

# Case: best buy



**ASSIGN  
BUSTER**

Best Buy 1. How was competition changing in the consumer electronics retailing industry in 2004? Why was it necessary for Brad Anderson to consider a radical concept change for Best Buy? With the fast development of Technology, the market for electronics retailing was increasing fast during 1998-2004. And electronics-only retailers like Best Buy and Circuit City, experienced a stiffer and broader competition during that period. It was necessary for Brad Anderson to consider a radical concept change for Best Buy, because of the several reasons given as follows: 1.

The scope of competitive rivalry is more than among merely electronics-only retailers. There are many threats from different rivals to Best Buy. Some mass discounters such as Wal-Mart and Target increased their share from 2001 to 2002. And, some consumer direct or Internet competitors were also getting stronger in most consumer electronics categories. Besides, auction sites, led by eBay, increased consumer access to used consumer electronics products and to competitive bidding by suppliers for new products, which was another emerging competitive threat to Best Buy.

Last but not least, the recent boom of music digital downloading was another potential threat in an ailing category at Best Buy. 2. Imitation from its competitor, Circuit City, which discovered the big success of Best Buy, and started to imitate many elements of Best Buy's successful strategy, notably improving the lighting in their stores, deploying a non-commissioned sales force, and displaying available merchandise in the store itself and getting rid of back room storage. 3.

Besides the ever-present threat of imitation, Best Buy's top management was also worried that profitable opportunities for the company may be limited to 1000 stores in the US. The company already had 606 stores and was opening an additional 75 each year. Growth through new store openings did not look promising. 4. The way of selling from push system to pull system. As Brad Anderson said, in the past, they used to rely mostly on new products to foster growth, which is now a fading strategy prevents itself from higher efficiency and can't compete with other consumer electronics retailers.

To craft its own competitive advantage, Brad started to generate a unique value generating proposition that will connect the company with its customers and serve as a solid foundation for future growth. It finally came up with a radical strategic change, which had a profound impact on the company's structure, internal processes, and employees. 2. How would you characterize Best Buy's Concept VII strategy? What are the four chief components of its strategy? (1) Strategy Concept VII consisted of four interconnected strategic initiatives, customer centricity, efficient enterprise, win the home with service, and win entertainment.

And, customer centricity was the real centerpiece. The approach that Best Buy chose required it to quantify the profitability of each of its customers. Best Buy's strategic approach involved developing a greater understanding of the consumer to tailor the retailing experience to customer expectations and needs. Even though the company understood the importance of competing on price, it utilized different retailing approaches for customer groups with different behaviors and demands. That is, Best Buy found ways

to reengineer the customer experience and address the specific needs within each segment and its subsegment. 2) Four components: ?.

Customer centricity: consumers was divided into five basic categories and created subcategories within groups to better understand variations between customers. Store product assortments were tailored to the customer characteristics of the region. Therefore, Best Buy's 25, 000 SKUs would vary between stores based upon the type of consumers living in the area. ?.

Efficient enterprise: controlling costs and investment spending and included efforts to reduce administrative expenses, streamline decision-making, eradicate bureaucracy and empower employees to flatten the organization.

Cost savings from the program were used to fund " customer centricity" projects ?.

Win the home with service: increasing average sales by bundling purchases with connections, applications, accessories, and services. The company also acquired and integrated " The Geek Squad" Service Company in 2003 that offered complete PC services everywhere, 24 hours a day ?.

Win entertainment: intend to lead the entertainment category including music, movies, video game hardware and software, and other related products. The company viewed this category as a key traffic driver in stores . What has Best Buy's management done to implement and execute the Concept VII strategy in test stores? What impact has Concept VII had on business processes, policies, practices, and management approaches? (1) The new retailing approach required transparency in Best Buy and vendor value chains to allow the company to perfect its " anticipatory demand forecasting. " The new forecasting model required Best Buy stores to stock as much as

10% additional inventory and also called on vendors to keep larger inventories if products had long component lead times.

Also, Best Buy and vendors were required to exchange real time transactional data. (2) Concept VII also required a shift of power from the corporate office to the retail stores. Local stores were given control over advertising budgets and product assortment. Previously product assortment decisions were made by the corporate office and modified five times a year. The increased autonomy for store managers and personnel resulted in an improvement in employee satisfaction from a 3.33 on a 5-point scale to a 4.6 in lab stores. (3) The company's approach to employee competency building also changed in test stores. Rather than attempt to build competencies in employees to offset weaknesses, the company chose to place employees in departments where their existing skills were needed most. The strength-based system also resulted in changes to Best Buy's performance management system and rewards system, with salary bands broadened so that people could stay in a job they liked and still envision a motivating career. 4) The implementation of Concept VII in test stores also required leadership at the executive-level to break down resistance to change. The company has tended to be rather conservative and consensus-driven in the past and change was worrisome to many managers. Top level management sold the new concept on the premise that the greater risk involved not changing in the highly competitive industry. 4. What is your assessment of Best Buy's financial performance between 1998 and 2004? Has it fared well relative to its rivals? Does it appear Concept IV and Concept V strategy were successful?

Best Buy's U. S. sales had increased by 17% annually between 1996 and 2004, which was significantly higher than the 4. 9% annual growth rate for the industry over the same time period. In addition, the company's net income grew by 39. 7% annually from \$95 million in 1998 to \$705 million in 2004. So, briefly speaking, the financial performance of Best Buy is desirable during that period. Referring to another graph, Best Buy occupied the leading position of consumer electronics sales in 2002, although the revenue generated by Wal-Mart is nearly as much as ten times as it did.

According to the references, Concept IV and Concept V strategy performs successfully. Because during 1999-2000, which Concept IV was in use, its positive financial indexes all increased, and from 2001-2003, the Concept V times, the revenue is only as much as twice as it was in 1999. 5. Can Best Buy continue to be successful? What recommendations would you make to Best Buy's management concerning full implementation of Concept VII?

Based on the history of continuous renewal and the new concept of customer centricity, the Best Buy has a strong competition against the threats.

Those actions included are matching the customers' need very much, such as " win the home with service" and " win entertainment". It has a large probability to continue to be successful. What we would provide to Best Buy management concerning full implementation of Concept VII are as followings: 1) Provide professional service in the retail. Other than those mass-market retailers, Best Buy has advantage on the professional knowledge of electronics. It can arrange some specialist in the retail to answer questions and provide suggestions.

It's easy for it to provide such a service to attract customers and follows the spirit of the Concept VII. 2) Do their best to build better relationship with vendors. It's a very important strategy in such a high competitive circumstance nowadays. Trying to make partnership even alliance with those supplier would cut down the cost and beat the threat that the consumers bidding the suppliers directly for new products that led by eBay. And then, those savings would be a strong support for the concept VII. ) Use the approach of benchmark. Since Best Buy has so much threat in the market, it should learn some successful models from other industries. By doing that, Best Buy would improve its service standard in all aspect. 4) Focus on innovation. To fit the customers need means to think as the customers. Best Buy should try hard to provide whatever product and service needed by customers. In addition, innovation is the only way to decrease the affect of imitation.