

# Payment Strategy at The Home Depot

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# World's Largest Home Improvement Retailer

## Fiscal 2008

- **Sales:** \$71.3B USD
  - Decline of 8% vs. 2007
- **Total Sq. Footage:** 238M
- **Transactions:** 1.3B
- **Associates:** over 300,000
- **Stores:** 2,274
  - United States – 2,012
  - Canada -- 176
  - Mexico – 74
  - China – 11
- **Tier I Merchant:** Eligible to pay lower interchange



# The Home Depot's Payment Strategy

1. Deliver Tangible Value For a Competitive Advantage
2. Ensure Transactions are Easy for Customers
3. Minimize Tender Costs
4. Prioritize Security



BUY TODAY, MORE TIME TO PAY.  
EVERYDAY AT THE HOME DEPOT.

TARJETAS DE CRÉDITO DISPONIBLES EN ESPAÑOL

**NO PAYMENTS, NO INTEREST**  
100%/100pt. **IF PAID IN FULL WITHIN 6 MONTHS\***

66%/66pt.  
ON ALL PURCHASES THAT TOTAL \$299 OR MORE

45%/45pt. ON THE HOME DEPOT CONSUMER CREDIT CARD

30%/30pt.

More saving. More doing.™

FINANCE CHARGES accrue from the date of purchase at the regular purchase rate in effect from time to time and all accrued FINANCE CHARGES will be added to your Account for the entire promotional period if qualifying purchases (including premiums for optional credit insurance) are not paid in full before the end of the promotional period or if you fail to make any required payment on your Account when due or make a payment to us that is not honored. See below for more details.  
\*With credit approval for qualifying purchases made on The Home Depot or FPG Design Center Consumer Credit Card. Rates as low as 17.99% APR. Actual rates from 17.99% - 29.99% APR. Fewer than half of applicants will qualify for a rate of less than 29.99% APR. (Default APR 29.99% (rates may vary). Minimum FINANCE CHARGE: \$2. See card agreement for details including when the default rate applies. Offer is only valid for consumer accounts and is subject to change without notice.



# The Dilemma

Despite the fact that THD is a Tier 1 merchant, AND

in light of a significant shift in mix to debit cards

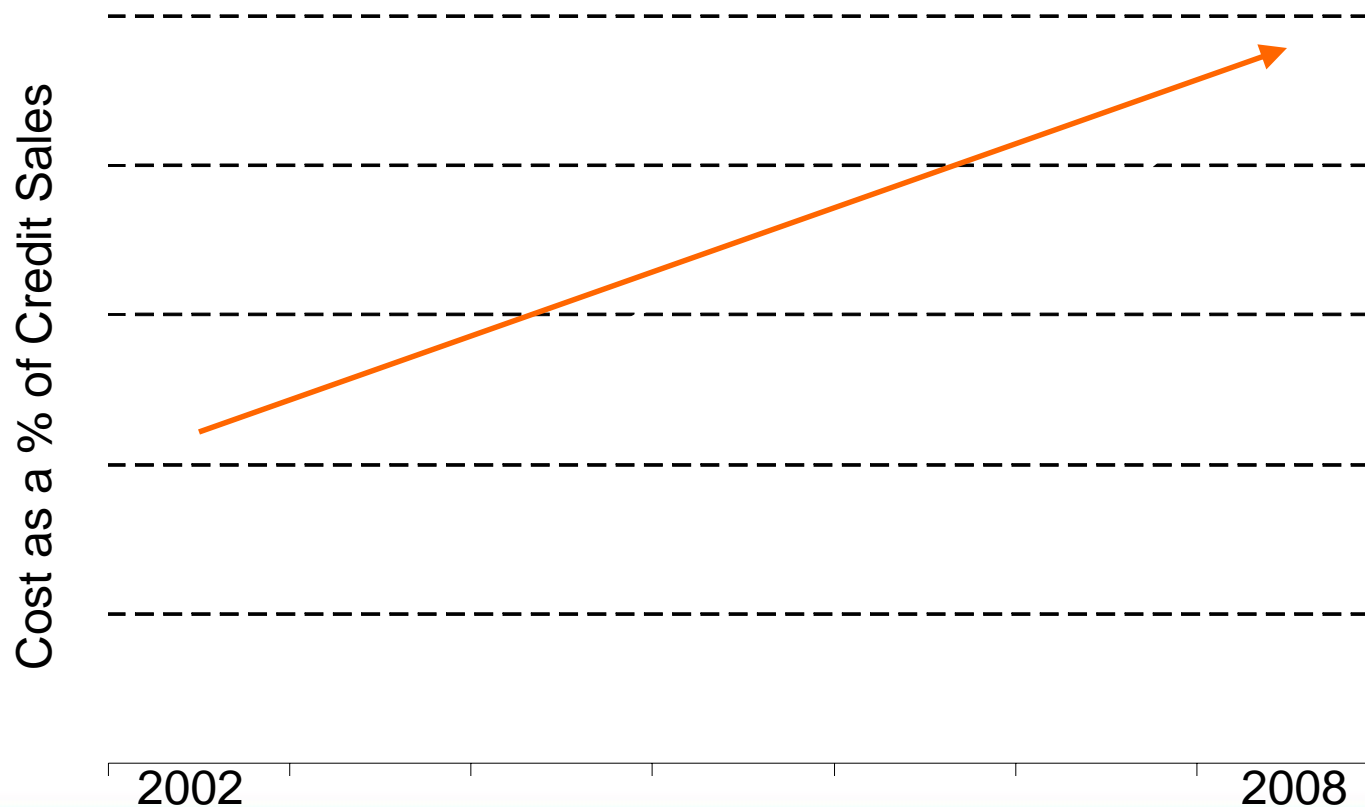
our bank card interchange fees have been

**CONSISTENTLY INCREASING** year-after-year



# THD's Bank Card Costs Are Increasing

- Despite our size & scale AND the shift away from credit, our cost of acceptance is increasing due to:
  - New, higher-cost buckets
  - Increasing costs of debit
  - Introduction of new Association Fees
  - Increased chargeback rates



# ...Despite Fees Falling Dramatically Globally

COUNTRY	WAS	IS	SITUATION
Norway	0 bps	0 bps	“The general position of authorities regarding the introduction of new payment systems in Norway has been that payers should cover costs.” ( <i>Federal Reserve Bank of Kansas City, April 2008</i> )
Australia	178 bps	45 bps	In 2003, after research by the Australian Competition & Consumer Commission, the Reserve Bank of Australia capped interchange fees at 45 bps
European Union	170 to 200 bps	30 to 50 bps	In April 2009, as part of a larger action, the European Commission forced Visa / MC to lower interchange fees to 30 – 50 bps
Canada	200 bps	?	Following a landmark decision in the mid 1990s where they used a consent order to set Interac PIN-debit interchange fees to zero, the Canadian Competition Bureau has now scheduled formal hearings to discuss the legality of Interchange. Hearings expected in mid-2009
U.S.A.	200 bps	?	“The U.S. payment card industry is mature and has reached its critical mass.” ( <i>Kansas City Federal Reserve Board, 2009</i> ) Acceptance is no longer an issue

Sources: *Federal Reserve Bank of Kansas City 2008, 2009; Transaction Resources Study,*

The time is right for a shift in the U.S.



# Are Retailers Paying Their Fair Share?

- Value is created when \$1 investment yields \$1+ return
- Since 2002, The Home Depot has seen costs associated with credit & debit card acceptance growing faster than incremental sales on those tenders
- As more sales go on bankcard, our marginal operating costs increase
- The Home Depot has not seen value created by these new, higher fees

## Change in Gross Dollars: 2002 - 2008

	Cost of Acceptance	Sales	Value Siphoned by Payment Networks
<b>TOTAL</b>	<b>+ ~16%</b>	<b>+ ~10%</b>	<b>(~6%)</b>

Sources: The Home Depot Analysis




**The Issuing Banks & Associations are not delivering proportionate value to the merchants—they are siphoning value away that retailers could use to:**

- Lower prices
- Hire more employees
- Make Investments

**Retailers are paying increasingly MORE than their fair share year-after-year**



# The Home Depot Private Label Card

Product Suite		Value Proposition
<b>Consumer Private Label</b> 	Consumer Revolving Credit	<ul style="list-style-type: none"> <li>Everyday Offer of No Payment No Interest for Purchases &gt;\$299</li> <li>6 Months Everyday</li> <li>Frequent extended promotional opportunities</li> </ul>
<b>CRC</b> 	Commercial Revolving Credit	<ul style="list-style-type: none"> <li>PO/Job Name Tracking</li> <li>SKU Level Detail on Statements</li> <li>Account On-line</li> <li>PO/Job Name Tracking</li> </ul>
<b>PROX</b> 	Commercial "Pay in Full" Credit	

- One of the largest private label programs in the retail space
- Over 25% of THD Sales
- Has generated significant traction in The Home Depot stores:
  - Our products deliver real value to our customers – a perfect fit for big ticket purchases
  - Deferred financing especially helps customers in times of emergency repair
  - We provide clear & transparent terms for our customers to ensure there are no surprises throughout the process

- |   |        |                                 |
|---|--------|---------------------------------|
| ✓ <b>Delivers Value</b> – <u>everyday</u> value proposition | —————> | Increased Marketing Support     |
| ✓ <b>Minimizes Cost</b> – lowest cost credit tender         | —————> | Renegotiated contract with Citi |
| ✓ <b>Provides Security</b> – adheres to PCI standards       | —————> | Moving to Paperless App.        |
| ✓ <b>Simplifies Transactions</b> – automatic promotions     | —————> | Implemented "Ask / Thank"       |

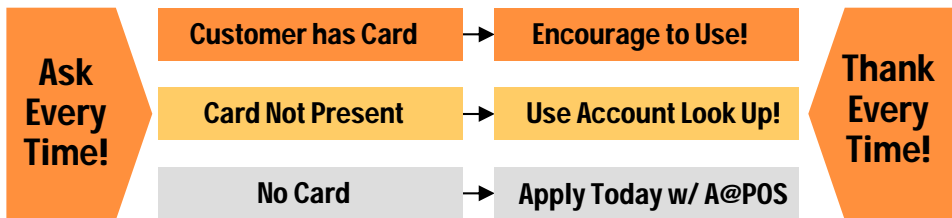
**A Tremendously Successful Tender Delivering True Value**





# Ask Every Time, Thank Every Time

In order to drive sales to our lowest priced credit tender we have ensured that we have the technology in place to promote Private Label sales, both on New and Existing Accounts



- The store with greatest Acquisition at POS usage has Private Label sales penetration that is **220bps higher** than their Region & District
- 3 of the top 5 stores utilizing Acquisition at POS have Private Label sales penetration that is **>150bps higher** than their Region

## Acquisition at POS Overview

- Allows the Cashier to offer credit at POS without disrupting normal checkout process
- Allows cashiers to feel confident asking EVERY customer if they would like to place their purchase on Home Depot credit
- Entire process takes ~ 90 seconds

Cashier asks Customer if they would like to open THD Credit Account

Cashier enters DL  
Customer enters:  
SSN, DOB, Zip Code, House #, Telephone #

Customer signs Sig Cap Pad & uses new card to complete purchase

**Increasing penetration on private label lowers overall tender cost**



# The Real Issue

The debate is not about retailers paying their FAIR SHARE,

it is about TRANSPARENCY and

if consumers are receiving their FAIR VALUE

