Case study of best buys inc expansion

Best Buys, Inc has emerged as a special electronic retailer in US and other areas operating from Richfield, Minnesota. The main strategy for international expansion used by BBI is M&A with dual branding by creation of competition between acquired stores and Best Buys. The case study shows that the strategy has been successful and workable in western world. Within reduction of trade barriers by China and allowing 100% FDI in retail segment, BBI is trying to follow same strategy in China. But Chinese market being totally different from the Western context, BBI has faced challenge to cut across the dual branding strategy. The report highlights the main strategic issues raised followed by recommendations.

PESTEL Framework

The PESTEL framework is devised to understand the strategic issues underpinning the business from external sources (Johnson, Scholes & Whittington, 2008)

Figure A-1: PESTEL Analysis

PEST Factor

Key Points

Implications for BBI

POLITICAL

(Opportunity for BBI to expand in different Chinese market.)

Liberalization in Chinese retail market from 2004

Reduction in entry barriers like compulsion of domestic partners.

Big market for imported product.

(www. Businessinasia. com)

Increase in competition from stronger global players of retail business.

Growing knowledgeable domestic retail players.

ECONOMICAL

(Constrains from free directive growth in China)

Shift to market oriented economy.

Relatively high domestic savings rate.

Uneven economic development among different states of nation.

Growth in manufacturing sector.

(CIA, 2010)

MOST IMPORTANT

Need for appropriate market segmentation to target specific people and Chinese province.

Require to restructure its cost base to suit by sourcing its materials from China to satisfy the cost conscious needs of small towns and cities.

SOCIAL

(Opportunity for BBI for establishing its brand in strong position on customer mind.)

Increase in middle class people.

Rising income of newly educated class.

Focused on functional aspects of products.

(CIA, 2010)

Potential opportunity of making profits by targeting young educated individuals in metro cities.

TECHNOLOGICAL

(Threat for BBI due to unprotected IPR.)

No laws on Intellectual property rights (IPR).

Improved technological due to spillover effect from other MNCs.

ENVIRONMENTAL

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LEGAL

(Opportunity for BBI to keep away potential entrants.)

High legalities for land acquisition.

Procedural delays to grant permission.

Being first international company in retail segment gives advantage to earn profits and create efficiency (Kotler, 1997).

3. 0 PORTER FIVE FORCES:

By analyzing the competitive nature of Chinese retail market, market position of BBI can be assessed to formulate strategy to neutralize these forces (Porter, 1985; Lynch, 2007).

Force

Strength and Implication for BBI

Competitive Rivalry

BBI caters only to CE retailing.

Consolidation of retail segment has increased challenge.

Emerging established domestic players.

HIGH

Innovative marketing is the key strength for BBI.

Well known for its customer centricity.

Powers of Suppliers

Increasing domestic electronics suppliers.

Global suppliers with high bargaining power.

LOW

BBI presence established with sourcing office developed good relationship with local suppliers.

Power of Buyers

Low brand recognition while buying product.

Consumers’ preference for national brands.

Products bought on basis of price and functionality.

MEDIUM

Although the power of buyers is medium BBI should make sure that it should reach its distributed customer through its distribution channel due to presence of vast regional difference.

Threats for New Entrants

Highly fragmented Chinese retail market.

Entry of global retail players.

Newly emerging domestic players.

HIGH

Concentrate to differentiation from others.

Focus on targeting both segments of customers.

4. 0 SWOT analysis:

Factors

Implication for BBI

Strength

Presence in China for sourcing electronic products since 2003.

Innovative marketing skills.

Established brand in US and surrounding regions.

Developing and maintain relationship with established suppliers. Personal relationship is basis of business in China.

Weakness

Being a foreign MNC.

Lack of knowledge for operating in Chinese customer segments.

Lack of quality human resources.

Acquisition of Five Star has reduced the foreign liability and increased local knowledge.

Retail training of International Standards for employees.

Opportunity

Highly fragmented market.

Increased demand for branded products in Tier 1 cities.

Income growth in Tier 2 cities.

Establish retail chain to create brand awareness.

Need for creation of robust distribution network.

Threats

Rampant price wars.

Entering global players.

High domestic savings rate.

Consumers differing away to purchase on credit terms.

Cost focused strategy for price sensitive segment and focused differentiation branded products in Tier 1 segments (Johnson et. al., 2007)

5. 0 Key Strategic Issues:

Analyzing internal and external factors various key findings have been listed below with their strategic implication on BBI.

Key strategic findings

Analysis tool

Key findings

Strategic Implications on BBI

PESTEL Analysis

Huge differences in living standards.

Increase in disposal income.

High savings rate among middle income group.

Establish stores to cater both segments to maintain both requirements: Functionality for cost focused and Differentiation for Tier 1 segment.

PORTER FIVE FORCES

Strong domestic competitors.

Global competitors entering the market.

Leveraging on first mover advantage, establish relationship with suppliers and buyers.

SWOT

Lack of local knowledge of different Chinese regions.

Domestic retailers driving on price wars.

Consumers buying less on credits.

M&A can fulfill local knowledge and developing relationship with established with local suppliers can cut cost low.

6. 0 Strategy Formulation:

TOWS Matrix:

Different strategic options are formulated using TOWS matrix to address the strategic issues highlighted in analysis.

INTERNAL FACTORS IN CHINA

Strengths

Weakness

Established brand name “ Best Buys”.

Relationship with Chinese suppliers.

International player.

Well versed with new innovative technology.

Acquisition of Five Star (75% Share).

Experience in retail segment.

Small number of BBI stores.

Lack of retail skilled employees.

Lack of local knowledge.

Foreign liability.

EXTERNAL FACTORS

Opportunities

Competitor’s lack of International retail standards and technology.

Emerging markets

Increasing young educated preferring branded goods.

SO Strategic options

Dual brand strategy – Five star for cost focused and Best Buys for focused differentiation.

Influencing young customer segment in Tier 1 market.

WO Strategic options

Increase on developing retail skilled employees.

Increasing promotional packages.

Reducing cost using technology.

Threats

Global economic crises.

Legal regulations.

Lower cost competition.

High savings rate.

Low credit purchase.

ST Strategic options

Developing brand recognition.

M&A with domestic retailers.

Leveraging on suppliers potential.

WT Strategic options

Good product offerings – Zero percent interest rate on EMI credit purchase.

(Source: Johnson et al., 2008, p367)

7. 0 Recommendation:

A detail explanation and classification of strategies on basis of Ansoff's Matrix is detailed in appendix A. A primary analysis has been carried out using number of performance indicators to eliminate options which may not be suitable for BBI, leaving the 3 most appropriated strategies which can be followed. A combined approach of incremental market development and penetration followed simultaneously.

First Stage:

Create brand awareness and recognition among Chinese customers.

Influence young educated customer segment.

Second Stage:

Use of dual branding strategy for two different segments – Cost focused for customers believing in functionality and cost; Focused differentiation for brand conscious customers.