

New revenue streams boost home improvement retailers

Article

Interest rates are rising. The housing market is cooling. Combine those factors with two years of home improvement projects during the COVID-19 pandemic and outlooks don't look great for home improvement retailers.

"All these companies did really, really well early in the pandemic when everyone was stuck at home," our analyst Zak Stambor said on a recent episode of our ["Behind the Numbers:](#)

Reimagining Retail” podcast. “Once you have painted your living room, you generally don’t paint your living room again one year or two years later. You generally don’t redo your bathroom one or two years later. So they have some tough comps for the next few years.”

Fixer-upper: Home improvement retailers need to focus on other revenue streams, including advertising, professional services, and loyalty programs.

- **The Home Depot missed revenue expectations** for the first time since 2019 in the fiscal fourth quarter of 2022. Following market pressure, the company is working “from kind of a fundamental assumption that consumer spending will be flat,” CFO Richard McPhail told CNBC.
- **Lowe’s beat expectations in Q4 2022** but cut guidance, with its CEO Marvin Ellison saying on an earnings call, “We’re not going to be overly bullish for no reason.”

Retail media enters the mix: Lowe’s doubled down on its retail media focus early this year, **moving its sales and operations departments in-house**. The company doesn’t want to give up any sliver of its ad revenues, which means owning every step of the process.

The Home Depot has also **made recent retail media moves**, with newly appointed vice president of Retail Media+ and operations Melanie Babcock telling MediaPost that retail media has become “its own [business]” for The Home Depot, rather than “just another marketing function.”

Major retailers are taking ownership of their own ad businesses, and for good reason. Retail media ad spending will more than double by 2027, reaching over \$106 billion, according to our forecast.

Keeping it professional for B2B customers: Lowe’s and The Home Depot both expanded their professional loyalty programs earlier this year, with **Lowe’s introducing MVPs Pro Rewards** and **The Home Depot expanding Pro Xtra**. The new tiers and a training program to address the US labor shortage focus on fostering relationships with contractors and construction businesses.

“Pros make up about **10% of The Home Depot’s customer base** and approximately half of our sales,” Hector Padilla, executive vice president of outside sales and service at The Home Depot, told Chain Store Age.

The Home Depot expects B2B to grow faster than B2C over the next few years, according to its November 2022 earnings call. By leaning into its professional business, The Home Depot can stay buoyant, even as do-it-yourself home projects dry up.

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