

The history of bargaining power of suppliers marketing essay



Description: Best Buy was incorporated in the state of Minnesota in 1966 as Sound of Music, Inc. The company began as an audio components retailer and, with the introduction of the videocassette recorder in the early 1980s, expanded into video products. In 1983, the company changed its name to Best Buy Co., Inc. and began using mass-merchandising techniques, which included offering a wider variety of products and operating stores under a “superstore” concept. In 1989, Best Buy dramatically changed its method of retailing by introducing a self-service, noncommissioned, discount-style store concept designed to give the customer more control over the purchasing process. Today, Best Buy is the world’s 9th largest retailer, and by far the largest retailer in the computers and electronics segment. The corporation operates call centers, retail stores and online operations under the following names: Best Buy, Five Star, Best Buy Mobile, Future Shop, The Carphone Warehouse, Phone House, Geek Squad, Pacific Sales and Magnolia Audio Video, with 167, 000 employees

Company Website: www.bestbuy.com

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Best Buy Inc. (BBY) 1 year stock performance (March 2012- 2013)

2 External Assessment

Economic Environment

With the recovery from the housing and credit crisis the customers became more active. With the increase in disposable income, people started to

consume more because as more disposable income the customer has, the <https://assignbuster.com/the-history-of-bargaining-power-of-suppliers-marketing-essay/>

more he/she will spend on goods that otherwise he/she will not buy. As the potential customers mostly recovered from the credit crises, the retail industry recorded a significant growth. The current improved economic situation may be considered a good opportunity for Best Buy.

Best Buy sells goods and services that may be attributed to discretionary rather than necessity goods, hence, the results of the corporation's operations are very sensitive to macroeconomic change and conditions that affect consumers' spending. The factors such as employment level, consumer confidence, tax rates, interest rates, consumers' debt level and the ability by them to obtain a credit, energy and fuel costs may reduce consumers' purchasing or spending habits.

The only one economic trend that is changing at a very fast pace in our days economy is the electronics. The speed of its development had no precedent in the last centuries. New electronic devices join the market daily; the old devices are updated or upgraded. This environment of electronic boom works beneficially for the retailers that are selling electronics and especially for Best Buy, who is considered to be a leader electronics retailer.

Even if the market of electronic devices grows daily, Best Buy has to face some difficulties. The most significant disadvantage of rapid technological development is that the retailer has to display on the shelves goods that are new and trendy, through that, new products push out the relatively old devices. For instance, in the last 2 years the boom of tablet computers invaded the market and Best Buy has to face and respond to this change and

to adjust to market needs. As a result, Best Buy increased its sales of tablets and handheld computers and decreased sales of PCs and TV sets.

Demographic Trends

Demographic trends are related to the change in population's gender, age, marital status, geographic location, employment status, education, race, household income, health and religion. Without understanding the demographic trends or change, Best Buy could not make a valid estimate on its business future. According to the U. S Census Bureau the population is stratified in the following layers: classics, baby bust, baby boomers, generation X, Y and Z. From all the representatives of the U. S. population, baby boomers hold the largest share of population (79 million out of 313 million). These are the people who were born 1946 to 1964. From this information is concluded that this year a vast majority of baby boomers are at a retiring age, which has a direct relationship with population's preferences. The second biggest share of population that may affect Best Buy's sales are generations Y and Z. These are younger people who have an increased interest to electronic devices, playing consoles, mobile phones and appliances.

Political and governmental Trends

The domestic and international political situation also affects consumer confidence. The threat or outbreak of domestic or international terrorism, civil unrest or other hostilities could lead to a decrease in consumer spending. Similarly, an overly antibusiness climate or sentiment could potentially lead consumers to decrease or shift their spending habits. Any of these events and factors could cause a decrease in revenue or an increase in <https://assignbuster.com/the-history-of-bargaining-power-of-suppliers-marketing-essay/>

inventory markdowns or certain operating expenses, which could materially adversely affect our results of operations.

Environmental Trends

The most current environmental trends related to business operations are concerns about green business, solar markets, efficiency improvements, voluntary adherence to green standards and green marketing. The cornerstone of these trends is green business, which is a feature that most corporations want to achieve. Best Buy makes a significant effort in achieving ISO 14000 certification which stands for environmental management. At this point, most of Best Buy facilities went green, which means that they recycle most of their waste material, reduce the consumption of energy which leads to increased productivity and a good corporate image among regulators, customers and the public.

Industry Analysis

Best Buy is a consumer electronic store industry member. This industry consists of 40,601 stores with a combined annual revenue of \$72 billion and employs 329,274 employees. This is a dense industry where 50 largest retailers hold 80% of total market size. This industry consists of national and independent retailers. The largest and/or some regional chains may have a “superstore” that can be over 30,000 square feet often situated in large shopping malls in big cities.

As a rule retail industry is affected by household disposable income. Hence, the success can be granted from the ability to quickly adjust the supply of inventory to the demand in order to reduce the cost related to inventory.

Competitive Landscape

Competitive Analysis (Porter's Five Forces)

Force

Strategic Significance

Internal Rivalry

HIGH

Threat of New Entrants

LOW

Threat of Substitute Products

MODERATE

Bargaining Power of Buyers

LOW

Bargaining Power of Suppliers

MODERATE to HIGH

Internal Rivalry

Internal rivalry is considered to be the most significant forces presented in Porter's Five Forces. Internal rivalry is very high in consumer electronics retail industry. There are seven competitors that are traded publically who predominantly sell electronic goods. Additionally, there are many privately

owned companies that are selling electronic products that are of use in specific markets' niche. With a market capital of more than \$16 billion, Best Buy is the leader of the industry. The competitors that affect Best Buy come from outside of consumer electronics retail industry. These major competitors are such discount retailers as Costco, Wal-Mart, and Target. For instance Wal-Mart recorded \$378 billion in 2010 fiscal year sales and a gross profit of \$92. 2 million which is twice more than Best Buy, with \$40 billion revenue for the same period. Though, it is impossible to compare these two businesses because Wal-Mart does not divide its sales in product categories. Competition is very high among the competitors because there is almost no difference in price if the buyer decides to shop in other store (competitors'). Moreover, there is no differentiation among products so customers can get a similar product at any competitive store. Hence, the companies are competing on low price and on intangibles such as goodwill and customer service.

Threat of New Entrants

Threat of new entrants in Best Buy's industry is quite low. The market capital of consumer electronics retail industry is currently at \$23. 2billion. This number is lower comparing to other industries such as Home Improvement Stores at \$53 billion, Apparel Stores at \$37. 2 billion or Discount Variety Stores \$240. 4 billion. The lower market capitalization means that it is relatively easy to enter the electronics retail industry, based on capital required. Even though, the potential entrant will have to deal with the brand excellent reputation that Best Buy has established among electronic products customer service. Besides the fact that it will be difficult for the

entrant to overcome Best Buy's reputation, it will be very challengeable to establish a solid relationship with suppliers to buy merchandise at the lowest possible price.

Even if the threat of new entrants is low, the capacity of new entrants is reasonably high because it consists of many electronic retailers who sell online. The online retailers represent the potential candidates to entry the industry because they have already a large existing inventory and a large experience in customer support. A potential explanation why they did not join the industry is that it is quite costly to afford a reasonable real estate, which is a significant entry barrier.

Threat of Substitute Products

The threat of substitute product is not a major threat for Best Buy. The modern society relies and uses a lot of technology which means that it highly depends on it. From the above results that there are no or very few substitutes that will be able to replace directly the electronic products that Best Buy sells. The substitutes may be hardcopy magazines, and books but these are gradually replaced by their electronic versions by such companies like Barnes and Noble or Amazon. com

Bargaining Power of Buyers

Buyers have an extremely low bargaining power because they consist of a fragmented and weak group of people. First explanation of low buyers' power is that individual purchase volume is low. Most people buy unique products and practically there are no customers who will buy 20 DVD players or 15 HD TV's. The average buyer will buy one or two items of a specific

product. As a result, buyers have no influence on the price. Second, the cost of an electronic product does not consist a large share of customer's budget comparing to purchasing a car or a house. Additionally, there is no big competition among customers in favor of any specific brand. Thirdly, electronic goods are considered to be more of a luxury rather than necessity; hence, buyers have to accept the price and the products that are produced. Forth, the buyer cannot integrate backward and make the electronic supplies by personally or to buy large amounts at discounted price, this is not feasible, unless he/she has his/ her own shop. Consequently, the buyer of electronic goods has no significant bargaining power over Best Buy or other company in the market.

Bargaining Power of Suppliers

The suppliers have quite a high bargaining power and this is explained by the fact that there are just few suppliers that are demanded on market. The pool of suppliers consists from major manufacturers like Samsung, Sony, LG, Toshiba and Panasonic. These suppliers can provide the newest technological devices that are trendy and demanded by the customer. Companies like Best Buy have to purchase from this suppliers in order to have on their shelves products that are new and up-to-date. For Best Buy there is no possibility to avoid the dependence on its suppliers because there is no possibility for backward integration, it demands a lot of technological expertise and capital. As a result the suppliers have a considerable influence on the pricing of manufactured products.

3 Internal Assessment

Business Model

According to Best Buy's annual report, the corporate vision is to make consumers' life fun and easy. The mission of the company is to “ treat customers as unique individuals, engaging and energizing [its] employees to serve them, and meeting their needs with end-to-end solutions, while maximizing overall profitability.

Currently Best Buy strategy chases two eminent goals: first, it focuses on providing customers with the lowest price for the widest range of goods; second, expansion and integration into international markets.”

Consumer Centricity Operating Model

For the last nine years, Best Buy attributes its success to its consumers' commitment. In 2004 was implemented the customer-centricity strategy though this, Best Buy was differentiated as a store which provides high quality entertainment and electronics systems and outstanding customer service.

Though this operating model Best Buy shifted its view from the product and services that it sells toward the needs of the customers. In order to achieve higher results in consumer centricity model, Best Buy stratified its customers on five segments and gave each of them a name:

Jill, the busy suburban mom who wants to enrich her children's lives with technology and entertainment.

Buzz, the focused, active, younger male customer who wants the latest technology and entertainment.

Ray, the family man who wants technology that improves his life – the practical adopter of technology and entertainment.

Barry, the affluent professional who wants the best technology and entertainment experience and who demands excellent service.

BB4B (Best Buy for Business), the small business customer who can use Best Buy's product solutions and services to enhance the profitability of his or her business. (Best Buy Press Release, May 3, 2004)

This strategy was applied at 32 US stores and the result of this stratification and implementation were astounding so the corporation decided to implement this strategy at each its store. Best Buy continually researches and revises the segments in order to adjust its strategies.

Products and Brands

Operating in four countries, Best Buy is classified as an international retailer of consumer electronics, entertainment software, appliances, home and office products, and retail services. Consumer electronics is the main Best Buy's product category. This includes audio and video equipment such as DVD players, TV sets, portable audio players, audio systems, and car stereos. Home and office products consist of personal computers and PC related equipment, cellular phones, telephones, calculators, copiers and printers. Entertainment software includes DVD movies, computer software, CDs, video game software and hardware. Appliances include dryers, washing

machines, dishwashers, air conditioners, refrigerators and ranges.

Additionally to four categories, Best Buy is specialized in commercial and residential computer repair, installation, repair, support and related services.

Corporation's portfolio includes eleven brands which are divided in 2 segments: international and domestic. The international segment includes Mexico, China, Canada and Europe while the domestic segment is the U. S.

The international and domestic brands are:

Best Buy – offers home and office products, electronics, appliances, entertainment products and electronic related services. The coverage of Best Buy is Mexico, Canada, China and the U. S.

Geek Squad – provides commercial and residential computer repair, installation, related services and support. It operates in Best Buy stores and in several standalone stores in Canada, U. K., China and the U. S.

Future Shop – is a Canada based retailer, which sells products similar to Best Buy.

Magnolia Audio Video – are high-end stores of video and audio products, which is based in Seattle. It operates within Best Buy stores and as few stand-alone retail stores.

The Carphone Warehouse – is the leading European independent retailer of cellphones and services.

Jiangsu Five Star Appliances – Sell similar to Best Buy products and is the fourth largest retailer in China.

Pacific Sales – offers bath, kitchen and home improvement goods in California.

Best Buy Mobile – is similar to European Carphone Warehouse but is oriented to the U. S buyer. Operates in Best Buy retail stores and stand-alone stores.

Audiovisions – Residential and commercial audio/video system integration firm, based in the U. S.

Speakeasy – is a U. S. provider of data, voice and broadband information technology services.

Napster – provider of digital music online.

Domestic segment's revenue mix

International segment revenue mix summary

Suppliers

The success of Best Buy's mainly depends on the possibility to offer a large choice of brands through a positive and stable relationship with its suppliers. Such suppliers as Sony, Hewlett-Packard, Toshiba, Samsung and Apple represents a three thirds of total products merchandised. The disruption or loss in supply from these major suppliers may result negatively in Best Buy's earnings and revenue. Best Buy normally does not hold a long-term contract with the major suppliers; there are no signs that any of these suppliers wants to interrupt selling its goods at Best Buy. Best Buy had no negative experience with its suppliers and if discrepancies appear in maintaining its

supply chain in a proper estate an adequate supply source will exist for required type of merchandise.

Distribution

In order to meet Best Buy's customer needs, the corporation must have a strong and stable relationship with its current and potential distributors. Mainly, Best Buy's U. S. stores' merchandise is shipped directly from the manufacturer to the distribution centers that are located in Georgia, Indiana, California, Minnesota, Ohio, New York, Virginia and Oklahoma. The only exceptions are the large screen or HD televisions which are shipped directly to satellite warehouses that are present in each large market. For the international segment, the distribution system operates similarly. The stores located in Canada receive their goods shipped by suppliers directly to the warehouses located in Ontario or British Columbia. Five Star Appliance merchandise are delivered and stored at over fifty warehouses and distribution centers. Best Buy's stores that are located in China are receiving their merchandise directly from the suppliers at the distribution center which is situated in Shanghai. Some selected, exclusive goods are shipped from distributors or manufacturers directly to the stores.

SEGMENT (For the fiscal year 2012 Best Buy operated in two major segments: Domestic and International. The domestic segment brings 93% of operating income and 83% of revenue. This segment covers all the stores that Best Buy operates in the United States. The international segment includes four major divisions: Canada, Europe, China and Mexico operations. The revenue of this segment is 17% and the operating income is 7%.)

Financial Statement Analysis

0% 10% 20% 30% 40% 50% 60%

2012

2011

2012

2011

0% 10% 20% 30% 40% 50%

Domestic Revenue Segment Growth

Services

Appliances

Entertainment

Computing and Mobile Phones

Consumer Electronics

Services

Appliances

Entertainment

Computing and Mobile Phones

Consumer Electronics

International Revenue Segment Growth

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Best Buy experienced losses in three categories in the Domestic Segment in fiscal 2012. These include gaming and DVD sales within the Entertainment

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category. We expect DVD sales to continue to decline as there is a shift to streaming video. However, Best Buy has been offering trade-in discounts for games and reward zone memberships for frequent video game customers. In addition, they have seen declines in digital imaging and television within the consumer electronics category. We continue to believe that there has been a weakness in consumer confidence that has weighed heavily on big ticket items such as televisions. Any strength in the economy will have a positive effect on this category. These losses were partially offset with gains in the computing and mobile phones category, and appliance category. As mentioned previously we expect connections and the mobile category to grow 15% this year, more than offsetting any continued weakness in consumer electronics and entertainment. Also of note, the international segment is showing continued resiliency despite the weak macro environment and we expect flat growth with potential upside from investments in China. In analyzing competitors we chose companies with the greatest near-term and long-term threat to BestBuy. Wal-Mart and Target represent similar physical retailers with the scale and presence to compete with Best Buy at the most traditional level. As outlined in our Porter's five forces analysis, online retail and most notably, Amazon continue to be the largest long-term threat to Best Buy.

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Inventory turnover has been steady over the last five years for Best Buy and comparable to traditional retailers while Amazon has seen decreasing turnover. While revenues have been slowing Best Buy has been able to efficiently manage inventory levels downward. Conversely, Amazon has <https://assignbuster.com/the-history-of-bargaining-power-of-suppliers-marketing-essay/>

seen decreasing inventory turnover which may indicate inefficient inventory management and/or product obsolescence

4 New Vision and Mission

(Even though Best Buy has no formal mission and vision statements, the following is often attributed to corporate mission statement: “ 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.”

The functional mission statement that represents Best Buy is “ to improve people’s lives by making technology and entertainment products affordable and easy to use”)

5 Objectives

6 Strategy Formulation

Corrent Strategic Profile) (For the fiscal year that 2012-2013 (March) best buy announced a transformational strategy that will include a sequence of actions to improve operating performance. The main focus of this strategy is to close approximately 50 large Best Buy stores located in the U. S. Following this strategy, Best Buy will reduce the cost of supply chain and product life-cycle management.)

SWOT

STRENGTHS

WEAKNESSES

Best Buy is one of the largest specialty electronic retailers with strong track record of sustaining downturns and of effective international penetration.

Customer centric business model is a key differentiator Strong supporting infrastructure.

Recalls will increase costs and affect the brand image adversely.

Higher penetration of lower margin products will impact profitability.

Increased promotions and reduced product

prices adversely impact gross margin

OPPORTUNITIES

THREATS

Higher penetration of private labels will

increase differentiation and margins

Booming Chinese retail market to facilitate higher sales.

Rising popularity of e-commerce and digital content will boost top-line growth.

Cautious consumer still unable to lead recovery in the US.

Intense competition to pressurize margins.

Increased cost of procurement from China as labor costs surge.

Risks

Uncertainty surrounding search for new CEO:

On April 10, 2012 Best Buy announced the resignation of CEO and director Brian Dunn after 28 years at the company. The board is currently investigating whether the former CEO misused company funds while carrying out a relationship with a female subordinate. Best Buy has formed a selection committee to find a new CEO within an estimated 6 to 9 month time period. We feel that any prolonged search will weigh heavily on the stock in the near term.

Corporate Governance in question:

Former CEO and founder Richard Schulze is the chairman of the board and owns 18% of shares outstanding. Schulze and his relatives have benefited personally from personal connections to Best Buy. Best Buy currently has leased two stores from Schulze since 1990 and most recently paid him \$1 million under those leases. The company also paid \$854,000 for the use of airplanes from a chartered aircraft service he controls. Best Buy also purchased \$9.7 million in store equipment and furniture from Phoenix Fixtures Inc., a company owned by Mr. Schulze's brother. In addition, Best Buy also paid \$298,599 to Mr. Schulze's daughter, for her work as chair of the Best Buy Children's Foundation. Best Buy has stated publicly that the board has examined all the payments and deemed them reasonable. Any news regarding additional conflicts of interest may weigh heavily on the stock.

Continued weakness in same store sales:

Comparable store sales declined 1.7% in fiscal 2012 and have been a drag on the stock price. If Best Buy is unable to reverse sales declines this will negatively affect the stock.

RadioShack partnership with Target competes directly with Best Buy Mobile:

During 2011, RadioShack successfully completed the rollout of a Target Mobile center to 1,496 Target stores throughout the US. Currently the business is operating at a \$17 million operating loss. Going forward this may compete directly with Best Buy Mobile and reduce sales growth.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D. C. 20549, Form 10-K report, Retrieved on March 22, 2013 from [www. sec. gov/Archives/edgar/data/764478/000104746911004045/a2203505z10-k. htm](http://www.sec.gov/Archives/edgar/data/764478/000104746911004045/a2203505z10-k.htm)

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