



Assets, Not Liabilities: Best Buy's Winning Strategy

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1. Introduction

By the summer of 2012, Best Buy looked like a company running out of road. Its stock had already fallen sharply, and the company was facing an increasingly competitive consumer-electronics market, with Amazon and other retailers putting growing pressure on its traditional business model. In June 2012, Harvard Business School published a case, ***Best Buy in Crisis***, documenting the company's deteriorating sales and profitability and the strategic challenges it faced. By year-end 2012, Best Buy's stock price had fallen roughly 60% over the preceding two years. Analysts were openly asking whether a large-format electronics retailer could survive in a world reshaped by Amazon. The immediate sign was a phenomenon that had earned its own nickname: **showrooming**: customers walked into Best Buy stores, examined televisions, laptops, and cameras, spoke with sales staff, and then pulled out their phones to buy the same item online for less. Best Buy was, in effect, paying the cost of educating customers who then completed their purchase somewhere else.

The pressure did not stop with online retail. Best Buy's own suppliers were becoming rivals of a sort. Apple, Microsoft, and Samsung had built powerful consumer brands and increasingly wanted direct relationships with the people who bought their products, rather than relying on a middleman. Best Buy was being squeezed from two directions at once: from below, by an online competitor with lower costs, and from above, by manufacturers who no longer needed it as much as they once had.

Hubert Joly stepped into this challenging landscape as Best Buy's new chief executive on September 4, 2012. Rather than beginning his tenure from the executive office, he spent his first days on the sales floor, working as a "Blue Shirt" in a Best Buy store, wearing the company's blue polo shirt and an "in Training" tag. He listened to employees, observed their interactions with customers, asked questions, and sought to understand the business from the frontline. What emerged from those conversations was a diagnosis that ran against the prevailing wisdom of the moment. Joly did not conclude that Best Buy's problem was that it had physical stores. *He concluded that Best Buy was using its stores, its people, and its relationships in the wrong way.* That distinction shaped everything that followed.

2. Reframing the Question: From Liability to Asset

When facing a digital rival like Amazon, the standard playbook for a declining brick-and-mortar retailer was straightforward: treat storefronts as liabilities, shutter locations, reduce space, and retreat to safer ground. Joly, however, took a different approach. He reasoned that if customers were still walking into Best Buy stores in large numbers, even if only to look before buying elsewhere, then *the stores were providing something valuable that Amazon could not easily replicate*. They offered customers a place to touch and experience a product, ask a knowledgeable employee a question, watch a demonstration, and get help with installation or repair.

Within about eight weeks of arriving, Joly's team had co-created a turnaround plan built around just two problems, *declining comparable-store sales and shrinking profit margins*, which the company branded "Renew Blue". The strategic puzzle was not how to defend the old model of a store as a place where Best Buy bought inventory, displayed it, and hoped a customer would buy it before leaving. The puzzle was *how to capture the value that the store was already creating, instead of letting a competitor capture it for free*. That reframing, from stores as a cost to be minimized to stores as an asset to be redeployed, became the organizing idea behind everything that followed, and it is the piece of the Best Buy story with the widest application beyond retail. Any entrepreneur or executive who inherits a set of assets that look outdated should ask the same question before deciding to shut them down: *are these assets actually failing, or are they simply being used for the wrong purpose?*

2.1. Turning the Store Network Into a Fulfillment Network

The first change Joly's team made was to connect the inventory sitting in physical stores to the online business. Under the traditional model, a manufacturer shipped goods to a distribution center, the distribution center supplied stores, and separately, online orders were filled from a smaller and more centralized set of warehouses. This created an absurd situation: *a product might be sitting on a shelf a few miles from a customer's house while the website told that same customer the item was out of stock, because the store's inventory and the website's inventory were treated as two separate pools*.

Best Buy addressed this by building a capability it called *ship-from-store*, which allowed an online order to be filled from the nearest store that had the product in stock rather than only from a central warehouse. The company piloted the approach in a small number of stores in 2013 and expanded it through the following year, reporting ship-from-store capability in more than 1,400 U.S. locations by the end of

2014. Importantly, Best Buy did not dismantle its distribution centers to do this. It built a *hybrid network* in which centralized warehouses and thousands of individual stores worked together, each order routed to whichever location could reach the customer fastest with the product they wanted.

The underlying shift in thinking mattered more than the technology behind it. Inventory stopped belonging to a channel, whether that channel was "the store" or "the website," and started belonging to the company as a whole, to be allocated wherever a customer happened to be shopping. For any business that sells through more than one channel, this is a genuinely transferable lesson: treating online and offline inventory as separate pools usually just means paying twice for the same problem, once in lost sales when one channel shows a false stockout, and once in the cost of holding duplicate buffer inventory.

2.2. Letting Vendors Build Their Own Rooms Inside the House

The second major change unfolded on a similar timeline and pointed in a complementary direction. Rather than continuing to buy products from manufacturers and present them however Best Buy chose, the company invited its largest vendors to build dedicated spaces inside its stores, staffed and designed to the vendor's own specifications. Apple already had a modest version of this arrangement in place. In April 2013, Samsung began a nationwide rollout of its own branded shop-in-shop concept, the *Samsung Experience Shop*, timed to the launch of the Galaxy S4 and planned for installation in more than 1,400 Best Buy and Best Buy Mobile locations. By the time Best Buy reported its results in February 2014, the company had installed roughly 1,400 Samsung and 600 Microsoft Windows branded stores-within-a-store, and similar arrangements followed with Sony, LG, Google, and others.

The economics of this arrangement were what made it strategically interesting rather than merely cosmetic. *Best Buy supplied the one thing it had in abundance that a manufacturer could not easily buy: physical space in front of a large volume of shoppers who were already inclined to purchase electronics.* In return, the vendor covered much of the cost of building and staffing an attractive, brand-specific environment, including dedicated, specially trained product consultants in Samsung's case. Best Buy converted a fixed cost, the burden of designing and maintaining a compelling shopping experience for every category it carried, into a shared or vendor-funded cost, while customers gained the benefit of comparing competing brands side by side under one roof.

2.3. From Selling Products to Running a Marketplace

Taken together, the fulfillment changes and the vendor *shop-in-shop* changes amounted to something larger than a set of operational fixes. Best Buy was quietly redefining what kind of business it was. It moved from thinking of itself as a company that bought consumer electronics and resold them, to thinking of itself as a company that built and operated the physical and digital environment in which manufacturers could reach consumers. Joly himself described the approach as investing in the store experience by "partnering with the world's foremost tech companies to develop stores within our stores." The vendor was no longer simply a supplier at the far end of a purchase order. The vendor became a partner with a direct stake in how well the store performed, because the vendor had invested its own money and staff in that store.

However, this shift in self-conception is easy to describe in a sentence and much harder to execute. It required Best Buy's leadership to give up some control over how its own floor space looked and was staffed, in exchange for a healthier set of vendor relationships and a lower cost structure. Many companies talk about wanting deeper partnerships with the businesses that supply or distribute their products, but stop short of giving those partners enough real stake in the outcome to make the partnership worth their while. *Best Buy's shop-in-shop arrangements only worked because the vendors received something concrete: dedicated space, trained personnel, and a direct line to the customer at the moment of purchase.*

3. Meeting Amazon's Prices Head On

None of this solved the most immediate competitive threat, which was price. A customer could still stand in a Best Buy aisle, appreciate a television, and find it for less on a phone screen a moment later. Best Buy's answer was to introduce an *aggressive price-matching policy*, effectively promising customers that they would not need to choose between the in-store experience and the online price. Joly has described improving price competitiveness as a way of taking price off the table as a reason to leave a store empty-handed. *This removed price comparison as a reason to leave the store empty-handed, but it came at an obvious cost: matching a lower online price on a given item meant accepting a thinner margin on that sale.*

Joly's team treated this as a problem to be solved elsewhere in the business rather than as a reason to abandon the policy. Price matching was, in effect, the price of admission for keeping the physical retail experience relevant at all. Having decided to pay that price, the company then had to find the savings to make the overall economics work, which was the subject of the next stage of the turnaround.

3.1. Cutting Costs by Redesigning Processes, not Just Headcount

The standard playbook for a retailer facing declining sales calls for closing stores and reducing staff as quickly as possible to preserve cash. Best Buy did close some stores and did reduce costs, but *Joly resisted making headcount reduction the centerpiece of the plan, describing head count as "a last resort" that, when addressed at all, started at the top of the organization rather than with frontline employees.* Instead, the company looked hard at why certain *non-salary costs* existed in the first place, rather than simply cutting a percentage across every line item.

The company set an initial multi-year cost-reduction target of \$725 million and reported exceeding that target within about a year, with \$765 million in annualized reductions identified and \$350 million of savings actually realized in fiscal 2014 alone. By late 2014, cumulative cost reductions under the program had grown to roughly \$965 million. The distinction is useful to any leader facing pressure to cut: *the question worth asking first is not simply where spending can be reduced, but why a particular cost exists at all, since a cost that exists because of a flawed process can often be eliminated rather than merely trimmed.*

3.2. Treating Frontline Employees as a Competitive Advantage

Best Buy's knowledgeable sales staff were, in principle, one of the clearest points of differentiation the company had against an online-only competitor. *Amazon could offer an enormous catalogue, competitive prices, and convenience, but it could not put a person next to a customer who was trying to decide between two laptops or figure out why a home network was not working.* Rather than treating frontline staff purely as a cost to be minimized, Best Buy invested in training and built out specialist roles focused on particular brands and technology categories, an approach Joly has framed as part of a broader **"people first"** philosophy underlying the turnaround.

The change in framing here mirrors the change in framing around the stores themselves. *An employee who simply rings up a purchase is easy for a lower-cost competitor to make unnecessary. An employee who helps a customer make a good decision about a purchase they do not fully understand is much harder to replace with a website.* Best Buy's turnaround treated its workforce as part of the same asset base as its real estate and its vendor relationships, worth investing in rather than simply shrinking.

3.3. Building the Digital Side Instead of Defending the Physical Side

It would be a mistake to assume the Best Buy story is physical retail winning out over e-commerce. The company invested heavily in its website, its search and recommendation capabilities, online customer reviews, and the logistics needed to let a customer buy online and pick up in a store, or buy in a store and have it delivered. The goal was to erase the distinction between channels from the customer's point of view, so that *a purchase could begin anywhere and be completed anywhere*. Best Buy's own data pointed to this integration, showing that customer-facing initiatives helped lift its Net Promoter Score and that operating income improved from a loss in 2013 to a profit in 2014. The lesson goes well beyond retail: treating "online" and "in-person" as competing channels to be traded off is usually the wrong framing. *The more durable approach is to make each channel better at what it does best, and then connect them so customers barely notice which one they are using.*

3.4. Right-Sizing the Physical Footprint

Investing in stores did not mean treating every square foot of retail space as sacred. Best Buy recognized that categories such as CDs and DVDs, once significant users of shelf space, were shrinking rapidly as media moved online, while other categories deserved more room and better presentation. Best Buy's 2012 annual report, filed shortly before Joly's arrival, already disclosed plans to close a number of large-format U.S. stores and to test a smaller-format "Connected Store" concept. *Having a large amount of physical space is not automatically valuable; it is valuable only if the space is organized around what customers currently want*, which means treating the store footprint itself as something to be actively redesigned rather than simply preserved or abandoned.

3.5. Geek Squad as an Asset Amazon Could Not Copy

Best Buy also had a resource that predated the turnaround but became more strategically important during it: *Geek Squad*, its in-house service and technical support arm. As home technology grew more complicated, spanning networked devices, smart home equipment, and increasingly sophisticated computers and televisions, the demand for installation help, troubleshooting, and repair grew alongside it. Even early in his tenure, Joly signaled that integrating Geek Squad more closely with Best Buy's core retail and online operations was a priority, while ruling out dramatic reductions to the store base that housed those services. This allowed Best Buy to compete on a different dimension besides price: *who can actually make this technology work once it is in your home*. The lesson here is that turnarounds often

surface assets that were sitting quietly inside the business the whole time, waiting for someone to recognize their *strategic value* rather than treating them as an ordinary cost center.

4. The Common Thread: Assets Competitors Cannot Easily Copy

Looking back across the ship-from-store network, the vendor shop-in-shop spaces, the price-matching policy, the redesigned cost structure, the investment in frontline staff, the digital buildout, the reshaped store footprint, and Geek Squad, a single strategic idea runs through all of them. *Best Buy stopped asking how it could become more like Amazon and started asking what it had that Amazon could not easily replicate: more than a thousand physical locations, heavy customer foot traffic, deep vendor relationships built over decades, a trained workforce, and an established national service capability.* Every one of the changes described above was an attempt to make better use of one of these existing assets rather than to invent something entirely new. This is a markedly different approach from the one many struggling companies adopt, which is to look enviously at whatever the disruptive competitor is doing and try to copy it. Best Buy's strategy worked, in large part, because it took the opposite approach: *it looked inward at what it already had, decided that those assets had been misused rather than made obsolete, and rebuilt the business around getting more value out of them.*

4.1. What the Numbers Showed, and what Entrepreneurs Should Learn

The turnaround strategy did not happen overnight, and no single year should be credited with the entire recovery. But the trajectory was clear. By the end of 2014, Best Buy had ship-from-store capability in well over a thousand stores and roughly 1,400 Samsung and 600 Microsoft branded shop-in-shop spaces installed across its network. Over the following several years, the company's profitability improved substantially: one independent equity-research analysis found that Best Buy's return on invested capital, a measure of how efficiently the business turns money invested in it into profit, rose from about seven percent in 2014 to a top-quintile fifteen percent by fiscal 2018. Best Buy itself later reported five consecutive years of comparable-sales growth under Joly's leadership and stated that U.S. online sales had more than doubled to \$6.5 billion over his tenure.

The deeper lesson for entrepreneurs and business leaders has less to do with retail specifically and more to do with how to respond when the ground shifts under a business model. Best Buy's problem was never really that its products were inferior; it carried much of the same merchandise its competitors did. *The problem was that the surrounding system, the way customers discovered products, compared prices, and*

decided where to buy, had changed faster than the company's operating model had. Amazon changed how people shopped. Manufacturers decided they wanted more direct relationships with customers. The media went digital. Smartphones turned every store aisle into a place where a customer could instantly compare prices. Best Buy did not respond to any of this by inventing a new product. It responded by redesigning the arrangement of assets, relationships, and processes it already had, so that things which had started to look like liabilities, especially its physical stores, became sources of advantage again.

For entrepreneurs and business leaders facing a similar moment, whether that means a new competitor with a fundamentally lower cost structure, a supplier threatening to sell directly to your customers, or a channel that once worked well starting to underperform, the Best Buy case suggests a useful first question. *Before assuming that an asset, a store, a sales team, a long-standing process, or a piece of infrastructure has become obsolete, it is worth asking whether it has actually stopped being valuable, or whether it is simply being used the wrong way for the environment the business now finds itself in.* Best Buy's strategy succeeded not because Hubert Joly discovered a clever new product idea, but because he insisted on asking that question about nearly everything the company already owned.

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