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
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

![Graph showing increasing cost as a % of credit sales from 2002 to 2008.](image)
...Despite Fees Falling Dramatically Globally

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>WAS</th>
<th>IS</th>
<th>SITUATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>0 bps</td>
<td>0 bps</td>
<td>“The general position of authorities regarding the introduction of new payment systems in Norway has been that payers should cover costs.” (Federal Reserve Bank of Kansas City, April 2008)</td>
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<tr>
<td>Australia</td>
<td>178 bps</td>
<td>45 bps</td>
<td>In 2003, after research by the Australian Competition &amp; Consumer Commission, the Reserve Bank of Australia capped interchange fees at 45 bps</td>
</tr>
<tr>
<td>European Union</td>
<td>170 to 200 bps</td>
<td>30 to 50 bps</td>
<td>In April 2009, as part of a larger action, the European Commission forced Visa / MC to lower interchange fees to 30 – 50 bps</td>
</tr>
<tr>
<td>Canada</td>
<td>200 bps</td>
<td>?</td>
<td>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</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>200 bps</td>
<td>?</td>
<td>“The U.S. payment card industry is mature and has reached its critical mass.” (Kansas City Federal Reserve Board, 2009) Acceptance is no longer an issue</td>
</tr>
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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

<table>
<thead>
<tr>
<th></th>
<th>Cost of Acceptance</th>
<th>Sales</th>
<th>Value Siphoned by Payment Networks</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>+ ~16%</td>
<td>+ ~10%</td>
<td>(~6%)</td>
</tr>
</tbody>
</table>

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

Sources: The Home Depot Analysis

Retailers are paying increasingly MORE than their fair share year-after-year.
The Home Depot Private Label Card

<table>
<thead>
<tr>
<th>Product Suite</th>
<th>Value Proposition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Private Label</td>
<td>- Everyday Offer of No Payment No Interest for Purchases &gt;$299</td>
</tr>
<tr>
<td></td>
<td>- 6 Months Everyday</td>
</tr>
<tr>
<td></td>
<td>- Frequent extended promotional opportunities</td>
</tr>
<tr>
<td>CRC</td>
<td>- PO/Job Name Tracking</td>
</tr>
<tr>
<td></td>
<td>- SKU Level Detail on Statements</td>
</tr>
<tr>
<td>PROX</td>
<td>- Account On-line</td>
</tr>
<tr>
<td></td>
<td>- PO/Job Name Tracking</td>
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</table>

- 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

✅ Deliver Value – everyday value proposition → Increased Marketing Support
✅ Minimizes Cost – lowest cost credit tender → Renegotiated contract with Citi
✅ Provides Security – adheres to PCI standards → Moving to Paperless App.
✅ Simplifies Transactions – 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

**Customer has Card**  ➔ **Encourage to Use!**  ➔ **Thank Every Time!**

**Card Not Present**  ➔ **Use Account Look Up!**  ➔ **Thank Every Time!**

**No Card**  ➔ **Apply Today w/ A@POS**

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 debate is not about *retailers* paying their FAIR SHARE,

it is about TRANSPARENCY and

if *consumers* are receiving their FAIR VALUE