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Transformation and resilience: An interview with Best Buy's executive chairman Hubert Joly

Hubert Joly shares lessons from leading the turnaround of the retail and technology giant and how it prepared him and the company for the current crisis.

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In this episode of *Inside the Strategy Room*, we share an excerpt from a webcast interview with Hubert Joly, the former CEO and executive chairman of North American technology retailer and services provider Best Buy. The interview was recorded at the 2020 Global Business Leaders Forum, scheduled to take place in New York in early April but held virtually instead. In this session, Joly speaks with Becca Coggins, leader of McKinsey's North America retail practice, about Best Buy's organizational transformation and how the coronavirus pandemic is changing the key measures of performance. This is an edited transcript. For more conversations on the strategy issues that matter, subscribe to the series on Apple Podcasts or Google Play. For more on the Best Buy story, see the companion piece, "Leading with purpose and humanity: A conversation with Hubert Joly," on McKinsey.com. See also Hubert's forthcoming book provisionally titled, *The Heart of Business*.

Becca Coggins: As you know, Hubert, this conference explores the themes of transformation and resilience, so we would love to dial into your experience at Best Buy. Let's start with the summer of 2012: you are the CEO of Carlson, the global hospitality and travel company, and you get a call about a certain iconic retailer that is coming off a $1 billion-plus loss. What drew you to the opportunity to lead Best Buy?

Hubert Joly: I got the call from a friend and I told him, "I don't know anything about retail and the place is a mess." So, before any interviews with the board's search committee, I did an outside-in analysis on Best Buy and the sector. I did store visits, I read everything I could, and what I saw was that, of course, this was the all-you-can-eat menu of challenges. You had strategic challenges with Amazon and some of the technology companies vertically integrating. You had operational challenges with the service quality having gone down significantly. You had leadership challenges, since my predecessor had been fired, and you had shareholder challenges with the share price dropping significantly and the company's founder and lead shareholder, Dick Schulze, trying to take it private.

But this outside-in diagnosis revealed two things. One, there were real strengths in the company. Technology is exciting but, for many of us, it's a bit challenging, so there was a service-oriented role that Best Buy could play. There was also a role with the world's foremost tech companies that needed a place to showcase the fruit of their billions of dollars of R&D investments. Two, all of the company's problems were self-inflicted. The poor quality of service in the stores had nothing to do with Amazon. It was on us. So that gave me the confidence that we had enough to effect a turnaround.

Becca Coggins: So, you take the job in late summer 2012. How did you approach architecting the actual turnaround?

Hubert Joly: The problem with turnarounds is that we have this image of cut, cut, cut. Analysts were telling me, "You will have to close a lot of stores." I have the opposite view. In a turnaround, and in business life more generally, you start with people. I learned many years ago that there are three imperatives in a company: the people imperative—you need the right people properly engaged and equipped; the business imperative—you need happy customers; and the financial imperative, which is the performance. You never start with finance, you start with people, so that is what I did.

I spent my first week on the job in the local store listening to the front-line workers and I learned so much more than I would have learned in a windowless conference room looking at spreadsheets. One of the associates told me, "Hubert, the website search engine is not working. Type in 'Cinderella.'" And I typed "Cinderella," and what I got was a bunch of cameras, not DVDs or CDs. Not very helpful. Nobody in headquarters would have told me this.

Also, I was able to observe the interactions between the associates and the customers. There was this phenomenon of showrooming, with customers coming to our stores, spending a lot of time with a Best Buy "blue shirt," and then leaving empty-handed because they assumed the price online

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was lower. That’s where the idea of matching online prices came from. I also looked at the floorplan: there was a lot of room set aside for CDs, movies, video games that, in the digital age, didn’t make any sense. So, we focused on two things. Revenue was going down, and profit margin was going down. How hard can it be to solve two problems?

Becca Coggins: You branded the turnaround Renew Blue. What were you trying to signal with that branding?

Hubert Joly: I’m a big believer that a strategy needs a name. If you don’t have a name, you don’t have a plan because people cannot relate to it. Renew Blue was signaling two things. Blue, of course, is the color of the shirts at Best Buy, so there was a lot of strength in the history, the values. This was not about becoming somebody else; this was us. But we knew we needed to change. Years later, the team told me that I had conveyed that if we did not change, we would die. That tends to focus the mind. So, it was a clear invitation for us to build on our past but also reinvent the company.

Becca Coggins: You talked about starting with people. How did you go about getting the full company to have the energy and belief in the turnaround?

Hubert Joly: In a turnaround, you have to create energy. In physics, we learn that energy is a finite quantity. In business and organizations, it’s not. It is something you can unleash. A company is a human organization made up of individuals working together in pursuit of a goal. If this is your central idea, it has significant implications for how you lead. You are not trying to be the smartest person in the room—you are trying to create an environment in which you can unleash this energy.

So, we started by being very transparent. We shared the diagnosis with the entire team. We were also optimistic; people need optimism, including during this time of crisis. Realism, yes, but also optimism. I think as leaders, how we show up is probably more important than what we say. If you were to ask Best Buy people who were there in 2012, they will probably remember I was high-energy, and I had a sense of optimism. Do they remember exactly what I said? Probably not. But I conveyed that I saw the possibilities. Then you nurture the optimism along the way by looking for green shoots and communicating early wins.

Next was the co-creation of the plan. In the 1960s, ’70s, and ’80s, you would create a plan, cascade it down and then roll it out. You put incentives in place and hoped things went well. That does not work anymore. The co-creation of the plan was really important. And you're not looking for perfection—because of the activist investor interest in Best Buy, we had eight weeks between the day I joined and the day I presented the Renew Blue plan to Wall Street, which was great because it forced us to come out with the plan. There is a philosophy that the quest for perfection is evil. You can confuse perfection with performance. You don't go for a perfect plan—you set the direction and then you apply what I call the bicycle theory. If you have tried to direct a bicycle from a standstill, it's very hard; you fall. If the bicycle is moving, it may not be moving in the right direction but it doesn't matter; you can course-correct.

There is this idea that the difference between great leaders and good leaders is not the *quality* of their decisions but the *quantity* of their decisions. It may not be true in capital-intensive industries with long cycles, but in most customer-oriented businesses, it's a good approach. Then you focus on unleashing the human magic. I found defining what to do was usually not that difficult; it was mobilizing and doing it that was hard. How do you create the new mindset and new capabilities? That was the essence of the strategy.

The last thing I would say in terms of mobilizing the organization is about corporate purpose and stakeholder capitalism. You could say that this is something you focus on when everything is going well, right? No. This is something you do all the time. In fact, our 2012 Renew Blue presentation to investors had five pillars: the customers, the employees, the vendors, the communities in which we operate, and the shareholders. We were treating shareholders as important stakeholders but one of five stakeholder groups. That creates meaning for the organization, one where even during dark days people feel they are part of something to which they are ready to commit.

Becca Coggins: You also took some bold decisions, especially during the early years of Renew Blue, such as getting out of international businesses, and revamping the cost structure. Were some harder than others?

Hubert Joly: International was easy. I don't believe that retail is a global business. It's a local business. There are some exceptions, as when you are vertically integrated or a brand-driven business, but in a business like ours, there is no benefit to being global. The previous team had expanded in Europe and in China. We quickly reviewed that and decided to exit.

As for the performance improvement around cost, let me pause to explain something. In a turnaround, you don't start with cutting heads. The first lever you go after is increasing revenue. So, as part of our turnaround plan, we put a lot of emphasis on our online business. We did the price match to take price off the table in customers' decisions. We invested in the customer experience in the stores. We put emphasis on reigniting the growth engines. Now I'm a big believer that it is never either/or—it's *and*. Revenue is number one; number two are non-salary expenses, which at most companies are 70 to 80 percent of the cost structure.

One example of this: today the biggest TVs are large and very thin, so they're fragile. If we sell a lot of TVs, we will break many of them. We looked at the entire value chain to reduce damage, working with the vendors on the design of the TVs and the packaging, considering how we store the TVs, how we move them, the advice we give to customers when they install them, and we saw that as a $400 million opportunity. By now we have taken out $2 billion of costs and probably three-quarters is non-salary expenses.

The third thing you look at is optimization of competition and benefits. We implemented a host of new benefits for employees, including back-up childcare and mental health support. But there are some costs of providing the benefits that you can go after—in particular, in healthcare by having wellness programs. Only if one plus two plus three is not sufficient do you go after headcount, and we did reduce that. We de-layered the organization, we de-emphasized several areas, we looked for efficiencies. If you do this as a last resort, you send the signal that human resources are not a resource, they are a source—an engine of the company. And when you do reduce headcount, there are different ways to do this. A couple of years ago we decided to close Best Buy Mobile's standalone stores but instead of letting those employees go, we worked with them to offer them opportunities within the company. These were people with five or ten years of experience. They were a real asset.

Becca Coggins: That's an interesting thread. Can you tell us a bit about the vendor program?

Hubert Joly: When we decided that our prices had to be competitive, one reaction I got from investors and the media was, "Before, you were going to die because your prices were too high, and now you will die because your costs are too high." Because we are a more service-oriented organization, we had higher costs than Walmart or Amazon. But that was without accounting for our idea of partnering with the world's top tech companies.

In 2012, we already had a small Apple store within our stores but for Samsung, there was nothing meaningful. The CEO of Samsung Electronics visited us in December of that year. He had heard from the Renew Blue presentation that we were open to these partnerships and over dinner we did a handshake deal. In a matter of months, Samsung had 1,000 Samsung stores within Best Buy, where highly trained staff could showcase their products just across the aisle from the Apple store within our store. It was good for the customer, because they could see and compare. It was good for Samsung, because how long would it have taken them otherwise to build 1,000 stores in the US? And it was good for us. Then we did a similar partnership with Microsoft, and we expanded the partnership with Apple. We did it with Sony, LG, Google, and Amazon.

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Now Amazon was the company that was supposed to kill us back in 2012. Some retailers were refusing to sell Amazon's hardware such as the Kindle tablets. We had always sold Amazon products and over time we added an Amazon store within our stores. Then we did something else: we partnered with Amazon whereby Amazon gave Best Buy the exclusive rights to its Fire TV platform to be embedded in smart TVs.

I feel there is too much focus on zero-sum games. Sometimes, when companies develop strategies, they say, I want to be number one. Of course, there is only room for one number one, and when you are number one, where do you go? It is much better to be inspired by your purpose and then see how you can partner with others in pursuit of that goal.

Becca Coggins: In late 2017 you unveiled a new chapter in the transformation. Can you help us understand what was different about this shift to New Blue?

Hubert Joly: In 2016, one of our board members said, "Hubert, you need to declare the turnaround officially over and enter a new chapter." In the turnaround, we had to focus on growth, but that had to be a somewhat risk-averse strategy. The purpose of this next chapter was about growing the business and becoming the best version of Best Buy we could be. So, we did customer research, market segmentation, but we also focused on our purpose. We declared that our purpose was to enrich lives through technology. We are not in the business of selling TVs or computers. And we are not fundamentally a retailer. We are in the business of enriching lives by addressing key human needs, whether it's entertainment, health, productivity, or communication.

This purpose has the benefit of vastly expanding what we can do for customers. The key is to make it the bedrock of the strategy. Let me make it come to life with a couple of examples. One is our entry into the healthcare space. There is a global trend of aging populations and a big movement toward helping seniors stay in their homes longer because it is better for them, it is better from a healthcare cost standpoint, and it is certainly better in the context of the current crisis. So, we did a series of acquisitions and now have a business focused on that. One of the things we do is put sensors into seniors' homes and, using artificial intelligence, we monitor their daily activities. Are they drinking, are they sleeping well? We have care centers that are alerted if any concerns emerge. That service is sold through insurance companies and it's a high-growth opportunity for us. And we would never have thought of it if we had just looked at the business in a traditional way.

This presentation was recorded on April 3, 2020. The situation surrounding COVID-19 is evolving daily. For the most current information and insights on the implications of COVID-19 for your business, please visit Coronavirus: Leading through the crisis*, a regularly updated collection of McKinsey briefing notes.*

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