Home Depot Works on Stakeholder Relationships

INTRODUCTION
When Bernie Marcus and Arthur Blank opened the first Home Depot store in Atlanta in 1979, they forever changed the hardware and home improvement retailing industry. Marcus and Blank envisioned huge warehouse-style stores stocked with an extensive selection of products offered at the lowest prices. Today, this vision defines the business model of the popular home improvement chain. Do-it-yourselfers and building contractors can browse tens of thousands of products for the home and yard, from kitchen and bathroom fixtures to carpeting, lumber, paint, tools, and plant and landscaping items. If a product is not provided in one of the stores, Home Depot offers customers the option to have it special ordered. Customers can also order products online. Additionally, the company offers free home improvement clinics to teach customers how to tackle everyday projects like tiling a bathroom. For those customers who don’t prefer the “do it yourself” method, most stores offer installation services. Knowledgeable employees, recognizable by their orange aprons, are on hand to help customers find items or to demonstrate the proper use of a particular tool.

Home Depot employs 400,000 associates and operates more than 2,200 stores in the United States, Mexico, and Canada. Home Depot is the largest home improvement retailer in the world, with more than $108 billion in annual revenue. Home Depot continues to do things on a grand scale, including putting their corporate muscle behind a tightly focused social responsibility agenda.

MANAGING CUSTOMER RELATIONSHIPS
Home Depot’s former chief marketing officer, John Costello, consolidated marketing and merchandising functions to help consumers achieve their home improvement goals more effectively and efficiently.

According to Costello, “Above all else, a brand is a promise. It says here’s what you can expect if you do business with us. Our mission is to empower our customers to achieve the home or condo of their dreams.”

*This case was developed by Jennifer Sawayda, Michelle Urban, and Melanie Drever for and under the direction of O. C. Ferrell and Linda Ferrell © 2019. We appreciate the previous editorial assistance of Jennifer Jackson. This case was prepared for classroom discussion rather than to illustrate either effective or ineffective handling of an administrative, ethical, or legal decision by management. All sources used for this case were obtained through publicly available material.
When Costello arrived in 2002 Home Depot’s reputation was faltering. His plan called for overhauling the company’s website as well as integrating mass marketing and direct marketing with in-store experience. The new philosophy was expressed by the new Home Depot mantra: “You can do it. We can help.” Teams from merchandising, marketing, visual merchandising, and operations attempted to provide the very best shopping experience. The idea was simple. Home Depot believed that customers should be able to read and understand how one ceiling fan is different from another, and associates (employees) should be able to offer installation and design advice.

In 2008, Frank Bifulco took over as new chief marketing officer and senior vice president. It was a tough time for Home Depot. Because of the Great Recession, consumers were spending less on their homes. Home Depot’s new marketing strategy was to emphasize the store’s everyday low prices, high product value, and quality energy-saving products. At the same time, the company cut back on special offers like discounts and promotions. Now, Home Depot's chief marketing officer, Adolfo Villagomez, is also the senior vice president of the company's online business, showing how e-commerce has become a big focus for Home Depot. Home Depot does an impressive amount of sales online, earning nearly $8 billion annually.

Despite Home Depot’s proactive approach to customer issues, the company has dealt with negative publicity related to poor customer satisfaction. Some former managers at Home Depot have blamed the company’s service issues on a culture that operated under principles reminiscent of the military. Under former CEO Robert Nardelli, some employees feared being terminated unless they followed directions to a T. Harris Interactive’s 2005 Reputation Quotient Survey ranked Home Depot number 12 among major companies and said that customers appreciated Home Depot’s quality services. However, shortly after the company slipped in the rankings, and Nardelli was ousted and replaced by Frank Blake in January 2007. The start of 2008 seemed more auspicious for Home Depot as it was listed as number six on Fortune’s Most Admired Companies (still trailing behind Lowe’s), up from 13 in 2006. Home Depot also bounced back up on the American Customer Satisfaction Index.
The increase of customer satisfaction was due to several efforts on the part of Frank Blake. The company’s Twitter feed was inundated with comments from dissatisfied customers about the customer service they encountered in the stores. Blake quickly admitted to the customer service problems the company was facing, apologized for the inconvenience it caused the customers, and encouraged them to continue to leave their feedback so that they could make improvements. Each one of the complaints was addressed; some angry followers were appeased by phone calls from store managers and personal emails responding to their specific issues. The responsiveness of Blake and his Senior Manager of Social Media, Sarah Molinari, not only transformed angry protesters into enthusiastic fans but also resulted in a strategic advantage for the company in terms of how they deal with customer feedback.

Inside the stores, self-checkout lanes were installed so that customers could spend less time waiting in line. However, at peak hours, waiting in line cannot be avoided. During such situations, Home Depot associates can scan items in customers’ baskets while they are in line and hand them a card that holds all their purchases. When the customer reaches the cashier, they simply scan the card and pay the total they owe. Home Depot was also the first company to partner with PayPal, making it easier for customers who do not want to carry their wallet or cash with them to be able to pay more conveniently. Many of the Home Depot associates are given devices called “First Phone,” which is a phone/walkie-talkie/scanner. This device allows associates to quickly help customers by being able to call or page fellow associates who can answer customers’ questions and have immediate access to the price of an item by scanning it right where they stand. Additionally, the device integrates training into employee’s everyday workstream.

Another way in which Home Depot attempts to practice good customer service and simultaneously act in a socially responsible manner is through their program designed to teach children basic carpentry skills. Home Depot provides a free program called the Kids Workshop available at all of their stores. During the workshops, children learn to create objects that can be used around their homes or neighborhoods. Projects include toolboxes, mail organizers, and window
birdhouses and bughouses. Home Depot also offers free workshops specifically designed for women, do-it-yourselfers, and new homeowners.

These efforts have paid off for Home Depot. Boosted by the rising housing market, Home Depot is outperforming the retail market at a time when retail sales are slipping. Home Depot has successfully transformed itself into a firm with strong service, offering great value to consumers.

ENVIRONMENTAL INITIATIVES
Cofounders Marcus and Blank nurtured a corporate culture that emphasizes social responsibility, especially regarding the company’s impact on the natural environment. Home Depot began its environmental program on the twentieth anniversary of Earth Day in 1990 by adopting a set of Environmental Principles (see Table 1).

Guided by these principles, Home Depot has initiated several programs to minimize the firm’s—and its customers’—impact on the environment. In 1991, the retailer began using store and office supplies, advertising, signs, and shopping bags made with recycled content. They also established a process for evaluating the environmental claims made by suppliers. The following year, the firm launched a program to recycle wallboard shipping packaging, which became the industry’s first “reverse distribution” program. In addition, it was the first retailer in the world to combine a drive-through recycling center with one of its Georgia stores in 1993. One year later Home Depot became the first home improvement retailer to offer wood products from tropical and temperate forests that were certified as “well-managed” by the Scientific Certification System’s Forest Conservation Program. The company also began to replace its hardwood wooden shipping pallets with reusable “slip sheets” to minimize waste and energy usage and to decrease pressure on hardwood resources.
Table 1 Home Depot’s Environmental Principles

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<th>Principle</th>
<th>Description</th>
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<tr>
<td>Conserve natural resources by using energy and water wisely, and seek</td>
<td>to reduce resource consumption and improve the efficiency of our stores, offices and distribution network.</td>
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<td>further opportunities to reduce resource consumption and improve the</td>
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<td>efficiency of our stores, offices and distribution network.</td>
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<td>Minimize environmental health and safety risks for our associates and</td>
<td>Minimize environmental health and safety risks for our associates and our customers.</td>
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<td>our customers.</td>
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<td>Continue our journey to reward suppliers that manufacture, package and</td>
<td>Continue our journey to reward suppliers that manufacture, package and label in an environmentally responsible manner to minimize impact to the workers who manufacture them and the consumers who use them, and to preserve raw materials and eliminate unnecessary waste.</td>
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<td>preserve raw materials and eliminate unnecessary waste.</td>
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<td>Recycle and encourage the use of materials and products with recycled</td>
<td>Recycle and encourage the use of materials and products with recycled content.</td>
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<td>content.</td>
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<tr>
<td>Encourage our customers to become environmentally conscious shoppers.</td>
<td>Encourage our customers to become environmentally conscious shoppers.</td>
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In 1999, Home Depot joined the Certified Forest Products Council, a nonprofit organization that promotes responsible forest product buying practices and the sale of wood from Certified Well-Managed Forests. Yet, the company continued to sell products made from wood harvested from old growth forests. Protesters led by the Rainforest Action Network, an environmental group, had picketed Home Depot and other home center stores for years in an effort to stop the destruction of old growth forests, of which less than 20 percent still survive. Later that year, during Home Depot’s twentieth anniversary celebration, Arthur Blank announced that Home Depot would stop selling products made from wood harvested in environmentally sensitive areas.

To be certified by the Forest Stewardship Council (FSC), a supplier’s wood products must be tracked from the forest, through manufacturing and distribution, to the customer. Harvesting, manufacturing, and distribution practices must ensure a balance of social, economic, and environmental factors. Blank challenged competitors to follow Home Depot’s lead, and within two years several had met that challenge, including Lowe’s, the number two home improvement retailer; Wickes, a lumber company; and Andersen Corporation, a window manufacturer. By 2003, Home Depot reported that they had
reduced its purchases of Indonesian lauan, a tropical rainforest hardwood used in door components, by 70 percent, and they continued to increase their purchases of certified sustainable wood products.

In 2007, Home Depot adopted the Eco Options program to help customers identify more sustainable product offerings. In order for their products to qualify as Eco Option, suppliers must show that their products meet certain criteria that demonstrate less of an environmental impact than comparable products. In 2017, Home Depot released their Chemical Strategy. This strategy describes how the company will work with suppliers to decrease the negative impact of chemicals in the store’s product offerings on indoor air quality. They have also committed to a goal of reducing customers’ water usage by 250 billion gallons with its sale of more water-efficient WaterSense products.

These efforts have yielded many rewards in addition to improved relations with environmental stakeholders. Between 2010 and 2020, Home Depot’s stores in the United States decreased energy usage by 34 percent. The company set a goal to reduce emissions by 50 percent by 2035. Home Depot’s environmental programs have earned the company an A on the Council on Economic Priorities Corporate Report Card, a Vision of America Award from Keep America Beautiful, and a President’s Council for Sustainable Development Award. The company has also been recognized by the U.S. Environmental Protection Agency with its Energy Star Award for Excellence.

**CORPORATE PHILANTHROPY**

In addition to its environmental initiatives, Home Depot focuses corporate social responsibility efforts on affordable housing and disaster relief. For instance, Home Depot believes that it has a philanthropic responsibility to improve the communities in which they operate. In 2002, the company founded the Home Depot Foundation, which provides additional resources to assist nonprofits in the United States and Canada. The foundation awards grants to eligible nonprofits and partners with innovative nonprofits across the country that are working to increase awareness and successfully demonstrate the connection between housing, the urban forest, and the overall health and economic success of their communities. The nonprofit is a strong supporter of Habitat for Humanity International and the American Red Cross.
Another group The Home Depot Foundation focuses on is veterans. It has improved 14,000 facilities for veterans since 2011 and has made a commitment to donate $500 million to veteran causes by 2025. The company is also taking an active stance to ensure the industry has skilled workers for the future. The Home Depot Foundation announced it was investing $50 million to train 20,000 tradespeople for job skills in the home improvement industry.

Additionally, Home Depot addresses the growing needs for relief from disasters such as hurricanes, tornadoes, and earthquakes. After the 9/11 terrorist attacks in 2001, the company set up three command centers with more than 200 associates to help coordinate relief supplies such as dust masks, gloves, batteries, and tools to victims and rescue workers. After the 2010 Haitian earthquake, Home Depot Mexico donated $30,000 to Habitat for Humanity to assist in Haiti’s recovery efforts, in addition to launching a fundraising program for its Mexican associates. Home Depot pledged to double the resources that its Mexican associates raised to aid in the relief effort. When Hurricane Sandy hit the American East Coast in 2012, Home Depot responded with $1 million in donations in gift cards, supplies, and contributions to organizations that provided food, clothing, shelter, and volunteer efforts. Members of their own volunteer team, Team Depot, helped with rebuilding efforts. In 2018, Home Depot increased its financial disaster relief contributions to $4 million in the wake of Hurricane Michael and other natural disasters.

During the COVID-19 (coronavirus) pandemic, health care workers faced personal protective equipment (PPE) shortages in 2020. In response, Home Depot issued a stop-sale order for N-95 masks and instead donated them to hospitals, health care workers, and first responders. The company donated millions of dollars in PPE and other products. Additionally, to protect the individuals in its communities, Home Depot froze pricing across high-demand product categories.

**EMPLOYEE AND SUPPLIER RELATIONS**

Home Depot encourages employees to become involved in the community through volunteer and civic activities. Home Depot also strives to apply social responsibility to their employment practices,
with the goal of assembling a diverse workforce that reflects the population of the markets they serve. However, in 1997 the company settled a class-action lawsuit brought by female employees who alleged that they were paid less than male employees, awarded fewer pay raises, and promoted less often. The $87.5 million settlement represented one of the largest settlements in a gender discrimination lawsuit in U.S. history at the time. In announcing the settlement, the company emphasized that they were not admitting to wrongdoing and defended their record, saying that they provide equal opportunities for all and have a reputation of supporting women in professional positions.

Since the lawsuit, Home Depot has worked to show that they appreciate workforce diversity and seeks to give all their associates an equal chance to be employed and advance. In 2005, Home Depot formed partnerships with the ASPIRA Association, Inc., the Hispanic Association of Colleges and Universities, and the National Council of La Raza to recruit Hispanic candidates for part-time and full-time positions. Also in 2005, Home Depot became a major member of the American Association of Retired Persons’ (AARP) Featured Retirement Program, which helps connect employees 50 years or older with companies that value their experience. Diversity is also incorporated into Home Depot’s board. The 14-member board includes three women members and regularly engages in board refreshment practices where board members from different backgrounds and genders are included in executive roles. In 2020, following the murders of George Floyd and Ahmaud Arbery, Home Depot contributed $1 million to the Lawyers Committee for Civil Rights Under Law in support of ending racism and injustice.

Home Depot also has a strong diversity supplier program. As a member of the Women’s Business Enterprise National Council and the National Minority Suppliers Development Council, Home Depot has come into contact and done business with a diverse range of suppliers, including many minority- and women-owned businesses. In 2005, the company became a founding member of The Resource Institute, whose mission is to help small minority- and women-owned businesses by providing them
with resources and training. Home Depot’s supplier diversity program has won it numerous recognitions.

During the COVID-19 pandemic, Home Depot stores remained open as an essential business. To protect the safety of customers and associates, Home Depot shortened store hours to allow for more thorough sanitization, limited the number of customers allowed in the store at one time, installed plexiglass shields to separate customers from employees, supplied thermometers for team members to perform health checks before their shifts, and provided face masks and gloves to associates. The company also eliminated major promotions—no doubt taking a financial hit—to avoid driving unnecessary traffic to its stores. Additionally, Home Depot expanded paid time off for hourly and elderly associates, gave weekly bonuses, doubled overtime pay, and extended dependent care insurance benefits, and waiving related co-pays, which cost the company approximately $850 million. These measures demonstrate Home Depot’s commitment to protecting its employees.

TECHNOLOGY INITIATIVES

Home Depot is turning toward technology to improve customer service and become more efficient. Compared to its rivals, Home Depot has traditionally lagged behind technologically. For a time, employees were using computers powered by motorboard batteries and stocking shelves in the same way as they had done for the past 15 years. Unlike its rival Lowe’s, Home Depot was slow to allow customers to order products online and then pick them up at the stores. As more and more consumers chose to complete their transactions on the internet, this represented a weakness for Home Depot. In 2010, Home Depot’s online sales constituted only 1.5 percent of overall sales. Although rapid expansion had increased its reach, Home Depot was not adapting as quickly to the fast-paced world of technology.

After recognizing its limitations in this field, Home Depot embarked upon several technology initiatives. These initiatives were intended to improve customer service and daily operations. One small victory that Home Depot achieved was beating Lowe’s in releasing a mobile app that enables consumers to order Home Depot products. In addition, Home Depot distributed 30,000 of their First Phone devices in
more than 1,900 of its stores to replace old computers in associates’ carts. The device allows associates to communicate with other associates, print labels, process credit and debit card transactions, and manage inventory, among other functions. According to then-CEO Frank Blake, the purpose of First Phone is to help associates spend less time on routine tasks and more on customer service. Home Depot also redesigned its website to improve navigation and communication channels. The company provided upgrades such as live chat and developed a buy online pickup option. Home Depot has managed to reduce response time to customer emails from 24 hours to one hour or less.

In 2011, a special component of the Home Depot website was launched for “Pros” (Professional and Contractor Services). This website is intended to decrease the time it takes for professionals and contractors to get in and out of the store, allow them to order online and pick up their goods within a couple of hours, and enable delivery for certain products when ordered in bulk. Home Depot recognizes that professionals should spend less time in the store and more on the job. After this website was implemented, the speed with which this target market was able to get in and out of the store was increased by 27 percent from the previous year. Three percent of the customers identified as Pros make up 30 percent of Home Depot’s annual revenue, making this a very important market for the retailer.

Home Depot has also improved its logistics. Whereas before the company had its suppliers send trucks of merchandise directly to the stores, where associates would then unload them, Home Depot has created distribution centers to make operations run more smoothly. This change also enables its associates to devote more time to customer service.

To further this omnichannel approach, creating a unified customer experience between online and in-store, Home Depot turned to big data to get a better picture of how to create the best shopping experience, pulling in website activity, in-store calls, call center volume, and more. The company also uses artificial intelligence (AI) in its app to help customers find products when they snap a photo of what they’re looking for. This data-driven approach has helped Home Depot target new customers as well as offer a more personalized experience to existing customers.
These are just a few of the steps that Home Depot is taking to adopt a more proactive stance toward technological innovation. By concentrating on innovations that will improve customer service, the retailer is attempting to advance their stakeholder orientation into all aspects of its operations. Home Depot's focus on growing ecommerce has driven the company's growth. Nearly half of Home Depot's online orders are for in-store pickup, an integration that helps the stores to operate more efficiently. These efforts to integrate channels have improved its revenue per square foot.

As competition from online retailers like Amazon grows, Home Depot executives continue to focus on ways the company can compete technologically. After seven years with the company, Blake stepped down as CEO and was replaced by Craig Menear. The succession was smooth, so well planned that it had a minimal effect on Home Depot’s stock price. Much like Blake, Menear proved that he would continue to focus on Home Depot’s core culture. This is being put to the test as brick-and-mortar retailers like Home Depot are experiencing huge changes in how they do business. Executives have accepted the challenge to lead Home Depot through the “Amazon-era.” While many companies have struggled because of online retailing, Home Depot has continued to be successful with increases in revenue, profits, and customer spending, partly because of its strong e-commerce strategy. With online sales increasing steadily since Menear became CEO, Home Depot seems to be surviving the “Amazon-era” with the help of its committed managers.

A STRATEGIC COMMITMENT TO SOCIAL RESPONSIBILITY

Home Depot strives to secure a socially responsible reputation with stakeholders. Although it has received low scores in the past on customer surveys and the American Customer Satisfaction Index, it has worked hard to bring those scores back up. It has responded to concerns about its environmental impact by creating new standards and principles to govern its relationship with suppliers.

In the past few years, the firm has taken its strategic commitment to stakeholders to a new level. Home Depot places their stakeholders into a pyramid shape with executives at the bottom of the pyramid,
and with customers at the top. Front-line associates are on the second tier. Home Depot strives to treat their associates well through compensation, coupled with opportunities for learning and career development. Carol Tome, Home Depot’s CFO, explained in an interview how management at the bottom of the pyramid takes on the most responsibility in the business to provide employees with the resources they need to focus on the customers. The board of directors continues to provide leadership to support executives in developing and implementing the employee- and market-focused culture.

Knowing that all stakeholders, especially customers, feel good about a company that actively commits its resources to environmental and social issues, Home Depot executives have made social responsibility a strategic component of the company’s business operations. The company should remain committed to its focused strategy of philanthropy, volunteerism, and environmental initiatives. Customers’ concerns over social responsibility and green products are not likely to abate in the future, and Home Depot’s sales of green products remain strong. Its commitment to social responsibility extends throughout the company, fueled by top-level support from their cofounders and reinforced by a corporate culture that places customers and their concerns above all else.

**CONCLUSION**

Home Depot’s strategic commitment to customer service and social responsibility is paying off for all stakeholders. Sales, revenues, and dividends have increased. Within a five-year period, Home Depot’s focus on stakeholders, technological growth, and improved business operations had resulted in a 135 percent increase in value for investors who bought shares. In 2020, the stock hit an all-time high at more than $250 per share. To maintain their strategic advantage, the company is investing heavily in their employee training and success.

Home Depot continues to engage their employees and communities in volunteer efforts. The company responds quickly to aid employees and consumers in disaster situations such as floods, earthquakes, and hurricanes. Team Depot, Home Depot’s associate-led volunteer force, takes great strides to meet the needs of the communities in need. Home Depot has approximately 400,000 dedicated Team
Depot volunteers to improve the communities where it operates. Veterans and those in the military are also crucial stakeholders in Home Depot’s corporate social responsibility program.

While any large company faces ethical challenges, Home Depot has established strong principles and values to be a responsible corporate citizen. Home Depot has rebounded from having low customer satisfaction into a company that is respected because of its strong performance and commitment to employees, customers, and communities.

**QUESTIONS FOR DISCUSSION**

1. Assess the company’s strategy and performance with environmental and employee stakeholders.

2. As a publicly traded corporation, how can Home Depot justify budgeting so much money for philanthropy? What areas other than the environment, disaster relief, and affordable housing might be appropriate for strategic philanthropy by Home Depot?

3. How does Home Depot’s desire to be passionate about customer service relate to their social responsibility?

**SOURCES**