Best Buy

CLIENT REPORT

SONTAG SOLUTIONS

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# Contents

- Executive Summary ............................................................................................................................................. 3
- Company Background ........................................................................................................................................ 4
- Business Model .............................................................................................................................................. 8
- Market Landscape ........................................................................................................................................ 10
- Financial Analysis .......................................................................................................................................... 13
  - Profit Margins ............................................................................................................................................. 14
  - Inventory-turnover ..................................................................................................................................... 15
  - Earnings Reports ........................................................................................................................................ 15
- Competitive Analysis (Five Forces) ...................................................................................................................... 16
  - Threat of New Entrants .............................................................................................................................. 16
  - Threat of Substitutes ................................................................................................................................. 17
  - Buyer Power ............................................................................................................................................. 18
  - Supplier Power ......................................................................................................................................... 19
  - Intensity of Rivalry ..................................................................................................................................... 20
- SWOT Analysis .................................................................................................................................................... 20
  - Strengths .................................................................................................................................................. 20
  - Weaknesses .............................................................................................................................................. 21
  - Opportunities .......................................................................................................................................... 22
  - Threats ..................................................................................................................................................... 23
- Strategic Recommendations .............................................................................................................................. 24
Executive Summary

Best Buy is a multinational technology retailer headquartered in Richfield, Minnesota that has operations in the United States, Puerto Rico, Mexico, Canada and China. It primarily operates through its brick and mortar stores which offer a wide array of consumer electronics products including computers, televisions, mobile phones, tablets, home theatre systems, entertainment products and related accessories. Best Buy operates in eCommerce operations, retail stores and call centers under 12 brand names and offer a range of services such as technical support, repair and installation under the Geek Squad brand. As of fiscal 2014, Best Buy remains the largest consumer electronic retailer in the U.S. and employs approximately 140,000 full-time, part-time and seasonal employees worldwide.

Sontag Solutions has reviewed Best Buy among its competitors and has identified two main challenges to address this year. First, Best Buy is a retailer that relies heavily on its in-store operations to generate cash flow. In order for Best Buy to do this successfully it must utilize those stores along with its unique value added amidst a time where eCommerce and online shopping websites have taken over the market. Lost sales due to online shopping is a huge issue for Best Buy, which must be changed, especially since its competitors RadioShack and Sears recently went into bankruptcy due to this problem. Second, Best Buy needs to effectively reduce costs in order to drive bottom line growth.

Taking these challenges into consideration, Sontag Solutions recommends a series of
strategies going forward to facilitate rebranding and generate long-term growth. Best Buy has always retained a reputation for exceptional customer service and must continue to offer this ‘value added’ component by growing the Geek Squad brand and investing more in its employees. The company will have to utilize these strategies along with other rebranding plans to enhance the consumer experience and differentiate itself from its top competitors, Walmart, Target, and Amazon. The company must also penetrate the eCommerce market to rival its competitors who have captured many of Best Buy’s previous customers, namely Amazon. The last component of Best Buy’s rebranding will be include cost cutting mechanisms discussed in our strategic recommendations section.

Company Background

Best Buy was founded in 1966 as an electronics store specializing in high fidelity stereos called Sound of Music by Richard M. Schulze and a business partner. In 1969, Schulz bought out his partner’s equity and took the company public on the New York Stock Exchange. The name Best Buy was born from an event at its main location in Minnesota in 1978 when Schultze was forced to sell excess goods after a tornado destroyed parts of the building. This sale promised ‘best buys’ on all items, which turned out to be the most successful event in the company’s history. In just four days they beat their monthly revenue record. In 1983, with seven stores and $10 million in annual sales, Sound of Music was renamed Best Buy Company, Inc. Initial the company targeted an audience of adolescent males, but later expanded its product offerings to include home appliances.

and VCRs.

Best Buy opened its first super store during the early 1980s in Burnsville, Minnesota. These mega stores offered a high-volume, low price business model, which was inspired by the ‘tornado sale’ four day event that brought huge business in 1978. Best Buy enjoyed very fast growth from 1984 to 1987 expanding its store count by 16 and increasing revenues from $29 million to $240 million.  

The company went public on the NYSE in 1987 and went through a phase of store and business model changes to set itself apart from its competitors. The company built stores with a warehouse-type layout creating even larger, brighter and more expensive spaces to accommodate its business model and increased amount of inventory. The new stores offered all stock-keeping-units on the floor as opposed to the sales room and put an emphasis on its salesperson offering product information and other services to its clients. In conjunction with these changes, Best Buy cut its number of employees per store by about 40% and did away with commissioned salespeople mainly to rid the notion of employers aggravating potential customers as similar stores had that reputation. On the other side, many suppliers disagreed with the new changes in Best Buy’s business model since their products were not being pushed to the consumer as much as before the changes. In fact, Whirlpool and Sony decided to withhold their products from Best Buy stores for a five year hiatus in response to Best Buy’s change in employee-customer policy. The company’s new ‘warehouse-type’ layout and reduced number of employees

played a significant role in its newfound success and expansion. By 1993, Best Buy was the second largest retailer of consumer electronics products in the U.S.

Best Buy expanded its operations rapidly in the early 1990s and took on large amounts of debt to fund its accelerated expansion phase. During 1997, the company found itself to be in a tight position given its large credit obligation and decreased earnings. Best Buy went through a series of rebuilding and cost cutting phases to avoid going into bankruptcy during the next three years. As the case with many fast growing companies, investors and upper level management were overzealous about the future and decided to take on liabilities to expand as if there would never be setbacks. Since then, Best Buy has revamped its business through innovative product management and international expansion, to become one of the largest and most profitable consumer electronics retailers in the world. In the U.S. alone Best Buy controls about 22% of the consumer electronics market according to Deutsche Bank. However, since the financial crisis of 2008, best Buy has struggled to beat earnings estimates and continue as a top retailer of consumer technology products given its online competitors. Table 1 below shows us a timeline of significant events in Best Buy’s history leading up to its financial distress in 2013.
As shown by the sequence of events in the above table, there has been an increasing trend towards online shopping which has decreased revenues and profits for Best Buy since early 2010. After ten consecutive quarters of declining earnings reports, the company has changed its vision beyond its brick-and-mortar stores and has benefitted from these decisions beating expectations in the near term. In the last four years, Best Buy has focused more on digital-media in its marketing, moving away from newspaper, magazine, and television advertising.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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- The customer-centricity operating model was a success and all stores will transition to this model.  
- Best Buy acquired Audiovisions, Inc. for $7 million. |
| 2006 | - Best Buy acquired Pacific Sales, Inc. for $410 million. |
| 2007 | - The company purchased majority interest in China’s Jiangsu Five Star Appliance Co. Ltd. for $180 million.  
- Best Buys acquired majority stake in The Carphone Warehouse Group PLC for $2.1 billion.  
- All remaining U.S. Best Buy stores have completed the transition to the customer-centricity operating model. |
| 2008 | - Best Buy acquired Speakeasy, Inc. for $97 million.  
- Best Buy acquired Napster, Inc. for $121 million.  
- Best Buy expanded Geek Squad to the United Kingdom through the relationship with The Carphone Warehouse.  
- Best Buy and The Carphone Warehouse entered into a joint venture to introduce Best Buy stores across Europe. |
| 2009 | - The company opens its first pilot store in Mexico.  
- Big-box competitor Circuit City liquidates.  
- Brian Dunn succeeds Anderson as CEO in June. |
| 2012 | - Best Buy announces plans to close 50 superstores and lay off hundreds.  
- S&P puts Best Buy's corporate credit rating on watch, in line for possible downgrade to "junk" status.  
- Best Buy announces it has hired Hubert Joly from Carlson Companies as CEO. |
| 2013 | - Best Buy exited the European consumer electronics market when it sold its 50% stake in Carphone Warehouse for $775 million. |
| 2014 | - A 4% dip in sales for the 30 June 2014 quarter, marked the tenth quarter in a row where Best Buy's sales had declined. |
| 2015 | - Best Buy announced the shutdown of the Future Shop chain in Canada. |
Business model

Best Buy has always relied on its wide range of products and expansion into new markets both domestically and internationally to drive revenues; however, after its decline from 2008-2013 the company was forced to change its business model to better adapt to its online competitors. Best Buy resurrected its growth by launching ‘Renew Blue’ in 2014, which has capitalized on two competitive advantages: scale and location. During its years of distress, Best Buy’s greatest assets, its showroom scale and location, quickly became its liabilities. The company would continue to expand geographically and increase the size of its stores while online shopping websites, especially Amazon, were taking its customers. When Amazon obtained a loyal customer base, Best Buy continued to get bigger, but not better. Since ‘Renew Blue,’ the company has been able to get new customers and grow profits by using its scale and location effectively.

Best Buy has successfully employed this new business model using three key strategies. First, the company has started to price-match against its online competitors. For example, Best Buy products were on average 6% more expensive than the same products on Amazon before this year.³ Best Buy has also benefitted from states’ new policies to have online retailers collect taxes, which has effectively reduced the price gap between online shopping websites and in-store retailers. Second, Best Buy has perfected its store-within-a-store concept. For example, last year Best Buy partnered with Samsung to open 1,400 Samsung stores-within-a-store called “Samsung experience shops.” It also reached a

similar arrangement with Microsoft opening 400 Windows stores-within-a-store. This strategy benefits both parties, but helps Best Buy shift a good amount of its showroom costs to other manufacturers. Recently Google has followed Samsung and Microsoft by entering into a partnership where both parties share the risks and rewards associated with getting closer to the customer. This has been extremely important for Best Buy since it had exceeded the cost effective limits of its store sizes by entering into long-term leases in its expansion years.

Lastly, Best Buy has invested more into its customer service reputation via its Geek Squad brand. Geek Squad has enhanced the consumer experience by offering special services and information to customers who value installation services of large flat-panel TVs and home theatre systems as well as individuals who request assistance with appliances and entertainment accessories.

In addition to these significant changes in Best Buy’s business model, its Renew Blue program has successfully reduced costs that were previously suppressing bottom line growth. By the end of 3Q 2014, the company had generated cost reductions of $965 million through its productivity program. It reduced costs by $350 million in fiscal 2014 primarily by closing underperforming stores, shrinking its workforce, and making supply chain efficiencies. Looking forward, Best Buy expects to lower costs by approximately $1 billion this year by reducing product returns, replacements, and damages, and by streamlining its supply chain. As evident in Figure 1 below, Best Buy has seen

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significant growth in its stock over the past year (up almost 60% YTD) as a result of these changes in its core business model.

![Chart 1: BBY stock performance since the Renew Blue launch](image)

Source: BBY 1-year chart. Schwab.com

Although these new strategies have played a huge role in Best Buy’s recent success, the company is still in a very cyclical industry where the growth of eCommerce will continue to threaten traditional retailers and shrink profit margins.

**Market landscape**

The consumer electronics industry has been plagued by slow growth in per capita disposable income and consumer confidence over the past five years. Consumers have been delaying appliance purchases and cutting back on discretionary electronic items. At
the same time, the popularity of online shopping retailers has made an already competitive industry more difficult to be successful and industry participants like Best Buy also compete with discount retailers and department stores.

At a larger glance, the U.S. consumer electronics market generated about $206 billion in 2014 across five product categories: consumer electronics (video and audio products), home office (PCs, notebooks, tablets, mobile phones, etc.), appliances, entertainment hardware and software and services. In 2015, it is expected to see about 3% growth and reach an all-time high of $223.2 billion, according to the U.S. Consumer Electronics Sales and Forecasts. As we look to Figure 2 we can see how the industry has somewhat flat lined recently due to large market trends, namely decreasing demand for multiple devices among households.
The consumer electronics industry is constantly changing with newer products coming out on a frequent basis and retailers keeping up with those trends. We have seen a significant evolution of existing products in recent years, which have given the consumer the feeling that new technology is the norm. For example, televisions are evolving with the coming of curved screens to give the viewer a more real-life experience with a clearer picture. This new sub-category along with smartphone sales have helped salvage Best Buy’s positioning in the consumer electronic retail space as well as its new cost-saving mechanisms.

In recent years, electronics retailers RadioShack, hhgregg, as well as Best Buy have faced adversity in the market due to the emergence of online retailers like Amazon, price wars from big-box or large-store discounters such as Walmart and Target, and the effect of stagnant economic conditions in the larger market having a greater impact on the electronics category.

Circuit City, one of Best Buy’s closest competitors, filed for bankruptcy in November 2008 and was permanently shut down in March 2009. RadioShack was on the verge of bankruptcy and was recently taken over by Sprint. Best Buy, however, has successfully past through its time of distress gently in part by its business model changes enacted by CEO, Hubert Joly. Best Buy remains the largest retailer in the consumer electronic category ahead of competitors Walmart, Amazon, and Target (see Figure 3 below).
Financial Analysis

Best Buy currently has a market cap of $12 billion and has outperformed analysts’ expectations for the past five quarters. It has $1.5 billion in long-term debt and over $2 billion of cash on its balance sheet giving the company an enterprise value of $11.5 billion and greater financial stability than it has had in the past. Best Buy’s long-term debt represents about 15% of its capital structure, which is very low for the consumer retail industry, and its interest expense is covered over ten times by its operating income, putting the company in a more manageable position than many of its peers. In late 2013, many analysts projected the company to be bankrupt by this time. Best Buy has not done exceptionally well in terms of top line growth like other companies have this past year, however, the expectations for the company were low enough for them to outperform the
market with such small revenue growth. Its stock is up almost 60% year over year due to a combination of their rebranding and beating (low) expectations. Currently, Best Buy has put its greatest rival, Amazon, at bay by cutting costs (fewer stores and employees), focusing on domestic stores, and putting an emphasis on sales per store and earnings. In terms of financial value, Best Buy has offered strong sales yield and free cash flow relative to its current price. Going forward, Best Buy will continue to outperform analysts’ expectations if they can implement their renew blue campaign successfully and continue to compete effectively with its larger rivals, Amazon and Walmart. In this segment we will explore a few key components to Best Buy’s recent financial success.

**Profit Margins**

Slow sales growth and pricing battles caused by the increased competition in the consumer electronics market have impacted margins for almost all retailers in the industry. That being said, a huge component of the renew blue strategy is to improve its margins by cutting costs and increasing supply chain efficiencies. These initiatives have helped Best Buy improve its margins in recent years. For example, Best Buy reported operating margins of 2.69% for the fiscal year ended February 1, 2014, compared to -0.30% in 2013. Best Buy also made an initiative to allocate more of its store space for growing product categories such as mobile phones and LED TVs compared to declining, low-margin categories like music and movies. According to the company’s annual report, its long-term goal is to hit an operating margin between 5 and 6%.
Inventory-turnover

Inventory management has always been a crucial aspect for Best Buy’s business model, which has seen significant improvements over the past year. Its inventory-turnover ratio improved in fiscal 2014 to 5.93 compared to 5.65 during the previous year and an industry average of about 5.72. This metric shows how many times Best Buy has moved its off its shelves each year, signifying inventory management efficiency. When we compare Best Buy’s inventory efficiency to its competitors we see a key competitive advantage. For example, GameStop and hhGregg, Inc. had inventory-turnover ratios of 5.38 and 5.45 in 2014.

Improved 2015 earnings reports

Chart 2 below shows Best Buy’s adjusted EPS increase to $1.47 in 4Q 2015 ended February 1, 2014, compared to $0.85 in 4Q 2014.

Source: Earnings Reports, Schwab.com
Revenues also increased by 0.6% to $9.38 billion, which is small growth but much higher than expectations. Best Buy’s same-store sales, which measures the degree to which sales change at one store over time, increased by 21.6% for the same period compared to -0.8% the year prior. Much of this growth was a result of strong sales in televisions, computing, and mobile products as well as new online and in-store strategies. For example, Best Buy’s ship-from-store strategy made for quick product deliveries and a reduction in ‘out-of-stock’ products online since they were locally shipped from the company’s 1,400 stores.

**Competitive analysis**

**Threat of New Entrants**

The threat of new entrants in the consumer electronics space is almost always low due to the high cost of infrastructure, brand value, and supplier relationships. It will always be capital intensive to open up a big box retail chain. For example, Best Buy spent $551 million in capital expenditures last year mainly on property and equipment to enhance technology systems, store-related projects, and eCommerce infrastructure. Best Buy stores cost about $15 million on average to build and typically employ around 100 employees in each store.\(^5\) Creating a brand and reputation is also an essential component in order to enter into the industry, which Best Buy has built up very well over the years. The company has a reputation for selling mid-level to high-end items and is known for high quality customer service through its in-store employees and Geek Squad. The supply

chain would also be very difficult for an incumbent to penetrate successfully due to the long-term contracts and established relationships that Best Buy has cultivated with its supply channel. However, if a company were to enter into the space it would most likely be an online retailer trying to make a move into traditional brick-and-mortar stores in order to diversify. Many of these online retailers already have inventory and a customer base, so they would spend most of their money on the real-estate required to open up their stores. Overall, it would be extremely difficult and risky for any company to enter into the consumer electronics industry, and thus poses very little threat to Best Buy.

**Threat of Substitutes**

The threat of substitute products and services for Best Buy is moderate. Electronic products at Best Buy can always be substituted by its competition which includes online retailers such as Amazon and eBay, big box discount retailers like Walmart and Target, and digital media companies such as Netflix and Hulu. These substitutes are less of a threat than those in other markets, but still present risk. An advantage of eCommerce companies is that they are able to provide a product to consumers without having to deal with the costs of physical store locations or overhead. Conversely, large general merchandise stores like Walmart and Target show an advantage in economies of scope. These retailer offer more than just electronics, so the consumer can by household products, cloths, and groceries with any electronic item they decide to buy while they shop. Lastly, it is obvious that digital media content is becoming more easily available and cheaper from companies like Netflix and Apple iTunes. Best Buy no longer has an advantage by selling CDs and DVDs when online content is available.
The company also offers a wide range of products whereby some are more easily substituted than others. For example, according to NPG Group’s eCommerce and Consumer Electronics report, TVs and home theatre systems are among the least likely products to be purchased via online retailers. This is not surprising as many individuals value the experience of shopping around for those products physically rather than viewing a picture online. However, products such as computers, tablets, and movies are more likely to be purchased online. It is clear that Best Buy exhibits a moderate level of product substitution threats from its competitors, but many of its products are quite difficult to substitute on a large scale due to the unique brand and business model of Best Buy stores.

**Bargaining Power of Buyers**

The bargaining power of buyers for electronic products is relatively low to moderate due to the fragmented nature of the consumers and small businesses that purchase these products. Best Buy has a consumer base of individuals who purchase its products primarily for entertainment or business, as well as in very small quantities, so the power to influence price is somewhat low. However, as online shopping popularity grows buyers have the ability to shop around for the best price more quickly than if they had to physically drive to multiple retailers. In fact, as of 2014 81% of consumers use online price information when they shop as opposed to only 61% of consumers who go to brick and mortar stores. To defend itself from this type of buyer power, Best Buy among other

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retailers have implemented effective price matching policies. Overall, the consumer electronics consumer has a moderate level of bargaining power, albeit much more than years ago.

**Bargaining Power of Suppliers**

The bargaining power for Best Buy’s suppliers is high because of the company’s reliance on low manufacturing prices and strong supply chain relationships. Also, there are a limited number of suppliers in the consumer electronics market to which companies like Best Buy demand highly from. The major players in this supply chain are Sony, Samsung, Dell, Panasonic, and LG. These companies incur huge costs, both from manufacturing and R&D, to make sure they constantly stay up to date and provide innovative products that consumers want to use. If Best Buy were to invest by backward integrating into their supply chain they would be assuming the risk of large amounts of capital as well as making state-of-the-art technology where other firms excel. In addition to Best Buy’s need for low prices and new technology from its suppliers, the company is among many other retailers in the consumer electronics space that will buy suppliers’ products if Best Buy does not. Despite the high bargaining power of suppliers in the industry, there are a few situations in which other players in the industry erode their power. For example, Samsung and Apple always compete with each other with their mobile phones. Both of these suppliers want to have their products featured at big retail locations to drive revenues beyond their online sales. Best Buy also has an excellent sales team that understand Apple and Samsung products, which is another reason for those companies to want their products in Best Buy stores. Best Buy has more power than
many of its peers for these reasons, but its suppliers will always have a high level of bargaining power due to their low manufacturing prices and ability to provide retailers with up-to-date electronic products that consumers constantly demand.

**Intensity of Rivalry**

Internal rivalry is a significant force for the consumer electronics industry and has reduced profit margins across the board in recent years. Best Buy is the largest company in its sub-sector of consumer electronics, however, large discount retailers like Walmart and Costco have taken up share in the electronics market each year posing a threat to Best Buy. These large competitors, both online and retail, have spawned competitive activity in the industry, namely aggressive price-matching and trade-in programs. They also offer loyalty programs and promotions to their customers to attract business. In sum, the electronics retail industry is made up of 5 major companies and is considered to have an extremely high level of internal rivalry.

**SWOT Analysis**

**Strengths**

*Leadership*

Best Buy was on the brink of bankruptcy in 2012, but due to strong leadership the company has rationalized and refocused its business model. Best Buy has an ongoing advantage due to responsive leadership capable of making difficult strategic decisions.

*Embracing show-rooming*
Many customers use brick-and-mortar stores as 'show rooms' to examine goods before buying from a less expensive online retailer. Best Buy has decided to embrace this trend by offering price match guarantees against online retailers and heavily promoting its online storefront. This strategy has been successful in growing Best Buy's sales both in-store and online.

*Value added services*
As part of Best Buy's strategy to compete against discount and online retailers they have emphasized their value added services. Their Geek Squad service provides support for Best Buy electronics that Walmart and Amazon cannot provide. They also make use of their supply chain and existing store inventory to promote an inexpensive and quick 'ship from store' service.

*Strong financials*
Best Buy has $2 billion in cash on hand and only $1.5 billion in long-term debt, both significantly better than the industry standards. Best Buy is also in a strong position to act on any opportunity. The company recently announced a large scale stock buy-back and increased dividends, which are excellent uses of its cash stockpile as it allows the company to invest in itself and build shareholder value without incurring further risk.

*Weaknesses*

*Transitioning business models*
Best Buy is still in the middle of moving away from the business model that nearly destroyed the company a few years back. They are still cutting their losses on overseas businesses and positioning their online business very well.
Price-matching

As a consequence of embracing show-rooming Best Buy has announced it will price match any deal from major competitors. This is driving down Best Buy's margins as they attempt to match the scale Walmart can offer or the low fixed costs of Amazon.

High fixed costs

Best Buy has ongoing high fixed costs due to its large retail spaces, which are no longer as useful to the new business model. Many of these locations have been locked into long-term contracts that are essentially sunk costs.

Credit rating

Best Buy still faces high costs of borrowing in the wake of the near collapse of the company. While the company has made strides towards stabilizing their rating, they still have credit issues.

Opportunities

Personalized marketing

Best Buy has opportunities to exploit niche markets through gathering information from its online sales and loyalty rewards program. This data access has contributed to the success of many online retailers.

Store-within-a-store concepts

Best Buy has tried to make use of its large retail spaces and defray their fixed costs by leasing out manufacturer specific areas and has been highly successful. Apple, Samsung and Microsoft have all leased floor space inside its retail stores.
**Phone installment contracts**

Best Buy does considerable business in mobile phones and stands to make more over the long term by offering installment contracts, which typically have lower subsidies.

**Threats**

**Economic circumstances**

Consumer electronics are non-essential spending and are often the first to be cut in an economic downturn. The overall market is down 3.7% and prices have become deflationary.

**International exposure**

While the company has exited Europe and is currently selling off its Chinese operations, they still have exposure to international risk from Canada, Mexico and Australia. International sales comprise 10% of Best Buy's business, and were down 11%. There are also risks of currency fluctuations.

**Changing tastes**

While growth in demand for cell phones was strong in 2014, tablets and game systems saw a decline. This change in consumer tastes impacts Best Buy as it makes decisions about inventory and advertising.

**Seasonality of sales**

Best Buy does the majority of its sales for the year in the month between Thanksgiving and Christmas.

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Vendor relations

Constrained supplies from manufacturers can impact Best Buy's sales, especially during the crucial holiday seasons. Additionally, Best Buy has few long-term contracts with its vendors, meaning a loss of a major vendor to a competitor is possible with little warning.

Competitors

The consumer electronics market has stiff competition from other retailers, especially volume giant Walmart and online juggernaut Amazon. Both companies have competitive advantages that Best Buy could struggle to match.

Strategic recommendations

Best Buy has done a considerable amount of work to revamp its business in the past two years while its new model is just starting to gain traction—which has been reflected by analyst upgrades as well as Best Buy’s income statement. However, there is still considerable risk for shareholders that could be avoided in the future. Sontag Solutions has drawn up a list of five strategic recommendations for Best Buy as it enters into its first quarter of 2015.

Reduce the number of SKUs in every store

Instead of every location in a dense region trying to be all things to all customers, have each store specialize in a few tech sectors. Some Best Buy stores have an extensive music technology section for example. This should decrease the amount of working capital dedicated to holding inventory and increase their inventory turn-over rate.
Store Closures

Best Buy is over-invested in brick-and-mortar stores. As opportunities come up some of the underperforming stores should be closed, perhaps in favor of smaller retail spaces in the same community. The issue is many Best Buys are in custom-built spaces with long leases, so this is unlikely to have a large impact in the short run. However, in the long-term, it might be necessary because the consumer electronics market will likely continue to shift online. Best Buy currently has 4,300 brick-and-mortar stores. This strategic move would also free up resources and allow redirecting cash toward other options. Best Buy needs to be able to optimize its retail stores by closing unprofitable stores and improving the shopping experience with attractive vendor displays.

Invest more into Geek Squad

Best Buy needs to invest more into customer services like Geek Squad. They are part of what sets Best Buy apart from other retailers, especially the online competition. However, there has been talk about decoupling the two, which would not be a positive move since the company needs those competitive advantages to survive in a fierce market. Geek Squad brings in more value as a brand enhancer than as a revenue engine in its own right, and it may be several years before the value proposition begins tilting the other way. The company needs to find strong ways to differentiate itself from market competitors like Amazon and Walmart, and outstanding customer service and support are a large part of that.
Retain Price Leadership

Best Buy decided to price-match with Amazon during this past holiday shopping season and recently announced they would practice this year round. Best Buy could make its price-match program more comprehensive if they offered retroactive matching, which would cut down on returns. The company could also compete with Amazon by offering an Amazon Prime-like subscription service to get extra value out of their existing warehouse and logistics network. This would highlight the power of their 'ship from store' option, whereby they can advertise heavily to let consumers know that Best Buy offers a 'ship from store' without the yearly subscription fee. This is a strength that Best Buy has not capitalized on yet.

Ramp up online sales

Lastly, it is crucial for Best Buy to establish a reliable online sales component to its business. Best Buy’s online sales accounted for 13% of its total sales last year, growing about 20% from the year prior. To increase web traffic and web conversion rates, Best Buy needs to spend time and resources on enhancing its search engine and improving its online visual appeal, as well as its content and product price information. If Best Buy can obtain similar growth as last year for its online segment, it will continue to gain market share from Amazon and have successful quarters.

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8 Best Buy Annual Report, 2014