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### 6/21/07 BrainTrust Query: Should long-term strategic goals take precedence over short-term financial ones?

By [Laura Davis-Taylor](#), Founder & Principal, Retail Media Consulting

As this week's news of Best Buy's disappointing first quarter profits hit the wires, the company's response to its earnings was as intriguing as the numbers themselves. While Wall Street saw its revenues as bad news, Best Buy's executives were staunch in their opinions that while the chain experienced a short-term loss it is by no means indicative of its long-term prospects.

Core to Best Buy's defense is management's confidence that it is building a solid, differentiated brand via unique marketing and merchandising strategies as well as new services that are "investments in solving technology problems."

Executives point out that market share and customer satisfaction scores are at an all-time high and improvements to the customer experience have been vast - both indicating more accurate scorecards for success. Online revenues are also increasing and new promising offerings such as Best Buy Mobile and the Apple store-within-a-store are also on the horizon.

CEO Brad Anderson told analysts on a conference



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call that the key point is that Best Buy met strategic goals, even if financial ones were missed.

"We're never satisfied with missing earnings," Mr. Anderson said. "However, we know it does not reflect the core health of our business, the strength of our strategy, or our ability to execute through our people or our optimism about the future."



A *MediaPost* article provides further insight from Best Buy executives with a quote. "We've got to touch consumers where they live, and solve problems in their home. So we're driving this business to build a relationship with our customer. We're just building the trust in making this crap work right now, and candidly, consumers just want their lives to be better."

The response leads to an interesting industry debate as Best Buy is taking a clear stance that its short-term financials should not thwart confidence in the strategic roadmap. As other retailers seek to similarly innovate under Wall Street's ever-critical eye, is this response inspirational or somewhat naïve?

**Discussion Questions: Is Best Buy on the right track with their focus on a long-term, customer-focused strategy over short-term financials? How will they win or lose in the long run with their confidence in this approach? What responsibilities do companies have for meeting Wall Street's short-term targets?**

**[Author's commentary]** We had a lively discussion this week on the challenges of change management within retailer walls and how to better motivate it. Looking at Best Buy's response and knowing some of their management team, I feel that they are an example for how to get out there and just do it.

A few years ago, I heard Brad Anderson get up on a podium and state that "60 percent of what we try fails but it's that 40 percent that will take us into the future".

As the years go by, they've shown by both word and action that they are willing to take a hard stance on their position, invest in their future and take it in the chin from Wall Street while doing so. This is rewarded from the top down and passionately embraced by the majority of employees. They're on the right track that they will have to spend, trip up, learn and improve to evolve and defend a market leader position. That said, the dedication to their cherished consumer has to be felt at every touch. Be it via their marketing, communications, store experience, customer service or home installation experience, their challenge is going to be to deliver as promised.

I wish them luck and hope we as industry give innovators such as them a break as they publicly learn what's working - even if they fall down in some cases - and set an inspirational standard for all others. At least they're out there trying!

- **Best Buy Earnings Tank, But Brand Positioning Solid -**

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**What do you think of Best Buy's response to their Wall Street earnings?**

- They're on the right track
- Sounds good on paper but it might not prove itself out
- Little to no faith
- Not sure/No opinion

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It's a delicate balance. You have to live long enough to fight another day. My bet: Best Buy will be just fine and right now it's appropriate for them to bet on long-term growth versus buying short-term sales.

**[BrainTrust Profile](#) Ryan Mathews, Founder, CEO, Black Monk Consulting**

I'm not sure if there is a right answer to those questions. Each stockholder has different investment goals. If they want to make a short term profit, then the stockholder doesn't care about long term goals. They want the company to do whatever it takes to produce positive short term financial results. For long term investors and employees, short term financial results don't mean much unless they have a bonus tied to them.

The right answer is what management decides because stockholders elect the board of directors. Not every stockholder will be happy but then again no one has an obligation to purchase their stock.

Will Best Buy win or lose? Depends on how you define win or lose. Look at A&P or Sears/Kmart. Many of of would consider them the "lose" poster child of retailing, yet you would never know it by their high stock prices.

**[BrainTrust Profile](#) David Livingston, Principal, DJL**

## Research

It's tough for a public company to absorb some punishment from the investment community when there is so much focus on quarterly earnings vs. expectations. Of course Best Buy is correct to take the long view of its strategic plans and to ride out short-term bumps in the road. The real measure over the long haul of Best Buy's vision is whether it gains market share, drives innovation, becomes more profitable and increases shareholder value. By this last benchmark, an investor who bought Best Buy in the low teens in 2002 should be pleased by the company's long-term performance even if the last year's stock performance has been more erratic. As the company continues to reinvent itself with innovations like Geek Squad, it's worth looking past the current quarter toward the future.

[BrainTrust Profile](#) [Richard Seesel, Principal , Retailing In Focus LLC](#)

I applaud Best Buy for its unwavering commitment to long-term sustainability over short-term gains. This retailer is led by a visionary management team with the courage to do what is right for their customers, employees and shareholders alike. In many ways, Best Buy should be seen as the role model for others to emulate. In an increasingly competitive consumer electronics retail sector, Best Buy continues to outmaneuver the competition in large part by knowing its values and successfully aligning its associates to a clear and compelling vision for success.

[BrainTrust Profile](#) [Jeff Hall, President, Second To None, Inc.](#)

This is SO refreshing to see a publicly traded company have the courage to follow their strategic vision instead of sacrificing everything for short term profits. Many companies have failed long term trying to please a fickle investment community with quarterly profits. Plus, in my view, Best Buy's strategy is working. Circuit City and their other competitors would like to have such problems. Reminds me of Costco in many ways in that they are doing it their way in spite of naysayers. Any company that keeps their sights on their customers and employees will do well even if all the shareholders aren't in the boat.

[BrainTrust Profile](#) [Art Williams, Retail Marketing Consultant/Analyst, Independent](#)

Considering long term strategic goals vs. short term financial ones certainly poses a dilemma which many public companies face. Can they not be joined or rather entwined? Is the comment from Mr. Anderson a plausible excuse? What should he have said, "oops we missed the target?" Will the long term strategy work and are these the right decisions? A 60/40 miss on strategy is a little scary, 80/20 is a little more comforting.

You do have to applaud Best Buy for their innovative approach

and ideas with Geek Squad. Can they sustain the momentum and execute on the idea? Focusing on the customer and building loyalty is a great strategy but has there been an analysis of the demographics that purchase at Best Buy? Studies show that the generations following the Boomers aren't loyal consumers and their demands are different. Only time will tell....

[BrainTrust Profile](#) [Susan Rider, President, Rider and Associates, LLC](#)

The heart of this discussion is the reason we are seeing so much private equity activity. Companies owned by private equity funds are not, typically, held to the same scrutiny as publicly traded companies. This may change with Blackstone and others issuing traded shares, but as it stands these funds can and do operate in an environment where they allocate resources to make each portfolio company as strong as possible pursuing the optimal exit strategy--an eventual sale to the public or another company. As a result, the decisions made by company managers have less to do with pleasing analysts and most to do with dynamic and sustainable long-term growth.

[BrainTrust Profile](#) [Ron Margulis, Managing Director, RAM Communications](#)

This is, at best, tricky. As an investor, the only results that matter are the financial results. You also want the company to have a strategy that will, over the long-term, leave them stronger and better off financially. It is up to management to sell the strategy to investors. If management knows it will fall short of financial numbers, they must convey this to investors. That Best Buy didn't meet analysts' numbers at the expense of strategy, I'd possibly give them a pass. However, if they didn't hit their own projected numbers, numbers that they give investors, then they should be questioned as to why.

[BrainTrust Profile](#) [Bernie Slome, VP Business Development, ICC/Decision Services](#)

I agree with the sentiments expressed. This is a large and growing industry (and sector), and has a long, prosperous future ahead of it. It makes sense that long-term strategic goals should take precedence over short-term financial ones. In time the financial goals will also be met. But yes, it is hard, and requires diligence.

I have been involved in strategic business planning since 1981, in many industries, and long-term vs. short-term considerations are always a major question. Based on my experience and research on the dilemma, I have come to the conclusion that good managements do both--that is, they implement strategies that sacrifice neither.

[BrainTrust Profile](#) [Roger Selbert, Editor & Publisher, Integrated Retailing](#)

Best Buy is going through some growing pains. What would

probably help them is the demise of Tweeters and a much scaled back Circuit City.

Regardless of what happens, some things in Best Buy, by gosh, don't sell. That sad display of non-LCD-plasma TVs represents electronics of the past, not of the future.

Likewise, this is a buyer's market for large screen LCD and Plasma TVs as the prices continue to fall. So consumers are taking a wait and see how low they can go attitude.

You can't compare the marketplace Best Buy operates in, with mass merchandise and food retailing. A&P has been a player in the retail grocery marketplace for almost 150 years. Its current stock price value reflects a commitment by the company to consolidate its operations in the North East and the great customer response to its fresh, gourmet/finefood/liquor and discount formats. Also the pending acquisition of Pathmark is anticipated and will bring increased market share as well as buying power to the company.

**'weo'**

Best Buy is doing the best possible thing--by differentiating from its competitors. Even as Circuit City re-trenches itself into a commodity business this company is sticking to the notion of customer centricity.

This will clearly pay long term dividends. Of course, it also has to eventually make money, but the recognition that times have changed and that commodities are...well...commodities will serve BB well in the coming years. The competition is weakened. BB will take advantage of that. The scarce commodity today IS customer service. I hope BB can ride that wave.

**Paula Rosenblum, Managing Partner, RSR Research**

I've been in the consumer electronics industry since its inception and followed Best Buy since it was a single-store chain called Sound of Music. I go back a long way with both Dick Shulz and Brad Anderson.

This news--a week after competitor filed for Chapter 11 and when Circuit City continues to struggle--is not only refreshing, it shows focus, leadership and a keen understanding of the marketplace.

Kudos to Brad and to his team for taking the long view, for trying to get further into the hearts and minds of his customers and staff members, and for having the courage to stand up to the Wall Street bullies in protecting the company's core values and strengths.

**Elly Valas, President, Valas Consulting Group, LLC**

I am a Best Buy customer. I guess you'd call me a loyal

customer but it is mostly because they are the best choice for me in my situation. Yet, this is still loyalty by default because, while I like them overall, I still have dissatisfaction and every time it goes back to individual employee decisions.

The corporate decision to focus on customers has to be implemented with a corporate decision to enable and empower the employees who either satisfy customers or don't. They're still not there, but I do have some confidence they will get there. I know it takes a while to develop the culture a company wants, but time is of the essence, and when you have high turnover and new strategies coming together you have to be able to roll out the enablement and empowerment rapidly. They need to step up the pace, or better said, push their employees to do the right thing now, not later when the sun, moon, and stars are all aligned.

While still being situationally loyal to Best Buy, I'm only one more problem away from becoming disloyal and a former customer. Why make the stockholders and Wall Street wait? Just tell your people to start making better customer decisions now.

**Sid Raisch, President, Horticultural Advantage**

Is Best Buy on the right track with their focus on a long-term, customer-focused strategy over short-term financials? Easier said than done. From a pure business perspective it's the right way to think about lasting growth. However, Wall Street has a very short attention span, and so do shareholders and traders that expect good results every three months. It's classic but even more true now, than days past, because we are in a keyboard economy.

**[BrainTrust Profile](#) [David Biernbaum, Senior Marketing and Business Development Consultant, David Biernbaum Associates](#)**

Gosh I sure hope bona fide long-term strategy counts for something in the minds of real investors. Best Buy has every right and reason to invest in customer experience and brand positioning.

That said, its sector is perilous. All retailers of consumer electronics are subject to new product churn and precipitous adoption curves that drive prices down so rapidly that every shopper knows they can wait a month to get a better deal on a major purchase. Woe to the retailer who forward buys in some of these categories--where every price tag is suspect and a modest overstock position can evaporate profits.

It seems evident that the downward pressure on product margins is and will remain continuous. Services hold promise to boost the overall figures, but this too may be a tightrope. Aggressive selling of extended warranties, for example, turns off many shoppers and undermines quality perceptions. Geek Squad and Magnolia seem like more positive steps, but behind them

lurks an unsettling question--"Why should I need to hire a consultant to watch TV?"

[BrainTrust Profile](#) **[James Tenser, Principal, VSN Strategies](#)**

I believe the success in the business world is more like a marathon than a sprint...with that said, it is sometimes necessary to reset the company's strategies and goals for the long term which results in some short term hiccups.

I think there are many examples of this in recent history....

[BrainTrust Profile](#) **[Phillip Straniero, Executive-in-Residence, Western Michigan University](#)**

Best Buy's position of long term strategic positioning over short term financial growth is an admirable one, but reflects an ostrich like position which seems to ignore signs of upcoming troubles, especially in the retail industry. Although 3 months is short term in Wall Street's vision, it is clearly more than this in the CE market. Sudden shifts in revenues and profits are a clear indicator that something is wrong. It is not a position to take that "we know better than what the market is saying." There are many losing companies who have learned the hard way that this is not true. BB needs to be sensitive to what their customers are saying every time they purchase something, and when this changes, to change with it. The CE industry is fickle, and retailing only makes it more so. BB needs to focus on customer satisfaction first (per the comments of my fellow BrainTrust members) and profits will come second.

[BrainTrust Profile](#) **[Kai Clarke, President, Miraclebeam Products, Inc.](#)**

I am not a financial engineer but I want to propose something for comment. Best Buy is building itself around customer groups, each cluster: Barry, Busy Mom's, etc. have a value associated with them.(LTV or RFM vs. Turns or GMROI--think customer centric vs. product centric.) As we move towards a customer centric future, perhaps the P/E will be joined by a number that rewards a firm for anticipated future earnings due to customer centricity and customer focus. The premium can be the markets way of saying that the strategy and leadership should be rewarded. Is that not what we call a Brand Premium--is that in play with BB already?

**Vahe Katros, Consultant, Plan B**

Best Buy's situation reminds me of a story about Bernie Marcus, Founder & CEO of Home Depot, several years ago. After going through quarter after quarter of growth, and in most quarters exceeding financial analysts' expectations, Home Depot had a quarter where they didn't make their numbers. Of course, Wall Street was upset and, on a call with Bernie, they demanded to know what he was going to do to change things. He responded

with "nothing...we had a very rainy 1st quarter, with weather having a major affect on our business, and we aren't planning on changing anything."

Well, as the story goes, Home Depot in the next quarter had the best quarter in their history.

I think that when management understands their responsibility, and have previously maintained the confidence of their investors by "working their plan," that management owes it to their investors to do their job even if it means they're unpopular and on notice until the earnings are reported for the next quarter. I believe we need to have some confidence in the executives that have brought success to their companies, and not cave into making major changes to their strategies, because of short term shortfalls.

**BrainTrust Profile** [Barry Wise, President, Wise Retail Consultants](#)

Few can disagree that short term financial results does not reflect the core health of a business...but neither does market share or customer satisfaction.

To convince hard-nosed investors, especially if results should languish another quarter, the company may need to show performance indicators that are more directly related with projected results in the next 3-12 months.

**Alex Har, Director, Systems Strategists Pte Ltd**

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