



BEST BUY IS BACK!

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How the big-box retailer found a way to win in the age of Amazon

Advisor Jess Kordash making a house call

By Susan Berfield and Matthew Boyle

Photographs by David Williams

In Best Buy's perfect world, all 380 of its new "in-home advisors" would park their clean, white Priuses in front of a customer's house rather than in the driveway, where the car could block others. They would quickly appraise the neighborhood, survey the landscaping, and see if a security system is in place. After knocking gently on the front door, they would step back and stand to the right, smiling, head down slightly, arms uncrossed, name tag visible on their blue, wrinkle-free Best Buy polo shirts. They would shake hands firmly, avoiding the dead fish or the lobster claw.

Once inside, they would offer to remove their shoes. They wouldn't lean on the walls or place their Best Buy tablets on the furniture. If they noticed a cat, they would know better than to say they own a dog, and they definitely wouldn't talk politics. The advisors would make customers comfortable by mimicking their conversational style and pace: If a customer talked with her hands, advisors would, too. They would have a tape measure with a laser, and they wouldn't tease the cat with it. They wouldn't knock on walls to determine where a stud was—they would use their stud finders—and they would never put the tool on their chest and say "beep." That wouldn't be amusing. "If you're using that for rapport, start again," says Bryan Bucknell, a self-proclaimed "longtime sales dude" at Best Buy Co. who's training recruits for the program. He's with his aspiring advisors—27 men and 9 women, uniformly enthusiastic in their blue

Best Buy, the last national electronics chain, is counting on these advisors to distinguish it from Amazon.com Inc., the company's competitor, partner, and would-be vanquisher. With more than 1,000 big-box stores in North America and about 125,000 employees, Best Buy was supposed to have succumbed to the inevitable. "Everyone thought we were going to die," says Hubert Joly, who was hired as chief executive officer in August 2012 after profits shrunk about 90 percent in one quarter and his predecessor resigned amid an investigation into his relationship with an employee.

Instead, Best Buy has become an improbable survivor led by an unlikely boss. Joly was raised and educated in France, trained at McKinsey & Co., and previously employed by hospitality company Carlson, based outside Minneapolis, and media conglomerate Vivendi SA, where he greenlighted a little game called *World of Warcraft*. He's the first outside CEO in the chain's 52-year history. He had no retail experience—Best Buy's stock fell 10 percent the day he was named CEO—but Joly understands how to value, and capture, customers' time. Comparable sales rose 5.6 percent last year and 9 percent during the Christmas season, the biggest holiday gain since 2003. The stock price has quadrupled. Even Amazon CEO Jeff Bezos is impressed. "The last

"Everyone thought we were going to die"

shirts—in a windowless conference room at Best Buy's headquarters outside Minneapolis, where they've come for the final session of a five-week initiation in late May.

Best Buy's better-known Geek Squad deploys agents to help customers with repairs and installations. The advisors act as, in Best Buy's language, personal chief technology officers, helping people make their homes smart or merely more functional. Some in this group worked on the Geek Squad, some as retail staff, a few were lured back to Best Buy, and at least one was employed by companies that Best Buy put out of business. They've already learned about the devices and appliances they can offer: TVs, sound systems, refrigerators, washing machines, security cameras, doorbells, garage doors, and smoke alarms, as well as Amazon Echo and Google Home and Apple HomePod, and smart shades and lighting and thermostats.

Now they're in this conference room practicing how to sell by seeming not to. "Be a consultant, not a salesperson," Bucknell says. "Use phrases like: 'How would you like it if,' 'Do you think it would help if you could,' 'Have you ever thought about?'" They're supposed to establish long-term relationships with their customers rather than chase one-time transactions. They won't need to anxiously track weekly metrics and, unlike the Geek Squad and blue shirts working in stores, they'll be paid an annual salary instead of an hourly wage. Their house calls are free and can last as long as 90 minutes.

five years, since Hubert came to Best Buy, have been remarkable," he said at an appearance in April.

Those years were about getting people into Best Buy stores and onto its website; Best Buy's future will be about getting its people into homes. Joly, who made a surprise visit to talk with the trainees, explains the importance of this strategy: "That lets you have a real conversation. You can talk about what's possible, be human, make it real." They'll encounter those slogans again throughout headquarters. "We get 26 percent of our consumers' electronic spending. That's embarrassing," he says. "If we get a third, it would still be embarrassing, but the growth for the company would be tremendous. This is a great way to make a sale, but it's also the beginning of a beautiful friendship, to quote *Casablanca*. Does anybody know *Casablanca*?"

Richard Schulze opened his first store, Sound of Music, in his hometown of St. Paul in 1966. Herb Alpert and the Tijuana Brass recorded that year's best-selling album, *Whipped Cream and Other Delights*, and the popular new home audio system was the eight-track player. Over the next decade and a half, Schulze and his close associate, Brad Anderson—a former seminary student who almost quit when he didn't make a sale in his first few weeks—opened six other locations. But they let their operating costs pile up and came close to bankruptcy twice. In 1983, the two changed strategy: They opened a discount superstore and called it Best Buy. They thought they could compete with Circuit City, which already had dozens of big boxes across the country and revenue of \$250 million.

Best Buy went public two years later. Schulze and Anderson expanded beyond the Twin Cities, often in more convenient locations than Circuit City's, and in 1995 overtook it as the nation's largest electronics chain. Electronics was an inherently unstable business, but Best Buy knew how to manage the inevitable obsolescence, always making sure it had a hot new video game console or phone in stores. When the company struggled, it was usually because executives couldn't keep up with growth. Amazon started selling CDs in 1998, but Best Buy didn't consider the company much of a threat. That didn't last. "The pace of its growth was faster than we were prepared to engage in the early 2000s," Schulze wrote in an email. In 2002, when he was 61 and worth about \$2 billion, he turned the CEO job over to Anderson. Schulze remained chairman and the largest shareholder.

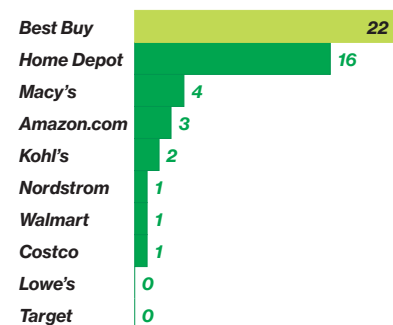
Anderson's first move, in late 2002, was to buy the Geek Squad—a startup with 50 agents (now 20,000) who provided tech support to customers in their homes, in stores, by phone, or online—and in doing so transformed the business. (The Geeks joked that they owned Best Buy, not the other way around, though services like the Geek Squad have only ever accounted for about 5 percent of revenue.) Other purchases were less transformative. In 2008, Best Buy spent \$121 million for Napster, the rebranded, decriminalized paid music service whose customers were soon filched by Spotify Technology SA and Pandora Media Inc. Anderson oversaw a huge expansion in the number of stores in those six years, from about 600 in the U.S. and Canada to almost 3,900 in 13 countries.

Best Buy floundered as the Great Recession took hold and Amazon sharpened its edge with offerings such as limited same-day delivery and AmazonBasics, a line of low-cost, private-label commodity electronics. The poorly managed Circuit City liquidated in early 2009. Later that year, Anderson retired, though he stayed on as vice chairman. His successor, Brian Dunn, had joined the company as a blue shirt in 1985 and had served as its president since 2006.

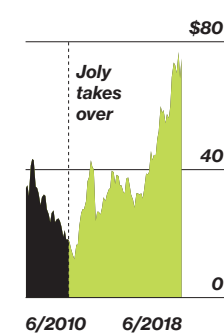
Dunn undid much of what Anderson had done. He closed stores, shut down overseas operations, and dumped Napster. But that wasn't enough to halt Best Buy's decline amid the quickening digital takeover. "A lot of our businesses simultaneously got worse, fast," Anderson said in a

Surprise, Surprise

Consecutive quarters beating or matching analysts' earnings estimates



Best Buy share price at month's end



A Samsung display in Lady Lake, Fla.



phone interview. Stores fell into disrepair, the staff became complacent, sales tanked, the stock price dropped, and to maintain some measure of profitability, the company gave up competing on price.

In time for the 2010 holiday season, Amazon released its price check app, a boon for shoppers and a calamity for Best Buy. Amazon almost always had a lower price—as well as better inventory management and faster delivery—and all of a sudden it seemed like Best Buy might become obsolete.

In March 2012, the company reported it had lost \$1.7 billion in a single quarter. Meanwhile, the board's audit committee learned that Dunn, who was married and 51, had a close relationship with a 29-year-old female employee. An investigation found the CEO had given the woman tickets to concerts and sporting events and loaned her \$600. They'd met for drinks and lunches on workdays and weekends. During two trips abroad in 2011, Dunn called her 33 times and sent her 191 text messages. He resigned in April 2012. (Dunn declined to comment for this story.) Schulze, who'd learned about the relationship, was forced to resign as chairman.

Instead of leaving quietly, Schulze tried to take control of the company he founded. He owned more than 20 percent of Best Buy but would need to raise billions of dollars to acquire a majority stake. That summer he invited Anderson and several others to join him in a takeover plot they called Blue Bird.

In August 2012, when even the most loyal executives were demoralized and their relatives were asking why they still worked at Best Buy, the board hired Joly to rescue the company. In October, *Bloomberg Businessweek* published "The Battle for Best Buy, the Incredible Shrinking Big Box," with a cover illustration of zombies attacking a store.

"You could feel the vibe change within the building," Amy College, a senior merchandising executive, says of the weeks after Joly took over. He gave up the executive suite where Dunn had worked, with a secure entrance and a panic room nearby. He didn't renew sports sponsorships and ended Best Buy's experiment with a results-only work environment that dispensed with schedules, mandatory meetings, and clock-watching. As part of a \$1.4 billion cost-cutting plan, he sold ventures in Europe and ▶

◀ China. After layoffs at headquarters, he and his chief financial officer, Sharon McCollam, figured they could shrink most workspaces by a few inches to fit almost all of the 4,000-person staff into three of the four buildings the company owns in Richfield, Minn. U.S. Bank is among the tenants that now rent the fourth.

Joly also approached Schulze. His takeover plan didn't endear him to the board, and he hadn't been involved in Joly's hiring, but he remained Best Buy's largest shareholder. "I didn't know him," Joly says. "But I guessed that his intentions were good. He wanted to save the company. That's what I was recruited for." Joly and Schulze met that fall and winter. By spring, Schulze still hadn't found enough backers to help him buy out the company, and he abandoned Blue Bird. He's now chairman emeritus and speaks regularly with Joly.

Joly made another deft overture that fall: He worked at a store in St. Cloud for a week, which showed him that he could improve morale with even a small gesture. He made a bigger one when he restored the company's generous employee discount program, which Dunn had curtailed. Joly also invested in regular training for the sales staff, who he says were "considered not very competent and not very engaged."

It wasn't just about morale. About five months into the job, he announced Best Buy would match the price on any product that Amazon, and more than a dozen other retailers, offered. It would be costly, but it was the only way to nullify one of Amazon's biggest advantages.

The CEO applied what he calls the bicycle theory to the moribund company. "If you try to direct a bicycle at standstill, you fall. The key is to get moving," Joly says. "You learn about creating energy." Initially, he says, he wasn't much more clear about his plans than that, but executives later told him they got the message: "If we don't change, we are going to die."

Joly recounted these early days during an interview in March at Bloomberg's New York office. He came with three senior communication executives, charts showing the company's progress, and copies of a presentation he'd made to investors several months earlier. Joly, who's 58 and expensively dressed, was genial, well-rehearsed, and skilled at deflecting. "You won't get me to say a bad word about Amazon," he said in response to questions about the company that still poses the greatest existential threat to Best Buy. "There is a lot of room for both of us." Best Buy and Amazon together account for only a quarter of all consumer spending on electronics. "It's not a zero-sum game," Joly says often.

Five weeks later, in mid-April, Joly and Bezos appeared at a Best Buy store in Bellevue, Wash., to announce a joint venture. The companies would release Toshiba and Insignia smart televisions with Amazon Fire TV, exclusively sold by Best Buy at its stores and on its website and on Amazon.com. "It's definitely sleeping with the enemy, but more power to them," says Aaron Chervis,

head of Bain & Co.'s Americas retail practice.

There is, of course, one thing Best Buy has that Amazon doesn't: more than 1,000 big-box stores. Joly saw the benefit of using them as showrooms—a word so fraught in retail that the company calls them *showcases*—for the big tech brands, Amazon included. Best Buy was among the first chains to feature Apple boutiques. In April 2013, Joly said there would be Samsung mini-shops in its 1,400 U.S. locations by June. That same month, Best Buy began adding 600 Microsoft stores-within-stores. Sony arrived in 2014. Last year, Best Buy turned over more space to Amazon and Google to better display their smart home technologies. The two are bitter rivals: Amazon doesn't sell Google Home and offers a limited selection of Google's Nest products. Best Buy is neutral ground.

The brands essentially pay rent to Best Buy (it's cheaper than building stores) and either send in their own salespeople or train the blue shirts. No one at Best Buy would offer details about these partnerships. But even analyst Michael Pachter of Wedbush Securities Inc., who in almost 10 years has never recommended buying Best Buy's stock, describes the partnerships as a phenomenal success because they ease the financial burden of operating stores while enhancing profit margins. "Best Buy is like an arms dealer," he says. "They're indifferent to what brand you buy as long as you buy it from them."

Despite these successes, the shadow of neglect threatened the company's promise. Its app crashed regularly. The website existed in a time warp. Out-of-stock items were frequently promoted, there were no customer reviews, product information was scant, and it could take 10 clicks to check out. By the end of 2016, all of this had been fixed.

So had the supply chain. In August 2013, the company recruited Rob Bass from Target Corp. to make it more efficient and to save a couple hundred million dollars to help cover the costs of Joly's price-matching strategy. Bass discovered quickly why customers were frustrated: Best Buy's distribution centers typically weren't open on weekends or holidays, and its warehouse management software was at least two decades old. The software has been updated, the supply operations extended, and two-day free delivery is standard on orders of \$35 or more. In April 2016, Best Buy announced it would offer same-day delivery in a few cities for a fee. Right after that, Amazon expanded same-day delivery to some Prime customers for free. Best Buy then lowered its price, which had been as high as \$20, to \$5.99. This past holiday season, Best Buy expanded its same-day service to 40 cities.

Bass also turned back to the stores. He started a system that allowed them to fulfill orders via delivery and pickup. Best Buy says 70 percent of Americans live within 15 miles of one of its locations, so it's been encouraging customers to come collect their orders. Forty percent of the time they do, which "helps my budget a lot," Bass says. To make those pickups faster, the company



is testing an "On My Way" function on its app to ensure customers don't arrive before their TVs are retrieved from the back of the store. Since 2012 the proportion of its online revenue has more than doubled, from 7 percent of all U.S. sales to 16 percent, well above those at other big-box retailers.

As individual pieces of technology become simpler to use, connecting them gets more complicated and important for their utility. To Joly, this was a missed opportunity. "The vision I had from the beginning is for us to be to the consumer what a company like Accenture is for a business," he says.

To one longtime employee, this was an enticing idea: an elite group of salespeople who could offer more than the Geek Squad did. Corie Barry had tried to start an advisory program in 2010 when she was a senior director without a budget. Now she's chief financial officer.

In fall 2015, Joly asked her to set up a strategic growth office, "a safe space for ideas," Barry says. The advisory program, which emerged through conversations with Joly, would live by three main rules. No. 1: No job is too small. "We'll come teach you how to ask Alexa questions," Barry says, offering an example of a current—and common—request for using the Amazon Echo. No. 2: We will come to your home for free. No. 3: Be comfortable not closing a deal by day's end. "They sound really basic," Barry

into people's houses, either. Trish Walker, Best Buy's president of services, says, "It's on us to stay ahead of everybody, not just Amazon."

Jess Kordash, 34 and one of Best Buy's top salespeople, was among those trained as an in-home advisor during the test phase in 2016. She's now based at a store about an hour northwest of Orlando, near the Villages, the country's biggest retirement community, where "some people love Alexa and others don't even have a smartphone," she says. Three hours with her prove to be a reality check on Best Buy's ambitions.

Her first visit on a Friday in June is to Jo-Ann and Reg Kaminiecki, a retired couple in their 70s. She parks her Prius in front of their house. The Kaminieckis purchased an enormous refrigerator and freezer from Kordash a year ago. She came to their home to make sure they'd measured the space in the kitchen correctly. In May they bought a new TV, their first in 22 years. "It's one of our 4K TVs," Kordash says. "It's 65 inches, with a sound bar and Blu-Ray to see all those movies." The Kaminieckis have an alphabetized film collection lined up along their living room and bedroom walls. They also bought a TV stand with an electric fireplace, but the shelves cracked during shipping. Kordash

"Best Buy is like an arms dealer"

says. "But when an organization is built on transactions in the moment and individual goals, it's a big change."

She tested the program in San Antonio. Six months later, during a trip to meet the team there, Joly asked if Best Buy should try it elsewhere. "I said we've already expanded to two other markets [Austin and Atlanta]. He just said, 'Wonderful.'" The in-home advisors went national in September. When one of the trainees at the session in Minneapolis asked Joly how big he hoped the program could become, he said: "I don't have a specific goal. I don't think it would be helpful. McKinsey never had a goal of how many clients. It was how good was the work." Another employee said: "This is why Amazon can't compete with us. They can't dispatch an army of in-home agents." Joly wasn't as sure. "Amazon is an amazing company," he replied. "They kill companies. Maybe they will do this. But we have an incredible opportunity. If someone wants to copy, that's fine."

Amazon has started offering free smart-home consultations and installations. It doesn't have a chain of big-box stores in which to meet customers, but that didn't bother investors. Best Buy's stock dropped 6.3 percent when Amazon announced its plans a year ago. Lennar Corp., the huge homebuilder, said in May that Echo and smart doorbells made by Ring, which Amazon recently acquired, will be in model homes across the U.S. It's not far-fetched to imagine Apple Inc. sending its geniuses

promises to send their favorite Geek Squad agent when the replacement arrives the following week.

"There is a lot of things we could do: light control, Alexa could control the TV and sound bar, maybe we could even put in a smart thermostat," she says. "But I'm not tempted to offer them more. I'm completely comfortable with the fact that they're not interested. It was a year between the fridge and the TV. Who knows what they might want in another year?"

"We're content," Jo-Ann says, almost regretfully.

Kordash next visits Harry Bohannon, 90, who's just moved into the Villages with his son and daughter-in-law. He shows Kordash the TV that came with the house. "The LED lights are flickering. That's a bad sign," she says.

"I didn't think it was a good sign," he replies good-naturedly.

Kordash says the cost to repair them will be more than a new TV. "Do you want the same size?" she asks. He does. Then he walks her over to a jumble of cords. She identifies a CD player and speakers. "We can hook this up and get it functioning," she tells him. "Do you want to control the Bluetooth speaker with your phone?"

He doesn't, but asks, "So who's going to hook that up?" Kordash tells him the Geek Squad will.

"When?" As soon as he'd like.

"How about at 11?" It's 10.

"I'll put you on the calendar and send you a quote for the television by the end of the day," Kordash says. "Any other projects?" she asks. He pauses.

"You're not a physician, are you?" **B**