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TEACHING NOTE

Best Buy Co., Inc.

Structure of the Case

After having just two CEOs in its first 43 years of operations (Richard Schulze and his successor, Brad Anderson), Best Buy went through three top leaders in a six-month period in 2012. Brian Dunn resigned in April after just three years at the helm amidst a personal scandal. At the same time, founder Schulze stepped down from his role as Chairman of the Board and tried to reassert his control via a bid to take the company private. Hubert Joly assumed the lead position from interim CEO George Mikan in August 2012, and immediately sought to turnaround Best Buy and return it to profitability.

Since appointing Hubert Joly as CEO in 2012, the value of Best Buy's stock has climbed an impressive 240 percent. However, success brings increased expectations and Best Buy's many competitors have not been idle. Amazon, in particular, is a concern with its 2017 acquisition of Whole Foods now giving it a physical presence where customers may be able to pick up purchases, including consumer electronics. In a partnership with Sears, Amazon is also rolling out appliance sales nationwide in 2017. Best Buy's stock price may owe as much to the struggle of other traditional retailers as to its own success. Best Buy has also increased its reliance on the North American market, and insider stock sales outnumber purchases. Best Buy is investing in sales consultants that go to customer's homes. It is unclear whether this will work, and it is either possible that Best Buy may provide a glimpse of what the future may look like, or these moves may simply prelude the firm's demise.

The case next describes the company's history. Best Buy was founded by Dick Schulze as an audio specialty store in Minnesota in 1966. It grew rapidly over the next few years, holding an IPO in 1969 and reaching $1 million in annual revenues by 1971. The company continued to expand by adding locations and product lines, changing its name from Sound of Music, Inc. to Best Buy in 1983. Shortly thereafter, Best Buy adopted its now-familiar superstore format with an increasingly diversified product range. It went public on the NYSE in 1987. Best Buy's next retail innovation, named Concept II, combined a grab-and-go format with low prices and a wide assortment in 35,000-square-foot retail warehouses. The success of this approach propelled Best Buy to $1 billion in sales revenues and landed it on the Fortune 500 by 1995. In 2000, Best Buy entered a new phase of inorganic growth through acquisitions, purchasing multiple companies both domestically (for example, Magnolia, Geek Squad, Napster) and abroad.

Best Buy's history dovetails with the development of the consumer-electronics retail industry, which also expanded rapidly in the second half of the 20th century. Demand for home electronics increased with the post-World War II suburban migration, with strong growth continuing through the mid-1990s. As the electronics retail industry matured, smaller competitors went out of business while superstores like Best Buy and Circuit City increased their control of the market. The next major shift occurred when Amazon pioneered online retailing in 1998, leading to yet another period of expansion and market consolidation. Revenues tend to be both cyclical (tied to macroeconomic factors) and seasonal (dependent on holiday sales) in nature. Product life cycles have grown increasingly shorter, as manufacturers cannibalize their own products to maintain customer interest and loyalty.

Prior to the 2008 recession, Circuit City was one of the top three consumer electronics retailers (along with Best Buy and Radio Shack). When the weakening housing market led to a decline in consumer spending starting in late 2006, Circuit City was affected disproportionately, as nearly 44 percent of its revenues came from TV sales. The company tried to cut costs but was ultimately liquidated in 2009. The resulting power vacuum led to increased competition in the consumer-electronics industry. Best Buy initially gained a 5.5 percent increase in market share, but started to lose ground as companies like Walmart, Target, Amazon, and Apple entered the fray. One of the major threats came from "showrooming," where customers would go to Best Buy to view and learn about the products, but then purchase them more cheaply from Amazon online. The case provides a synopsis of the strategies of each of these major competitors.

Joly's "Renew Blue" strategy focuses around the company's five major stakeholder groups: employees, customers, supply chain partners, investors, and the broader community. The top management team is almost entirely new, comprised of both insiders and outsiders appointed by Joly over the past three years. The company's emphasis on customer-centricity entails segmenting customers based on demographic, attitudinal, and value tiers, and configuring stores to serve the needs of the predominant customer segments in that region. As opposed to selling products, employees help customers figure out what they need and provide technology solutions. This approach requires significant investments in the company's human resources, to motivate and equip them to build relationships with customers. Another key tenet of Joly's plan is to build strategic partnerships with leading technology companies like Apple and Samsung, as the key to reinvigorating the in-store experience (i.e., the store-within-a-store format). Shareholders benefit from Best Buy's investments in its own proprietary brands as well as the company's decision to divest several international holdings and a plan to repurchase $1 billion in stock.

Despite its recent successes, Best Buy is still a predominantly bricks-and-mortar store with an online presence (just 17 percent of sales are generated online), and has a long way to go toward its goal of becoming an integrated, multichannel retailer. Now that Best Buy's performance has improved and expectations are higher, the really hard work of remaining competitive is required, and it is a delicate balancing act. Under Joly, Best Buy is trying to "be all things to all shoppers" and its value proposition of providing differentiated service with trained staff at competitive prices involves a delicate balancing act. How can that balance be maintained going forward and should it?

Key Concepts

- Core competencies
- Competitive advantage
- Diversification
    - Geographic
    - Online
- Positioning Strategy
- Firm growth
- VRIO analysis
- Stakeholder analysis
- Strategic leadership
- Strategic Implementation

Suggested Questions

1. **Describe the competitive position of Best Buy relative to its main competitors.**

2. **Apply the VRIO framework to determine whether Best Buy has a competitive advantage. If so, is its competitive advantage sustainable? Why or why not?**

3. **What is Best Buy's business-level strategy? What are its main value and/or cost drivers?**

4. **How should Best Buy adjust its business-level strategy considering recent changes in its external environment?**

5. **Consumer electronics is considered a mature industry. Where can future growth come from? How would you go about realizing it?**

6. **Is Best Buy's strategy transferable to international markets? Why or why not?**

7. **Evaluate the competitive forces for the consumer electronics retail industry to identify the forces controlling its profitability (e.g., Five Forces analysis). Is Best Buy positioned for long-term profitability?**

Suggested Answers

1. Describe the positioning of Best Buy relative to its main competitors.

INSTRUCTOR BACKGROUND INFORMATION

Competitive Position: Three steps are used to map the competitive position of different firms in an industry:

1. Identify a list of competitive factors for the market.
2. Select two factors to map competitors. Cost Structure is generally put on the y-axis and another factor on the x-axis, and, in the example, Number of Routes is used.
3. Use the characteristics of firms competing in the industry to map their location. This identifies strategic groups that compete on similar characteristics. Note: The size of the circle is based on revenue or market share.

   See example for U.S. domestic airline industry in **Exhibit TN-1**.

BEST BUY

In developing a map of consumer electronics retailers, two of the main features that distinguish competitors in this industry are their prices and the breadth of selection, and these are displayed along the axes of the graph. Market share is expressed by the relative size of the circle. The case provides online market share information for Amazon, Walmart, and Best Buy, while noting that values for Target and Apple are comparatively smaller.

Regardless of which aspect of the market is diagrammed (online versus in-store, domestic versus global), the relative positions of the companies along these two axes remain basically the same. Thus, what the strategic group map (see below) shows us is that Best Buy is being challenged both on price and selection by other competitors.

As an Internet retailer, Amazon has the lowest cost structure and can therefore beat physical stores on price, while offering a much broader selection of inventory. It is unknown whether its purchase of Whole Foods will be used to compete in consumer electronics. Still, Amazon's market share is growing and Best Buy's is falling. Walmart can price its electronics significantly lower due to the economies of scale it creates through its overall operations. Both Walmart and Target can undercut Best Buy due to lower staffing costs, while catering to customers who do not need expert advice but appreciate the convenience of one-stop shopping. However, because they are general merchandisers, they do not devote as much of their floor space to electronics. Apple, on the other hand, offers a narrow selection of its proprietary products at a price premium, and is also gaining in market share. By opening Apple retail stores, it is taking customers from Best Buy, which once was an exclusive distributor of Apple products. See **Exhibit TN-2** for a depiction of the consumer electronics market in the U.S.

Best Buy's future market share will depend on how it defines its value proposition. There is concern that trying to differentiate and provide competitive prices will lead Best Buy to be "stuck in the middle" of its competitors limiting its ability to keep prices low and provide additional services to customers. For example, customers can visit Best Buy stores to inspect the merchandise in person and solicit advice from their expert sales staff, and then make their purchases from a lower-cost (online) provider.

2. Apply the VRIO framework to determine whether Best Buy has a competitive advantage. If so, is its competitive advantage sustainable? Why or why not?

INSTRUCTOR BACKGROUND INFORMATION

The VRIO framework asks a series of questions (see figure below) to determine competitive advantage. Resources or capabilities associated with a firm are first listed and then evaluated whether they meet the VRIO criteria. Subsequent criteria are generally harder to meet than earlier criteria, and several resources may need to be grouped to be organized to capture value. See **Exhibit TN-3**: "Applying the Resource-Based View: A Decision Tree Revealing Competitive Implications."

Historically, Best Buy's tangible resources have been at the heart of its competitive advantage. For example, its "big box" format provided a vast selection, offered exclusive access to top name brands, and included highly trained salespeople to provide expert advice. The company benefitted from economies of scale that allowed it to keep prices relatively low while covering the expenses associated with maintaining an experienced sales force. Its sales volume also made the store an attractive venue for electronics manufacturers, who were willing to negotiate exclusive contracts to have access to Best Buy's customers.

However, much of the value associated with these resources has been eroded by the advent of online retailing. The Internet provides customers with access to an even broader inventory, while manufacturers can sell direct to consumers without having to maintain physical stores or negotiate distribution contracts with retailers. Internet-based companies like Amazon do not have the overhead expenses associated with maintaining buildings or human sales forces, and can therefore undercut in-store retailers on price.

Joly's strategy has been to harness the value of Best Buy's intangible resources, many of which are still rare and costly to imitate. These include the company's in-depth understanding of its customer base (developed through customer-centricity), knowledge of the consumer electronics retail industry, a reputation for superior customer service, and the technological expertise of its salespeople. A focus on stakeholders from Joly's "Renew Blue" contributed to a successful turnaround.

Still, VRIO analysis begins by listing Best Buy's tangible and intangible resources, and then apply the questions.

Tangible Resources	Intangible Resources
1 Stores and inventory	1 M&A knowledge/inorganic growth success
2 Exclusive brands	2 Customer awareness/knowledge (centricity)
3 Breadth of product selection	3 Strategic partnerships
4 Warehouses/distribution system	4 Brand equity/name recognition
5 Supply chain (agreements with suppliers)	5 Reputation for superior customer service
6 Sales staff	6 Knowledge/skills of industry-leading salespeople
7 Geek Squad	7 Technological expertise
8 Other personnel (truck drivers, managers, etc.)	8 Cumulative retail experience
9 HR training program	9 Competitive intelligence
10 Mobile centers	10 Joly's experience with corporate turnarounds
11 Service plans/warranties	11 Expertise of new top management team
12 Merchandise exchange programs	
13 Financial assets	

BEST BUY

A sample application of VRIO to Best Buy is provided in Exhibit TN-4. The results reveal that Best Buy's core competencies no longer lie in its physical stores or product selection, but rather in its ability to understand customer needs, provide expert technological solutions and high-quality customer service, and to continually innovate the consumer electronics retail experience. The question then becomes how to organize these competencies to capture maximum value in today's highly competitive marketplace.

3. What is Best Buy's business-level strategy? What are its main value and/or cost drivers?

As implied by its name, Best Buy has traditionally competed with an integrated or best-cost business-level strategy, providing added value at costs comparable to competitors. Its main value drivers have been:

- *Breadth of product selection*—Facilitated by its big box format (large volume) and exclusive vendor contracts (selectivity) with name-brand manufacturers such as Sony and Apple.
- *Customer service*—Via customer-centricity, Best Buy customizes each store to the predominant market segment in each region to deepen market penetration. The company also invests heavily in its human resources, to equip them with the necessary technological expertise and customer service skills.

- *Complements*—MBest Buy added service complements to its traditional product offerings. The most well-known is the Geek Squad, which provides 24-hour technology service and repair for a wide range of electronic devices. It also now offers to send sales representatives to people's homes.

To control its cost structure and offer products at comparable prices with the added benefits of a highly trained sales staff, Best Buy also manages the following cost drivers:

- *Economies of scale*—The main advantage of the big box format is economies of scale. Because of its volume, Best Buy can offer a broader selection, carry the necessary inventory on site, and negotiate preferred contracts with suppliers.
- *Learning-curve effects*—Best Buy has a long history as a consumer-electronics retailer, which provides learning curve benefits (to the extent that the lessons of the past apply to the present situation).
- *Experience curve effects*—By leveraging economies of scale jointly with learning curve benefits, Best Buy also benefits from experience curve effects. This is evident in the company's reputation as an innovator of the technology retail experience.

As a best-cost provider, Best Buy also pays careful attention to the following value and cost drivers:

- *Quality*—This pertains to both procuring quality inventory and providing quality service. Customer-centricity helps to ensure that customers purchase the right technology for their needs, and have the requisite knowledge to utilize the technology appropriately. This helps to minimize customer frustration with their purchases and subsequent returns to the manufacturer, or "re-listing," which can cost Best Buy as much as 25 percent of the purchase price.[1]
- *Innovation*—As discussed in the case, Best Buy has a reputation for innovating the technology retail experience, through its earlier Concept II stores and now its Concept IV stores, which include dedicated space to vendors.
- *Economies of scope*—Best Buy achieves economies of scope by carrying a broad selection of consumer electronic devices and cross-trains its staff on multiple technologies. This was one of the benefits Best Buy had over Circuit City, which was overly reliant on TV sales when the flat panel TV price war erupted in 2006.

4. How should Best Buy adjust its business-level strategy in light of recent changes in its external environment?

One of the key shifts in Best Buy's strategic thinking under Joly was to embrace (instead of fear) showrooming. Bringing Best Buy's cost structure in line permitted Joly to implement a new price-matching program, which turned the company's physical assets into a competitive advantage once again. Ads in late 2012 touted Best Buy stores as "the ultimate holiday showroom" where customers could see and touch the merchandise while talking to expert salespeople, all for the same purchase price offered by Amazon or any other online vendor. Joly confidently announced that, "Best Buy has killed showrooming." Although only 10 percent of shoppers utilized the price-matching program, it kept the company from losing many more customers due to "sticker shock." The company's goal was not to be lower priced than the competition, but rather not to be beaten (and lose the sale) based on price. The fact that Amazon now must charge sales tax has also helped to level the playing field between multichannel (physical and online) and online-only vendors.

Another hallmark of Joly's turnaround strategy was to expand the number of "store-within-a-store" alliances with manufacturers of leading technology products (e.g., Canon, Google, Microsoft, Nikon, Samsung, Sony, etc.). While Apple has physical stores of its own, it would require a huge capital investment to duplicate Best Buy's scale and customer reach. Other vendors rely on Best Buy as their main physical presence, with no reported plans to open their own retail establishments. Mobile carriers Verizon and AT&T also highlight their latest wireless technologies and services within Best Buy locations. In an interesting twist, Best Buy began placing its own licensed stores in Macy's locations in November 2015. Macy's has struggled with declining sales and is experimenting with outsourcing its consumer electronics department to the specialty retailer.

The success of Joly's turnaround strategy is demonstrated in Best Buy's strong stock performance over the last 2–5 years. However, other competitors in consumer electronics are not simply remaining idle, and Best Buy risks getting squeezed by Walmart on prices, and Amazon on prices and selection. Amazon is likely the bigger threat, as it is moving into physical stores with the purchase of Whole Foods. While it is unknown if this move will include sales of consumer electronics through an alliance with Sears, Amazon is moving into appliances. In response, Best Buy is investing in its stores and making sales representatives available in people's homes. Both actions increase its costs or limit its ability to compete on prices. Still, it is using its physical stores to offer vendors without retail locations dedicated space in their stores. It is unclear whether these changes will work.

5. Consumer electronics is considered a mature industry. Where can future growth come from? How would you go about realizing it?

Possible growth will come from several sources:

- *Channel extension*—Adding BBY Mobile and other stores, expanding Best Buy's online presence, and continuing to support and refine its core format.

  Best Buy has signed agreements with multiple technology and telecommunications companies to place name-brand boutiques within Best Buy stores. Vendors typically staff the mini-stores with their own sales representatives. Best Buy benefits by developing closer relationships with key vendors, increased customer traffic, and higher sales of cutting-edge, mobile technologies. ,

- *Range extension*—Adding new services to maintain contact with customers throughout the product life cycle. This includes activation [search and sale], maximization [installation, training, and service], protection [warranties and repair], and transition to the next generation [disposal, upgrade, and repurposing].

Best Buy believes that customer-centricity will lead to growth from: 1) developing relationships with the company's most profitable customers; 2) empowering local leaders to devise growth plans; 3) capitalizing on changes in the competitive landscape; and 4) leveraging Reward Zone value propositions. Additionally, Best Buy's recycling program also brings customers to its store locations. Best Buy is also extending the concept of customer to sending sales representatives to customer's homes.

6. Is Best Buy's strategy transferable to international markets? Why or why not?

Highlights of Best Buy's international expansion history include:

- In 2002, Best Buy acquired Future Shop, the largest electronics retailer in Canada. It launched its dual branding strategy by opening the first Best Buy store in Canada in 2003. Dual branding allows Best Buy to maximize its market coverage (both geographically and in terms of customer segments), save on integration costs, retain Future Shop's existing brand equity, and reduce its liability of foreignness. In 2009, Best Buy opened its first Canadian standalone Best Buy Mobile stores, and later added Best Buy Mobile store-within-a-store experiences to all branded locations.
- Best Buy entered China in fiscal 2007 by acquiring a 75 percent interest in Jiangsu Five Star Appliance Co (Five Star), one of the country's largest consumer electronics retailers. The purchase gave Best Buy an immediate retail presence in China, as well as an opportunity to learn more about the Chinese market. It acquired the remaining 25 percent interest in 2009, making Five Star a wholly owned subsidiary. It introduced the Best Buy Mobile concept to select Chinese locations in fiscal 2013.
- In fiscal 2009, Best Buy formed a 50-50 venture with the Carphone Warehouse Group (CPW) to create Best Buy Europe. At one time, it operated approximately 2,400 small-format stores under The Carphone Warehouse and The Phone House names.
- The company opened its first Best Buy branded store in Mexico in fiscal 2009. In fiscal 2013, the company opened its first express small-format stores, focusing on high-frequency convenience purchases and accessory products.

However, between 2013 and 2015, Best Buy decided to refocus its efforts around its higher performing units in North America (including Canada and Mexico) and to exit the Asian and European markets altogether. Best Buy completed the sale of its interest in Best Buy Europe to Carphone Warehouse Group in June 2013 and divested its ownership of Five Star (China) in February 2015. In March 2015, the company also consolidated all its Canadian Future Shop stores under the Best Buy brand. By 2016, international sales only accounted for approximately eight percent of total company revenues.

The decision to sell off all international holdings outside North America suggests that CEO Joly does not see the company's format as translatable to an international setting. At the very least, international expansion is likely too costly an undertaking when the company competes in its core market. International diversification is quite expensive in the short-term, but generally leads to higher performance and increased innovation in the long-term. However, expanding too quickly into too many (diverse) markets can easily become very costly.

It is possible that Best Buy could expand internationally again at some point in the future. However, Best Buy's core competencies, such as customer-centricity and physical stores, would need to be able to transfer to an international setting. Many other large U.S. retailers (for example, Walmart) have struggled when entering foreign markets due to a failure to adapt their business model to local conditions. In terms of the integration-responsiveness continuum, Walmart utilized a global approach to international expansion, seeking to reap economies of scale and location advantages by extending their geographical boundaries. However, the retail industry is driven by consumer behavior, and it tends to be more sensitive than other sectors to cultural norms and values. Because Best Buy's philosophy of consumer-centricity explicitly acknowledges the need to customize services for the local customer (that is, a localization strategy), the company may be able to avoid many of the cultural missteps made by its competitors.

Customer-centricity may confer another advantage in that most national cultures are significantly less individualistic than the United States (which ranks highest among all the countries analyzed by Hofstede). Relationship marketing is likely to be even more valuable in more collectivistic societies, where social ties are stronger and the good of the group is prioritized over individual gains.

7. **Evaluate the competitive forces for the consumer electronics retail industry to identify the forces controlling its profitability (e.g., Five Forces analysis). Is Best Buy positioned for long-term profitability?**

A firm's industry environment is evaluated with Porter's Five Forces analysis (see **Exhibit TN-5**).

The below summary provides the main ideas from a Five Forces analysis for Best Buy.

Buyer Power: Individual buyer power from the standpoint of order size and threat of backward integration is low. However, buyer switching costs are low and mobile phones allow for easy price comparison. Best Buy depends on customer service and competitive prices, and leveraging its physical presence to give it convenience (immediate purchase, customer support) over e-commerce.

Threat of Substitutes: Best Buy sells a mix of branded products and private label brands, such as "Insignia." This limits the threat of substitute products by offering customers its own substitutes for branded products. Additionally, private label products limit direct price comparison, because Insignia products are not available elsewhere.

Threat of Entrants: High rivalry and the cost of establishing and maintaining a physical presence limits the threat of entry. For example, vendors often pay Best Buy to have dedicated space inside its "big box" stores. Still, its customers are price sensitive and display low switching costs, making Best Buy vulnerable to e-commerce (Amazon).

Supplier Power: Best Buy has limited power over suppliers, as it has the largest market share in consumer electronics. However, Apple has created its own stores and other vendors could forward integrate into retail. Best Buy has minimized this by integrating vendors into its store format. This is best shown by Best Buy having a profit margin of approximately three percent and consumer electronics manufacturers having a profit margin near 10 percent.

Industry Attractiveness/Rivalry: The attractiveness of the consumer retail market is relatively low as Best Buy has a profit margin of ~3 percent. This reflects that the level of rivalry in consumer electronics retail is high. As already mentioned, consumers have low switching costs and Best Buy's investment in physical stores and employees is threatened by e-commerce.

Overall, the industry environment suggests Best Buy may not be set up for long-term profitability, and it needs to evaluate its competitive advantage.

Additional Resources

1. Articles

    1. Best Buy stock plunges August 2017 on gross margin warning:

        https://www.cnbc.com/2017/08/29/best-buy-q2-2017-earnings.html

        http://www.barrons.com/articles/best-buy-its-not-getting-better-1504102957

    2. Best Buy now sending sales representatives to customer's homes:

        https://www.theverge.com/2017/8/30/16225014/best-buy-salesperson-home-visits-free

    3. Best Buy was not killed by Amazon (Joly turnaround success):

        https://www.bloomberg.com/gadfly/articles/2017-08-29/best-buy-earnings-recovery-is-a-lesson-for-retail

        https://www.forbes.com/sites/panosmourdoukoutas/2017/08/29/best-buy-beats-amazon/#55ae292869ea

        https://www.benzinga.com/analyst-ratings/analyst-color/17/06/9583011/best-buy-has-proven-it-can-weather-the-amazon-onslaught

        https://www.usatoday.com/story/money/2017/08/29/best-buy-second-quarter-earnings/611204001/

    4. Description of CEO Joly's leadership principles: http://www.investors.com/news/management/leaders-and-success/meet-the-man-best-buy-hired-to-take-on-amazon/

2. Videos

    1. Best Buy You Tube Channel: https://www.youtube.com/user/bestbuy

    2. Best Buy apologizes for selling bottled water for $42 before hurricane Harvey in 2017 (1:26 min): https://www.youtube.com/watch?v=aw08DpSBPr8

    3. Videos commenting on Best Buy's turnaround

        a. http://money.cnn.com/2015/03/03/investing/best-buy-earnings/. (1:10)"Best Buy is not the next RadioShack," March 3, 2015. A video analysis arguing that Best Buy's turnaround was for real.

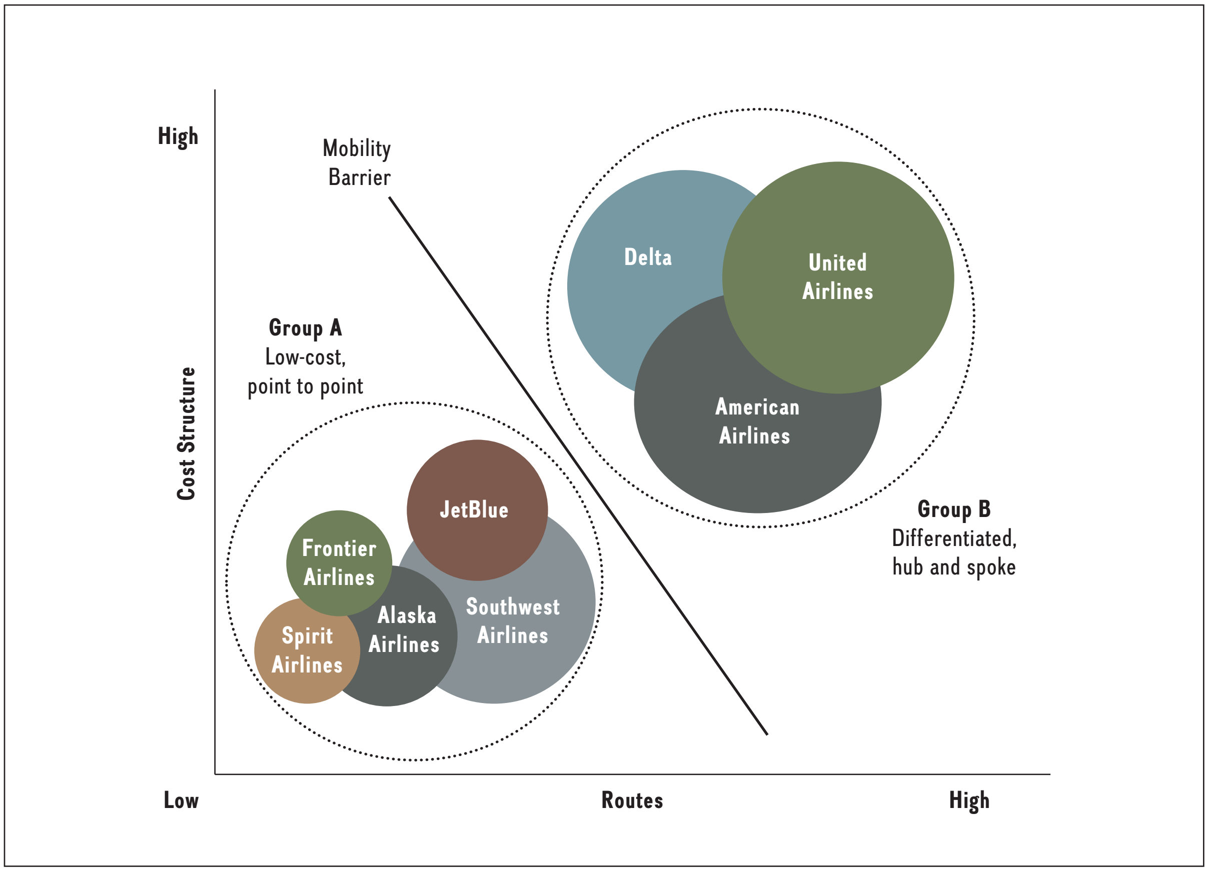
        b. http://money.cnn.com/video/investing/2013/06/03/investing-the-buzz-best-buy.cnnmoney (1:28). "Best Buy finally lives up to its name," June 3, 2013. This is a CNN Money clip analyzing the success of the company's turnaround strategy.

4. Video describing circumstances when Joly became CEO
    a. http://money.cnn.com/video/markets/2012/05/22/mkts-bz-best-buy.cnnmoney/ (1:39). "Best Buy in leadership limbo," May 22, 2012. A CNN Money clip discussing Best Buy's sales and leadership woes after Brian Dunn was forced to step down as CEO due to scandal.

1. Websites
    1. Best Buy: https://www.bestbuy.com/

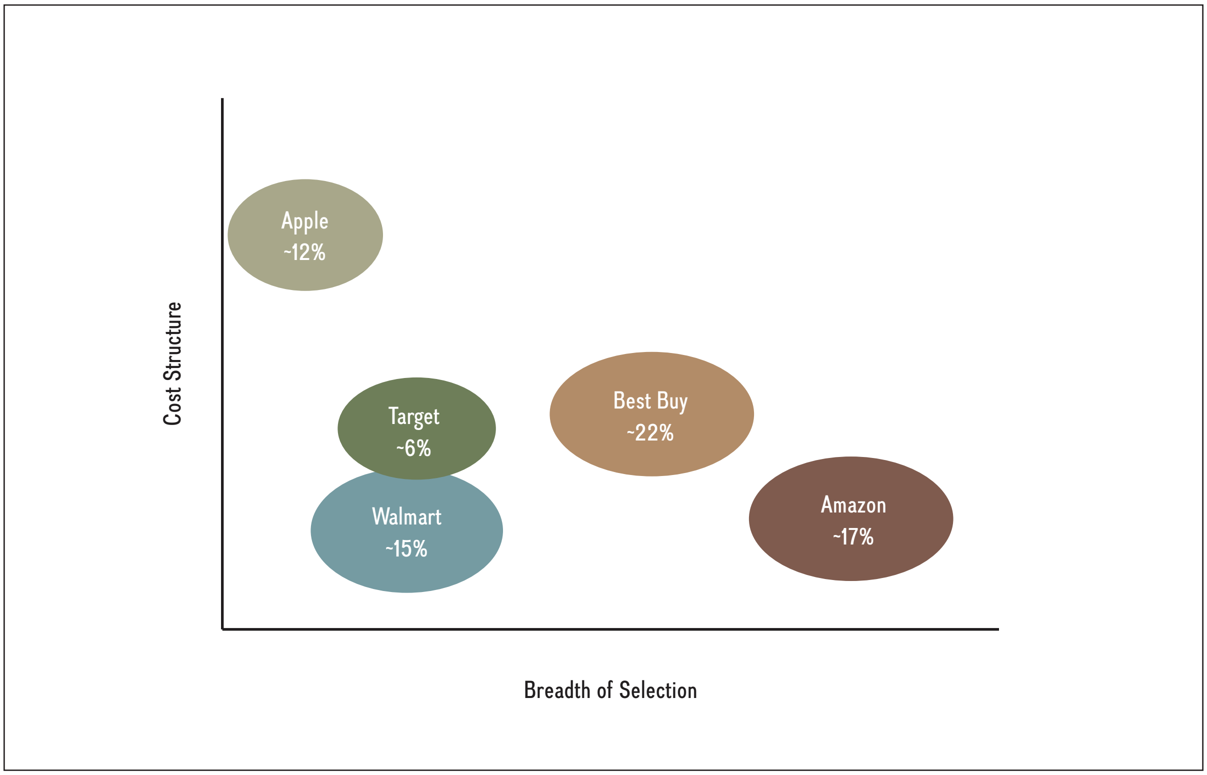
Contact your local representative from McGraw-Hill Education (http://shop.mheducation.com/store/paris/user/findltr.html) for information about access to financial analysis spreadsheets.

EXHIBIT TN-1 Strategic Groups and Mobility Barrier in the U.S. Domestic Airline Industry



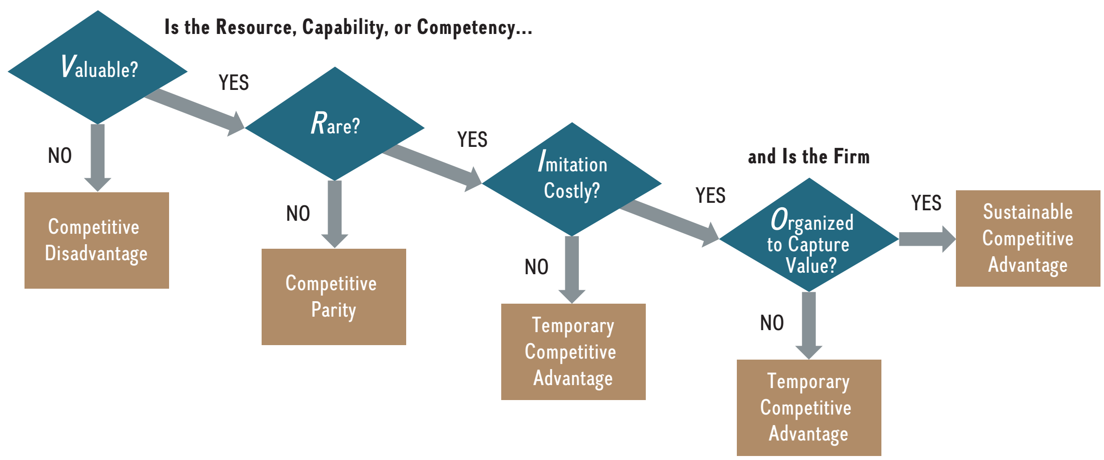
Source: Rothaermel, F. T. (2018), Strategic Management. Burr Ridge, IL: McGraw-Hill.

EXHIBIT TN-2 Consumer Electronics Market in the United States



Source: Author depiction of publicly available data.

EXHIBIT TN-3 Applying the Resource-Based View: A Decision Tree Revealing Competitive Implications



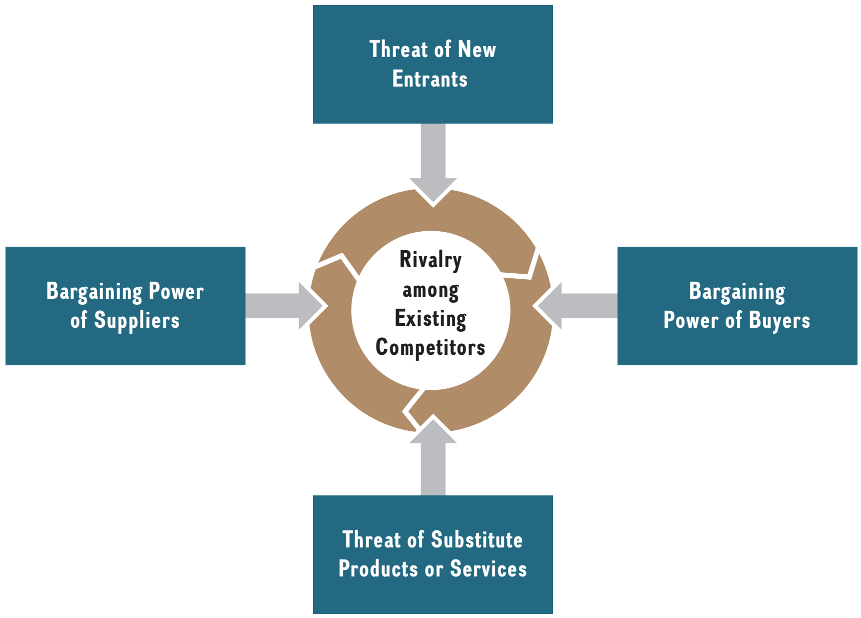
Source: Rothaermel, F. T. (2018), Strategic Management. Burr Ridge, IL: McGraw-Hill.

EXHIBIT TN-4 A Sample Application of VRIO to Best Buy

Capability	Valuable V	Rare R	Costly to Imitate I	Organized to capture value O	Is the Capability a Core Competence? (Usually 3–4 per Firm)
Online retailing	•			?	No—not rare, relatively inexpensive and easy to imitate, and substitutable via bricks-and-mortar stores or third-party websites.
Developing and maintaining superior sales staff	•	?	?	•	Possibly, if Best Buy can maintain employee loyalty and keep them from being hired away by competitors.
Customer-centricity—providing superior customer experience based on segmentation	•	•	•	•	Rare when permeates entire organization and would take significant time/money to imitate.
Developing specialized expertise in technology retail	•	•	•	•	Possibly, but must be continually maintained. May be possible for competitors to copy.
Innovating the retail process and experience	•	•	?	•	Must be continually maintained. May be possible for competitors to copy.
Developing and maintaining strategic partnerships	•		•	?	No—many firms have alliances of varying quality. Substitutes like organic growth and M&As are readily available.
Ability to grow inorganically	•		•	?	Constrained by cash reserves and dependent on successful integration processes. Most M&As do not create added value for acquirer.

Source: Courtesy of F.T. Rothaermel.

EXHIBIT TN-5 Porter's Five Forces Model



Source: Rothaermel, F. T. (2018), Strategic Management. Burr Ridge, IL: McGraw-Hill.

Endnotes

1. Best Buy Co., Inc: Customer-Centricity. Teaching Note. Harvard Business School. HBS No. 5-509-074. June 23, 2009.

2. http://online.wsj.com/news/articles/SB10001424052702303661404579175690690126298?mod=WSJ_qtoverview_wsjlatest

3. http://online.wsj.com/news/articles/SB10001424127887323916304578400950892706088

4. http://www.forbes.com/sites/ycharts/2013/07/09/microsoft-boutiques-at-best-buy-guess-who-wins/

5. Best Buy. 2013. Annual Report.

6. Best Buy profitability: http://financials.morningstar.com/ratios/r.html?t=BBY

7. Consumer electronics manufacture: http://www.investopedia.com/ask/answers/051215/what-profit-margin-average-company-electronics-sector.asp

