

Arthur Blank and Bernie Marcus, The Home Depot

Getting sacked can be a beautiful thing

IN 1978, THE FIRST HOME DEPOT OPENED IN ATLANTA. ON grand opening day, despite the local newspaper forgetting to run the Home Depot advertisement, the store made so much money the bank where the proceeds were deposited was suspicious about this new business having so much cash (more than \$10,000).

Founders Arthur Blank and Bernie Marcus turned hardware retailing upside down with their big-box concept. Instead of the traditional small, expensive hardware store with limited stock, Blank and Marcus came into the marketplace with 100,000-square-foot orange warehouses (roughly the size of three supermarkets), packed to the rafters with every conceivable hardware item. To top it off, because stock was coming straight from suppliers rather than through a wholesaler, Home Depot could offer everyday low prices with customers paying an average of 30 percent less for their hardware. They operated the stores with experienced builders and well-trained staff in their orange aprons, and staged DIY workshops—workshops that showed customers how to do their home projects rather than just selling them.

Blank and Marcus built a business culture where generous incentives, stock options, and extensive training helped create a workforce that would “bleed orange” for their bosses and go the extra mile on the shop floor. There were staff barbecues, rallies, hugs from the bosses, and Blank and Marcus made a point of spending 50 percent of their time in store, practicing what Marcus calls “ground-engaged management.”

The model was so effective, Home Depot's store turnover was eight times greater than traditional hardware stores. Big profits fuelled aggressive growth and rapid introduction of new Home Depot stores. The company has grown to a 1,950-store powerhouse worth more than \$87 billion. Blank and Marcus are billionaires and more than one thousand staff members also enjoy millionaire status thanks to their Home Depot stock.

Arthur Blank grew up in a New York City apartment and was never handy around the house. He did, however, show a flair for business. He studied accounting and had a string of little start-ups, including his own landscaping and laundry businesses. Blank's father, who died when Blank was fifteen, had a pharmaceutical supply business. Arthur's mother took over the business with her never-say-die attitude, a trait that he has cultivated throughout his career.

Bernie Marcus grew up in Newark, New Jersey. His parents ran a pharmacy in Queens. He had wanted to become a doctor, but his family could not afford the college fees. One of his early jobs was as a stand-up comedian, a skill he put to good use during his Home Depot years. Marcus told the jokes, and Blank laughed.

Blank and Marcus met in 1974 while they were working in senior roles at Handy Dans Home Improvement Centers, a chain based in California. Despite their age difference (charismatic Marcus is thirteen years older than Blank) they struck up an alliance. There is synergy between the two—Blank is more systematic, practical, and operational, while Marcus is an outgoing ideas man. Marcus is often described as the carrot, Blank the stick.

Blank and Marcus became involved in a union dispute in the company and were both fired from Handy Dan in 1978. Marcus and Blank decided they didn't want to work for anyone else again. Blank likens the lay-off to "being kicked in the ass with a golden horseshoe." Marcus and Blank wanted to stay in the industry and while Blank worked on the business model, Marcus went about

raising funds to start Home Depot. They knew the industry was pricing goods too high. If they kept operational costs low, kept suppliers happy (they spent many a night at a local steakhouse entertaining them), offered best-practice training to staff, and kept administrative costs under control, they could shake things up. An investment group funded the venture.

Home Depot's arrival in the marketplace was brilliantly timed. The home improvement phenomenon was about to strike. Within a year, there were four Home Depots throughout Atlanta and three hundred staff members. The car parks were packed on weekends with customers wanting to make over their homes. In 1981, Home Depot went public with a starting price of \$16 and the aggressive expansion began. By 1986, annual sales had hit \$1 billion, and, soon after, Home Depot was the largest home repair company in the U.S. with 118 stores. Their revenge on Handy Dan was sweet, very sweet. Home Depot is the youngest retailer to reach \$30 billion, \$40 billion, \$50 billion, and \$60 billion in annual revenues.

For two decades, the profits just kept rolling in with Home Depot averaging profit growth of 35 percent each year during the 1990s. Its stock's value increased 3,700 percent during that decade reaching almost \$60. This bull run did come to an end as competitors caught up, particularly the Lowes chain. The company was also scarred by a \$104.5 million sex discrimination lawsuit that argued that women were not given the same job opportunities as men in the business, a decision that Marcus was particularly furious about.

In 1997, Marcus stepped down from his CEO role and Blank took his place, with Marcus staying on as chairman. Blank only stayed in the role until 2000 when Robert Nardelli, a top executive from General Electric, became Home Depot's CEO. Nardelli took the new role after finding out he would not be replacing GE leader Jack Welch. He didn't want to be number two anymore. Nardelli

joined at a tough time in the company's history. The stock, after being the darling of Wall Street, had become one of the worst performers on the market. Offshore expansion into countries such as Chile had been disastrous. By early 2003, the stock price had almost halved. Says Nardelli: "Clearly our stores got old and stale. We got locked into a model that had served us well. It got us to around \$40 billion [in revenues] but it wasn't going to get us to \$100 billion."

Nardelli changed Home Depot's course. He slowed down new store openings and concentrated on upgrading existing stores and improving back-end efficiencies. Introductions have included a billion-dollar technology upgrade and signature GE cost-controlling programs throughout the business. In 2002, the year that Home Depot was the worst performing stock on the Standard & Poor's Index, Marcus gave Nardelli the role of chairman of the board, leaving more time for Marcus to concentrate on his philanthropic exploits. Marcus plans to give away much of his \$2.4 billion within his lifetime. Blank has also been philanthropically active through his family's foundation, donating more than \$120 million so far. In 2002, Blank spent \$545 million acquiring the Atlanta Falcons.

Marcus and Blank remain on the board of Home Depot, still actively involved in the company and keeping an eye on their appointment. Living up to the expectations of these savvy gentlemen is not the thing that really worries Nardelli. He says: "The thing that keeps me awake in this business is the speed with which you have to move." Not even the most clever business can afford to rest on its laurels.

NOTES

"**Kicked in the ass . . .**" Skapinker, Michael. "When the Sack Is Not the End of the Story," *Financial Times*, 6.30.01, p. 11.

"**Clearly our stores . . .**" Sellers, Patricia and Julie Schlosser. "It's His Home Depot Now," *Fortune*, 9.13.04.

"**The thing that keeps . . .**" Insana, Ron. "Fixer-Uppers Spruce Up Profit at Home Depot," *USA Today*, 7.6.04, p. 4B.

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Mary Kay Ash, Mary Kay Cosmetics

Success is the best revenge

AS FAR AS ENTREPRENEURS GO, THE STORY OF TEXAN MARY Kathlyn Wagner is hard to beat. She built a billion-dollar direct-sales business from \$5,000 in savings at a time when nice ladies stayed at home and looked after their husbands. A star saleswoman who used to write her sales targets in soap on her bathroom mirror, it is possible Mary Kay Ash would have kept working for other companies. But an experience in 1963 at World Gift, where she was a national director of sales, changed all that. Male colleagues she had trained were promoted above her on twice her salary. Mary Kay Ash had been a stellar performer there for eleven years. The reason? They wore a suit and tie, she wore a dress. After twenty-six years in sales, she retired.

Her direct sales cosmetics and skincare business, now among the largest in the world, came along at a time when the value of women outside the home was greatly discounted. Mary Kay Ash