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Today's Top Story

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REACTION: BEST BUY'S ORDEAL IS A HARBINGER OF STORE FOOTPRINTS TO COME


Green

RICHFIELD, MINN. — Best Buy announced Thursday that it plans to close 50 of its big-box stores in the U.S. by 2013 to shore up its balance sheet.

The electronics retailer has suffered from eroding sales as a growing number of customers use its stores as a showroom, while turning to lower-priced products elsewhere, says John Bemis, executive vice president director of leasing at Jones Lang LaSalle's Montgomery, Ala. office.

"Customers will go into a Best Buy store, scan a code into their mobile device and shop that item all over town and on the Internet," says Bemis. "It's becoming more common at retail stores in general."

The announcement came during a conference call with analysts to discuss news of a fourth-quarter net loss of $1.7 billion, or $4.89 a share. This compares to $651 million in profit one year ago.

Jeff Green, president and CEO of retail real estate consulting firm Jeff Green Partners, adds that the size of the company's products is also problematic. Televisions are becoming more slender and many of today's electronics are more compact.

"The stores are simply too large for this environment," says Green.

To remodel the chain, Best Buy announced plans to shift to smaller, more focused retail stores and will open 100 mobile-only stores in the U.S. It will also lay off 400 workers as part of a plan to trim $800 million in costs by 2015.

Bemis says Best Buy's restructuring plan is key to the company's long-term health. "While certain landlords and owners are going to be stung by that, not making this move in the long run would be a negative for the company as a whole," he says.

The move will also help Best Buy avoid the fate of other big-box chains such as Borders, which also faced tough competition from online sales, adds Bemis. Borders, unable to find a financial backer willing to help it out of bankruptcy, closed its remaining stores last year. "In the retail business, standing still equates to moving backwards," says Bemis.

To maximize profits, more major big-box chains have been downsizing average store size in recent years. In retail, the thought used to be that bigger is better, says Green.

"In this retail environment, where online shopping is more accepted than ever, there is little need for a large, brick-and-mortar presence," he explains.

As companies change operating strategies, Chicago-based Eidco Construction is one of the firms transforming vacated big-box space to make it more attractive to retail tenants with smaller footprints. The company is currently renovating a former K-Mart location at the Westgate Mall in Brainerd, Minn., to accommodate two smaller tenants: Dunham's Sports and Big Lots.

As big-box retailers change their footprint, Chicago-based Eidco Construction has been renovating the large, vacant spaces into smaller spaces.

"Across the country we're commonly seeing big-box retailers who range between 70,000 and 90,000 square feet, similar to Best Buy, realizing their footprint is too large. As a result, the trend is going toward smaller stores," says Chez Eider, president of Eidco Construction.

"We take the dead space that results from the smaller footprint and via our architectural innovation and creative site improvements to the retail centers, find more efficient uses for it."

While Best Buy did not announce which of its stores it plans on closing, the company did say it will roll out its mobile-only stores by next year.

— Liz Burlingame