

# Death by a Billion Clicks

Best Buy ruled retail until it was knocked sideways by the Internet. Can it make a comeback, or is the big-box era officially over?

BY MICHAEL V. COPELAND



**STEPHEN GILLETT BOUNDS** into the outdoor-home-theater section of a Best Buy store just a few blocks from the retailer's headquarters in suburban Minneapolis. He's wearing a gray Geek Squad polo shirt, jeans, and running shoes. In his beefy hands he clutches a venti latte from Starbucks—the company where, until last March, he served as chief information officer.

Life was good back then. He had a plum position at a resurgent company, and he'd recently remodeled his home in a beautiful Seattle suburb. Yet Gillett traded all of that to move to the frozen Midwest and take on a catchall position—president of digital, global marketing and strategy—at Best Buy, an ailing company that many presume is doomed.

Just a few years ago, Best Buy was hailed as one of the finest retailers in the world. It had vanquished its rival, Circuit City, and was likely selling more electronics per square foot than any other company. But by 2012 it was in tatters.

Its CEO, Brian Dunn, had resigned after an alleged "inappropriate" relationship with a female employee erupted into scandal. In the ensuing chaos, Best Buy's legendary billionaire founder and largest shareholder, Richard Schulze, began a campaign to wrest back control of his blue-shirted baby through a private-equity buyout. Meanwhile, the tough economy had not been kind to Best Buy's bottom line: Profits in the second quarter of 2012 plummeted 91 percent from the same period in 2011. Over the past two years, the company's share price has fallen 60 percent.

But Best Buy faced an even more fundamental challenge: The entire big-box retail industry appeared to be dying. Consumers were moving away from the one-stop shop, favoring more bespoke experiences like those offered in the famously profitable Apple Stores. It wasn't hard to see the appeal. Apple curates a limited selection of hardware, software, and accessories, making it much easier for its sales staff to answer shoppers' questions. The Genius Bar and in-store workshops help them understand even the tiniest details of their iPads and iPhones. People lapped up the stunning service.

The mobile Internet posed an even larger problem for big boxes. Showrooming was a potentially existential challenge—customers coming into the store to get hands-on experience with a product, then whipping out their smartphone to purchase it from Amazon at a lower price. And new sites were transforming consumer behavior in ways that Schulze had never anticipated. Etsy and Kickstarter turned tech gear and accessories from commodities into vehicles for individual expression. Why buy the same laptop stand as the rest of the world when you could pick up a limited-edition model made of bird's-eye maple by an artist in Brooklyn? Even the very structure of the retail economy seemed to be in doubt. Best Buy thrived in an era of mass tech products; there was no better way to move huge amounts of inventory than through its massive showrooms. But hotly anticipated new gizmos like the Pebble watch could skip showrooms altogether, amassing donations



on Kickstarter directly from customers.

Best Buy got its start in 1981, when a tornado tore through one of the earliest stores, then called Sound of Music. Schulze and his crew responded by salvaging what merchandise they could and piling it on tables in the parking lot for a "tornado sale." The success of that sale spawned the no-frills, low-price, big-box approach that Best Buy has doggedly followed ever since.

But three decades later, that strategy had grown stale. Best Buy couldn't always offer the best prices, its stores didn't carry many of the most lustworthy gadgets, and its employees often couldn't answer rudimentary questions. Roaming the aisles of Best Buy, past piles of remaindered DVDs and stacks of clearance tech, was overwhelming and depressing. This was the company that was asking Gillett to uproot his family and risk his career.

At 36, Gillett looks very much like the former college football player he is. Stocky, with a goatee and thinning hair, he radiates an athlete's energy and enthusiasm—a bit of a John Madden vibe. "See this TV?" he asks, pointing to what looks like an average 46-inch flat panel hanging above a gleaming BBQ. "You're supposed to hose it down every week to clean it. How awesome is that? I want one."

He leads the way out of the patio showroom and through a 300-pound soundproof door that is the gateway to the most badass home theater I have ever experienced. Soft beige cloth-covered walls hide dozens of speakers. LED-lit stars twinkle on the ceiling while an HD projector beams

out a perfect image of *Kung Fu Panda*. Pumped by the onscreen action, Gillett slides onto a leather couch and starts to describe how he convinced his wife to make the move with him.

Gillett had already helped reboot Starbucks. When he posed the idea of taking on another gut-wrenching turnaround at Best Buy, "she had one question," Gillett says. "Is there anything at Best Buy worth going through a transformation for?"

It was a very good question. It was, in fact, one that the entire retail industry had been asking. Best Buy's success or failure will have ramifications far beyond its own balance sheet. If it can find a place for traditional retail in the smartphone age, it will provide a glimpse of what the future might look like for other big-box stores. If it can't, it might signal their demise.

For Gillett, a technology wunderkind at Starbucks who had his pick of jobs, the answer to his wife's penetrating question was clearly yes. That's why he's here today, marveling at one of the world's most expensive home theaters, his butt on the showroom couch. Now he just has to convince shoppers to do the same thing.

LET'S PAUSE HERE to remember an easily overlooked fact. Despite the corporate debacles, despite the plummeting stock price, despite the uneasy future of retail, Best Buy still sells a hell of a lot of consumer electronics. It's the biggest PC retailer, the biggest independent phone retailer, and the largest camera retailer in the world. It sells more tablets than

any other retailer—including Apple. Last year, Best Buy clocked \$50 billion in sales, roughly the same as in 2010. That's about 50 percent more than the next-largest consumer-electronics retailer, Walmart. Analysts estimate that Amazon does just about \$14 billion in annual electronics sales. "You can listen to all the crap out there that everyone is talking, but the real measure is that people go into Best Buy and put their money down," says Stephen Baker, a vice president at the market research firm NPD Group. "And they put more money down at Best Buy, more often, than they do anywhere else—by a large number."

That's true as far as it goes. But tell it to Tower Records or Borders or Blockbuster, all of which were retail powerhouses before getting battered by the logic of the digital economy. But now all the services that retailers once provided can be found

up through the blue-shirted sales ranks, the company brought in a band of outsiders—Gillett; Scott Durchslag, who left Expedia to lead Best Buy's online business; and CEO Hubert Joly—to help manage the turnaround. Joly is a polished Frenchman with a facility for numbers. He's made a career of putting wayward companies like Vivendi and, most recently, the business-travel agency Carlson Wagonlit Travel back on course. "I was not looking for a job, and I was not suicidal," Joly says with a smile about his decision to take the position.

For a week, Joly worked on the floor at several Best Buy stores. He also holed up for three straight days with leaders from across the organization. He emerged surprisingly cheerful and very optimistic. He understands the problems he faces; for instance, the quality of salespeople varies wildly. But he sees some very good blue-

companies simply can't match. Take the problem of showrooming. Yes, it's a threat, but it also underscores a shortcoming of digital commerce: People want to try before they buy, and they can't do that on Amazon. That might provide a key to Best Buy's future.

Meanwhile, it's not as if Best Buy doesn't have a sizable online business of its own. By revenue, [BestBuy.com](http://BestBuy.com) is the 11th-largest ecommerce site, booking about \$3 billion a year. That's a fraction of Amazon's electronics business and just 6 percent of Best Buy's total revenue, but it's growing by 15 to 20 percent every quarter. At that rate the site could account for half of Best Buy's sales within three years. Behind that digital business is a vast logistics network that delivers products quickly and reliably to 1,400 stores across the country. Order a TV or iPad online and Best Buy can get it to a nearby store for you to pick up that day. Amazon and eBay, meanwhile, are launching their own same-day delivery efforts, which involve setting up and expanding distribution networks. Best Buy already has the digital and physical assets. It just needs to figure out how to fit them together. And that is where Gillett comes in.

**IF BEST BUY CAN'T FIND A PLACE FOR THE BIG-BOX STORE IN THE SMARTPHONE AGE, IT COULD GO THE WAY OF TOWER RECORDS AND BORDERS AND BLOCKBUSTER.**

in a few mouseclicks or smartphone taps: infinite selection, shopping advice, and the answer to every question, available 24/7. What's more, because online companies don't have to pay for storefronts, they can offer their wares at a lower price. And the online hive mind can usually provide better shopping advice than one lone salesperson. So how does Best Buy survive? Is there still a role for a physical retailer in the digital future?

The employees beavering through the company's headquarters certainly seem to think so. Indeed, they carry themselves with the kind of pluck you might not expect from a firm that has cycled through three CEOs in six months. Pretty much everyone exudes a sense of urgency and possibility. More than one person describes the company as a \$50 billion startup, where everything is subject to change.

Best Buy certainly shook things up when it hired its new executive team. Instead of picking a group of strivers who had come

shirts among the ranks and thinks he can make the rest much better with proper training. "We have a range of opportunities," he says. "There are challenges, but I like the set of cards I have been given."

One way to cope with those challenges might be to close stores and try to push customers toward the company's website. But that's not really an option. Most Best Buy stores are signed to long-term leases, which could be impossibly expensive to break—especially since it would be difficult to find another big-box retailer to take them off the company's hands. Best Buy has already closed 50 stores, but it seems pretty much stuck with the rest. "Stores have been the ugly stepsister of retail," says Fiona Dias, a former executive at [CircuitCity.com](http://CircuitCity.com) and chief strategy officer of the online shopping service ShopRunner. "They need to flip that process and turn their real estate into a positive."

So how can Joly do that? By focusing on the strengths of physical retail that online

WHEN HE JOINED THE COMPANY in the Spring, Gillett embarked on a tour of several Best Buy stores, spreading the word about his vision. It was an ambitious plan, one that combined physical storefronts and digital infrastructure into one organic package. To Best Buy employees, demoralized by years of hearing about their impending doom, Gillett was a godsend—someone who actually understood how digital retail worked and who felt that Best Buy had a role to play within it. They nicknamed him Neo, a reference to the messianic hero of *The Matrix*.

Gillett doesn't speak of himself in such lofty terms, but he does have a Neo-like knack for seeing the digital scaffolding behind the physical world. In Gillett's view, digital and physical aren't separate realms, just two sides of the same coin.

For instance, Best Buy has begun to embrace the showrooming trend with a pilot project that it has launched in 50 stores. When a customer comes in to test out a few high-end cameras, a sales rep with a tablet can meet them to compare specs on the various models. Meanwhile, specially trained reps try to provide the

kind of service that customers can't easily find online. These aren't the typical overwhelmed Best Buy sales associates who know just a little bit about every product in the store. Instead, these reps are trained in a narrower range of gear. Just as Apple Store employees need master only a few computers and gadgets. Best Buy workers can specialize in, say, phones, laptops, or stereos. If the customer finds a model they like, the rep can pull up a list of comparison sites to locate the lowest price. (Both Joly and Gillett say that matching competitors' prices is a top priority, and they are beginning to do so in some cases. That could get easier as state after state begins requiring Amazon to charge sales tax on its transactions.) And if a shopper has their heart set on a product that isn't in stock, the rep can help them place an order through [BestBuy.com](http://BestBuy.com), which offers an almost infinite selection.

ing, they are there for you," Gillett says. "If not, they're invisible—it looks like a store."

Despite all the digital pizzazz, Gillett wants to keep the focus on the advantages inherent in a physical store. "What beats Amazon Prime and free shipping?" he asks. "For me, it's something that's in stock, near me, and right now. That beats free shipping any day of the week—and if you can add a knowledgeable blue-shirt and a price match, you are golden."

Gillett may be gunning for Amazon, but he's clearly learned something from the company as well. Amazon started out as an online retailer, which required it to build a vast digital infrastructure. Today it leases pieces of that infrastructure to businesses across the web, through its Amazon Web Services division. Gillett thinks that in the future, Best Buy could provide its own infrastructure—logistics, fulfill-

**BEST BUY WILL TRY TO BE ALL THINGS TO ALL SHOPPERS: A HIGH-END EXPERIENCE TO RIVAL THE APPLE STORE AND AN INFINITE ONLINE WAREHOUSE LIKE AMAZON.**

They then have a choice of delivery methods—same-day in-store pickup or home delivery, which can include an in-home photo-editing tutorial. Already, almost half of Best Buy's online customers have their purchases delivered to the store, not their home. That's partly because they can get it faster and because many shoppers don't want to leave a package of pricey electronics sitting untended on the front porch. But it's also because they might have questions about setup, features, and accessories, which Best Buy's in-store personnel can help answer. And, of course, while they are there getting help they can always pick up an extra memory card, battery, or some other gizmo to go with their new purchase. At Best Buy headquarters they call that inverse showrooming. It's not a phrase liable to catch on anywhere else, but it makes the point.

"I want you to be able to walk into Best Buy, and, if you want to participate in the enhanced digital offerings we're develop-

ment, inventory, support—to other physical and online retailers. It's not hard to imagine Best Buy offering retail services to Kickstarter—providing Geek Squad support and warranties for Pebble watches, for instance. "We haven't gotten there yet," Gillett says. "But what if there was a model that took us there? That would be phase one of a transformation."

If it can pull off that transformation, the new Best Buy will make even today's big boxes look small. It will try to be all things to all shoppers: a high-end customer-service experience to rival the Apple Store, an infinite online warehouse that can compete on price with the likes of Amazon, a retail chain for the personal-tech powerhouses, and a friendly retail partner for garage inventors. It will combine mass-market and niche in a way no store has ever been able to pull off. One way or another, Best Buy is clearly at the beginning of a metamorphosis; whether it's a rebirth or a death spiral remains to be seen.