

Best buy case analysis

[Sociology](#), [Shopping](#)



Case Analysis Current Situation “ Our formula is simple: we’re a growth company focused on better solving the unmet needs of our customers—and we rely on our employees to solve those puzzles. Thanks for stopping. ”

Richard Schulze started Best Buy and grew it to a million dollar company within four years. The future CEO of Best Buy learned that diversification in the stores’ offerings and serving various target segments led to increased market share.

After going public in 1985, Best Buy changed from commissioned and specialized customer assistants to a non-exempt, hourly paid sale associates to ensure that customers’ needs are the employees’ top priority. In 1999, Best Buy successfully launched its online store. Through acquisitions of Napster, electronic sellers, and home appliances suppliers, Best Buy was able to grow and gain the resources necessary for its international expansion. By using backwards vertical integration, Best Buy was able to broaden their scope and have bigger economies of scale, achieving savings that were passed along to our customers.

Related diversification has also allowed Best Buy to maintain revenues, even through the recent economic recession. Best Buy’s primary industries are Radio, Television, and Other Electronics Stores (NAICS 443112), Electrical and Electronic Appliance, Television, and Radio Set Merchant Wholesalers (NAICS 423620), Computer and Computer Peripheral Equipment and Software Merchant Wholesalers (NAICS 423430) and Household Appliance Stores (NAICS 443111). Price per share as of February 19, 2013 is \$17.33.

In September 2011, Best Buy was named to the 2011 Dow Jones Sustainability index for corporate citizenship and philanthropy, social
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reporting, stakeholder engagement and operational eco-efficiency. Currently, Best Buy's greatest struggle is facing new industry competitors. The company is losing market share to online retailers, such as Amazon, and to its primary suppliers, including Apple, HP, and Dell. Best Buy's suppliers have taken an approach to reduce the intermediaries between company and its customers, strategies that have left Best Buy out of the loop.

In order to stay ahead of competitors (in terms of market share and sales) Best Buy has implemented a permanent price matching policy that was launched during the 2012 holiday season. This tactical move will help Best Buy retain its existing market share, but maintaining costs low enough to support this pricing strategy might be difficult for the showroom giant. In regards to diversification, Best Buy has enlarged its scope from home and car stereos, to nearly all electronic appliances and to multimedia offerings such as DVD's, CD's, videogames, etc.

Best Buy has also continued customer relationship managements by implementing after-purchase support and diversifying its offerings by acquiring Geek Squad, Best Buy's task force that provides technical support and installation of various software programs for recently purchased electronics. General Environmental Analysis The general environmental analysis emphasizes the trends that occur in the technology, demographics, economics, political/legal, sociocultural, physical and global segments of the environment.

The goal of this analysis is to help find which of these segments will have the most impact on Best Buy over the next few years. Based on research and data we believe the segments that will be the most relevant to Best Buy are

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the demographic, technology, sociocultural, and global segments. Demographically, the United States population is getting larger, older, and more ethnically diverse. There are approximately 315, 398, 676 people in the United States, making it the third largest country in the world. The United States has grown by 103% since 1950 and is estimated to have a population around 440 million by 2050.

An influencing factor in the population increase is that Americans are living longer. Due to advances in healthcare, people are living and contributing to society longer. Baby boomers, the biggest segment the U. S. population, are now becoming senior citizens and have caused the 65+ population age to shift from 8. 1% in the 1950 to over 12. 4% today. The United States continues to move up the list as one of the most racially and ethnically diverse countries in the world. The prevailing trend is the significant increase in the Hispanic population, stronger in the next few years.

This growth is caused by immigration; more Hispanics are coming to the United States seeking refuge, jobs, or a better life for their family. As the population continues to change, Best Buy must find ways to cater to all generations, and avoid dependency on demographics and traditional marketing. They must target specific market segments and foresee the needs and wants of different generations through relevant and integrated marketing promotions. Specific targeting of customers will help Best Buy retain customers and create company loyalty. Technology is another segment that will have a major impact on Best Buy in the near future.

Predictive analysis, social media, and multichannel retailing are trends that are most important in Best Buy's general environment. Knowing your
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customers is a critical part to any industry, and predictive analysis is becoming one of the best ways to accomplish that objective. By correctly using technology to control the high volume and availability of data, companies can understand customers' wants. A core competency of both Amazon and Netflix predictive analysis; based on previous purchases or views Amazon and Netflix can recommend items that the customers may be interested in, and the customer can give feedback about those recommendations.

Predictive analysis is becoming more prevalent online, and to stay competitive, pure brick-and-mortar companies must follow suit. Best Buy uses predictive analysis through reward programs and by analyzing consumer purchases. The company then sends coupons or information about promotions that may meet a customer's profile. A simple example could be a person buys a DVD player and predictive analysis could be used to send that customer offer or promotions on DVD's. Social media continues to be a growing trend in today's business. Customers are now turning to social media to get information about companies and their products.

According to research 70% of consumer use social media to hear about other consumers experiences, 65% use it to find information on brands, products, and services, 50% share concerns, 53% compliment brands, and 47% share money incentives. A person's influence in social media circles can determine the extent of the benefit or harm to a company's reputation; this is especially true with celebrities and athletes with millions of followers. Best Buy can take advantage of these statistics to improve their strategic

competitiveness by targeting champions to test new products and promotions and diffuse the findings through social media.

The company can also use social media to show customers that they voicing their concerns matters, and solving customers' problems, which would lead to an increase in customer retention and brand loyalty. Multichannel retailing is also becoming one the more relevant trends in the general environment. Consumers today have more options of purchasing points than ever before. With the latest technology, consumers can order a shirt using their cell phone, computer, tablet, or the retail store. This trend mixes with sociocultural trends and offers consumers convenience and a better shopping experience.

This is relevant to Best Buy because it allows more ways to reach customers. Best Buy can send information to customers' mobile devices and take advantage of impulse buyers by offering a venue for them to buy directly, without having to go to store. Overall, Best buy has made efforts to improve a customer's experience through a variety of tactical decisions. Trends in the sociocultural segment are another area that will have an impact on Best Buy through its general environment. One of the biggest trends in this segment is convenience.

Location/ access, variety/availability, speed of service, price, and environment are all big factors when it comes to convenience and play a big part in consumer beliefs about the benefits of shopping at a specific store. Best Buy does its best to make stores convenient with a variety of displays, Geek Squad on hand, and a friendly environment. Best Buy has increased convenience by offering products online for customers who prefer to stay out

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of the brick-and-mortar store. Best Buy focuses on these efforts by offering free shipping and by developing the Best Buy Marketplace, which will increase the variety and brands accessible to consumers.

Another change in the attitude of consumers is the trend of aspirationalism. People today have a heightened sense of aspiration and have many goals they hope to accomplish. As a result consumers expect companies to meet all of their expectations as fast as possible. This need is fulfilled by speedy service and Best Buy's in-store Geek Squad is capable of meeting goals quickly and efficiently. To keep up with expectations and competition, Best Buy must provide the latest technology and equipment to customer whenever they need it.

Global trends that are sweeping the market are expansion into international areas and environmentally friendly (or “green”) initiatives. Many companies are looking to expand to overseas markets due to the potential growth in markets such as China, and India. In fact, according to Forbes.com, China is forecasted to have 10 to 16% share of world GDP growth from 2007 to 2014. Best Buy has made a strategic decision to invest in China with their growth initiative, where they hope to open approximately 50 stores and implement Best Buy Mobile store-within-a-store concept in 2013.

Environmentally friendly or “green” initiatives are an important trend to consumers and companies. Consumers are now more aware of their carbon footprints and against companies who fail to be eco-friendly. One thing that retailers like Best Buy are doing to be eco-friendly is reducing the size of packaging. Recyclable paper is now one of the main packaging ingredients for retailers like Best Buy. This is important because it will improve the

company's reputation and keep them in a positive light with consumers.

Industry Analysis

Best Buy is in the retailing Radio, Television, Consumer Electronics, and Music Stores industry (443112), which sell household appliances, home entertainment devices and electronic products. In this industry, these retailers typically sell new products from manufacturers and wholesalers and often offer repair services for their products. Best Buy their services are their Geek Squad division. Over the last five years, the industry revenue has dropped an average rate of 5.0% annually ending in 2012 at \$72.2b. This decrease is also expected to continue to decline another 2.8% (this year?).

But in the years leading up to 2017 the forecasts state that with the continually recovering economy revenue for this industry will also slowly crawl up at an average of 1.3% each year. In the Radio, Television, Consumer Electronics, and Music Stores industry, the threat of new entrants is low due to the fact that there are many barriers to entry. The biggest barrier is the large amount of competitors in this industry and similar industries. The leading competitors are online retailers like Amazon, discount stores like Wal-Mart, appliance retailers like Lowe's. With Best Buy holding 49.0% of the market share and RadioShack holding 4.8% it's hard for new entrants to play with organizations that have established brand recognition and the variety of products that these retailers have. Another barrier to entry is that it requires a lot of startup capital to purchase all of the merchandise that is needed to compete with Best Buy. The threat of substitute products is low because Best Buy has close relationships with manufacturers and

wholesalers of many prominent brands that will usually keep Best Buy ahead of the game by receiving the newest products from the hottest brands.

There is also not many substitute products that are available that the consumer would be interested in purchasing. The ability the consumer has to go anywhere from online, to discount stores, to other electronic retailers makes the bargaining power of the buyer to be extremely high. Customers are now able to find the best products at the best prices online or are able to do price matching. Bargaining power of suppliers is extremely high because Best Buy buys most of its merchandise from Sony, Samsung and LG, etc. This gives these organizations the upper hand and the ability to determine the price at which to sell its products to Best Buy.

Best Buy essentially is forced to pay any amount that these large organizations think is appropriate based on the demand of the products at any given time. The competition among retailers in the consumer electronic industry is high with Wal-Mart being the frontrunner in the competition. Wal-Mart's price matching strategy has led consumers to purchase electronics at Wal-Mart for lower prices. The mere size of stores like Wal-Mart and Costco has made competition fierce for Best Buy because it is nearly impossible for them to keep up the quantity of goods that are available at the super size discount stores.

Amazon is another extraordinary threat to Best Buy, as well as to the industry as a whole, because Amazon enables the consumer to view a larger range of products online at time that is convenient for them. Home improvement stores like Lowes and Home Depot have also drawn many customers to them with their elite selection of household appliances like <https://assignbuster.com/best-buy-case-analysis/>

dishwashers, stoves, and refrigerators. Internal analysis Best Buy's internal environment has certain qualities that have affected its primary goal of making a profit.

Best Buy's top management recently changed after its CEO Brian Dunn resigned in April 2012 after it was revealed that he had had an inappropriate relationship with a female employee. This was only a little over three short years after he came to the position in June 2009. Hubert Joly, a French businessman, took over the position of CEO on August 17, 2012. Richard Schulze, who created Best Buy and sat as chairman of the board of directors, also resigned in June 2012, and Hatim A. Tyabji was his replacement. Hubert Joly, as the new CEO, had many problems to solve when he came to the position.

The stock prices were down 50% at the time. Best Buy's financial struggles are reflected in the income statement from the 3rd quarter of 2012, which is the most recent financial information available. In this quarter, Best Buy had a net loss of \$13 million, showing a significant decrease from the 3rd quarter of 2011, in which there was a \$173 million net income. Top management attributes this sharp decline in income to a lower gross profit rate, higher sales, general, and administrative expenses, and lower revenues. The 3rd quarter of 2012 showed revenues in the United States of \$7. million, down 4.7% from the prior year period. Best Buy's fixed expenses are significantly higher than its competitors because of the costs of maintaining large superstores. These brick and mortar locations are one of Best Buy's most expensive resources, and the costs associated with them have become one of Best Buy's greatest weaknesses. With high costs, Best Buy has struggled

to compete with its competitors' prices, causing a decrease in revenue as well. Best Buy announced in 2012 that it planned to close 50 superstores and lay off hundreds of employees.

Best Buy's products include gadgets, movies, music, computers, mobile phones, and appliances. In order to create value that its competitors cannot easily provide, Best Buy also offers services that include installation, maintenance, technical support, and subscriptions for mobile phone and internet services. In 2002, Best Buy acquired Geek Squad, a well-known computer repair service. Now, when customers buy a computer from Best Buy, they have the option to also purchase coverage from Geek Squad at a relatively low price. Best Buy's customer service is continually improving as it is investing more in employee training and compensation.

The sales associates ask customers a series of questions to get to know their unique needs and are therefore able to find the product that best suits them. This superior customer service and technical support is a core competency of Best Buy because it provides extra value for the customer, it is rare that a company can provide the variety of products Best Buy offers as well as expertise to handle issues with all of them, it is very difficult to imitate because of the high costs associated with training and compensation, and the experience of providing customer service face to face is not easily substituted.

Many people expected Best Buy to see the same fate as its previous competitor, Circuit City, who had closed all of its stores in January 2009 after declaring bankruptcy. Joly, however, has made efforts to turn around the strategy of Best Buy by lowering costs, improving customer service, and <https://assignbuster.com/best-buy-case-analysis/>

decreasing store sizes in order to help Best Buy remain competitive in its industry. Identification of external opportunities and threats Best Buy has many opportunities that must be recognized before their window of opportunity expires. Proper external analyses are essential in running, and maintaining a sustainable business.

There are four key components to external analyses. These include scanning, monitoring, forecasting, and assessing. When a company like Best Buy participates in scanning they are attempting to anticipate changes in the general environment and recognize changes that are already occurring. They then monitor those changes to see if relevant trends can be identified. Forecasting will be a challenge to Best Buy because of rapid changes in technology. It is nearly impossible to predict what will happen in the future because Best Buy is unaware of the type of resources they will have at their disposal.

Once Best Buy has taken the first three steps it is important that they assess the information, so that they can interpret the data and use it in a competitive manner. After Best Buy does an in depth external analyses they will realize their opportunities include growing the services offered to customers, expanding its mobile services, and growing internationally. If Best Buy grows its services offered to customers it could potentially create value through increasing in store traffic and online purchasing. Expanding mobile services is a highly attractive opportunity for Best Buy.

Although Best Buy has seen a decrease in sales in many of its stores, Best Buy Mobile has proven to be quite successful in the current market. Best Buy has seen a 5% loss in comparable stores, which would have been a 15% loss

if the sales of Best Buy Mobile did not make up the damage. Acknowledging Best Buy as a global brand could have a significant impact, and presents an intriguing opportunity to Best Buy. Global innovation, consumer electronics, and the use of technology have never been more important in an international market than they are today.

Best Buy has experienced success and failure in the international market. They have had success in Canada and Mexico, and have been unsuccessful in Europe and China. Best Buy needs to figure out how to adapt to foreign markets where they have been unsuccessful. If Best Buy can adapt to foreign markets more effectively than competitors it could create a competitive advantage. The way to successfully analyze an industry like the one Best Buy is in is through the Porter's Five Forces Model. This will indicate whether or not the opportunities the industry presents are attractive enough to outweigh the threats.

The first aspect of Porter's Five Forces is the threat of new entrants. In an industry like Best Buy's the threat of new entrants is not very high. Best Buy has already driven multiple competitors out of business. There are high barriers to entry, and Best Buy would not hesitate to retaliate if any new entrances transpired. The second aspect of the Porter's Five Forces Model is the threat of substitute products. This is a concern for Best Buy because many of its competitors are selling similar products online.

The products they sell are not highly differentiated amongst competitors, and many consumers feel their competitors provide a more convenient option. Best Buy then must analyze the bargaining power of both suppliers and buyers in the industry. Best Buy serves as a middle man, so they do not

have much power. This means that the bargaining power of suppliers is high. There are 20 suppliers that Best Buy uses for 65 percent of their products. Five of those 20 suppliers can account for 40 percent of their products.

The bargaining power of the buyer is incredibly high in this industry because consumers have several different options, and different ways to purchase the products they want. Consumers can even browse products at a local Best Buy location, search for it online to see if their competitors offer a similar product at a lower price, and purchase the product somewhere else while they are in the store. The final aspect of the Porter's Five Forces Model is to analyze the rivalry among competing firms. Best Buy's industry provides a vast amount of rivalry among existing competitors.

Purchasing consumer electronics online has become a common trend amongst consumers in recent years. Online retailers can maintain low costs because they don't have the costs associated with brick and mortar locations. This allows companies like Amazon.com to steal market share from Best Buy. Other successful companies that are competitive in the industry are Wal-Mart, Costco, and Radio Shack. Based on the Porter's Five Forces Model our analysis of the industry that Best Buy is in does not look too attractive. We would conclude that we should avoid this industry, and pursue a different direction.

Strategy Development Best Buy's big box retail stores currently follow a focused costleadership strategy. Best Buy is best known for its big-box retail stores that offer a narrow scope of products that mainly consists of electronics. Best Buy generally advertises low prices, low price guarantees, and they offer price matching at many locations. Best Buy wants their

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consumers to perceive them as low cost so it can be inferred that they follow a cost leadership strategy, and since they only operate within the electronics market then that makes it a focused cost leadership strategy.

The Best Buy Corporation follows a related diversification strategy. Other than the large retail locations, Best Buy currently owns Geek Squad, Best Buy Mobile, The Carphone Warehouse, and Five Star Appliances. All of these stores have related resources, products and services. The Best Corporation tends to stick with electronics retail stores and related services. For example, Best Buy stores sell computers while Geek Squad repairs and services computers. One business serves and supports the other.

Best Buy has a good corporate strategy where they only buy and operate business that sell consumer electronics or support/service consumer electronics, but best must address issues with their business level strategies. The bulk of Best Buy and its other companies business is electronics retail from brick and mortar locations where Best Buy acts as a middle man between electronics consumers and electronics manufactures, but because of internet retailers there is increasingly little need for brick and mortar retailers like Best Buy.

Current trends show that more and more people are buying online because it is generally cheaper since people can buy direct from manufactures. If this trend continues, Best Buy's big box retail stores will become obsolete and start to lose money. Best Buy has an online retail service but the brick and mortar locations still make up the majority of Best Buy's sales. The first recommendation is that Best Buy should shift the retail part of their

businesses to being more online, while keeping the non-retail services like Geek Squad.

The next recommendation is that Best Buy should grow more internationally, specifically Europe. Best Buy has a strong presence in North America, but has a lot of room to grow in Europe. In Europe Best Buy mostly exists as The Carphone Warehouse, which is similar to the American Best Buy stores but the majority of The Carphone Warehouse revenue comes from selling electronics insurance and electronics repair. Best Buys could expand more into the European electronics retail market both in-store and online.

Strategy Selection We believe that the better of the two strategies is to move the retail parts of Best Buy's business to being more online. They shouldn't move it completely online, but Best Buy should try and sell more online to try and compete with the online retailers. Best Buy has had problems with people coming into stores, looking for items, and then going home and buying them online from places like Amazon. If the customers are buying online then Best Buy should be more competitive online.

The brick and mortar stores could be more like show rooms that advertise products for the online store. If Best Buy takes this route, they should then make their online prices more competitive and be sure to advertise those lower online prices in the stores. Implementation In the next 3 to 6 months, Best Buy can implement its strategy of increasing profit by cutting low performing stores, increasing advertising, and increasing employee training. On the tactical level, Best Buy should cut the stores performing in the bottom 2%, which would be about 28 stores.

This will lower the high fixed costs associated with maintaining large brick and mortar locations. Best Buy should then move the inventory from these locations to warehouses used for online purchases and buy more warehouses if necessary. Best Buy should also increase advertising for its new price matching policy in order to gain back some of the market it lost to competitors like Amazon. On the operational level, Best Buy should increase its training to employees so that sales associates gain valuable customer relationship management skills that provide value to customers.

These tactical and operational moves will cause challenges that Best Buy must address. First, a large number of layoffs can reflect badly on Best Buy, possibly causing its stock prices to be lower. Best Buy could combat this by launching a “goodwill campaign,” expressing the savings that will be passed on to its customers. Secondly, increasing warehouse capacity could lead to high costs for Best Buy. The company should combat this by controlling its inventory holding costs and ensuring that online sales match its inventory.

Finally, the cost of training employees will be a challenge to meet. Best Buy must make this training worth the expense by ensuring that the quality of customer service will result in revenues high enough to cover the costs. Customer surveys would be a good quality control for the sales staff. Customers should be given the option to answer questions about their Best Buy experience via text messages, calls, or email, and sales associates should be given rewards points for good reviews.