Memorandum

Introduction

During the last couple of years, the coverage of Best Buy in the news has in general been consistently negative. In order to prove this statement, it should be stated that the company's earnings per share (EPS) have decreased by more than 200% in 2012. These consequences became the result of the various problems, such as governance, a change on the market landscape (online purchasing, online gaming, music streaming, etc.), and of course not forgetting a significant leadership shift during crisis. This analysis presents the strategies aimed at solving current problems by means of preparing a strategic "road map" to the business process continuity, financial stability, and growth. The conclusion provides the company with suggestions and new strategic moves, such as to grow its online business, so as to be able to compete with others in the flow of today's trends by using Geek-Squad's expertise, and to start-up an internal recovery strategy with the development of an upgraded compelling mission and vision. It is also recommended to explore the possibility of creating alliances or partnerships with the competitors in order to leverage opportunities offered by the emerging markets.

Internal and External environmental status

BB, founded in 1966, is a company dealing with retail consumer electronics sales that owns 1150 big box and more than 100 express stores worldwide. It owns such brands as Cinema Now, Geek Squad, Magnolia Audio Video, Mind Shift, and Pacific Sales.

Among Best Buy's competitors the most prominent are Amazon, Wal-Mart, Radio Shack, and we are not mentioning all other world's online retailers. At the time of constructing this paper, BB sales are around 50 billion dollars; however, its growth is rapidly declining from an average CAGR (Compound Annual Growth Rate) of 7%. In 2012, Best Buy has cancelled its UK division, replaced both the founder and the chairman of the board, shut down a huge amount of stores, reorganized management, and is now trying to handle the governance issues that it is facing.

Best Buy value proposition in a state of flux

Currently, Best Buy is trying to handle the situation and is making the decisions that will have a certain effect on its future existence. As an example, in October 2012, a press release was issued by the BB's management to announce the changes in the organization's stream by refocusing on "online retailing, connectivity, and customer service". The Vice President of operations together with his senior staff were fired. The CFO together with the CTO and the founder of Geek Squad have also made the decision to leave. The whole direction and BB's value stream are in a deep state of flux.

SWOT

Let us now take a look and analyze the strengths, weaknesses, opportunities, and threats to the company. This is the so-called SWOT analysis. SWOT analysis is the process of establishing the links between the most characteristic strengths, weaknesses, opportunities, and threats of the enterprise. The results of this analysis can be used later for the selection of the future company development strategy.
So, below you will find the SWOT:

Strengths

- Size of the company and availability of the extensive distribution network – the company outlets are present in numerous cities of the United States. It maintains a strong network, which helps it to maintain the economies of scale and to enhance the brand image. This strong networking enables the company to serve a wide range of customers in order to penetrate the market in a more effective way;
- Geek Squad competency in the technology services – in FY03 Best Buy Co Inc. acquired Geek Squad, Inc. in an effort to offer more support services to its customers. Geek Squad service is now available in all US branded Best Buy stores. It represents customer centricity, through an end-to-end model;
- Renowned brand – largest consumer electronics retailer/ Reputable Brand Name;
- Strong visible performance in the past - Best Buy Co, Inc. is the largest consumer electronics retailers in the US holding 20% market share in 2011, and is ranked no. 5 on Interbrands Best Retail Brands 2012;
- Internet presence together with online infrastructure – sales available to be done online with a choice of either home delivery or picking up at the nearest store.

Weaknesses

- Huge governance problems – amongst others is the deterioration of strong ethical culture touted by the company;
- Crisis leadership turnover – top leadership turnover at the crucial time (need for increase in connectivity strategy);
- Debilitative financial situation –
    - 28.7% decrease in net income ('08 – '09);
    - Increase in the long-term debt due to multiple acquisitions;

• Decrease in the available cash due to the rising inventories and accounts receivable;

• Increased costs associated with the Customer-Centric operating model – training of employees.

- Overabundance of brands – though owing many brands Best Buy has no strategy for cloud computing, Software as a Service (SaaS), Platform as a Service (PaaS). Which means that they are not receiving much attention due to the fact that other brands are promoted more;
- Faulty inventory management – meaning the presence of poor inventory management systems and poor inventory communications with customers;
- Dependence on few suppliers;

• 5 suppliers represent one third of all purchases; Sony, HP, Samsung, Apple, Toshiba.

Opportunities

- Emergence of new global markets - Growing global demand for consumer electronics:

• China 22%;

• Middle East 20%;

• Russia 20%;

• South America 17%;

- Quick ageing of mobile technology - Rapid obsolescence of technology and increased needs to upgrade. Gadgets as a status symbol;
- Online purchasing is gaining more popularity;
- Need for IT outsourcing - further expansion of chain through “mobile stores”;

Threats

- Rise of many competitors - loss of market share and loss of revenue;
  - Unspecialized discount retailers i.e.; Wal-Mart, Target and Costco + Others such as Sears;
  - Online retailers (i.e. Dell, Amazon, eBay);
  - Entertainment software stores i.e.; GameStop. Office supply stores i.e.; Staples, OfficeMax, and Office Depot;
  - Home improvement retailers i.e.; Home Depot and Lowe's. Small retailers with little overhead (including internet vendors);

- Legislation restoring internet taxes; thus, forcing online retailers to establish brick and mortar stores (case of Amazon now);
- Cyber-crime, cyber war attack on internet infrastructure and other business discontinuity events (Natural or man-made disasters);
- Unemployment and recession might have impact on income – this concerns shifting IT market to cloud computing, SaaS and PaaS architecture (What to do with geek squad who is geared to desktops rather than cloud? misalignment, desktop sales & service).

Best Buy Value Streams and the competitive advantage. Possible BB options

Currently, BB is making the best bet by focusing on the cost leadership as on an additional competitive advantage. BB's problem is that today customers frequently use the store in order to browse the goods, to feel products, and to get answers to the questions they might have. After this they make an online purchase for a lower charge from Amazon or some other web sites.

We should state that this “Showrooming” behavior is significantly increasing BB’s costs, which, of course, do not transform into lower customer prices. BB is having an advantage in using “focused differentiation” of the Geek Squad expertise and knowledge, which of course is hard for Amazon, and any other online competitor for that matter, to follow, due to the personal attention it requires. A whole army of technicians, who visit customers’ homes for installing and servicing purchased goods on a daily basis, is available to the Geek Squad. Of course, attention is given to the fact that the technicians provide lessons to the customers without sales pressure. Another advantage is that BB provides zero financing for 1-2 years to the preferred consumers (the most frequent and large item purchasers). Customer’s prices are reduced due to this, and the cost of customer acquisition also decreases through retention and repetitive purchases. Therefore, we are of the assumption that Best Buy is using a mix of focused differentiation and focused cost leadership. This competitive advantage may not last, as the new competitors edge into this business segment with their regulations addressed at the business of credit financing. We are particularly looking at Wal-Mart.

Another problem is that the sales associates, who get into direct customer contact, have no power to deal with customer issues. Before the initial customer contact is made, 3 to 5 minutes pass (this is surprising, as in the older stores, the initial contact was greeter and more sincere, happening within 15 seconds of the client entering the store). The company must again realize that they are in the middle of consumer electronics vector change, and are posed before a paradigm shift that is stimulated by the changes to cloud computing, online purchasing, online gaming, music and video streaming, etc. Thus, the company is slowly reacting and morphing. It is for these reasons that we believe BB has the priority on Operational Excellence first and only then on Customer Intimacy.

The possible options for BB to resolve the situation we see in the following:

Growth Strategy

The new growth strategy should be planned together with a new pricing structure that prevents "showrooming." Best Buy is a renowned brand and this should be used for expanding the online market share. In addition, BB should take advantage of connectivity principle and the company's infrastructure, not forgetting the free computational cycles. Then it could implement a new platform of software-as-a-service together with concentric growth. Remember, in 2011, Best Buy purchased Mind Shift Technologies, which is a company dealing with the managed services and iCloud services for business owners and customers. In a combination with the technology expertise of the Geek Squad, BB can have an advantage in leveraging these factors to provide various offerings for the traditional brick and mortar consumer electronics stores. In an effort to be perceived as "cutting edge," the organization should target high visibility early adopters on the social media platforms. Best Buy must continue being on the front lines for social and mobile consumers. We also recommend that the company develops an aggressive international growth plan in the markets with rising discretionary incomes and laws mandating shifts to the high definition frequencies.

Internal Fix-It Strategy

The following has to be reviewed by BB: spending on connectivity, services, online, retail, and home. Moreover, it has to focus more on the increasing power of their suppliers, e.g. Apple, Dell, HP, etc. The corporation must revive the widespread training on the new technologies and carry out an internal audit of Big Data and Analytics initiatives usage, so as to make thoughtful strategic decisions. It is simply vital that BB takes into consideration the insight of its own consumers, as well as market intelligence, to be up-to-date with the changing trends. The organization should have the new, vivid, compelling mission and vision that would excite, energize, and engage the employees. In addition to the store shut down, BB should review the use of the in-store space and the company's pricing strategies.

External Fix-It strategy

Together with the internal strategy, BB needs to rethink its external strategy for the emerging markets and to make plans to integrate cultural and economic factors through development of the specific strategies to enter the new markets. This should be done by improving the diversification strategy present in the company and, of course, by understanding the ways retail and mobile technologies of other cultures are different from those of North Americans. The problems BB may face can also be those like state-owned or state-supported monopolies in mobile technologies (most obvious example). Taking this into consideration, coming into the market, BB should think and explore the possibility of cooperation with the state capitalism. In an effort to be looked upon as a “progressive” company, BB should seek exposure in the state news coverage; become a captive of the social media community of people in public relations, advertising, journalism, music, and film industries. Those, who can promote the BB brand, and therefore create opportunities to expand the enterprise’s presence in the market, should be included. This will make BB different from Wal-Mart, Apple, Amazon, and others.

Growth and Development Recommendations and their Implementation

In order for Best Buy to revive themselves and to change the situation at hand, we suggest the following two strategies to be implemented:

Survival strategy

To continue growing and getting the desired revenue, BB must take the following steps of the survival strategy presented below:

- BB should consider a merger with competitor, specifically, Amazon, and work together, so as to explore the new ideas and closer cooperate with suppliers of both parties;
- Shut down the least profitable stores and invest the resources in further R&D. This will of course lead to cutting down on staff and maintenance expenditures, as well as the sale of these stores. The money saved can be used for further R&D of the market, goods, and development of the company’s image;
- Re-evaluate the use of the in-store square footage – the design and layout of the store will be a description of the Best Buy Brand. As this brand is in need of growth, the renovated design of the store will still be a very effective marketing tool that Best Buy will use;

- Assess and evaluate internal spending – BB has to cut down on the low priority expenditures and concentrate on the main issues at hand. This will of course influence the revenue figures, if not at once, than in the long run;
- Review pricing strategy – many competitors are having lower prices, and BB is used as a "Show room". This has to stop. The reviewing of the pricing strategy will help to level out the prices with the competitors. In such a case people for a reasonable price will prefer to buy something they can touch and feel right there, right now, and not wait a few days of the delivery time.

Strategic Growth Plan

BB has always been in the front lines of the consumer electronics market. Recently, its largest competitor, Circuit City, has gone bankrupt. First of all, BB will have to leverage the new issues of mobile shopping and cloud computing. The effective implementation of these strategies should be able to help to stimulate Best Buy to retain the leading positions in the consumer electronics industry. However, the future of the company remains unclear. We do, however, suggest using a directional strategy that is a mix of stabilization, retrenchment, but mainly growth.

The following Strategic Growth Plan is to be followed to achieve results:

- Leverage BB's existing resources, so that BB would be able to pursue opportunities in cloud computing, virtual sales, and affiliate marketing. BB's presence in the internet sphere is quite strong. It has an extensive cyber infrastructure and brand image. So, the company is able to use its existing infrastructure, networking, and computer time with the help of the Geek Squad to provide service for the small to medium businesses (SMB): selling goods and services online all the way around the globe.

- The target market includes IT companies, game developers, and music and movie producers;
- BB will become a virtual processor, a company in the role of a technology provider;
- We also suggest using a revenue sharing model, that, in addition to charging for a daily, weekly, monthly subscription for using the big data analytics of BB's and hosting the online store for third party vendors.

Summary

Best Buy Co., Inc has been a leading player in the Electronics & Appliances retailing industry for several years now. It has withstood several cycles of churn in the industry, has seen many of its competitors go bust, has faced near bankruptcy on more than one occasion, even has had some "near death" experiences, only to emerge as an electronic retailer of choice for millions of shoppers in the US and other parts of the world. However, that is the past. With the present way of things in organization, operation, functioning, and governing, there will be no future for Best Buy Co., Inc. A decision on the future development strategy should be made as soon as possible. Otherwise, the company might face irreversible consequences that will have a negative impact on the company's image, operations, and existence. This case study clearly shows options available, as well as the suggestions in terms of the strategy. The question is if the company's management wants to fulfill anything suggested.

Reference List

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