TRANSCRIPT

Mergers and Acquisitions Fails

Michael Madsen:

Hi, I'm Michael Madsen, International Liaison Partner for BDO Canada. Welcome to Bored at the Airport with Mike. This show is about doing business globally. Whether your business has international presence, is considering an international expansion, or if you're in the middle of revising your expansion plan, then this show is for you.

Clip:

The Dow fell a record 777 points. We came as close as we have ever come in history to a total cardiac arrest, not just of the American economy, but the entire world economy.

Michael Madsen:

In the years after the 2008 financial crisis, one part of Best Buy's recovery plan was to expand into the United Kingdom and China. Neither went well, and here's what happened.

Clip:

I'm really honored, proud, and lucky to be opening the first Best Buy store in the U.K.

Narrator:

Best Buy also received a lot of praise for being one of the few traditional, brick-and-mortar retailers to survive the retail apocalypse that killed or significantly weakened many of its competitors, like Sears and K-mart. Its stock peaked back in 2018, and it's still the top retailer of consumer electronics, even beating out e-commerce giant Amazon. But in the years since the 2008 financial crisis, one part of Best Buy's recovery plan failed spectacularly. Its expansion into the United Kingdom and China.

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Some reports say the company's in financial trouble. Well, that's what Forbes magazine claims in its newest issue. Well, that's what Forbes magazine claims in its newest issue.

Narrator:

In the U.K., after just two years, the company closed its 11 big-box stores and exited the country. George Laurie, analyst at Forrester Research, explains.

George Laurie:

One of the things that they said correctly was that customer service, in what we call electricals, was not to everything that it might be. And I think any consumer at that time would agree. People in the U.K., they're much more likely to research online and buy online, that actually the role of the store is quite insignificant.

Narrator:

Best Buy's failed international strategy has become a textbook case on how not to expand into new territories. By the time it closed all its stores at the end of 2011, its joint venture with UK mobile retailer Car Phone Warehouse burned through almost 200 million pounds, approximately 318 million U.S., having opened only 11 of its original store target of 200.

Best Buy's big-box proposition planned to shake up the U.K. electronics market with a strong emphasis on U.S.-style customer service combined with low prices. Best Buy examined the U.K. industry for years, during which time it considered making major acquisitions to propel its launch. It procrastinated right up until the U.K. was in its worst economic decline in decades.

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This is a recession. What today's numbers show is that hard times are here. The pressure's been immense. It's been extremely stressful.

Narrator:

What did Best Buy's competitors do?

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Their competitors launched enormous efforts to retrain their people, to train them better, almost exactly the same time that they entered the market.

Narrator:

Best Buy proved unable to adapt its strategy once it became clear that its choice of large outlets and out-of-town locations was not working. Being an unknown entity in the U.K., it needed a much larger marketing push to get people to make the trip to its stores. It was the wrong format at the wrong time in the wrong market.

Strike two. Best Buy's failed attempt to expand into China. As they did in the U.K., Best Buy purchased a majority stake in a local company to help establish a presence in the market, acquiring Five Star Appliance in 2006. By 2011, it was over, and Best Buy left China.

What went wrong? The company's liabilities were fueled by China's issues with pricey, cost-conscious customers, and surprisingly, the unpopular, big-box retail format. The Chinese wouldn't pay for expensive products unless it was a trusted brand like Apple. Plus, the Chinese market was flooded with cheap knockoffs and counterfeit products.

The result: at the time of its exit, Best Buy ran 184 stores in China under the Five Star brand, the 18th largest retailer in the country. However, its geographical reach was limited, allowing bigger competitors to aggressively open stores in larger cities across China. Today, Best Buy's domestic performance is strong. Playing to its strength, Best Buy not only has survived the retail apocalypse, but it also emerged with the most developed omnichannel experience in the market as it reaches consumers with its physical stores, online platform, and in-home service.

Even Amazon utilizes Best Buy's omnichannel capabilities to distribute its own products, such as TVs and tablets in Best Buy stores. Expansion into other parts of the world, however, will remain an epic tale of corporate and market analysis missteps that almost drove the company into bankruptcy.

Michael Madsen:

At first glance, Best Buy seemed to have the right idea. They were smart to partner with U.K. and Chinese companies, but they really should have collected more feedback from their business partners before aggressively moving into these new markets. Joining me on this episode is Ryan Farkas, Managing Director of M&A and Capital Markets for BDO. Ryan has been working with private companies in Canada, advising them on mergers and acquisitions for over 18 years. In that time, Ryan has worked on more than a hundred different transactions across a variety of industries from coast to coast. He sits on BDOs Global M&A Steering Committee and is especially active in the consumer retail sector.

Ryan, this Best Buy story is really fascinating to me. Entering a foreign market through merger and acquisition seems like an easy way to expand internationally, but what is the lesson that people can learn from Best Buy's experience?

Ryan Farkas:

Thanks Mike. I would say it's to be methodical, or maybe using the old analogy when you're building something, to measure three times and cut once as opposed to cutting right away. Companies really need to consider all of their options based on their specific characteristics and the market they're contemplating entering. There are different strategies to consider from simply building organically slowly over time, perhaps buying something small to test the market, or making a sizeable needle-moving acquisition right off the bat, which is sometimes what we see with larger corporations. As we saw with Best Buy, the one size fits all approach, where you often assume that your current strategy and your current market will work anywhere, doesn't always work and can lead to increased risk around failure around your international expansion plans.

Michael Madsen:

Listeners are considering M&A as part of their global expansion. What are some of the key things they should keep in mind?

Ryan Farkas:

It's really important that I think a company looks at their own value proposition and how it might apply to the specific market that they're looking at. Obviously, some markets are going to be more similar to their current markets, and I think the depth of that analysis really depends on how different the market you're looking at is. A lot of companies might assume that if they're successful in one market, that same strategy and that same go-to-market approach will work in a different market. And it's not necessarily the case.

Michael Madsen:

Clearly complex and potentially many pitfalls. How do you go about mitigating the compliance risk with such an expansion?

Ryan Farkas:

It's obviously a question near and dear to our hearts. In a large firm such as BDO, from a compliance perspective, from a regulatory perspective, from a due diligence perspective, being able to tap into local knowledge is really important. The way to mitigate some of those risks you mentioned, Mike, is to leverage good advice on the ground, so to speak.

Michael Madsen:

Is there one type of challenge that is the most difficult to overcome?

Ryan Farkas:

Well, there's lots of challenges. I think the one is probably cultural. That's probably where truly appreciating that the cultural differences from market to market is where historically you see acquisitions gone wrong if you will. Cultural differences from a staff perspective. So, the culture that your organization emits amongst the internal team, if you try to impose that on an acquisition in a different market, you can face resistance. And ultimately that customer value proposition is really driven by so many factors. And if once that breaks down, that's where a company can find itself struggling to sustain whatever it is that they acquired and almost with no chance to grow and take advantage of what they had maybe intended to do from when they thought about doing that acquisition.

Michael Madsen:

How do you overcome challenges related to cultural differences?

Ryan Farkas:

For an organization that has specific markets that they would like to enter or would like to expand to, I think going slow and being methodical, engaging people on the ground, and sometimes there's different ways to do that. You can use consultants and advisors to feed information back to you around the way that business is done and the way that culture is going to impact your specific business. So I think really most of the roadblocks or the issues that you might hit really come from going too fast. And when you go too fast, you tend to hit speed bumps that perhaps you didn't see coming. There's a lot of different ways to get there, but I ultimately think it's probably about being methodical and ensuring that you've got the information before decisions are made, that don't allow you to reverse course.

Michael Madsen:

If companies are currently considering or working on their M&A plan as part of their international expansion, how can we help them?

Ryan Farkas:

I think there's a lot of things that we can do to help them. First and foremost, we'd be putting them in touch with our practitioners on the ground. As a global firm, we've got a presence in many of these markets, if not all, and being able to find the right resources there, to give that inside information around what that market is, any of the questions and to start that dialogue with the company as they start to hone in on what markets are attractive. From there, it's how you bring the whole breadth of what we have to offer as a global firm to anybody who's really looking at international opportunities.

Michael Madsen:

Thanks, Ryan. Ryan Farkas, Managing Director of M&A and Capital Markets for BDO. Thanks for being part of Bored at the airport with Mike. I'm Mike Madsen. If you liked this episode, subscribe to our podcast, connect with us on our LinkedIn group page.

Narrator:

On our next episode..

Clip:

Pepsi was trying to run the slogan, "Brings you back to life" in China, but instead of hyping up Pepsi's energizing powers, they told people the soda will bring your ancestors back from the dead.

Narrator:

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