



extremely limited specialized support staff, it would seem that Best Buy has the potential to not only retain, but extend, this lead. Disappointingly, however, a recent consumer survey revealed that customers perceived Best Buy's service as only average, placing Best Buy flat even with Amazon and only slightly ahead of Costco and Walmart. While the customer service expectations of a consumer entering a Best Buy are likely higher than when entering a Costco or Walmart, Best Buy cannot lower the bar to those levels simply because CompUSA and Circuit City are no longer around.⁷⁸

Best Buy refers to its overarching plan for its future as the "Connected World" strategy. Best Buy defines this approach as follows: "Broadly defined, our Connected World strategy is based on the goal to demystify and humanize technology to help customers get the most out of the rapidly expanding role that technology plays in their lives."⁷⁹ Major objectives associated with this goal include growing the Bestbuy.com web presence to capitalize on online opportunities, expanding the Best Buy Mobile segment in the US, utilizing its size and scale to improve returns in international markets, and increasing its presence at a reduced cost by increasingly relying on stores with a smaller footprint.⁸⁰ As a positive indication of the potential of its international expansion, compared to many firms that experience a high failure rate in their foreign acquisitions, the vast majority of Best Buy's acquisitions of foreign electronics companies have been profitable.⁸¹ This suggests that the firm knows how to bring the benefits of Best Buy's scale and experience to its acquired firms without requiring conformity in areas that could dilute the location specific strategies that made the acquired firm desirable in the first place.

While Best Buy has standardized many of its processes across its big box stores to create economies of scale and reduce operating costs, as illustrated by its management of acquisitions, Best Buy remains flexible in many novel ways including its understanding of the benefits attached to supporting entrepreneurial innovations initiated at the store level. For example, noticing the large Brazilian population near a Manhattan store, store managers hired Portuguese-speaking staff to better serve that population segment and brokered a deal with a Brazilian cruise company to bring tourists to Best Buy as a stop on their trip.⁸² With a company culture that values the ability to recognize opportunity and spearhead this type of initiative, Best Buy is more likely to develop company policies that allow it to compete successfully with small local competitors both domestically and abroad.

As for innovation beyond the big box model most often associated with Best Buy, the rapid financial success of the new Best Buy Mobile stores in the US and Canada, as well as the ongoing profitable growth of the Carphone Warehouse stores in Europe suggest that Best

Buy has the capabilities necessary to compete in this market. Furthermore, the speed with which Best Buy Mobile stores in North America went from non-existent to successful suggests that Best Buy may be particularly adept at adapting knowledge gained in one locale to another.

Financial Results

The above strategies have resulted in the financial outcomes examined in this section. Despite a 1.16 percent increase in gross revenue, Best Buy's fiscal year 2011 net income dropped 3 percent (see Exhibits 3A and 3B for an overview of BBY financial performance). A key component of Best Buy's decreasing net income was an increase in selling, general, and administrative (SG&A) expenses. From 2010 to 2011, SG&A increased \$452 million, or 4.4 percent, and followed its 2009 to 2010 increase of over 10 percent. Clearly, Best Buy did not adjust its fixed costs when revenue growth went into decline.⁸³ Although its increased expenses were well masked by gains in other segments, the economic downturn and changes in the competitive nature of the industry have affected Best Buy. While its average revenue growth over the last five years was 10.26 percent, it slowed to 7.9 percent in the last three years, and became downright sluggish in fiscal year 2011 at 1.16 percent.

Best Buy's domestic sales contribute 74 percent of total gross revenues—\$37.2 billion compared to \$13.1 billion from the international segment (see again, Exhibit 2). In the international segment, Best Buy's primary regions are Europe with 10.9 percent of total revenue (\$5.5 billion), Canada with 10.8 percent (\$5.4 billion), and China with 3.9 percent (\$1.9 billion) (Exhibit 4). Beyond these three, the total of all other foreign sales contribute the remaining .03 percent (\$155 million) of total revenue. Historical financial reports demonstrate that revenue growth as a percentage of sales is greatest in the international segment of the firm; from 2007 to 2010, international gross revenue increased an average of 15 percent per year as opposed to less than 6 percent in the domestic segment.⁸⁴

Looking at the product categories that Best Buy sells, consumer electronics comprise 37 percent of US sales (down from 39 percent in the previous fiscal year) and 21 percent of international sales (up from 20 percent) (Exhibit 2). Home office equipment was the largest component in foreign sales at 55 percent, which was a 2 percent increase from prior year sales. In the US, home office equipment accounted for 37 percent of sales, up 3 percent from the previous year. In total, the remaining categories of entertainment, appliances, services, and other made up 26 percent of US sales (down 1 percent as a group) and 24 percent of international sales (down 3 percent).⁸⁵

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**Exhibit 3A** Best Buy Income Statement (in millions)

Fiscal Years Ended	\$ in millions, except per share amounts		
	February 26, 2011	February 27, 2010	February 28, 2009
Revenue	\$50,272	\$49,694	\$45,015
Cost of goods sold	37,611	37,534	34,017
Restructuring charges — cost of goods sold	24	—	—
Gross profit	12,637	12,160	10,998
Selling, general and administrative expenses	10,325	9,873	8,984
Restructuring charges	198	52	78
Goodwill and tradename impairment	—	—	66
Operating income	2,114	2,235	1,870
Other income (expense)			
Investment income and other	51	54	35
Investment impairment	—	—	(111)
Interest expense	(87)	(94)	(94)
Earnings before income tax expense and equity in income of affiliates	2,078	2,195	1,700
Income tax expense	714	802	674
Equity in income of affiliates	2	1	7
Net earnings including noncontrolling interests	1,366	1,394	1,033
Net earnings attributable to noncontrolling interests	(89)	(77)	(30)
Net earnings attributable to Best Buy Co., Inc.	<u>\$ 1,277</u>	<u>\$ 1,317</u>	<u>\$ 1,003</u>
Earnings per share attributable to Best Buy Co., Inc.			
Basic	\$ 3.14	\$ 3.16	\$ 2.43
Diluted	\$ 3.08	\$ 3.10	\$ 2.39
Weighted-average common shares outstanding (in millions)			
Basic	406.1	416.8	412.5
Diluted	416.5	427.5	422.9

Source: Best Buy Co. Inc. Form 10-K For fiscal year ended February 26, 2011. sec.gov. [Online] May 17, 2011. [Cited: May 17, 2011]. <http://www.sec.gov>

Exhibit 3B Best Buy Consolidated Balance Sheet (in millions)

	February 26, 2011	February 27, 2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,103	\$ 1,826
Short-term investments	22	90
Receivables	2,348	2,020
Merchandise inventories	5,897	5,486
Other current assets	1,103	1,144
Total current assets	10,473	10,566
Property and Equipment		
Land and buildings	766	757
Leasehold improvements	2,318	2,154
Fixtures and equipment	4,701	4,447
Property under capital lease	120	95
	7,905	7,453
Less accumulated depreciation	4,082	3,383
Net property and equipment	3,823	4,070

(Continued)

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