

Foundational Excellence

Assuring Sustainable and Profitable Growth

Over the past twenty years we have been involved with major retail businesses that through bold and entrepreneurial leadership, aggressive strategies and rapid store front expansion experienced dramatic revenue growth. Each business grew to hold top market share positions in their industry.

In each case rapid top line growth did not result in sustainable or profitable outcomes. Just touching more customers did not lead to profitability. Root causes included a lack of quality people throughout the organization, weak “foundational” processes, procedures and systems, and a priority focus on sales growth at the expense of providing a great employee and customer experience and cost reduction.

Best Buy Company – United States

Best Buy had experienced significant growth, opening 212 stores between 1991 and 1996. In 1997 with over 251 stores and 33,500 employees, annual revenue exceeded \$7.2 billion. Many stores had been opened in new markets that allowed Best Buy to serve many more customers. For all this hard work Best Buy achieved 0.02% in net profit (\$1.7 million). A poor return for their shareholders and no liquidity to fund future growth.

The leadership group at Best Buy realized that it had to change and clearly understand what they were doing that produced such weak profit performance. The priority was “Change or Die”. The business must be transformed and quickly.

A 3rd party consulting group was hired to evaluate all aspects of their business. The findings clearly showed that Best Buy was missing the “basic foundations” required to grow a profitable business. Best Buy did not have effective systems and processes for category management, a productive inventory management system, little focus on maximizing profitable businesses, inconsistent selling strategies, and no standardized SOPs for retail stores and retail operations.

The resources of the entire company were organized around this “foundational” transformation.

- Basic process and procedure SOPs were developed for assortment planning, pricing, vendor management, competitive awareness
- Inventory management and demand planning were improved - instock performance and measurement, forecast accuracy, inventory turnover performance, replenishment process, open to buy, and at-risk inventory reduction
- Strategies for “selling more profitably” were implemented, focusing on warranties, accessories, and baskets. Scorecards were developed to provide visibility to performance and improve results competition among stores and managers
- SOPs for retail stores in all disciplines were developed and implemented - sales, inventory, operations, merchandising and loss prevention. With over 250 stores, all stores had to do it the same way
- Under the mantra of “Great people don’t sometimes make a difference, they always make a difference”, the quality of leaders and staff were improved throughout the organization. The training department was strengthened and training became a priority for all managers. Improving the employee experience was an enabler for a top customer experience and achieving top business results
- In order to differentiate Best Buy from the competition, the customer experience and customer loyalty was improved with better and more highly engaged employees, world class merchandising standards, compelling presentations, quality store leadership and a WOW customer experience

Implementing all elements of this business changing “transformation” should have lead to a quick turnaround. The focus was on improving the foundations of the company. It should have been easy. It did not happen.

“Change is Hard” and people, especially leaders, were resistant to change. The reality was that most employees did not understand it, did not believe it, and did not do it. The Head, The Heart and The Hands were not in alignment.

Change management experts were brought in to work with the leadership at the corporate office, retail stores and with all support groups. Getting the leadership to believe in the change was a roadblock to success. To help overcome the roadblocks, minimize frustration and improve speed, change implementation teams (CITs) were developed to help express, model, reinforce and measure the change.

The entire transformation took over two years but through this agonizing experience, Best Buy's leaders learned how to implement change and reduce the time needed for strategy development, strategy implementation and successful strategy execution.

To realize and sustain growth and achieve profitable outcomes the core foundations of the company had to be strengthened. It was a key to success.

Eldorado Company, Russia

Similar to Best Buy after 11 years of unprecedented growth Eldorado had experienced rapid expansion, growing to over 800 stores, yet the total business was not growing profitably. In 2006 EMG contracted with Eldorado to evaluate their business and help them understand what steps they needed to take in order to bring their business model up to international best practice standards and return their business to growth with profitability.

Significant weaknesses were identified in the foundational core of their business.

There were significant problems with their inventory management process. There were virtually no capabilities for demand planning, product instocks and at-risk inventory management. This resulted in a high level of out of stocks, poor sales and profit performance, unmanageable at-risk inventory and an eroding customer experience and loyalty.

There was no discipline around Category Management. While the business was structured around major categories and sub-categories, CM was not understood or used to build a solid product process. There was no assortment planning process and resulting broad product lineups did not tie to space. Also assortments did not align with a promotional calendar creating many customer disappointments on advertised products.

Gaining leadership alignment and support to build a strong foundation of reliable processes, procedures and systems were critical to success.

Additional information on the Eldorado project can be found in [Case Study](#).