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**ONLINE** MAY 13, 2013

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This article was originally published by Booz & Company.

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The big box retailer badly needs a good dose of strategic innovation. Is it up to the task?

**by Ken Favaro**

A decade ago, if you wanted to invest in Best Buy Company, you had to pay 17 times the company's earnings to acquire its shares. The market expected significant growth and healthy profitability. And its forecasts proved to be right: Since 2002, Best Buy has added more than 3,500 mammoth stores, US$30 billion of incremental revenues, and $1 billion of additional profit. Moreover, its return on equity (ROE) rose from an already high 23 percent to an incredible 36 percent between 2002 and 2008—when the financial crisis peaked—and remained solid through 2011.

In 2013, however, despite a level of profitability and net cash flow that would be the envy of many other companies, Best Buy's shares cost less than 10 times the company's earnings. That's a discount of more than 40 percent from the S&P 500, even though Best Buy's ROE is 50 percent higher than that of the average S&P 500 company, and its stock has recently benefited from both buyout speculation and a recent deal to open Samsung brand shops in 1,400 of its stores. Why? The market sees what you see: Best Buy is getting squeezed by the competition on multiple fronts. You can get the same (if not greater) range of products at lower prices with greater convenience from Amazon and Walmart, and cooler products from cooler places like the Apple store. Why does the world need Best Buy anymore?

Indeed, the only way to justify Best Buy's lowly valuation is to forecast negative growth from here to eternity. In effect, the market is saying that Best Buy will go the way of Circuit City, Borders, and Woolworth. To prove the market wrong, Best Buy badly needs a good dose of strategic innovation.

But is the company up to the task? Companies, particularly long-dominant ones such as Best Buy, find it almost impossible to change course to the extent demanded by a truly innovative strategy. The same traits that helped them grow and succeed at ever-larger scale—including dominant assets, repeatable processes, clear roles, and practiced expertise in key functional areas—make them heavy, inflexible, and too complex to act decisively when the winds shift. Even in the best of times, such firms struggle to adopt innovations that might upset their finely honed management systems and business models.

But that explanation tells only part of the story. It's not just that companies struggle to *implement* innovative strategies, it's that they struggle to *develop* them in the first place—despite the enormous time and money they spend every year on innovation and strategic planning. In our experience, this breakdown occurs because companies tend to operate in ways that limit and suppress their strategic intuition. There are four primary reasons for this situation.

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First, consider a common corporate mantra: "Think big." For some business leaders, setting big goals is a way to motivate the troops, excite the bosses (or shareholders), create a sense of urgency, or stretch their companies for greater effort. Yet goals themselves—even the big, hairy, audacious kind—rarely lead to new ideas. In fact, business history shows that big goals actually tend to follow rather than precede strategic innovation. For example, Google's mission to digitize the world's information came after it put together the pieces of its search-based business model. Further, goals at most companies are used more frequently to express their aspirations, particularly financial ones, than to drive strategic innovation. No amount of aspirational goal setting at Best Buy—"to become the place of choice for high-touch sales and service in consumer electronics" or "to produce consistent double-digit EPS growth"—will produce the innovative answer to its existential threat. More likely, it'll just get in the way.

A second barrier is the sadly ubiquitous practice of "brainstorming." Employing brainstorming in the context of strategic innovation has a fatal flaw: It relies on leveraging what people in the room already know to try to solve a problem that is different in kind—not just degree—from anything they've seen before. It is extremely unlikely they have a solution ready to be shared.

Third, there is the typical strategic planning process. Despite its supposed focus on strategy, this annual corporate ritual is actually another obstacle on the path to strategic innovation. Normally beginning a few months ahead of budgeting, its primary purpose is to gain early alignment on financial outlooks and investment. Most strategic planning is concerned with running the business, not disrupting it, so it's really no surprise that innovative strategy development is rarely an objective. You can bet that Coca-Cola's "anchor bottlers" innovation, Google's discovery of how to monetize search, or Nucor's mini-mill disruption of the integrated steel industry did not originate from an annual offsite meeting. Best Buy has to run the business it has, and its strategic planning process is apt to be consumed by the challenges of doing that.

Finally, there is a less tangible but equally powerful barrier at most companies. Corporate behaviors interfere with how the individual mind generates ideas. If you've ever worked in a large company, you've likely seen people categorized as either right-brained (those creative and intuitive types) or left-brained (those members of our logical and analytical subspecies). However, recent neuroscience shows us that analysis, reasoning, and intuition work together as a single mode of thought that employs the whole brain. Companies want you to believe that "thinking outside the box" means conjuring up something completely new from your imagination—presumably from the right (creative) side of your brain. Yet neuroscience tells us that "thinking outside the box" actually means looking in other boxes (ideally as far afield as possible), a process that's as analytical as it is creative.

In the normal course of business, there is nothing fundamentally wrong with any of these practices, but they can become formidable barriers to tackling strategic challenges that demand true innovation—and a reliance on them could be fatal for Best Buy.

So how can Best Buy produce the strategic innovation it needs to prove the markets wrong? By answering these five questions:

**1. What issues must be solved in order to overcome Best Buy's strategic challenge?**

**2. How can we design an unconstrained search for each element of Best Buy's strategic challenge?**

**3. Has anyone, anywhere, at any time solved any piece of the puzzle?**

**4. Which precedents offer the most promise for a breakthrough solution?**

**5. What creative combination of which precedents would crack Best Buy's challenge?**

Looking at Question One, we see several elements to Best Buy's strategic challenge, including:

• A massive investment in supersized and now undifferentiated retail spaces that have lost their appeal to many consumers

• The ability of consumers to compare prices of consumer electronics through the Internet

• The emergence of new, more compelling retail propositions—cheaper, more convenient, or "way cooler"—from the likes of Walmart, Amazon, and Apple

This combination of elements did not exist when Best Buy was trading at 17 times its earnings. And since no one has successfully faced this particular challenge before, Best Buy won't find solutions from benchmarking, best practices, consumer research, competitor analysis, or freewheeling brainstorm sessions.

Best Buy needs to look elsewhere to find inspiration. It must begin by answering the second question above: How can we design an unconstrained search for each element of Best Buy's strategic challenge? Leaders must disassociate each element of Best Buy's strategic challenge from its specific industry and situational context. As an example, the first element could be reframed as "a massive, aging legacy asset that is core to the business." For this piece of the puzzle, Question Three becomes: "Who has successfully repurposed or optimized an aging asset that was core to their business?" Now we are thinking more deeply about an important piece of Best Buy's overall issues, and we can allow the mind to wander more freely to address Question Four: Which precedents offer the most promise for a breakthrough solution?

As Best Buy's managers look for precedents through the lens of legacy assets, wholly new sources of inspiration will emerge. For instance, they might consider the High Line in Manhattan, where an unused elevated railroad track was reimagined and converted into a popular park. Or maybe IBM's metamorphosis from a product-focused company to a service-oriented company will inspire new thinking. In making this transformation, Big Blue converted one of its core assets—an immense, highly educated product sales force—into a solutions-selling powerhouse. Or, closer to home, Best Buy might find revelation in Restoration Hardware's move to repurpose its stores from product sales outlets to design galleries and showrooms.

Of course, not all precedents offer the promise of a breakthrough solution. It is unlikely that Best Buy will turn into the next High Line, but there are certainly pieces of these precedents that could hold parts of the overall answer.

To discover the breakthrough strategic innovation it requires, Best Buy must deconstruct its challenge into elemental pieces and then answer Questions Two, Three, and Four for each piece. Only then can executives tackle the last question: "What creative combination of which precedents would crack Best Buy's challenge?" Is it some particular mix of insights from the approaches of High Line, Restoration Hardware, or IBM that could revitalize a wasting asset? Could Best Buy become the universal arbiter of digital products, in the way that the Common Application developed by U.S. universities has become the universal translator of college applications? Or could Best Buy become a customer's lifelong electronics partner, learning from Dubai's Mashreq Bank, which seeks to become its customers' lifelong financial partner by tying their interest rates and perks to how many accounts they have with the bank? None of these precedents will provide the whole answer to Best Buy's strategic challenge. But with a broad search across all the most important elements of its existential challenge, Best Buy will have enough precedents to produce the inspiration that leads to a truly innovative and complete solution.

The good news is that Best Buy has time. Dominant businesses don't expire quickly, especially profitable ones that annually generate enormous cash flow. But time guarantees nothing. Best Buy will probably undertake incremental product, service, and category innovations; cost reduction drives; pricing and promotion campaigns; real estate deals; store retrenchments and remodels; store-within-a-store tie-ups (such as with Samsung); new formats; recapitalizations; and many other laudable initiatives to keep it moving forward. In the near term, many of these will "work" (meaning they will help slow or even halt the downward slide for a period), and at times that could make it seem as if Best Buy has turned the corner. But in the longer term, these strategies won't yield the true strategic innovation that Best Buy needs to prove the market wrong—and thwart the Grim Reaper for good. +

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is published by PwC Strategy& Inc.
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