RadioShack: Wireless Winners or Woes?

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ABSTRACT

This real-world case focuses on the most profitable element of the RadioShack business, wireless phones, and the quest to provide the correct mix of branded names to customers. The case can be used in undergraduate or graduate marketing classes with a focus on strategy, retailing, or brand management..

LEARNING OBJECTIVES

Upon completion of this case analysis, students should be able to:
(1) Analyze the decision elements that go into focusing on one product/service segment and learn about the potential positive and negative outcomes of such a focus.
(2) Learn how the products that a company decides to offer to customers can have a huge impact on the sales of the company.
(3) Be able to discuss the pros and cons of having multiple offerings, offering more exclusive product lines, etc.
(4) Identify the risks in placing all marketing efforts and dollars on one product line focus; Are the possible positive outcomes worth the risk. How can the risk be lessened?
(5) Be able to discuss how companies decide on which products to offer versus not offer.

INTRODUCTION

RadioShack has came a long way since its beginnings in Fort Worth, Texas as a leather shoe parts company supplying soles, heels, and shoe laces to shoe repair shops in the Fort Worth area. Today, RadioShack is a multi-billion dollar, publicly-traded company and is one of the nation's largest electronics retailers. In the 1990s, RadioShack Corporation saw an explosion in personal communications, including their invention of the widely popular Family Radio Service (FRS) handheld personal radios and cellular telephones.

RADIOSHACK: PERSONAL COMMUNICATIONS BUSINESS

Leonard Roberts, executive chairman of RadioShack Corporation, envisioned that in using RadioShack's greatest asset- its knowledgeable sales associates, RadioShack could, "demystify technology in every neighborhood in America." Roberts' vision is the company's mission statement. Roberts coined the phrase, "You've Got Questions. We've Got Answers," and implemented this phrase as RadioShack's brand position. RadioShack is poised "To dominate cost-effective solutions to meet everyone's routine electronics needs and families' distinct electronics wants," (5) which is their Solutions Strategy. Today's marketplace indicates consumers have growing preferences for brand name products and services. Gone are the days when RadioShack stocked all house brands like Realistic and Optimus, which were both discontinued in 2000 as a result of RadioShack's partnership with RCA. Brand names like Onkyo, Monster Cable, Ipod, Sony, Verizon Wireless, and Cingular Wireless are dominant throughout RadioShack's nearly 7,000 locations nationwide. According to David Edmondson, RadioShack's CEO, "Our business model for many years has been based on high-margin, slow-moving products," Edmondson said during an investor presentation. "These products are taking up valuable space in the store that can be much more efficiently utilized." (3)

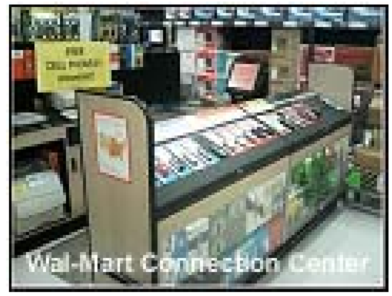
THE RENEWED FOCUS: WIRELESS PHONES

A recent interview with local Senior RadioShack Manager, Ray Presnell, reinforces the company's renewed focus on name brand products, especially cellular (wireless) phones, "In consumer electronics, RadioShack cannot compete in other hot consumer products like HDTV due to space limitations. RadioShack has found their niche in the wireless phone business because of the one-on-one attention customers can get from shopping at RadioShack compared to the other "big box" retailers, such as Best Buy and Wal-Mart. This type of attention cannot be given on such a complex product by anyone other than a highly-trained team member, such as at RadioShack. This is due to our ongoing associate training process. Our company focus for 2006 is wireless phones, plain and simple. Our employees are spiffed (paid a commission) on wireless sales, higher than any other item in our store; our manager's compensation is tied to store performance, which is most greatly affected by wireless sales performance. We are expected to ask every customer, every time, if they are interested in a wireless phone. We live and breathe wireless. If we do not sell wireless, we do not make money."


RadioShack Wireless Kiosk

ENTER WAL-MART

Is this the right decision for RadioShack? Should RadioShack put all of their marketing dollar eggs in one basket, focusing solely on wireless sales? In this case, should the company focus be strictly on wireless? Many retailers realize the high profitability of wireless phones, but are there enough customers to go around? Recently, retail giant Wal-Mart, famous for being the low price leader, entered into the post-paid (requiring a contract and set monthly service fee) wireless business by opening "Wireless Connection Centers" in select Super Centers offering customers a one stop shop for their wireless needs. With millions of customers shopping at Wal-Mart locations throughout the country, this could spell trouble for RadioShack.


Wal-Mart Connection Center

POST-PAID WIRELESS RETAILER MARKET SHARE

According to the third quarter 2005 U.S. Device Report conducted quarterly by information giant Telephia surveying over 79,000 respondents, "Among recent [post-paid] wireless purchasers who bought their phone within the last 6 months at a major U.S. retailer, such as big box and consumer electronics stores, 32 percent bought their handset at Wal-Mart (see Table 1), as compared to 15 percent two years ago in Q3 2003, more than doubling its share. Twenty-eight percent bought their phone at RadioShack, as the top two major retailers comprised 60 percent of the total market share." (6)

PRE-PAID WIRELESS RETAILER MARKET SHARE

There is another piece to the wireless pie; one in which RadioShack has been involved for years. Although not near as profitable as post-paid wireless service, pre-paid wireless service, commonly referred to as "pay as you go" wireless, is very popular among today's consumers because of its "no-contract/use at will" nature. "Major retailers are capitalizing on a growing consumer audience who want to purchase cell phones without having to get a credit approval or locking themselves into long-term contracts," said Kanishka Agarwal, Vice President of New Products, Telephia. "This group of consumers has been underserved in the past. The presence of big box and consumer electronic stores in locations serving a broader audience has helped maximize the opportunity to reach this section of the mobile population." (6) According to Telephia 3rd Quarter 2005 survey, 40% of pre-paid wireless consumer handsets were purchased at major retailers (Wal-Mart, RadioShack, Target) and 20% at actual company retail locations (see Table 2).

TABLE 1: Top Five Major Retailer Share of Wireless Consumers Who Made a New Handset Purchase During the Past Six Months (U.S.)

Major Retailer	Recent Mobile Device Purchase Share (%)
1. Wal-Mart	32 %
2. RadioShack	28 %
3. Best Buy	12 %
4. Target	8 %
5. Circuit City	7 %

Source: Telephia U.S. Device Report, Q3 2005
Note: Respondents for Table 1 data were asked: Where did you purchase your current wireless telephone/handset?

TABLE 2: Retail Channel Share of Pre-paid Plan Purchaser (U.S.)

Location	Share of Recent Device Purchasers on Prepaid Plans
Major Retail Store	40 %
Service Provider Retail Store	20 %
Service Provider Online Store	12 %
Other	9 %
Non-Service Provider Online Store	7 %
Local Independent Telecom Store	4 %
Grocery Store or Convenience Store	3 %
Kiosk in a Mall/Department Store	3 %
Outbound Phone Call	2 %
Telemarketing/Incoming Phone Call	1 %

Source: Telephia U.S. Device Report, Q3 2005
Note: Respondents for Table 2 data were asked: Do you subscribe to one of these "pre-paid" or "pay-as-you-go" plans?

PAINFUL TRANSITION TO A WIRELESS CULTURE

RadioShack undoubtedly sees great potential in its wireless business and believes it is the key to the Company's success. But the transition to a greater wireless focus has proved painful. Mr. Presnell reiterates RadioShack's extreme focus on a wireless culture and teaches his associates how wireless can affect their overall paycheck, the stores' overall profitability, and the profitability of the company, "If we do not sell wireless we do not make any money!" The effects of the wireless culture are obvious. Wireless displays are placed right inside the front door, undoubtedly so customers must walk past them. Companies such as GAPbuster Worldwide are deploying "secret shoppers" to monitor "brand experiences" such as sales techniques and knowledge of wireless phones by store employees. (2) Each associate is expected to ask you about wireless service, regardless of what you are purchasing. RadioShack managers, including Mr. Presnell, agree that less profitable pre-paid service, while strong, needs to be accompanied by a greater acquisition rate of the more profitable post-paid product for wireless to be successful in RadioShack.

To accommodate this transition, in 2005, RadioShack ended its longtime relationship with Verizon Wireless, in favor of Cingular Wireless, the largest wireless company in the United States, with more than 54 million subscribers. (1) On December 31, 2005, RadioShack removed Verizon Wireless from its stores, replacing it with Cingular Wireless, thus beginning a costly turn of events for RadioShack in its quest for wireless retail dominance. RadioShack reported a loss of $19 million in net income for 2005 as a result of the transition to Cingular and loss of sales focus on Verizon Wireless stores due to the impending removal of the provider.

The transition seemed to affect everything [see Figure 1]. Although Fiscal sales were up 5% for fourth quarter 2005, RadioShack announced a fourth quarter 2005 rate of decline of 62% in net income and 56% in diluted earnings per share and a fourth quarter 2005 gross margin rate of 41.1% versus 49.3% in 2004. (5) "RadioShack effectively increased its overall store sales by offering high-end camcorders and I pod's, but fell short on overall sales results due to the relatively low margin of these products," says Ray Presnell, Senior RadioShack Manager. Mr. Presnell's comments mirrored those of RadioShack CEO David Edmondson, "Sales results were good in many low-margin non-wireless categories; however, we experienced lower sales in high-margin categories. In addition, wireless sales and profits were below our expectations." (3)

ACE-IN-THE-HOLE?

In 2005, RadioShack changed its product mix, advertising campaigns, and wireless providers, but failed to achieve its financial goals. "RadioShack failed to achieve its financial objectives in 2005," Edmondson said. "We implemented several key changes including executive management, advertising, store operations, merchandise assortment, long-term wireless agreements, and more. We believe that the company's strategy is sound. But we must move at a much faster pace with a greater sense of urgency, and that is what necessitates our turnaround plan. We believe that the company's strategy is sound. But we must move at a much faster pace with a greater sense of urgency, and that is what necessitates our turnaround plan." (4)

In order to be successful, RadioShack intends to increase the amount of product sold out of its locations and increase profitability within each location by "replacing old, slower-moving merchandise with new, faster-moving merchandise within higher growth categories [like wireless phones]. RadioShack will concentrate its efforts and investment on improving top-performing stores in order to deliver a great customer experience. (4) In an added effort to reduce overhead and maximize profitability, RadioShack will close 400-700 stores over the next 18 months and continue to expand its wireless kiosk business in mall locations throughout the US, selling only highly profitable wireless phones and accessories.

CONCLUSION

Will the increased focus, "all-eggs-in-one-basket" approach, work for RadioShack? Will wireless phones prove to be an "ace-in-the-hole" for RadioShack? Only time will tell if the move from Verizon Wireless to Cingular Wireless will prove to be profitable. In the near term, RadioShack is banking on it. RadioShack is continuing to expand its wireless kiosks and replacing long time partner, Verizon Wireless, with Cingular Wireless in an effort to regain the wireless lead (market share) from retailers, such as Wal-Mart. One thing is clear. RadioShack acknowledges they need to react faster than in the past to the ever changing retail environment, if they plan to survive.

DISCUSSION QUESTIONS

1. Evaluate RadioShack's Brand Position.
2. Evaluate RadioShack's Mission Statement.
3. Perform a brief SWOT analysis on RadioShack's wireless business.
4. What competitive advantage does RadioShack have to ensure success of its wireless business? What competitive disadvantages does RadioShack have?
5. Did RadioShack use Segmentation, Targeting, or Positioning in selecting its target market?
6. Is RadioShack using aspects of the promotion communications function in its stores?
7. How did the wireless carrier transition in RadioShack affect their 4th quarter 2005 financial results?

DECISION-MAKING QUESTIONS

1. In your opinion, can RadioShack use its greatest asset (it's people) to win back market share from Wal-Mart?
2. What are some of the avenues RadioShack is taking to make sure their wireless business is successful?
3. In your opinion, is RadioShack hurting its profitability by focusing most of their energies and marketing resources on their one wireless business?
4. In your opinion, why do you think RadioShack removed Verizon Wireless from its locations in favor of Cingular Wireless?

CASE UPDATE

As of 2006, RadioShack operates in more than 6,000 company –owned stores and dealer outlets in the United States and through a network of almost 800 wireless phone kiosks. The number of locations has actually decreased since 2005. In 2005, RadioShack operated in 7,460 locations (combined store, outlets, and kiosks).

According to the 2006 10K filed by RadioShack, sales of wireless handsets and the related commissions and residual income add up to approximately 1/3rd of the company's total revenue. With such a large dependency on one area of business, RadioShack has some concerns regarding the continued sale of wireless technologies. Wireless services and phone sales are driven by the technology available and the consumer adoption process. If the technology is not there or not coming out as fast, this could cause a slower growth or decrease in wireless sales. Also if consumer interests change, there could be less focus on wireless services in the future. Another concern is the possibility of wireless industry consolidation. As more wireless companies combine, the carriers could shift their focus and competitive strength to carrier retail stores and could then be competitors against RadioShack for phone sales, service plans, and accessories.

Wireless sales have declined from 2005 to 2006. Wireless sales (in millions) in 2005 were totaled at $1,746.00 and in 2006, sales (in millions) only totaled $1,655.00. RadioShack attributes the decline to a number of things including a decline in the unit sales of wireless headsets, an unfavorable mix shift to prepaid headsets from postpaid headsets, a sluggish wireless industry environment, and fewer RadioShack store locations. Management feels that RadioShack will still be competitive in the highly competitive wireless phone sales industry because of two main factors: the extensive physical retail presence all over the United States and the specially trained sales staff that RadioShack employs.

As of November 2007, RadioShack offers wireless phones and phone plans through 4 major wireless carriers (AT&T, Sprint, Nextel, and Alltel) and other smaller, less known wireless providers. Customers of RadioShack can shop by carrier or by product features. The product features are broken down into 5 major categories: best sellers, Bluetooth phones, music phones, PDA/Smartphones, and Broadband Access.

RadioShack also offers an extensive line of wireless phone accessories including batteries, power cords, storage options, earphones, displays, carrying cases, etc for a broad spectrum of brands including Audiovox, Blackberry, HTC, Handspring, Kyocera, LG Info Comm, Motorola, Nokia, RIM, Samsung, Sanyo, Siemens, Sony-Ericsson, and Toshiba. Currently, RadioShack offers 125 different varieties of wireless phones ranging in price from $14.99 - $749.99. RadioShack continued with the pre-paid wireless phone segment of the market. Offerings include service from a number of well known brands such as Boost Mobile, GoPhone, Net10, Tracfone, Trumpet Mobile, and Virgin Mobile.

RadioShack also features an extensive amount of product reviews on its website. Over 260 reviews are on the website pertaining to wireless phones and service providers. This helps to educate consumers on what other consumers think of the product based on their experience. By providing an extensive amount of information on the products it sells, RadioShack can help consumers to make more educated product purchase decisions. Wal-Mart does not have this type of information available to consumers and this is one way in which RadioShack can offer a better shopping experience when customers are shopping for wireless phones, plans, or accessories.

As of April 2007, 65% of consumers purchase their wireless phone and service plan directly at the carrier retail stores. RadioShack, Wal-Mart, Best Buy, and other mass merchandisers are all competing for the next slice of the market share pie. As RadioShack is closing down stores across the country, its competitors are opening them up. Best Buy announced in April 2007 that over the next 18 months will open between 150-200 Best Buy Mobile wireless stores in three major markets (New York, Texas, and Boston). The Best Buy mobile stores will feature an assortment of handsets, accessories, and services from various carriers including Cingular/AT&T, Sprint, and Verizon, as well as prepaid phone services through Boost, Go Phone, and Virgin. If you are thinking the list is very similar to RadioShack's offerings, you are right. They are just about identical, except that now Best Buy has picked up Verizon Wireless also.

As of Quarter 2 in 2007, RadioShack endured another tough quarter in sales. The decline in sales has been attributed to a nearly 20% drop in demand for mobile phones and plans. The decline in revenues for RadioShack is still being connected to RadioShack's decision to switch from offering Verizon Wireless phones and service plans to offering Cingular/AT&T. It has been speculated that the biggest blow came as a result of the decision to offer the new Apple iPhone for purchase only at the carrier (AT&T) retail locations and at Apple retail stores. RadioShack could not participate in the huge sales frenzy that accompanied the release of the Apple iPhone. If RadioShack would have known this initially, they may have re-thought their idea to switch from Verizon to AT&T. Management is also attributing lost revenues to the decrease in number of stores and the increase in competition. As of July 2007, Best Buy is continuing to open up wireless-specific stores and kiosks around the United States. Is RadioShack on a downward spiral, time will tell?

FIGURE 1
RADIOSHACK CORPORATION AND SUBSIDIARIES
Consolidated Income Statement (Unaudited)
(In millions, except per share amounts)

	Three Months Ended December 31, 2005	Three Months Ended December 31, 2004	Increase/ (Decrease) 2005 vs 2004	Twelve Months Ended December 31, 2005	Twelve Months Ended December 31, 2004	Increase/ (Decrease) 2005 vs 2004
Net sales and operating revenues	$1,671.9	$1,593.3	$78.6	$5,081.7	$4,841.2	$240.5
Cost of products sold	985.0	808.2	176.8	2,706.3	2,406.7	299.6
Gross profit	686.9	785.1	(98.2)	2,375.4	2,434.5	(59.1)
Operating expenses:						
Selling, general and administrative	575.2	544.5	30.7	1,904.6	1,774.8	129.8
Depreciation and amortization	32.2	28.1	4.1	123.8	101.4	22.4
Total operating expenses	607.4	572.6	34.8	2,028.4	1,876.2	152.2
Operating income	79.5	212.5	(133.0)	347.0	558.3	(211.3)
Interest income	1.1	5.5	(4.4)	5.9	11.4	(5.5)
Interest expense	14.1	8.6	5.5	44.5	29.6	14.9
Other income, net	-	-	-	10.2	2.0	8.2
Income before income taxes	66.5	209.4	(142.9)	318.6	542.1	(223.5)
Provision for income taxes	14.1	78.5	(64.4)	50.4	204.9	(154.5)
Income before cumulative effect of change in accounting principle	52.4	130.9	(78.5)	268.2	337.2	(69.0)
Cumulative effect of change in accounting principle, net of taxes	(2.9)	-	(2.9)	(2.9)	-	(2.9)
Net income	$49.5	$130.9	$(81.4)	$265.3	$337.2	$(71.9)

SOURCE:
RadioShack Corporation

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