of a bricks-and-mortar operation with less than average lease obligations, payroll, insurance, utilities, and the like.[38] Because of these cost savings, Amazon has been able to engage in price wars to increase market share and profits. Second and as previously discussed, because Amazon does not have physical retail locations, it is able to sell its products without sales tax in most locations, giving it an automatic price advantage of several percent over bricks-and-mortar competitors in most states.[39] As might be expected, Amazon's operating results—even in the midst of a recession—have been impressive. The firm has averaged 32 percent annual revenue growth between fiscal years 2008 and 2010 and, with growth of almost 40 percent during the last year, this growth is accelerating. During this same three-year period, the firm's net profit margin remained stable at 3.37 percent.[40] These results support investors' optimism for Amazon's future and account for the 33 percent increase in its stock price.[41]

Walmart. Sam Walton opened a five-and-dime store as a franchisee in 1945. After the franchise owners dismissed his idea of opening discount stores in small towns, he and his brother Bud opened their first Walmart store in 1962. The firm grew quickly and is now the largest retailer in the world. Although most of its sales come from Walmart and Sam's Club stores in the US, Walmart's international division is growing rapidly and has established its presence in Canada, Mexico, Europe, and Asia.[42]

Walmart stores epitomize the "big box" model of retail. The firm operates stores that range from large to gigantic with product offerings designed to meet most of the needs of the average consumer. While the mega retailer officially falls within the "Discount and Variety Retail" industry, depending on location, its major product offerings may include groceries, pharmacy goods, gasoline, clothing, furnishings, music and video entertainment, software, office products, sporting goods, toys, consumer electronics, and appliances. Additionally, the firm has a significant online presence, has dabbled in online music downloads, and is considering a video downloading venture.[43]

Walmart uses its unmatched economies of scale and scope, considerable bargaining power with suppliers, as well as well-developed logistical competencies to offer a broad range of merchandise at prices that competing firms have a hard time matching.[44] While Walmart does not classify itself as an electronics retailer, it is second in electronics sales only to Best Buy—and gaining. It is important to note however that most of Walmart's electronics sales come from lower-end audio/video products where margins tend to be lower.[45]

Similar to most businesses considered in economic terms to carry inferior products, Walmart fared well during the recession. While revenue growth was modest and stable from fiscal year 2008 to 2011 at 3.65 percent per year, the firm's net profit margin steadily increased from 3.3 percent in 2009 to 3.89 percent in 2011.[46]

Costco. The firm known today as Costco Wholesale resulted from the merger of Price Club and Costco Wholesale in 1993. Price Club was founded by Sol Price in 1975, and the original Costco was founded by Jeffrey Brotman, a former executive VP of Price Club, in 1983. The merger of the two firms and its subsequent growth in the US, Canada, Mexico, Europe, and Asia makes Costco Wholesale the largest wholesale club in the world. Though Costco locations offer limited variety within each product type, the scope of its product offerings is wide and includes fresh foods and groceries, household items, clothing, jewelry, pharmacy, office supplies, tools, automotive supplies, consumer electronics, furniture, insurance, payroll and travel services, and even car sales.[47]

Costco offers products that are of a slightly higher quality compared to other mass-market merchandisers, often contracting with upscale brands for large quantities of a certain product. These products may then be sold under the original brand name (or a version of it) or, alternatively, rebranded and sold under Costco's Kirkland Signature store brand that, as store brands go, has come to have an upscale image. Costco is able to offer low prices by almost exclusively stocking items that sell quickly, allowing it to take a smaller margin on each item while continuing to provide exceptional value to its customers and maintaining a high level of profitability.[48]

As is the case with Walmart, consumer electronics is only a portion of Costco's business. Best Buy attempts to maintain an edge over discounters like Costco by offering superior service, a bigger selection, and cutting-edge technologies. However, with the recent economic downturn, consumers have been more reticent to jump into buying the newest technologies, making Costco's "garden variety" offerings and low prices quite appealing. The firm has also made some progress on the service front. While its departmental service remains limited, the addition of its "Concierge" program—offering after-sale technical assistance via telephone and a free second year warranty—is beginning to encroach on benefits typically dominated by specialty retailers.[49] In addition, Costco has begun to develop relationships with premium suppliers like Sony, allowing it to sell higher-end products that were once distributed only by specialty electronics retailers.[50]

Despite its discounted pricing, Costco's reputation for higher product quality backfired during the economic recession as many customers returned to their "bare bones" purchasing habits. This likely explains Costco's 6.57 percent three-year revenue growth average compared to its five-year average of 8.05 percent. Nevertheless, Costco's traditionally low net profit margin has been stable with a 1.65 percent average between 2007 and 2010.[51]

Radio Shack. In 1963, Charles Tandy purchased a financially distressed electronics parts distributer named Radio Shack to add to his investment portfolio. Within ten years, the Radio Shack portion of his portfolio accounted for 50 percent of sales and 80 percent of earnings. Between 1973 and 2010, the firm undertook multiple acquisitions and divestitures in industries as diverse as furniture, trucking, and consumer credit, but the small format Radio Shack branded store remained at the center of business.[52]

Radio Shack's primary industry is consumer electronics. Despite offering a small variety of traditional consumer electronics including televisions, DVD players, stereo equipment, MP3 players, navigation systems, electronic toys, etc., the company is most well known for its selection of batteries, electronic parts, and components—a market niche that has not been intruded upon by its larger competitors. However, Radio Shack has lost market share of traditional consumer electronics to Best Buy in recent years and its specialty electronics and components business has not been profitable enough to carry the chain. In response to this difficulty, Radio Shack (or "The Shack" as it is trying to rebrand itself) shifted its emphasis to the sales of cell phones and wireless contracts for three major carriers—a shift that resulted in a significant financial turnaround for the firm.[53] However, major cell phone companies have reduced the profitability of the cell phone brokering business and this will cut into Radio Shack's profits and growth beginning immediately.[54]

At this point, Radio Shack's operating results still tell a story of recovery. Revenue growth in 2010 was 4.6 percent compared to an average of 1.7 percent for the three years prior and −2.52 percent for the five years prior. Net profit margins also increased markedly after Radio Shack's emphatic switch to mobile phone and contract sales, averaging 4.88 percent for the four years since refocusing, compared to a net profit margin of 1.54 percent for the year before the change.[55] However, net profit margins have stagnated at recent levels (4.61 percent for YTD 2011) and have nowhere to go but down as the cell phone business becomes increasingly less profitable.

The Big Picture

Reporting Segments

Best Buy's operations are divided into two main segments. The domestic segment accounts for the bulk of Best Buy's revenues ($37.1 billion of $50.3 billion in 2011), and is made up of Best Buy branded big box stores, a number of Best Buy Mobile, Geek Squad, Pacific Sales, and Magnolia Audio Video stores, as well as the Napster brand. The international segment is made up of relatively fewer Best Buy stores and an eclectic mix of appliance, electronic, and cell phone store brands Best Buy has acquired in its forays into international markets. This division accounts for $13.1 billion of 2011 revenue.

Both the domestic and international divisions generate revenue through sales in six main categories: consumer electronics (televisions, home theater systems, and DVD players), home office (computers and cell phones), entertainment (DVDs, Blu-ray discs, and video game software), appliances (refrigerators, washing machines, and vacuums), services (installation, repair, and support), and other (non-core items such as food and beverage). As shown in Exhibit 2, consumer electronics and home office products account for the bulk of sales in both divisions while entertainment makes up a significant portion of sales (14 percent) in the domestic division, and the appliances and services segments make up a significant portion of sales (9 percent each) in the international division.[56]

Retail Formats

Best Buy Big Box Stores. These large format stores account for the bulk of the firm's domestic operations and are beginning to become more prevalent abroad. The stores are designed to be one-stop shops that meet all of the consumer electronics and home appliance needs of its customers. These stores offer a wide variety of brands and models in each of the product segments listed above including premium brands (such as Sony, Apple, and Samsung in the consumer electronics segment) as well as lower-cost brands (such as LG), and more recently, low-cost store brands (such as Insignia). In addition, many Best Buy stores now offer the Best Buy Mobile store-within-a-store feature and access to Geek Squad services, with plans to outfit the remaining stores with these services as well.[57]

Best Buy's big box stores have been profitable in the US, Canada (where Best Buy also operates Future Shop large format stores—giving the illusion of competition), and Mexico. In its original plans with European joint venture partner Carphone Warehouse, Best Buy announced it would open its first stores in 2009 and "a hundred or so" big box stores in the UK (later re-estimated at 80) and 200 across Europe within four to five years.[58] After opening its first location a year late in 2010, Best Buy Europe CEO Scott Wheway speculated it would have another nine stores open within the year.[59] As of the mid-year mark in 2011, Best Buy Europe had managed to open ten locations in the UK and was going