Best Buy: Reconquering the electronics market?

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ABSTRACT

This case summarizes some of electronics retail giant Best Buy's early history, accolades and subsequent downturn. Best Buy's decline in revenues, profits and stock price began in 2008 as a consequence of a combination of factors. Chief among these causes are the general economic downturn and recession, a changing competitive landscape and management scandal and turmoil. In 2012 a new CEO, Hubert Joly, took the reins. Joly believed that an underlying phenomenon called "showrooming" was a major disruptive force that needed addressing, Showrooming occurs when consumer visit brick-and-mortar stores to physically evaluate merchandise but then purchase from the more price friendly online environment. Besides showrooming, Joly recognized the need to modernize operations and reduce costs. His answer was to create a five-point plan he called Renew Blue. The plan involves "reinvigorating the customer experience," attracting "transformational leaders," working closely with vendors, growing revenue while cutting costs and encouraging recycling while providing technology to teenagers. The case identifies the elements of Joly's plan and discusses some of the specific steps taken under the initiative. Early results suggest that Renew Blue is winning back consumers although it is too early to know the degree of success that might be achieved, The case concludes with some discussion question ideas.

Keywords: Retal, Best Buy, strategy, marketing, showrooming

INTRODUCTION

During the Memorial Day, 2013 holiday Richard Schulze had good reason to relax. “In fact, he has a billion reasons. That is roughly the paper gain in dollars the founder of Best Buy Co. has reaped this year as shares of the company he used to run soared 126%” (Jakab, 2013). By the end of 2012, share value had “sunk to an 85% discount” of the multiple retail sector (Jakab, 2013). In fact, Mr. Schulze went from considering a leveraged buyout to being Hubert Joly, the new chief executive’s, biggest cheerleader. Joly’s "Renew Blue" initiative looked like it just might turn the giant retail ship around after all. Bogenrief (2013) suggest the reason is that “Instead of blindly rebranding and attacking an e-channel strategy, Joly’s worked to shift the once-failing retailer’s strategy and business model to leverage previously-perceived weaknesses (such as physical locations and a poor web presence) to adapt to today’s shifting marketplace.”

BACKGROUND

Best Buy has seen turbulent times. A publicly traded retailer, Best Buy was founded in 1966 by Richard M. Schulze and Gary Smoliak in West St. Paul, MN as an audio specialty store. Now headquartered in Richfield, MN, Best Buy has since morphed into a worldwide consumer electronics retailer with current operations in China, Canada and Mexico. Success of the chain lead to several accolades, including a 2001 Discount Store News designation as "Specialty Retailer of the Decade" (Discount Store News, 2001), "Company of the Year" by Forbes magazine in 2004 (Tatge, 2004), ranked in the Top 10 of "America's Most Generous Corporations" by Forbes in 2005 (Moyer, 2005) and included in Fortune magazine's 2006 List of Most Admired Companies (Staff, 2006). In mid-2006 Best Buy was sizzling. Shares “traded at a 15% premium to the retail sector on a multiple of debt-adjusted market value to sales” (Jakab, 2013). .

On March 9, 2009, Best Buy’s rival Circuit City went out of business., leaving Best Buy with the largest share of electronics retail industry (including both online and brick and mortar) (Vomhof, 2009). The disappearance of Circuit City meant almost 10% of the retail electronics market was available; Best Buy captured most of it with Wal-Mart a close second. Best Buy then faced two major remaining competitors: Fry's Electronics in the western United States and HHGregg in the eastern United States. However, a more ubiquitous competitor was now on the scene as well. Amazon, the online retailer, was rapidly expanding the assortment of goods that could be acquired either directly from Amazon or an increasing number of affiliated sellers.

The recession that began in 2008 sparked an erosion of sales and profit that was exacerbated by the inroads Amazon was making in the electronics market. Best Buy’s financial picture continued eroding. During the quarter ending on February 26, 2011, the company reported a decline in revenue ($16.26 billion) and profits ($651 million). Profit was down 16.4% over the comparable quarter in 2010 (Reisinger, 2011; Arora, 2012). With revenue and profits continuing their decline, in 2012 Best Buy announced it would engage in a transformation process. Store redesign began. The Geek Squad, a 24-hour computer-support technical service acquired in 2002, was given a centralized service desk rather than having technicians spread throughout the stores. A "store-within-a-store" concept for Pacific Kitchen & Bath and Magnolia Design Center was implemented (Seitz, 2012) This transformation continues and in April, 2013, Best Buy Samsung began offering mini-stores within Best Buys. Early June, 2013 saw the announcement that Microsoft will follow suit; currently there about 200 such stores with another 500 planned (Whitney, 2013).

In addition to store modifications, the company began cost reduction practices. It closed stores, beginning with fifty US stores in 2012. The retailer also planned to cut 2,400 store and Geek Squad jobs, beginning in July of that year. In May, 2013 Best Buy announced it plan to sell its share in Britain's Carphone Warehouse. It has mostly moved out of China.

Paralleling the decline in Best Buy's fortunes was management turmoil. In 2002, Brad Anderson had taken over from founder Schulze as Best Buy's chief executive officer. Anderson, in turn, was replaced by Brian J. Dunn. However, an investigation into possible personal misconduct led Dunn, on April 10, 2012, to resign as the company's CEO (Minneapolis/St. Paul Business Journal, 2012). In May, 2012 Schulze, serving as Chairman of the Board, resigned his position after it became apparent that he failed to inform the company's audit committee of Dunn's misdeeds. A company director. G. Mike Mikan, was named the company's interim CEO (Best Buy, 2012). On August 20, 2012, Hubert Joly was identified as the full time CEO replacing Mikan effective September 2012 (Das and Terlep, 2012) Mr. Schulze rejoined the company in March, 2013 as "chairman emeritus."

Soon after Joly took the reins, it was apparent that store modifications and cost savings were going to be insufficient to turn the giant retailer around. Joly zeroed on an emerging problem that he believed was undermining the company's efforts to regain lost revenue and profits and restore stock value. Called "showrooming," the issue identified by Joly was that customers would visit a Best Buy store to examine merchandise and make a purchase selection. Rather than consummating the purchase at Best Buy, however, customers would often choose to buy the merchandise at a lower price online. Their vendor choice seemed increasingly to be Amazon. Not everyone, however, believes that showrooming is actually an issue. Tuttle (2013) argues that "One-quarter of shoppers who showroom—just 6% of shoppers overall—are likely to do what we think of as pure showrooming, in which they check out an item in person in a store before purchasing it from a competitor such as Amazon."

CORPORATE INITIATIVE

Joly named his revitalization plan "Renew Blue." As reported in the Minneapolis/St. Paul Business Journal (2012), there are five key elements to the plan.

1. "Reinvigorate" customers' in-store experience. "Best Buy's plans include offering customers unique benefits and exclusive membership programs, and continuing to develop a leading edge, multi-channel shopping experience through a highly relevant and contemporized hub-and-spoke network."
2. "Attract and grow 'transformational leaders' and energize employees to deliver 'extraordinary results'."
3. "Work with vendors to innovate and 'drive value.'"
4. "Increase the company's return on invested capital by growing revenue and efficiency. This includes cutting 'unproductive' costs, such as administrative and non-product expenses."
5. "Making the world a better place through recycling effort and providing teenagers with access to technology."

SOME STEPS TAKEN

Best Buy has engaged in pursuing these initiatives. Some examples include:

1. To reinvigorate the customer experience, one action taken is to ship merchandise from stores directly to online consumers. This not only reduces the risk of consumers not finding merchandise in-stock, it also allows stores to sell returned goods and to increase inventory turnover (Bogenrief , 2013; Matthews, 2013). The retailer has also introduced check-in apps for customers who enter the store (Lacoma, 2013).

2. One effort to attract transformational leaders resulted in the hiring of Christopher Askew to head Best Buy's services unit which includes the Geek Squad. Askew's experiences with technology companies such as NCR, Levono and Dell is expected to help him make the Geek Squad more profitable and push the service into the business market (Lee, 2013a).

3. Working with vendors has spawned several initiatives. One is the store-within-a-store efforts now underway with Samsung, Microsoft and others. There is speculation that Best Buy will do the same in a collaboration with Dr. Dre's brand of headphones (Hammerand, 2013)).

4. Increasing returns and cutting expenses has been partially done by reducing Best Buy store space and renting the store-within-a-store space. It has also closed/abandoned oversized stores (Bogenrief, 2013). In addition the retail giant is trimming staff to help curb costs (Seeking Alpha, 2013).

5. Recycling efforts are underway. For instance, in 2013 Best Buy Canada collected 37,000 pounds of electronics from consumers at stores in just four cities. Best Buy offered recyclers a chance to win a $500 Best Buy gift card (Environmental Leader). Attempts to provide teenagers access to technology include of technology promotions (Riley-Adams, 2013) and music (Lee, 2013b).

DISCUSSION QUESTIONS

1. Discuss Best Buy's progress and success in implementing Joly's "Renew Blue" initiative. (NOTE: the "Some Steps Taken" discussion could be removed and students asked to find examples.)
2. What additional steps would you suggest that Best Buy undertake?
3. Compare and contrast Best Buy's initiates/success with that of J.C. Penney.

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