Consumer Electronics

In a large industry that is slowly getting smaller, leaders of incumbent firms can defy the moribund industry by taking market share away from less nimble rivals. An important way to do that is to understand the broad trends driving the change in the industry and tack the company so that those powerful winds are pushing the company forward rather than holding it back. This comes to mind in considering the consumer electronics industry in which consumers purchased electronics through retail stores and online. Lessons for leaders include

- **Build on your strengths:** In the consumer electronics industry, the largest retail store chains enjoyed the advantage of being within driving distance of a large proportion of the consuming public. Despite the advent of ecommerce, consumers generally did not want to purchase a new consumer electronics product unless they had tried it out in a showroom and asked questions of knowledgeable salespeople. Compared to online-only rivals, such incumbents offered consumers a better experience when it came to shopping for a new electronics product.
• **Partner to bolster your weaknesses:** Sadly, there was a flip side to a store-based retailer’s advantage in the electronics shopping process. Once a consumer had decided which specific product to purchase, the advantage shifted to online-only vendors. That is because the Internet enabled consumers to search for the least expensive way to purchase and take delivery of the product they wanted to buy. To overcome this weakness, store-based retailers adapted: they sold the product to consumers at the lowest price available online, they enabled consumers to take delivery more quickly than online-only vendors in the store, and they even opened up showrooms for their online rivals to display their own products.

• **Create happy employees and customers:** If employees are engaged with a company’s mission and values, they are more likely to be more creative and work more intensely to serve customers well so they will advocate enthusiastically on the company’s behalf to people they know and continue to purchase there over time. Incumbent consumer electronics retailers may have a legacy of creating happy employees and customers. However, it takes a CEO with the right mindset to reignite this powerful motivating force.

• **Choose your successor wisely:** Leaders who build successful companies must choose successors with a *Create the Future* or *Follow the Leader* mindset. As we will see in the following Best Buy case, when the company’s board appointed a CEO with a *Follow the Leader* mindset to replace an abruptly jettisoned *Head in the Sand* CEO. That proved to be a wise choice as the successor implemented many of the changes in strategy and culture highlighted earlier – and the company’s stock roughly tripled as a result.

These implications emerge from examining the large consumer electronics industry that was slowly getting smaller. Despite the growth in consumer spending, by November 2019, IBISWorld expected industry revenues to end the five-year period through 2019 down at an annualized 2.2% rate to $85.7 billion – a considerable drop from its 2000 peak level of $112.5 billion. Moreover, by 2024, the consumer electronics retailing industry was expected to be slightly smaller.
A big reason for the industry’s revenue decline was the price-cutting that helped propel online consumer electronics retailing at a much faster 11% annual rate. Consumers also shifted their purchases from stores to online suppliers like Amazon due to their greater convenience and wider product variety. Online retailers operated with lower overhead costs than traditional bricks and mortar stores and passed their cost savings to consumers by offering lower prices. Store-based consumer electronics retailers reduced their prices to remain competitive, shuttered unprofitable operations, and laid off employees to boost margins. By the end of 2019, consumer electronics industry employment had declined at a 2.3% annual rate to 329,256 workers during which time the number of store locations had fallen at an annualized 3.2% to 51,615. However, the cost cutting was insufficient to keep industry profitability from declining. Indeed, earnings before interest and taxes as a percent of revenue fell from 4.6% in 2014 to 4.1% in 2019. As a larger proportion of consumers abandon store-based retailers, overall, industry revenue was forecast to decline an annualized 0.2% to $84.8 billion between 2019 and 2024.²

Product innovation was the most powerful force brightening the gloomy consumer electronics retailing picture. While innovation in formerly growth-propelling product categories such as TVs and personal computers had stagnated, the popularity of new tablets and smartphones in the five years ending 2019 helped to spur demand growth. However, that growth attracted competitors who provided better products at lower prices with longer useful lives – thus accelerating the maturation of these product categories. Moreover, online streaming of video and music dampened demand for CDs and DVDs.³ By 2019, the industry appeared to lack consumer electronics product innovations that would counter the slowing industry growth expected as these established product categories continued to mature and decline.⁴

Store-based consumer electronics retailers – most notably Best Buy (which we will examine in greater depth later in this chapter) – were changing their business strategies to compete more effectively. To win over new customers and keep current ones, such retailers did the following:

- Sited stores in well-populated, easy-to-access locations with high foot traffic
- Controlled stock in stores to satisfy demand and limit excess inventory buildup
- Hired, trained, and motivated a skilled workforce that excelled at customer service
- Displayed products in a clear and appealing manner
- Partnered effectively with the most popular consumer electronics brands
Provided excellent customer service by conveying a clear understanding of product benefits and features and offering extended warranties and report services

Supplied sophisticated custom installation of home entertainment products

Covid-19 made the anticipated decline in industry revenues much worse – yet well-positioned companies such as Best Buy found a way to benefit. By July 2020, Covid-19 was expected to reduce industry revenue by 10% in 2020 due to the economic slowdown and temporary store closures. Demand for consumer electronics was expected to be limited by lower per capital disposable income and lower consumer spending. Consumer electronics retailers that could not absorb the costs and lack of revenue were expected to cut employees or exit the industry. Best Buy appeared to be one of the survivors. While it suffered a roughly 30% decline in revenue as consumers stayed at home and away from stores, Best Buy furloughed employees to lower its operating costs. By May 2020, Best Buy's ability to take orders online and pick them up at the store positioned the company well for a surprising increase in orders as telecommuting consumers purchased more electronics online. One analyst, Telsey Advisory Group, saw Best Buy gaining market share and benefiting from that boost in demand. Another analyst concluded that Best Buy's technology focus and growing services business would enable the company to gain more market share thanks to its strong in-store and online execution and innovative products that appealed to its customers. By July 2020, Best Buy stock reached an all-time high thanks to higher than expected revenue. Since reopening its stores in mid-June, Best Buy sales had risen 15%, and it promised permanent wage increases for employees. Online sales soared 255%, thanks to purchases of computers, tablets, and appliances, and online sales remained 185% higher after stores reopened.

Strategic Mindsets of Consumer Electronics Industry Winners and Losers

Gaining market share in this declining industry required leaders to envision and execute an effective competitive strategy to provide an industry-leading consumer experience. Whether a strategy yielded market share gains or losses depended to a large extent on which of the three strategic mindsets we introduced in Chapter 1 – Create the Future, Follow the Leader, and Head in the Sand – the CEO adopted. Here are some general observations based on the collision of these three mindsets with consumer electronics industry reality explored in the following case studies:
Leaders with Create the Future and Follow the Leader mindsets are winners:

- Create the Future works well if leaders are intellectually humble in pursuit of delivering consumer ever more value – for example, benefits for the money – than rivals do. Rather than imposing conclusions on underlings, intellectual humility drives the leader to seek information from employees, customers, partners, and technology and industry experts. This mindset leads to new products and better execution that yield industry-beating revenue growth and – if that growth continues to exceed investors’ expectations – boost the company’s stock price.

- Follow the Leader is a mindset of CEOs who – as we saw in the Target case in Chapter 1 – successfully turn around a company following a downturn. Such a leader boosts employee satisfaction – which inspires employees to provide customers with new products and better service. At the same time, the leader partners to supply new products that customers are eager to buy, redesigns operations to reduce cost and speed up customer order fulfillment, and upgrades systems and training to deliver excellent after-sales service. While these changes may initially require a large investment, over time they can reward shareholders through faster-than-expected growth and profitability.

Head in the Sand leaders preside over failure: Some CEOs brought in to turn around troubled consumer electronics retailers fail. Often founders can make the company quite successful; however, they fumble in choosing their successors. While the founder’s mental model might hinge on creating the best environment for employees to provide better value to customers, the successor might focus too heavily on meeting quarterly financial metrics. Such a CEO may ignore rapidly growing rivals, new technologies, and changing customer needs. And such a Head in the Sand mindset might lead the CEO to cut thousands of employees and buy back stock. Abrupt, mass layoffs can discourage employees who remain and result in poor product selection and service. Customers will then flee to faster-growing rivals – causing
revenues to plunge. Ultimately the company could be stuck with inventory that customers will not buy and could lack the cash needed to buy new merchandise that customers prefer.

Consumer Electronics Industry Startup and Incumbent Success and Failure Case Studies

These general observations play out in the following case studies. Amazon’s Create the Future mindset enabled it to surpass Best Buy as the leading consumer electronics retailer. Best Buy’s Follow the Leader mindset drove its CEO to shrink to a profitable core and grow at expectation-beating rates by inspiring its employees, ending showrooming, and partnering with suppliers such as Amazon. A Head in the Sand mindset contributed to Circuit City’s fatal self-inflicted wound which resulted in its November 2008 bankruptcy filing – and, three months later, the liquidation of its assets.

Success: Amazon Takes the Top Spot in Consumer Electronics Retailing

Introduction

Creating the future can accelerate a company’s growth rate into the fast lane if it makes customers more eager to buy from that company than from its peers. Amazon did this – propelling its consumer electronics revenue up at more than twice the rate of its leading competitor. As a result, in 2017 Amazon took the top spot in the consumer electronics retailing industry from Best Buy.

Case Scenario

In April 2018, Amazon took away the top spot from Best Buy on Dealerscope’s Top 101 Consumer Electronics Retailers list of annual retail consumer electronics sales. Amazon’s 2017 consumer electronics revenue grew 18.5% to over $5.3 billion – surpassing the 8.5% growth rate of Best Buy – which had topped the list since it was launched in 2013. Amazon extended its lead in 2018, enjoying a 21% growth in its consumer electronics revenues to $41.26 billion – almost $7 billion more than the number two Best Buy. Amazon’s move into the top position was no surprise to Deutsche Bank which in 2016 noted that Amazon accounted for 90% of the $5.6 billion growth in consumer electronics sales posted nationwide in 2015. Though Amazon had a mere 6.2% share and ranked fourth on the list of top 100 US
electronics retailers, its consumer electronics sales grew 28% in 2015 way faster than Best Buy’s 3.8% that year. So Deutsche Bank was then confident that Amazon would eventually take the lead in US consumer electronics retailing.\textsuperscript{11}

Two forces drove Amazon’s rapid growth: its successful design, manufacturing, and delivery of new consumer electronics products and its ability to offset its weakness as a place for consumers to browse or discover consumer electronics, with an industry-leading ability to offer consumers a wide product selection, competitive prices, timely delivery, and excellent after-sales service.\textsuperscript{12} Amazon launched its first website in 1995, but an important turning point in its move to dominate consumer electronics was its 2007 launch of the Kindle ebook reader. While Amazon priced the first black-and-white version of the Kindle below $400, the product evolved into a personal tablet. However, by November 2019, Kindle sales were rapidly declining as more people used their smartphones or tablets to read books or listened to audiobooks on these devices.\textsuperscript{13} Fortunately, Amazon’s consumer electronics product line included other devices such as its Echo smart speakers and its Alexa voice assistant which RBC Capital Markets Analyst Mark Mahaney estimated could generate between $18 billion and $19 billion in total sales by 2021. Amazon’s Alexa revenue would derive from three sources, according to Mahaney, low-margin device sales of $9.2 billion; additional ecommerce revenue resulting from sales via Alexa, and Alexa Skills revenue – 30% of whose $2 billion in revenue went to Amazon\textsuperscript{14} – delivered via over 100 million Alexa-enabled devices.\textsuperscript{15}

An overarching force driving Amazon’s market share wins was its ability to outperform rivals in meeting customer purchase criteria which included detailed product descriptions; clear product images; useful customer product reviews; accurate product information; easy online ordering, delivery, and returns (if needed); and excellent after-sales service. Amazon excelled at operating warehouses which ordered and received from suppliers and stored inventory on shelves. When consumers placed an order, workers in the fulfillment centers picked, packed, shipped, and provided customer service for the products. With Amazon’s Prime Service, consumers could receive delivery within two days (approaching one day).\textsuperscript{16}

Case Analysis

More than any competitor in the consumer electronics retailing industry, Amazon’s mindset was tuned to creating the future. Bezos’s Day 1 philosophy – which kept the company in a constant race to reinvent itself to keep delighting its demand customers – pushed the company to create and execute market share–winning strategies. In consumer electronics, Amazon benefited from its invention of new products – including the Kindle and the Alexa product family including its Echo smart speakers. While these new products contributed to Amazon’s rapid revenue growth rate, its process for online ordering and fulfillment provided an excellent customer experience.
Success: Stock Soars 330% As Outside CEO Creates Meaning for Best Buy Workers and Consumers

Introduction

While Amazon’s rapid growth represented a challenge to all its rivals, it also presented an opportunity to a store-based retailer whose CEO had the right strategic mindset. In the consumer electronics retailing industry — as in any industry that sells directly to a consumer — that mindset was based on a specific mental model of business success: higher returns to shareholders were a by-product of attracting and motivating talented employees who strove to provide consumers more benefits for the price than did rivals, as I described in *Value Leadership*. While that mental model was a critical starting point, to boost a store-based retailer’s financial results, in parallel the CEO changed the company’s strategy, operations, and systems for holding people accountable.

Case Scenario

Hubert Joly inherited a mess at Best Buy. For years, the dominant narrative in tech had been about startups disrupting established companies and large companies’ flat-footed responses to the challenge. In August 2012, Joly, who had previously run hospitality company Carlson, took over as Best Buy’s CEO following a whopping $1.7 billion loss and the departure of its previous CEO in the wake of a “close relationship” with a female employee, according to Bloomberg. By the time Joly handed over Best Buy’s reins to Corie Barry, who had recently served as its chief financial and strategic transformation officer, in June 2019, its shares had soared 330% from $20 to about $68, and in the quarter ending May 2019, the 125,000-employee electronics retailer had earned a 3% net profit margin.

There are many things Joly did to turn around Best Buy — but the most powerful, surprising, and universally applicable thing he did was to change the company’s approach to managing its people. Instead of treating Best Buy employees as costs to be minimized — his predecessor eliminated employee discounts — Joly prioritized creating meaning for them. More specifically, one of Joly’s early changes at Best Buy was to describe the company’s purpose and to encourage Best Buy’s managers to listen to employees’ dreams and help connect their dreams with Best Buy’s purpose. This was a powerful and controversial idea. As Joly said in November 2018, “[Making money is a company’s] imperative ... But it is not the purpose. I believe the purpose of a company is to contribute to the common good: its customers, its employees, and the community in which it operates. If you can connect the search for meaning of the individual with the purpose of the company, then magical things happen.” Best Buy applied the idea of Value Leadership in an interesting way: encouraging
managers in its stores to connect each employee's search for meaning with the company's purpose. This worked well in a Best Buy store near Boston. As Joly said in a July 2019 meeting with students at his alma mater, the French business school HEC, "I watched the head of [this store] ask his employees what their dreams were. One said he wanted to buy a house for his family. The manager told him that they would work together to help him develop his skills, move up in the company, and make his dream a reality. Achieving something significant does not have to involve huge humanitarian efforts. My personal goal is to make a positive difference for the people around me. It is basically a very limited goal! But it's the meaning of my life."19

Joly not only shed unproductive people and operations, he encouraged more customers to visit and purchase from Best Buy, by changing its strategic posture toward its customers, its employees, and Amazon. He also pruned noncore operations. To that end, Best Buy first sought to eliminate costs by making its processes more efficient. He estimated that 80% of Best Buy's $2 billion in costs were nonsalary expenses. For example, to that end, Best Buy saved $200 million by working with suppliers to design and ship TVs in a way that would keep them from breaking before they arrived at a customer's house.20 But Best Buy also cut about 2,000 middle managers in early 2014; selectively closed some 50 stores between 2014 and 2018; exited a European retail joint venture in 2013; sold off its stores in China in 2014; and in 2018 killed its Best Buy mobile business, closing the remaining 257 small stand-alone stores. What is more? Joly began his Best Buy tenure by spending a week with associates in a St. Cloud, Minn. Store. They told him about a devastating practice called showroaming — customers who visited the store, talked to Best Buy employees but bought from an online purveyor like Amazon. Best Buy put the kibosh on showroaming by announcing that it would match online prices. Associate feedback persuaded Joly to invest in a faster, easy-to-search website and to restore the employee discounts that his predecessor had eliminated.21 These moves helped Best Buy to reduce worker turnover from 50% to 30%.22 Best Buy also introduced a store pickup system — enabling consumers to order online and pick up in the store within an hour with help from its convenient locations (70% of the US population lived within 15 minutes of a Best Buy store).23 And Joly clearly articulated the role of store associates: to be trusted advisors who help customers evaluate and choose new technology. In April 2018, Best Buy inked a deal with Amazon to retail exclusively its Fire TV Edition smart TVs. Joly concluded that the benefits to Best Buy — including Amazon's investment in the Best Buy stores and the popularity of its product with customers — outweighed the costs of helping its rival. Best Buy also derives similar benefits from its partnerships with Apple, Microsoft, Samsung, Google, LG, Canon, Nikon, AT&T, Sprint, and Verizon.24

Joly's strategic mindset was a powerful force for enabling Best Buy's turnaround. In a Stanford Business School class, The Industrialist's Dilemma, which featured Joly, Management Lecturer Maxwell Wessel highlighted three key elements:
See the headwinds as the tailwinds: Joly took over at Best Buy in the face of what most observers saw as challenges. Categories were decaying rapidly while new consumer electronics and categories were emerging just as quickly. E-commerce vendors were taking share of many of the high volume, small box goods that Best Buy distributed. But he was able to see these challenges as opportunities. Some of the new categories were connected devices. And Joly saw an opportunity to provide customers with the ability to make individual products operate together seamlessly. Joly’s change in mindset enabled Best Buy to “reorient, reinvest, and get behind a changing strategy.”

Be a systems integrator for the consumer: A related mindset change was Joly’s orientation toward consumer electronics makers. Since Best Buy made its own private label products, he felt drawn toward viewing other product vendors as rivals. However, Joly resisted that urge and transformed Best Buy could into a systems integrator acting on behalf of its customers. Joly hired, trained, and motivated store associates who could assemble the best collection of components for each customer experience and make the components work together.

Treat the supplier like a customer: Joly’s focus on creating value for customers made it easier for him to see how suppliers – even those that competed directly with Best Buy such as Amazon – were making products that customers wanted to buy. Therefore, Best Buy helped suppliers to “make their store footprint as desirable as possible and helped them build a distribution strategy around Best Buy.” To that end, Best Buy became a critical link in its supplier’s product design – helping to set product standards – and working with suppliers to orchestrate product launches. Best Buy “was building a thoughtful strategy — a complementary set of activities — to differentiate their position in an ever-fragmenting world of products,” concluded Wessel.

Case Analysis

The CEO’s strategic mindset can either help or hurt a company’s performance. In Best Buy’s case, what was most important to the turnaround under Joly was his approach to thinking about the consumer electronics business. In his view, business success flowed from inspiring and developing talented employees who would build integrated home entertainment systems to satisfy customers’ unique requirements. Bearing this in mind, Joly cut people and
operations that distracted the company from his vision, trained and empowered Best Buy’s store associates, curtailed showrooming by matching online prices, fixed its systems and logistics to enable customers to order online and pick up at its stores, and partnered with suppliers of popular brands – including its rival, Amazon. The lesson is clear: the right mindset coupled with a compelling strategy and excellent execution can enable a follower to improve its performance.

Failure: Circuit City Files for Bankruptcy After Ignoring Industry Changes

Introduction

Success can sow the seeds of failure. That is because in too many successful companies leaders surround themselves with sycophantic executives and rubber-stamp boards of directors who embrace every idea the CEO proposes. A critical corollary to this rule of operation is that employees and managers who report to those executives know that if they supply information that challenges the way things are being done, they will soon find themselves sidelined or out of a job. This confirmation bias – an executive’s urge to receive information that reinforces their prior beliefs, and ignore the rest – presents an excellent business opportunity for a rival focused on delivering the best value to customers. If your most significant competitor refuses to keep up with changes in its industry, that rival’s customers are up for grabs, and you would be remiss not to take advantage of the opportunity.

Case Scenario

This comes to mind in considering the November 10, 2008, bankruptcy of Circuit City. At the time, the Richmond, Va. company was the second largest consumer electronics retailer behind Best Buy. In the fiscal year ending February 2008, it operated over 700 stores, employed more than 48,000 “associates,” and reported annual sales of $11.7 billion and a $321 million net loss. In the week prior to its bankruptcy filing, Circuit City announced plans to close 155 stores and cut 17% of its workforce. And its bankruptcy filing left in the lurch suppliers such as HP, which was owed $118.8 million, Samsung (a $115.9 million creditor), and Sony ($60 million) – who topped the list of its 100,000 creditors.

Circuit City was founded as a television store by Samuel Wurtzel in 1949. The company enjoyed tremendous success in the 1980s and 1990s but stopped adapting to the changing competitive environment after that, according to David Schick at Stifel Nicolaus. Its complacency became most pronounced in the late 1990s. Circuit City chose inconvenient store locations, and consumers opted to shop at the more convenient Walmart stores; it was slow to supply its customers gaming technology
and failed to promote products from popular vendors like Apple; and its website was underdeveloped just as Amazon was beginning to surge in popularity. Best Buy was nimbler in all these areas, and by the third quarter of 2008, Circuit City – which could not persuade customers to purchase the electronics in its inventory – posted a $239 million loss. For the same quarter, Best Buy increased its sales and earned a $200 million profit. Circuit City further endangered its survival by swapping cash for a $1 billion stock buyback program between 2003 and 2007. Four months after filing for Chapter 11, Circuit City was liquidated after it failed to restructure its finances or find a buyer who would keep it operating.

While Circuit City made other management missteps, the most significant one was its early 2007 decision to reduce costs by firing 3,400 experienced and highly paid workers, including salespeople, and replacing them with 2,100 lower-paid hourly workers. That same year, then-CEO Philip Schoonover received about $7 million in compensation. Customers reacted angrily to replacing Circuit City’s experienced salespeople – causing hundreds of thousands of entries in response to a search on Circuit City customer complaints. It is surprising that Schoonover – who from 1995 to 2004 was a Best Buy executive, and most recently its EVP of Customer Centricity, before taking over as Circuit City CEO in 2006 – did not realize that replacing experienced people with lower-paid novices would damage Circuit City’s reputation with customers. Schoonover’s boneheaded blunder was a fatal self-inflicted wound that sent customers to the competition – leaving Circuit City with piles of unsold inventory. As a result, it could not buy fresh products or pay off its debts. The founder’s son Alan Wurtzel – who was Circuit City’s CEO from 1972 to 1986, its board chairman from 1986 to 1994, and its vice chairman from 1994 to 2001 – suggested in 2012 that Circuit City did not adapt to changing consumer tastes or buying patterns. Wurtzel said that his successors “dismissed Best Buy as a marginally profitable company that wouldn’t survive.” Wurtzel’s immediate successor Rick Sharp, CEO from 1986 to 2000, was no slouch – during his tenure, revenue increased from $1 billion to $12.6 billion, and profit surged from $22 million to $327 million. But Sharp was more interested in new ventures such as CarMax, a discount car rental company that was spun out in 2002, than in Circuit City’s core electronics retailing business. Of Schoonover, Wurtzel concluded, “He may have understood merchandise, but he didn’t understand a damn thing about the Circuit City culture. The way he hired and fired and demeaned people. … So, the culture that my dad had built, that I had nurtured, that Rick had perpetuated, was destroyed.”

Case Analysis

Circuit City suffered from a succession of CEOs who ignored changing customer needs, new technology, and the threat from upstart rivals such as Best Buy and Amazon. During Sharp’s tenure, Circuit City invested capital and management attention in new businesses that distracted from its core. And rivals took advantage of the opportunity to offer customers a better value
proposition – including more convenient locations and a better merchandise selection. The final coup de grâce for Circuit City was inflicted by its last CEO, Schoonover, who saw salespeople as expenses to be cut rather than builders and keepers of long-term customer relationships.

Consumer Electronics Industry Case Study
Takeaways
The takeaways from these case studies have varying implications depending on where you sit.

Bricks and Mortar Executives

- **Do:** Based on the Amazon and Best Buy cases, bricks and mortar executives may create competitive advantage by
  - Inspiring their employees to work with customers to help them make the right purchases for their needs – rather than trying to push their own products.
  - Identifying popular products, such as those from Amazon, that their customers want to learn about in a store before purchasing. Executives should explore a partnership with such brands as described in the Best Buy case study.
  - Regularly refreshing their merchandising mix to add products that consumers want to buy and eliminate unpopular items that sit in inventory.
  - Using knowledge of their customer’s buying behavior and unmet needs to develop proprietary new products.
  - Adapting their systems and logistics networks so customers can order online and pick up at the store on the same day.

- **Do not:** Based on the Circuit City case, bricks and mortar executives should avoid its self-destructive tactics during a business downturn such as
  - Projecting credibility-defying levels of optimism to investors about an imminent financial turnaround.
  - Diversifying into new industries rather than adapting the core business to changing customer needs, upstart rivals, and new technologies.
• Dismissing the significance of fast-growing rivals rather than investigating the reasons for their growth

• Viewing employees as expenses to be cut rather than sources of excellent service that help the company to attract and keep customers

• Buying back stock to boost earnings per share rather than investing in new merchandise that customers want to buy and improvements in the company’s systems and logistics networks

Bricks and Mortar Employees

• **Do:** Based on the Amazon and Best Buy cases, bricks and mortar employees may seek to shape their workplaces by
  
  • Becoming expert advisors to customers seeking to match product benefits to their unique needs
  
  • Working with their managers to align their dreams with the company’s purpose

• **Do not:** Based on the Circuit City case, bricks and mortar employees should consider seeking employment elsewhere if the company’s CEO
  
  • Focuses exclusively on satisfying Wall Street’s quarterly earnings expectations.
  
  • Avoids spending time in stores with employees and customers
  
  • Cuts spending on product development
  
  • Views employees as costs to be reduced

Startup CEOs

• **Do:** Based on the Amazon and Best Buy cases, Startup CEOs may scale their companies by
  
  • Creating a compelling mission that attracts and inspires talented people to create more value for customers than rivals do.
  
  • Investing in growth opportunities which their superior skills enable them to capture more effectively than Best Buy and/or Amazon can. Ultimately such investments could increase in value as these larger companies employ the startup’s service or acquire the startup after it grows.
• **Do not:** Based on the Circuit City case, Startup CEOs should avoid its self-destructive tactics during a business downturn such as
  - Partnering with large companies that are overly focused on quarterly investor expectations and lack concern for employee and customer satisfaction.
  - Overspending on perks that do not add value to customers – which in a downturn must be slashed quickly
  - Underinvesting in new product development and more efficient business processes

**Business Students**

• **Do:** Based on the Amazon and Best Buy cases, business students may seek employment with companies that
  - Inspire their employees to work with customers to help them make the right purchases for their needs – rather than trying to push their own products
  - Articulate the right values – seeking to inspire talented people to create value for customers – and act accordingly
  - Invest in training and developing talented people so they can take on more responsibility
  - Encourage employees to brainstorm and recommend innovations that can benefit the company and its customers

• **Do not:** Based on the Circuit City case, business students should avoid companies that
  - Focus exclusively on meeting quarterly financial targets
  - Lack clearly articulated values and/or act in ways that undermine those values
  - Give lip services to valuing employees but ignore their ideas and fail to invest in training and developing them
  - Starve product development and customer service to hold costs down
  - Buy back stock to boost earnings per share
Do You Have the Strategic Mindset of a Consumer Electronics Industry Winner?

If you answer in the affirmative to these questions, you have a winning strategic mindset. If not, you must decide whether to change your mindset, strategy, and execution or find a job that better suits your strengths and interests:

- Do you know what dissatisfies your customers about buying from your company?
- Are you improving products and processes to replace that customer dissatisfaction with delight?
- Does your company have a compelling mission that attracts talented people?
- Are your managers helping your people align their dreams with your company’s mission?
- Are you cutting costs that do not add value to customers and investing the savings in happier employees and a better customer experience?

Conclusion

The consumer electronics industry is getting smaller and less profitable. While some large companies have suffered the consequences of burying their head in the sand, others are gaining market share by creating the future and by following the leader effectively. While those winners build from their strengths and bolster their weaknesses to offer customers the merchandise they demand and ever-improving service, the losers ignore fast-growing rivals and starve investment in employees and innovation in a bid to satisfy investors’ quarterly profit expectations. The successes and failures of consumer electronics rivals reveal the powerful interactions between a leader’s mindset and the strategies and operational decisions that foreshadow their financial success or failure. In Chapter 3, we will examine how these interactions play out in the video entertainment industry.