Stanford eCorner

Case Study: Best Buy's Failure to See Napster

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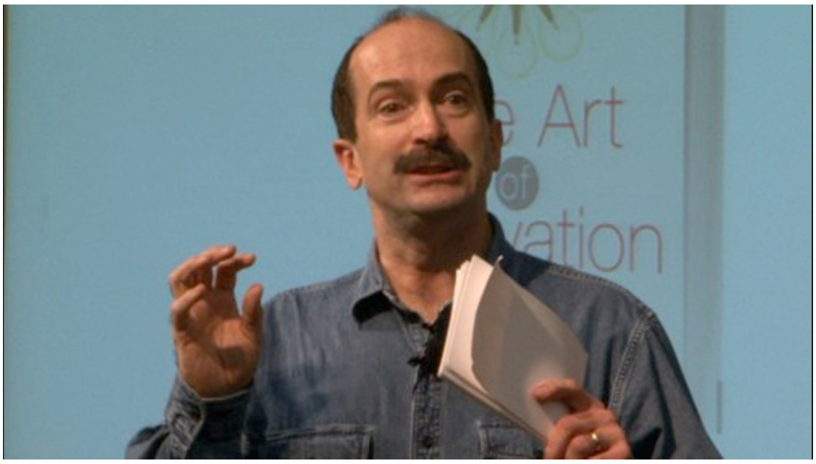
"It's not what you don't know that gets you into trouble. It's what you know for sure that ain't so," says Mark Twain. And Tom Kelley, General Manager of IDEO, cites this famous quote as an example of why it's important for creative minds to continue to cultivate a dedication to continuous learning. He tells the story of retailer Best Buy, and tracks their huge investment and acquisition of a large CD retailer which they thought was a good idea – except for that their target market had stopped buying music and started downloading MP3's instead. The electronic retailer was overly confident in their knowledge of the market, and paid for their lack of learning with a billion dollars in lost revenue.



Transcript

So on this attitude of wisdom, I think the very quotable Mark Twain.. I love Twain.. I don't know if he said all that stuff but if he did, I just want to follow him around writing stuff down as he said it.. He said at one point of his life, he said, "It's not what you don't know that gets you into trouble; it's what you know for sure that ain't so." And this "know for sure" stuff could be really a problem for lots of people.. I was in Istanbul recently with a very charismatic Executive Vice President at Best Buy, big retailer.. And he told a story from before he joined the organization.. He told this story about one of these things that you know for sure that ain't so.. Apparently, in 2001, Best Buy then, as now, the largest consumer electronics retailer in America.. So they know a lot about consumer electronics.. They know a lot about people buying media, things like that..

They want to expand their influence.. And so they're looking around with their mergers and acquisitions hat on and they found this company called Musicland.. Musicland, really big deal.. They own Sam Goody stores; they were a force to be reckoned with.. At the time, they had 1,300 stores, biggest retailer of audio CD's and DVD's in America.. And boy, the management team of Best Buy thought this was really strategic.. They were willing to pay billions of dollars for Musicland because it expanded their empire it was so good, 2001 this is.. Because they're confident that they know how people buy consumer electronics.. They know about media purchase except for one thing.. The management team, probably in their 40's and 50's at Best Buy in Minneapolis, Minnesota, they hadn't noticed that there was this little company called Napster, started in 1999, two years before their purchase and that there's this sea change had already started happening..

In fact, it was well underway in 2001 when they made the purchase.. That 18 to 30 year olds had basically stopped buying CD's completely and were downloading their music online in MP3's.. So this very smart group of people, I've met some of the management team and they're very smart people.. Take nothing away from them.. But they make this strategic mistake because they were sure that they knew about their market.. And Kal Patel, this Executive Vice President telling this story, says before the dust settled five years later when Musicland went bankrupt, Best Buy lost $1 billion.. So they lost $1 billion because they were over confident in their knowledge of the market.. And he says the really ironic thing of this is the trend had started with 18 to 30 year olds.. He said, "Ever been in one of our stores?" He says, "Who's working in there? 18 to 30 year olds." He says, "In other words, not only did we miss the trend that happened in the world, our own employees knew about it." But the information didn't filter up to the management team.. And he said, "You know we will make more mistakes in the future of Best Buy but we won't make that one again..

We won't get over confident in our knowledge and we won't overlook data about trends that exist within our own team." And so that's just the thing about things that you know for sure that ain't so...