After months of evaluation Jack Welch convened the Board of Directors during the Thanksgiving holiday to make their final decision regarding who would lead one of America's most respected companies. Welch picked this time to refrain from media frenzy and did not tell the next CEO until a jet was waiting for him at the airport to take him to a celebration party. Welch fearing media leaks used false names and changed the flight logs at the last minute. Jeffery Immelt the CEO of GE's Medical Service Division was ultimately chosen to succeed Jack Welch as CEO of GE. Jack Welch then to make way for Jeffery Immelt and to prevent internal struggles of power let Nardelli and McNerney go immediately after the new CEO was chosen. Ken Langone, who was a director on the board of GE and one of the founders of The Home Depot called Bob Nardelli ten minutes after the directors meeting let out and offered Nardelli the CEO position at The Home depot which he immediately accepted. Several months later Nardelli became the first CEO of The Home Depot outside of the original two founders.

II. Nardelli Brings His Management to The Home Depot

Bob Nardelli wanted to make some immediate and radical changes when he first got into The Home Depot. He came to a firm that made its investors rich increasing earnings every year, doubling in size every four and earning the title as the world's fastest growing retailer. Nardelli however saw this growth as unsustainable, just as Lowe's, the biggest competitor of The Home

Depot, was investing not only increasing its stores and revenues but also its stock price. Nardelli had other plans for The Home Depot. Nardelli wanted to reign in the free spirit ideology that The Home Depot had built on for years. Nardelli brought his MBA business minded attitude to an organization that fought against it for so long. Ken Langone picked Nardelli intentionally because he saw his work and effects at GE Transportation and thought he would be able to streamline many of the processes at The Home Depot. Investors however were skeptical of the choice of Nardelli, yet hoped that he could bring innovative ideas to the business that could help The Home Depot continue to increase its profits and growth.

Nardelli as expected brought in many of the techniques he learned at GE Transportation to The Home Depot. One of the very first things Nardelli imposed upon the management of The Home Depot was his style of Six Sigma management. The Home Depot before he argued was to customer focused and did not look to the internal factors of the company to find ways to innovate and cut costs. Nardelli's Six Sigma approach did prove effective and the costs The Home Depot incurred costs dropped dramatically. Nardelli did not stop there however he also wanted to change the decentralized structure at The Home Depot, something which analysts thought was unexpected due to the decentralized nature of General Electric where Nardelli came from. Nardelli consolidated and eliminated divisions and departments to make a, "clean and effective" management structure that cut costs and reduced redundancy. Nardelli focused on cuts in white collar over blue-collar staff, which won much praise from his store level employees as well as Wall Street analysts for his efforts.

Nardelli though was criticized by some inside the company and some who had left or were fired as focusing too much on the internal aspects of the firm and taking the focus off of what made The Home Depot the company it is—a customer driven company which prided itself

on innovation from all levels. Nardelli shoot back stating that without the proper internal functions the customer cannot be properly addressed and that innovation is best achieved when it comes from those whose job is specially targeted toward creating it. Nardelli argued that if each employees acts within a well run organizational structure and stays to the task at hand the company will be in the best position and the management system will run most efficiently.

Nardelli however was at a strategic disadvantage since he had no retail experience before coming to The Home Depot. At General Electric a pull marketing strategy was most effective and the demand was so great Nardelli did not have to worry about threats of great competition or slowing sales. These were new times for Nardelli as Lowe's became a formidable competitor and economic times were not those of the 1990's were Nardelli saw his great successes. As the market began to change Nardelli and investors were asking what innovation Nardelli was going to bring. Nardelli decided to pursue a large new investment, which he hoped would bring the type of growth The Home Depot had previously realized.

III. Nardelli Invests in HD Supply

Robert Nardelli to please investors decided he must do more than just open new stores and try to reclaim the market share it was losing to Lowe's to maintain its high margins The Home Depot needed to pursue a whole new line of business. Nardelli largely on his own decided that logically that The Home Depot would find its greatest strengths in the wholesale construction supply business. Nardelli then established HD Supply with the extra cash on hand from the previous successes of the business. He decided to grow this business by acquisition as opposed to trying to be a new entrant into the market. He created several subsidiary companies

of HD Supply to be regionally located and to begin making offers to buy out existing businesses. It was crucial Nardelli told his managers to acquire these businesses at almost any cost. This philosophy was followed and The Home Depot often paid a large premium for many of the large commercial businesses it acquired.

Nardelli's proposal brought deep resistance from current management and reportedly the two retired founders of The Home Depot. Several senior vice presidents and other high ranking executives in the company were subsequently let go or quit as a result of their opposition. Most of their opposition to the idea stemmed from some of the opposition to Nardelli that existed before the idea of HD Supply. Managers complained that Nardelli was taking his focuses off of the customer and the previous market-driven business to create this risky new investment. Managers stated with all of the cash for investment going to HD Supply new store growth would have to slow and it did as Lowe's outpaced The Home Depot stealing market share from the retailer and potential revenue and profit.

Nardelli was persistent and stubborn with his vision at The Home Depot. Nardelli ended up spending billions of dollars on acquiring wholesale construction supply businesses from companies across the United States and Canada. As these acquisitions were made Nardelli agreed to keep on current management for a term of one to three years to ease the transition over to The Home Depot. The current managers who were being transitioned out complained that Nardelli's new leaders did not understand the practices of the wholesale industry. One such manager commented, "Nardelli didn't understand the retail nature of the business. He expected the margins he saw at Home Depot. That isn't how this industry works. When we are selling road salt by the ton we don't expect 20% margins like he got at Home Depot on some five pound

bag. We expect margins between 2%-5%. Our profit comes from volume not margins. We rarely if ever see a margin above 10%.”

Nardelli though thought he could change the wholesale market by acquiring enough large contractor supply businesses. He swiftly raised prices and again used his Six Sigma methods to cut costs but his focus again dwindled from the customer. He believed there would also be a demand for building supplies regardless, so he wanted to focus on the internal factors over the customer. While former owners of the companies strenuously objected to these practices Nardelli was confident that his vision would yield the margins that investors expected from The Home Depot and continue to raise a stock price, which had essentially been flat during his tenure while that of The Home Depot’s closest competitor doubled.

Nardelli’s bet on HD Supply failed and the unit never saw a profit under his tenure. Employees were constantly be slashed as Nardelli sought to “cut to profit” according to analysts. While the current stores were doing well investors began to ask why billions of dollars were invested in HD Supply instead of new retail stores. Nardelli told investors that this investment was a long-term process and that it would pay great dividends once the transition of HD Supply was complete. Investors ultimately never bought the idea, and one of the first things the new CEO did after Nardelli was removed was to sell HD Supply, which reportedly is now profitable after some of the units were divested and the management structure was changed. "Home Depot has finally faced the inevitable truth they could not run the collection of companies they acquired over the past five years," said Adam Fein, president of Pembroke Consulting.

IV. Nardelli Comes Under Fire from the Board of Directors and Shareholders

As HD Supply was clearly becoming a bad investment to investors many were beginning to question the choice of Robert Nardelli as CEO. Ken Langone, the board member who brought Nardelli fiercely defended Nardelli and still does as worth every dollar of his salary. He suggested that the Board of Directors deserved more of the blame than Nardelli. The acquisitions by HD Supply are still defended by Nardelli, which as he points out today turn a profit. However Nardelli soon came under fire for much more than his bet on HD Supply.

Many of the managers complained to the board of directors that Nardelli was seeking to ram through his ideas with any consultation. Managers warned his lack of retail experience and lack of attention to customer service was redefining what The Home Depot was built upon. Nardelli, managers said, would often announce major decisions to the entire company without asking the executives that it affected first. They said he was too stubborn and many avoided him because he led as a dictator not as the leader of a team. Managers said Nardelli acted as if he was running an Army not a company. As managers dissatisfaction grew with Nardelli many left the firm and several articles came out regarding the reported brain drain at The Home Depot.

Another factor that would eventually lead to the ouster of Nardelli was concerns regarding his executive compensation. Nardelli at the time was one of the best paid CEO's in the world receiving payout averaging forty million dollars a year while at The Home Depot. During the time when Nardelli's salary started to increase the public sentiment toward CEO compensation grew cold, as CEO's with huge salaries would yield results that many said were not worth their pay. While Nardelli worked at GE Jack Welch earned nearly three times as much grossing a high ninety four million dollars in one year. As investors and even members of the board asked Nardelli to revise his contract to lower his pay and Nardelli refused. Ken Langone again came out in support of Nardelli pointing to the fact the revenues nearly doubled while

Nardelli was the CEO. Ken Langone and analysts agree that based solely on the numbers Nardelli did grow The Home Depot however the stock price did decline over his tenure. However when year-end results came out the stage was set for a show down at the annual shareholders meeting.

When year-end results were announced in 2005 investors were shocked to hear that profit dropped. Soon after this announcement Nardelli earned the title of the most overpaid CEO in America. Numerous shareholder proposals were filled in anticipation of the annual meeting and Nardelli knew he was going to come under fire. He decided to take drastic action to protect himself from investors, which many said epitomized his management style of blunt and cold leadership. When investors came to the annual shareholders meeting they were surprised to find that none of the Directors showed up to the meeting with Nardelli's blessing. Nardelli had a large clock installed and only let shareholders speak for one minute and they could watch as there minute expire as they spoke on the large clock. Nardelli also refused to answer questions that he did not like and thirty seven minutes after the meeting began Nardelli abruptly called the meeting to a close. Needless to say investors were irate and attacks regarding Nardelli's compensation came under heavy fire yet Nardelli still refuse to cut his pay. The board of directors of The Home Depot was forced to act largely by the activist investor Ralph Whitworth who co-founded Relational Investors, a large fund company with holdings well over eight billion dollars spread across mostly only five stocks. He has a history of using the firm's pull to be an activist investor and he is largely credited with orchestrating the ouster of Nardelli due to his indifference to shareholders and compensation. Whitworth also won a seat on the board of directors in his corporate coup, which his firm still holds. In January of 2007 Nardelli was fired from The Home Depot over issues with executive compensation. Ironically to the ire of investors he was granted

one of the largest severance packages of all time totaling over 240 million dollars. The era of Nardelli was over and The Home Depot appointed a new leader from within the company, Frank Blake. One of the very first public articles he wrote stated he was sorry for years of poor customer service and that his priority would be not on the customer of the future but the customer in the store. After the new CEO's first meeting with shareholders Mr. Marcus said Mr. Blake had "demonstrated real leadership today. He is the type of person who listens." He added that Mr. Blake "did not need fear and a hammer in his hands" to run Home Depot. Many viewed this as an indirect condemnation of Nardelli's leadership.

V. Nardelli's Next Leadership Test – Chrysler

Eight months after Nardelli was ousted from The Home Depot he was offered at CEO position at Chrysler, which he agreed to accept. Analysts predicted better success for Nardelli here since he could focus more on the assembly line and less on the retail side of the business. However Nardelli most believe is not fairing much better. After accepting billions in government loans Nardelli said he would easily be able to pay back the funds and the firm would be able to make it without the loan but that the loan allows for growth on the balance sheet. Nardelli several months later however would go back to Congress asking for more funds notoriously flying there on his private jet. Today Chrysler is expected to file for bankruptcy protection, and Nardelli has said he will leave the firm once the bankruptcy goes through. Thanks in large part to the failure of Chrysler, CNBC has ranked Nardelli the 18th Worst CEO in American history. When news networks announced that Chrysler would face either merger or bankruptcy pundits said Nardelli is still not worth what he is paid. Nardelli's current publicly disclosed salary is one dollar.

Nardelli had a similar performance at Chrysler as he did at The Home Depot. Nardelli cut costs, streamlined operations and increased margins. However like at The Home Depot Nardelli also did not put enough focus on the customer and did not have good relations with managers. He fired a top engineer who was picked up by Tesla Motors and has since gained fame in the engineering world for his work there. Nardelli was brought in as an outsider to the automotive industry, yet he did what everyone in the industry was expecting—restructuring. Ford and GM were doing similar things with little success. Nardelli could not get concessions from unions so he cut white-collar workers instead including engineers. Nardelli greatly cut investment in new models, which auto experts said would lead to long-term problems with Chrysler. Experts also commented that this would create a company so hollow that it may not be able to stand alone in the future. As Chrysler becomes one of the largest American Manufactures to fail Nardelli has set in stone his fate and reputation. Many think his tenure leading any large American company is over and it may be appropriate that he is ranked as the 18th worst CEO in American history.

VI. Analysis

Robert Nardelli is a product of his past. His management style was formed by analyzing assembly lines and processes in a market with little competition and high demand. When he tried to transfer his success at GE to a larger retailer his lack of passion for the customer led to a declining stock price and dissatisfaction with investors. While Nardelli's fiscal performance at The Home Depot was mediocre not poor, his greatest downfall was the relationships with investors and managers. By eliminating the culture of unity and innovation The Home Depot lost its customer driven focus and while is cut costs it lost potential customers. These same

management pitfalls were also seen at Chrysler. Nardelli still has potential to be a great manager but he must shift his priorities and improve his communication. He knows how to run the internal business functions effectively. He must learn to cater to the customer to drive sales. He also must improve his relationships with managers and employees, motivating them to unite around his vision. As Nardelli is removed from yet another major American company he is likely to retire however managers have a great deal to learn from a very competent man who did not implement his vision correctly and neglected the two most important groups that drive revenues and fiscal performance—employees and customers.

Appendix

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1.1

The Home Depot's Stock Price Versus Common Benchmark's

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1.2

Analysts Explanation of The Trends in The Home Depot's Stock Performance

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1.3 Important Recent Sales Data

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1.4 Product Segmentation

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1.4 Ten Year Financial Summary and Comparison

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1.5 Store Statistics Ten Year Comparison

