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In The Office
EXECUTIVE INTERVIEW



ONE OF THE
Good Ones

AS CEO OF AUSTRALIAN RETAIL ICON THE GOOD GUYS, MICHAEL FORD HAS IDENTIFIED AND SPARKED SWEEPING SHIFTS IN THE CONSUMER ELECTRONICS INDUSTRY.

Estelle Judah Photography



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As technology and e-commerce continue to transform the industry, CEO Michael Ford has led The Good Guys into a new age of prosperity and growth. Over the past nine years, he has quickly identified and utilised industry trends and adapted the retail giant's platform to accommodate rapidly changing consumer needs. Michael states that the consumer electronics (CE) industry has gone through the most dramatic cyclical and structural changes of any retail sector.

"Consumer electronics and technology is one of the first retail sectors to feel the brunt of e-commerce," he says. "If you don't have an integrated bricks-and-mortar and e-commerce strategy, you are increasingly vulnerable in this market."

"David Jones says the one factor negatively affecting their results is home appliances and consumer electronics, and they will likely quit the categories soon, as Myer has done. If you look at the UK, former market leader Comet ..."



“Over the past 12 to 15 years, e-commerce has emerged from what many Australian retailers believed to be a convenient novelty to become the largest contributor to retail sales growth.” - Michael Ford

has just gone out of business. Even Best Buy—the USA’s largest CE specialty retailer—will be criticised when its history is evaluated. They were a late entrant into effective use of e-commerce, and their performance was drastically undermined by Amazon.”

While some retailers have failed to meet changing industry standards and expectations, The Good Guys has embraced the e-commerce change. “Over the past 12 to 15 years, e-commerce has emerged from what many Australian retailers believed to be a convenient novelty to become the largest contributor to retail sales growth,” Michael says.

“During the 90s, e-commerce was a secondary strategic peripheral. In the early 2000s, the impacts and effects of e-commerce became more evident, and both retailers and consumers accepted e-commerce as an authentic alternative to traditional bricks-and-mortar retailing. Undoubtedly, this will accelerate over the next five years, and there will be significant scope for growth for truly multichannel retailers.”

The Good Guys will capitalise on this scope for growth, with consumer electronics presenting a multitude of opportunities for ‘savvy’ retailers. “In order: books, clothing, and consumer electronics have the highest online penetration in Australia; groceries and home improvement are among the lowest,” Michael explains.

“Typically, boards, senior management, and investors misunderstand the importance and value of e-commerce investment. For retailers to successfully compete, keep pace, and anticipate the needs of their customers, they will need to make significant capital investment in e-commerce.

“Consumer electronics is a category that faces multiple structural headwinds, such as significant competition from domestic and international websites, products going digital, and an oversupply and imbalance of the growth of Apple, with the related compressions on margin. Apple now controls 30 per cent of the Australian consumer electronics market.”

Michael is challenging competitors with an aggressive digital strategy that has positioned The Good Guys as one of the leading players



in the industry. In 2011, the company launched a highly successful mobile platform. In 2012, The Good Guys was the first major retailer to launch a tablet-optimised site for iPad, Android, and BlackBerry. These tools allow consumers to browse and compare products before purchasing, while also directing them to their nearest store.

At the end of 2012, The Good Guys partnered with PayPal to implement a number of innovative payment options. These options are designed to target online, mobile, and catalogue customers, as well as to increase the company’s online sales closing rates.

These new digital timesaving tools include the ability to purchase directly from print and digital catalogues, the availability of e-gift cards that can be sent directly to the gift recipient, and QR codes that can be scanned instore to receive further discounts.

In a recent press release, Michael outlined the company’s digital initiatives. “Digital is an incredible tool for customers when shopping,” he said. “We have worked to harness the available tools and apply them in a way that will see customers have a better shopping experience where ‘instore’ and ‘online’ are interconnected.”

Cyclically, another major trend affecting the consumer electronics market is deflation. “In recent times, the rapid Australian dollar appreciation has accelerated growth online,” Michael explains. “Not only did it magnify the domestic price premium offshore, but it also sent more Australians and their shopping overseas. A gradual reversal of this trend should ease the top-line pressure for Australian

consumer electronics retailers. Prices should begin to stabilise and hence reduce deflation.”

Despite these challenges, The Good Guys has flourished under Michael’s leadership, with 97 stores across Australia proudly bearing the company’s cheerful, friendly brand. This brand is evident not only in the company’s store designs, layouts, product offering, and advertising, but every aspect of its day-to-day dealings with consumers and the community.

Michael joined the retailer nearly a decade ago. “When I arrived, we had two CEOs in the role, which was complicated,” Michael notes. “I focused on the front end of the business, which was marketing, merchandise management, and inventory management. Another CEO operated parallel to me and ran the back end of the business, including finance, administration, and IT. That was very challenging. However, when the other CEO retired, I was given full accountability to manage the business.”

Michael’s proactive and purposeful leadership has sparked radical change across the company’s operations. “I faced a number of significant challenges when I arrived,” Michael says. “The first question I asked was, ‘Can I see your plan?’ There wasn’t one.

“We set about putting a five-year strategic plan in place with an overarching goal to achieve a certain turnover level. We engaged external consultants and undertook a cultural survey of both our support centre and our store proprietors. The process was difficult, unwieldy, and slow. We had a culture that was somewhat maverick and cowboy in style.”



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This detrimental culture proved to be a major hurdle for the company, and one which Michael says he was determined to overcome. “One of the issues I faced was a bullying culture. I didn’t believe we could achieve greater sales and profits unless we tackled the culture of bullying with our store proprietors and within our support centre.

“Most of our senior management team have had an average of eight to 10 years with the company. As it was a family-owned and -run business, I had strong support in my effort to eliminate bullying. Andrew Muir supported me when I identified it as an issue that we had to eliminate to improve the culture of The Good Guys.

“We went head to head in each instance, one on one, and eliminated that bullying culture. From a cultural standpoint, that was one of the most significant achievements. Now we have low staff turnover, good company morale, and a positive team.”

To facilitate this vast cultural change, Michael established a number of initiatives. “In late 2004, I initiated a strategic framework-planning process,” Michael says. “We undertook qualitative research from a governance standpoint.

“The conversations and interviews with our store proprietors and our support centre managers yielded a range of insights and findings. We found that the relationship between our support centre and store proprietors needed particular attention and the ‘us and them’ division needed to be closed. Additionally, there needed to be more regular meetings and greater dialogue between them.”

This process also uncovered the need for clear protocols for communication between the chairman and the CEO, the staff at the support centre, and the store proprietors. “We also found that there needed to be tighter controls over inventory, store layout, relationships with our vendors, and the local use of our brand by the store proprietors,” Michael notes.

“We needed to clarify the roles of the CEO and the chairman; and the board needed to agree on a vision for the company and set the agenda. A predictable annual rhythm was crucial to our planning.”

As a result of these findings, the executive team and board developed the outline for The Good Guys’ strategic framework. “The vision was agreed upon, key objectives were set, and the appropriate structures were put in place to develop each key objective,” Michael says. “For the process of developing the strategic framework, I recognised that significant changes to the company were necessary to achieve the required balance between entrepreneurial enthusiasm, efficiency, and consistency.

“In particular, I placed major emphasis on the significant investment required to improve systems, structures, and processes, as well as a sizeable investment in culture-change management within the organisation. It was evident that

further expansion would be dependent on a better-performing support centre, and closing the division between the support centre and our store proprietors. The most important derivative we recognised was that values, vision, and culture underpin any retailer’s future roadmap.”

As The Good Guys embarked on this journey, Michael looked beyond culture to a range of initiatives and solutions. “We forged ahead and built a planning calendar around the strategic plan to integrate all organisational levels of our support centre,” he explains. “We established a rigorous planning rhythm whereby we review our strategy that is set at our board and senior management summits, and implement any tactical changes or new strategies at our annual national forum.”

According to Michael, one of the most significant changes was the centralisation of the supply chain. “We had a complex inventory-management structure whereby our stores had distributed order books and were all ordering separately,” he says. “Over the past 15 months, we have centralised our supply chain and inventory management. This is the biggest change we have made in the business.”

To instigate this substantial change, Michael re-examined traditional roles within the organisation. “A few years ago, we put a category-management team in place,” he explains. “Over the past decade or so in Australia, the role of the category manager has become quite professional; their primary accountability is to think first about the buying habits of the consumer rather than the way a supplier wants to sell into the store.

“We say to the vendor, ‘These are the products we want to stock and sell across our stores’. We don’t let them say, ‘Mr Retailer, these are the products we want you to sell and here is an incentive to do so’.” - Michael Ford

“The Good Guys continues to evolve its business model and challenge the status quo in electronics and appliance retailing, providing good growth for Dyson. This ethos is exciting because we do the same with our product technology.”

- Glenn Andrew, Managing Director, Dyson Australia

“There is nothing magical about this role. It involves dividing the business into logical departments and categories of merchandise, and then managing and planning for each one separately—not only from a product and range selection standpoint, but right down to the gross margin return on inventory, return on space allocation within the store, and marketing and advertising expenditure.

“In the past, the category manager could only influence what was ordered by the store proprietor. In many instances, he or she did not have the full accountability, and their role was somewhat moribund. Today, they have full responsibility for the product that finds its way into our stores.”

In addition to revolutionising roles, Michael has streamlined the supply chain and improved efficiency. “We went to 97 stores and engaged external expertise to help us project manage and change the whole order-management process,” he says. “The power of the order book rested with 97 different entities, so we consolidated all that into one, which required significant investment in IT infrastructure and category management. We put a team in with two general merchandise managers: one looking after consumer electronics and the other looking after household appliances.

“Relationships with vendors are managed from our support centre or by our category-management team. This industry is not vertically integrated. The supply chain goes through four key stages in the process of providing product from concept to customer. In our industry, the supplier creates the product, makes it, and moves it, and we sell it. It is critical that those relationships are strongly interwoven. Having fully integrated relationships with our vendors is absolutely critical to achieving efficiencies in our supply chain.

“Historically, CE has been production-led, as opposed to customer-led. One of the ongoing challenges we have is persuading our vendors that we are a customer-led business.”

Michael achieves this through clear communication. “You have to get them to understand who really runs your business: the end consumer,” he says. “The core range of our business is driven by the propensity to sell a product in all 97 of our stores, not by a sales mentality suggested by the vendor.

“We say to the vendor, ‘These are the products we want to stock and sell across our stores’. We don’t let them say, ‘Mr Retailer, these are the products we want you to sell and here is an incentive to do so’. We work from the customer back through the supply chain.

“Put into context, we are only 1 to 1.5 per cent of global distribution, so for the major brands in global terms, the Australian market is very small, which creates a challenging situation. Our key categories are consumer electronics and household appliances, and we also reach across technology products like PCs, laptops, notebooks, and related technology accessories. We sell small domestic appliances, kettles, toasters, personal care, and seasonal products.” ❖

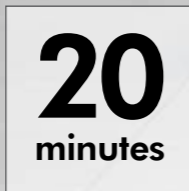
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This overhaul of The Good Guys' operations and supply chain has transformed the business and improved its productivity and efficiency. These improvements then trickle down throughout the entire business, bolstering superior customer service and ensuring high-quality products. These changes have shifted the company's image and its point of difference.

"If you look at the retail pentagon, retailers are normally famous for one element," Michael says. "We have always been famous for price, but we have become known for both service and price. That sets us apart."

"Centralising our supply chain enabled the business to improve the productivity of the working capital and ensure our management team works at this constantly and purposefully. Focusing on the productivity of working capital is the most efficient way to improve the profitability of any business."

"It has also enabled our store proprietors to put greater emphasis on the customer. My assumption has always been that you cannot truly understand the customer if you are in your office reading reports, analysing data, and attending meetings with vendors. As a store owner and retailer, there is one fundamental: the customer is your business."

This dedication to excellence and customer service has been frequently recognised by industry experts and peers. The Good Guys was awarded the People's Choice Award for Best Retailer at the inaugural CHOICE Awards in 2010, based on value for money, range, product knowledge, and after-sales service.

The Good Guys also triumphed over competitors to win the title of Furniture/Electrical Store of the Year for 2011 at the Roy Morgan Customer Satisfaction Awards. These awards were based on data collected from 50,000 consumers and 20,000 heads of businesses across Australia.

When receiving the award, Michael told those present that it was a privilege to work with such a great team. "Customer satisfaction is at the core of everything we do as a business," he said. "To win this award means a great deal to The Good Guys—who, across the country, work tirelessly and diligently to delight our customers. This award represents the hard work and determination from our great team across the entire organisation."

In 2011 and 2012, The Good Guys went on to take out the top spot at the Canstar Blue's Customer Satisfaction Awards. The retail giant was awarded the highest score for overall customer satisfaction, with a rating of five stars across value, range, layout, and catalogue categories.

"We have won a number of consumer awards and they are something we are very proud of," Michael says. "We have had consecutive years of record results. Our market share has grown significantly across all categories."

"We have rationalised a lot of our store locations and standardised the merchandise presentation standards in our stores. The most significant influence I have had is controlling the working capital by centralising the order book. I would describe all aspects related to merchandise planning and reporting as a significant achievement."



My assumption has always been that you cannot truly understand the customer if you are in your office reading reports, analysing data, and attending meetings with vendors. As a store owner and retailer, there is one fundamental: the customer is your business."

- Michael Ford



To achieve these amazing results, The Good Guys not only examines its own operations but those of other retailers through an annual study tour of major retailers around the world. Michael states that these tours provide The Good Guys with unparalleled insights into the industry and its latest innovations.

“There are huge chasms between ‘mediocre’, ‘good’, and ‘great’ retailers. The best retailers are focused on innovation combined with a flair for merchandise selection and visual merchandise presentation, along with a passion for product and an intimate knowledge and love of their customers. The objective of our study tour is to look for retailers who abide by these practices.

“We have developed international relationships with a number of retailers. Many of them, particularly in the United States, are more than happy to share their secrets. They openly discuss their wins and shortcomings. The great retailers know that it is not possible to emulate their underlying passion, entrepreneurial flair for adding value, intriguing sense of implementation and timing, and ability to thrive on change. It is not something you can plagiarise or emulate.

“The ‘great’ retailers are not necessarily found in our sector, or for that matter in the most obvious malls and shopping centres. They are often in small villages or old arcades and market squares. I think it is fair to say that these retailers are evident in Australia, and the ‘great’ retailers know and understand where these stores need to be located and what kind of customer they are endeavouring to attract.”

One factor that differentiates the good retailers from the great is community involvement and outreach. In 2010, The Good Guys established the not-for-profit organisation The Good Foundation. By using the company’s national network and appeal, The Good Foundation aims to encourage and support programs and initiatives that have the potential to improve the health and social welfare of communities across Australia. In particular, the foundation aims to tackle obesity, poor nutrition, and diet by raising awareness of the impact of these issues on the healthcare system.

In partnership with celebrity chef Jamie Oliver and the state governments of Queensland and Victoria, The Good

“The best retailers are focused on innovation combined with a flair for merchandise selection and visual merchandise presentation, along with a passion for product and an intimate knowledge and love of their customers.”

- Michael Ford



In addition to the Ministry of Food program, The Good Guys also gives back to local communities through a Local Giving Program. This program allocates and donates a percentage of every online and instore transaction to community organisations in the local area surrounding the store. Each of The Good Guys’ stores supports a number of local charities, and customers can choose their preferred charity.

“We have a strong orientation towards the community,” says Michael. “We encourage our general managers and store proprietors to be prominent in the local community because we believe that is important to our brand.”

These investments and initiatives will pave the path to success for the retailer’s bright future. “Our plans for growth and expansion are comprehensive. Multichannelled marketing is an all-embracing part of our strategy, and we are working very hard on that.

“One of the most important IT structures we put in place was investing in a tier-one inventory-management system, which gave us the flexibility to plan our merchandise financially and develop a retail-demand forecasting tool. We could not have centralised our order book if we didn’t do that. We are pleased with our growth and our increasing market shares.

“Our vision is to be the most successful and admired consumer household appliances and electronics retailer in Australasia. This will be demonstrated through business support and processes, relevant product categories, customer satisfaction and services offer, supplier relationships, and our position as a preferred employer.”

This goal will be achieved through industry insight, digital developments, and spectacular service, among many other factors. With these qualities and its established position within the Australian market, The Good Guys looks set to continue to provide the best prices and service to generations of Australians. •

Foundation set up the first Australian Ministry of Food centre in 2011 in Ipswich, Queensland. Jamie Oliver’s Ministry of Food aims to educate, empower, and inspire people to love and enjoy good produce, along with learning how to cook healthily.

“In the past few years, we have embarked on a strategy with Jamie Oliver which focuses on cooking and healthy eating,” Michael says. “We now have large trucks with mobile kitchens where we teach people to cook healthy food. We have a significant market share in kitchen appliances, and these activities further endorse our strength in cooking.

“The combination of our cause strategy working in conjunction with our commercial strategy has been integral to our achieving dominance in the major domestic appliances market in Australia, which includes cooking, refrigerators, and dishwashers.”

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