

The Best Buy Effect – How Traditional Retailers Can Survive & Thrive in Challenging Times

Dear Clients & Colleagues –

Back in the good old days of 2008, when all we had to worry about was a financial crisis (as opposed to a crisis and pandemic), we had begun to have an endless conversation about how traditional brick and mortar retailers were going to survive the onslaught of the Great Recession along with the mounting pressure from online retail, led by Amazon. At that time, one of the most vulnerable segments looked to be electronic retailers. They were susceptible because their primary customer was technologically savvy, and cost-focused, making Amazon a potent adversary.

Front and center in the eye of the storm were a cadre of two electronic retailers with national footprints, Best Buy and Circuit City. Best Buy had seen a decade of rampant growth, going from a modest \$5 per share valuation to the north of \$50 by 2007. Circuit City (\$30 per share in May 2006, and only \$0.10 per share by November 2008) was clearly a laggard to Best Buy, but still meaningful in their size and scale.

As detailed by [Time in 2008](#), Circuit City faced the same structure challenges and pressure as Best Buy, however, it made a series of poor management decisions including real estate, customer service, and inventory management in advance of feeling the greatest market pressure. Those pressures left the company vulnerable to pivoting of consumer spending online and lead to their 2008 bankruptcy.

The market naturally assumed Best Buy was next, and by 2012, the stock price had fallen as low as \$12 per share, a decline of almost 80% from its highs in 2007. In 2012, Best Buy made a critically positive decision in the hiring of Hubert Jolly as the new CEO. Jolly was a pioneer at understanding how to leverage traditional retail strengths against online competition. He quickly doubled down on customer service, online fulfillment (effectively turning stores into last-mile DCs, before that was a buzzword), and strategic vendor partnerships. The turnaround worked, and by the end of 2019, Best Buy's stock had soared north of \$90 per share.

As we face a new wave of retail bankruptcies, some powerful lessons can be gleaned from Best Buy's success. First off, structural pressures on your segment can benefit strong segment leaders by driving weaker competitors out of business. Had Circuit City been better managed, it is possible that they both would have been slowly drug into oblivion by splitting a market share.

Second, brick and mortar retail has multiple attributes with which online retail struggles to compete, including strong in-person customer experience and dynamic experiential concepts. Online retail has certainly made massive inroads for last-mile distribution since 2012 in getting the product to you quicker and faster, but being able to try products first-hand and walk out with them that very minute will always have some value if offered.

As the combined forces of COVID-19 and recession impact national retailers in 2020, the retailers would be wise to heed the lessons of Best Buy's decade-long turnaround and invest in what matters most to their consumers and customer base.

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