Strategy of Best Buy Co, Inc.

Tiffin University

Kurt Mullins

June 19th, 2014

Strategy of Best Buy Co, Inc.

 How did Best Buy become the juggernaut that they have become over all their competition in the consumer electronic retail market? There is plenty of reasons why this company has become the company it has over the past couple decades. Best Buy Co., Inc. would not be who they are now if it wasn’t for the brilliant strategies that they have formulated and implemented over the decades. To dig a little deeper in the company, there are many external factors, a SWOT analysis, corporate-level strategies, business-level strategies, and structure and control systems, and recommendations that can be made in the analyzing of the company’s overall growth. The first thing to look at when analyzing this company is its history, growth, and development of Best Buy over time.

# The history, growth, and development of Best Buy

 Best Buy wasn’t always named Best Buy. The company was first known as Sound of Music. They were incorporated in 1966. They first started out as an audio component retailer. Later in the 1980’s, Best Buy expanded into the video component retailing. In 1983, is when the company formally changed their name to Best Buy. When this changed occurred they began operating as a superstore. This meant that Best Buy was going to be expanding their product offerings and by using mass marketing techniques. Later that decade, in 1989, they decided to get rid of their employee commissioned based structure and instead the employees would become educators of the products. Best Buy operates under the mission statement, “To make technology to deliver on its promises to customers.” Their goals are to help customers realize the benefits and the technological changes of technology to enrich the customer’s life. The company used to operate on a low-price strategy, but would later change to a service-oriented strategy. They mad this change to better cater to their customers’ needs and to compete with brick and mortar stores, like Wal-Mart. To even better cater to their customer’s needs, they decided to invest in an extensive sales training for their sales associates. This was to help associates gain a better understanding of the products they offered and in the assisting of customers. In 2000, they launched their own retail website, BestBuy.com. The growth of Best Buy was massive extremely fast. They decided that with their financial excellence, they would decide to expand through acquiring companies that best suited their company. These acquisitions started in 2000 with Magnolia Hi-Fi. Magnolia Hi-Fi is a high-end retailer of audio and video products and services. In 2001, Best Buy acquired Future Shop Ltd. This acquisition helped Best Buy in two different ways. The first way is that it broke Best Buy into the international market of Canada. The second way is because they acquired the leading consumer electronics retailer in Canada. In the same year, Best Buy purchased MusicLand, which is a mall-centered music retailer. In 2002, they acquired Geek Squad. This helped develop technological support for their customers. They later acquired Pacific Sales Kitchen and Bath Centers Inc., which developed an entire new customer base. This acquisition added the customer base of builders and remodelers. In 2007, they made another acquisition of Speak Easy, Inc. This company they acquired was a provider of broadband, voice, data and information technology. In 2008, Best Buy acquired Napster, which was a digital download provider. All of these acquisitions led to the fast growth of Best Buy over the past decade. This is also what made the company who they are today. The company is now the largest consumer electronics retailer in the United States. The next thing to look at is what Best Buy’s strengths and weaknesses over time was (Hill and Jones, 2013).

# Best Buy’s strength and weaknesses over time

The company has had many strengths and weaknesses in the growth of their company.

**Strengths**

The strength that has always been there for Best Buy is their financial strength. The reason this is a strength for the company is because it resulted in the acquisition of many companies. These companies would not have been an option for a company that didn’t have the financial resources to do so. Another strength that was acquired over time was the strength in educating their employees about the products they offer. This kind of strength helps in educating the customers on products and being able to inform them what the best product for that individual is.

**Weaknesses**

There were many weaknesses the company has faced over time. The most relevant weakness was when the company first started. The company was not very popular and was only a retailer of audio components. This weakness would dissolve sooner rather than later because the company executives had a plan that they executed to a tee. Another weakness, that is kind of minor, is the kind of financial stress the company is accompanied to. Best Buy never has had any type of financial stress; so, it may be kind of difficult for the company to understand what it feels like if there was a major financial problem to occur. Along with finding what strength and weaknesses that occurred over time, the external environment that surrounds this company should also be analyzed.

# The nature of the external environment surrounding Best Buy

The first area that can be looked at is the Macro-external environment. This can be assessed through a thorough analysis.

**Technology**

This is a major area to look at when looking at the external environment of Best Buy. Technology advancements are a problem that is tough for just about any company out there. Since Best Buy is directly involved with forming and selling innovative technology products, this directly affects their business. However, it’s not something Best Buy has direct control over; so, they have to be ready to adapt to new technology at the blink of an eye. Technology advances also affects the employees on the floor that have been trained to know each product extensively. If an employee can’t adapt as quickly as the technology grows, the employees are not going through with the mission of Best Buy and customers may think twice before visiting the company to buy a product after making a mistake. As technology continues to advance, product lifestyles and prices decrease. When this happens, margins also decrease. When there are shorter product life cycles, the training costs have to be increased. After that cost is accounted for, they then have to spend more money on research of new product to make sure they are continuing to offer the products consumers desire the most. The next macro-external environment factor that needs to be analyzed is the economics factor.

**Economics**

This is a factor because of the current downturn the economy is going through. The problem that occurs here is that the consumer electronic retail market products aren’t considered necessity items. This means that customers who don’t have a lot of excess cash because of the economic downturn, they won’t spend the cash they do have to buy electronics. During the economic downturn, low-price retailers, like Wal-Mart, may become more influential to customers because they can afford items there. To increase sales revenues, Best Buy is trying to offer customers low-interest financing through many private labeled credit cards. These type of promotions have helped out all retailers continue to improve revenue during the economic downturn. The next factor that needs to be analyzed is the political and regulatory factors.

**Political and Regulatory**

There is only one regulation that might come to interest when looking at political and regulatory factors. This comes into play because of the credit card crisis. This crisis has caused the Federal Reserve to issue new regulations. These new regulations could restrict companies from offering deferred interest financing to their customers. If they are unable to extend these lines, it could have a major negative effect on their revenues. The next factor has to deal with the socio-cultural macro-external environment.

**Socio-cultural**

This is probably one that brings up some concern. For the first time in a while, the CEO of Best Buy stepped down. Brian Dunn took over for the former CEO, Brad Anderson. This has a tendency to be a huge factor in the continued dominance of Best Buy in their market. Even though Brian has held roles as COO and president, it has little comparison to being the CEO of a company that has had continued success. Brian has to learn how his predecessors succeeded in creating the very best strategy for Best Buy, and how to come out of this economic downturn on top of the market (2013).

Along with the macro-external environment analysis, there can be a similar analysis done in the micro-external environment analysis. The first factor in this analysis is the industry Best Buy is in.

**Industry**

As stated above, Best Buy is a part of the electronics industry. To be more specific, their company is a part of the consumer electronics retail market. The industry during the financial crisis has grown and maintained significantly higher profit margins. This has come to a surprise for many who analyze this statistic year round. There are some barriers to entry into this industry. Most of these barriers have diminished due to advancement of technology and globalization. Another process that has negated the customer loyalty barrier, is the increasing popularity of internet purchasing. However there are still barriers to entry in the industry. These barriers include economies of scale and advertising. Best Buy is thriving in both areas. Best buy uses their economies of scale to obtain cost advantages with their suppliers due to the high quantity of orders. They also thrive in advertising because they have the money to out-advertise other smaller companies looking to break into the industry. The next factor that should be analyzed is suppliers.

**Suppliers**

As stated above, Best Buy went through a major phase in the creation of a electronics powerhouse through the acquisitions they made. These acquisitions led to some very important suppliers to the company. The first is Geek Squad, which is a computer service repair provider. These are individuals who also are located on-site to help customers with their computer problems and can also go to a customer’s place of living to repair what needs looked at or to set-up a product that the customer has bought. The other supplier is Magnolia Audio Video, which brought in up-scale customers and brought in an array of audio and video products to the company. The last supplier is Pacific Sales Kitchen and Bath Centers Inc. This brought in array of different customers also, which included builders and remodelers of homes. These are just the major suppliers that make Best Buy differentiate from other consumer electronics retailers. The last factor in the micro-external environment for Best Buy is the competition that they have to deal with.

**Competition**

There is a lot of competition that Best Buy has to potentially worry about. The competition comes in two forms: brick and mortar companies and online competitors. The brick and mortar companies include Wal-Mart Stores, Inc., GameStop Corp., and RadioShack Corp. Wal-Mart competes with Best Buy in the customer service market. They are increasing efforts to become better than Best Buy by offering a wider range of products. GameStop competes with them in the video game marketplace. RadioShack competes with their company in the music and sound market. The online companies include Amazon.com, Inc., and Netflix, Inc. Amazon competes with Best Buy through the online retail market. Netflix competes with them in the video streaming and video market. These are all areas in which Best Buy is known for; therefore, these are the most relevant competitors. The next analysis that has to be done is the SWOT analysis (2013).

# SWOT Analysis for Best Buy

**Strengths**

The main strength for Best Buy is that it accounts for 19% of their market as a consumer electronics retailer. This statistic is a huge indicator that they are completely dominating their marketplace. They also have a strength of trained employees. They train these employees to have an extensive knowledge of the products they have on hand. They must recognize that each customer is unique and have the knowledge to how the customer can obtain maximum enjoyment. As stated earlier, they also have high-quality suppliers that help the company stand out from competition. They also offer superior customer service and top-notch products. With all these elements put together, you have a company that has accounted for almost a quarter of the market. When you have strengths, there are usually a few weaknesses that follow.

**Weaknesses**

The main weakness of the company is that they currently have an inexperienced CEO during a tough economic time. This could be a good thing, or turn out to be a disaster. It all lies on his shoulder and the strategies he comes up with. The next weakness also has to deal with the economic downturn. This weakness has to deal with the high-priced products. These products will not be bought as often, because of the tough economic times. The last weakness is financial stress, because the company and current CEO have never had to deal with it in such a magnitude. The next part of the SWOT analysis is the opportunities of Best Buy.

**Opportunities**

There are many opportunities for the company, especially if the economy starts to turn-around. The first opportunity is that they could continue to grow in acquisitions and new stores around the country. It is a great time to also “rev-up” the current strategy in an attempt to not fall behind. Another opportunity, is to create more innovative products to stay on-top of competition. There are also more opportunities in offering more extensive training to all employees. Lastly there is still an opportunity to lower long-term debt compared to cash after the discrepancy found in 2009. The next thing to be analyzed is the threats to the company.

**Threats**

 The main threat to Best Buy is their continued financial strength. With an economic hardship coming up, they may lose this financial strength and might have to put on hold a lot of the opportunities. The quality of Best Buy’s customer service because of the continued technology advancement. This is discussed more above. The possibility of Federal Reserve restrictions on credit cards is another threat. The reason for this was also discussed earlier. With very little barriers to entry, there is a threat to increased competition within their market. Lastly, the threat that has to do with mostly all the previous points is the economic downturn. The next thing that needs to be analyzed is the corporate-level strategy of Best Buy (2013).

# The Corporate-Level Strategy Best Buy is Pursuing.

Best Buy decided that they were going to terminate the low-price strategy they formerly had and switch to a differentiation strategy. This was something the CEO thought the company should switch to, to make the company stand out from the rest. This change in strategy is what made this company different. They offered higher quality items at higher prices, to differentiate themselves. This corporate-level strategy worked well because it was implemented in the right way, starting with the extensive training to employees selling the products on the floor. Now that we analyzed the corporate-level strategy, we can now analyze the business-level strategy (2013).

# The Nature of the Business-Level Strategy

 The business-level strategy was also changed throughout the years of business at Best Buy. They used to be commissioned employees that only cared about sales. They eventually turned into a non-commissioned approach. They became more customer centered. They wanted to make sure that every customer experience was spot-on. They didn’t want one customer ot leave not helped, or disappointed in their experience. Every acquisition the company made in the 2000’s was to add to the customers overall experience with Best Buy and to build that loyalty so customers come back (2013).

# Analyzing Structure and Control Systems

 The low-price strategy was changed to the differentiation strategy. This new strategy definitely fit the company. This is because they offered different products at different prices than the competitors. This helped them form into themselves and beat out many of their competitors. Another change they made was from a commissioned based company, to a non-commissioned based company. This also worked out well because it built customer loyalty because customers were being entertained by the very best sales associate when it came to the knowledge of the products. This of course is what moved into the customer centric model. Overall, it is safe to say that Best Buy is doing well in their structure and control systems. All of the ones they switched to, turned out successful and are what keeps Best Buy leading their industry for all these years (2013). Lastly, to complete the analysis there is a recommendation that can be made.

# Recommendation

There is not a lot of recommendations that need to be made to Best Buy. They are currently thriving in a tough time. They have the right mind-set to cater to the people who buy their products in about every way imaginable. If there was one recommendation, they should invest into making an online video stream that competes with Netflix. To beat out Netflix, they could offer newer videos to stream. Maybe they should buy or acquire Hulu.com to accomplish this. This is the only recommendation that Best Buy needs. The new CEO just needs to come up with a new strategy to adapt to the financial stress like the past CEO’s of the company. After this is complete, they should have no problem in the future after overcoming the tough economic times.

In concluding, Best Buy is doing everything right to be the very best in their market. We learned a little about the history/growth of the company. There were also many external factors both macro and micro. The SWOT analysis was performed to find out the company’s strengths and weaknesses. We also analyzed the corporate level strategies, differentiation strategy, and the business-level strategy, being customer-centered. There was also an analysis done to analyze the structure and control systems. Lastly, there were very minor recommendations to add to Best Buy that included forming a video stream, like Netflix, offering newer movies. After all the analysis being complete, there should be a better understanding of the company.

References

Hill, C. W. L., and Jones, G. R. (2013). *Strategic management, an integrated approach* (pp. C17 C25, 10th ed.). Mason: South Western. ISBN 9781111825843