TOTAL STOCK LIQUIDATION
EVERYTHING MUST GO!
STORE CLOSING
EVERYTHING MUST GO!
ALL STOCK REDUCED!
TOTAL STOCK LIQUIDATION
EVERYTHING MUST GO!
CLOSING
EVERYTHING MUST GO!
EVERYTHING MUST GO!

■ MATTHEW BUDMAN is editor-in-chief of *TCB Review*. Throughout the 1980s, he purchased most of his stereo and video equipment at Circuit City.

COLLAPSE

ALAN WURTZEL HELPED MAKE CIRCUIT CITY A GREAT COMPANY. AND THEN HE SET OUT TO LEARN WHY IT FAILED.

BY MATTHEW BUDMAN

WHEN A COMPANY IS CRUISING ALONG, EARNINGS AND SHARE PRICE HIGH, EVERY MOVE SEEMS LIKE THE RIGHT ONE, INEXORABLY LEADING TO SUCCESS, AS THOUGH IT WERE PLANNED THAT WAY. ON A DOWNWARD TRAJECTORY, EVERY STRATEGIC SHIFT LOOKS DISASTROUS—IN RETROSPECT, OBVIOUSLY SO.

Circuit City enjoyed a run as a good company before becoming a great company, one worthy of a Jim Collins profile in his 2001 bestseller *Good to Great*. And then, after fifty years in business, everything went to hell. The reason wasn't a hostile takeover, an accounting scandal, a class-action lawsuit, or an act of God—it was, simply, that the consumer landscape shifted and Circuit City failed to keep pace, leaving room for Best Buy to become the default place for people to buy TVs and audio cables and DVD players and videogames.

Alan L. Wurtzel was a protagonist in the Circuit City saga from the beginning, as the son of company founder Sam Wurtzel, before being named in-house counsel, CEO for a dozen years, and finally chairman for another fifteen. He retired in 2001, at a turbulent time for the company, for consumer technology, and for the global economy. Less than eight years later, a bankruptcy judge ordered Circuit City to close its 567 stores and liquidate its assets.

Now 79, Wurtzel wanted to find out where it all went wrong as well as why it all went right for so long, and the result is *Good to Great to Gone: The 60 Year Rise and Fall of Circuit City* (Diversion), a sometimes brutally candid look at top personnel moves, strategic plans and execution, and how decisions were made about everything from store locations to sales incentives to stock-repurchase plans.

He spoke via Skype from his Washington, D.C., home office.

YOU RETIRED FROM THE CIRCUIT CITY BOARD JUST AS THINGS WERE BEGINNING TO GO WRONG. YOU MUST HAVE KNOWN IT WOULD BE PAINFUL TO REVISIT THOSE LAST YEARS. WHY DID YOU DECIDE TO DO IT?

First of all, I wanted to understand what happened. I thought I understood a lot about the company from its beginnings in 1949; I was still a kid in high school, but I was interested in what my father was doing and had a pretty good understanding of what was going on. And of course, I was deeply involved for the term I worked for Circuit City and stayed on the board. But after 2001, I pretty much severed my ties with the company; I was not an investor and was not privy to what was happening. So I wanted to learn more.

I've always been interested in business history, particularly business strategy. And in Circuit City, here's a company that survived over sixty years in probably the most turbulent and exciting segment of consumer marketing that this country's ever seen. When my father started, we sold radios and then tiny, black-and-white TVs, and today we're Skyping! I thought it would be interesting to study the business strategies that the company pursued over that sixty years as the products changed, the economy changed, the market changed, and the competition changed.

And the last reason is that I'm still concerned about the tens of thousands of people at Circuit City who lost their jobs through no fault of their own. I thought they'd like to know what happened to their company. They should be proud of most of what was accomplished.

HOW DID IT FEEL TO REVISIT ALL THOSE YEARS OF BUSINESS HISTORY—ANNUAL REPORTS, STRATEGIC PLANS, REAL-ESTATE DEALS, EXECUTIVES HIRED AND FIRED?

It was exciting! I went back and read annual reports from my father's day, my day, and after that. I found it interesting, challenging, and enjoyable.

YOUR FATHER CO-FOUNDED WARDS CO., WHICH EVENTUALLY BECAME CIRCUIT CITY. WHAT'S IT LIKE TO RUN A COMPANY WITH WHICH YOU LITERALLY GREW UP?

I don't have any experience running a company with which I *didn't* grow up, so it's hard to make a comparison. I can say that a family business—and this was certainly a family business as long as my dad was alive—has both benefits and challenges. The benefits are loyalty and a sense of common purpose. The minuses are disagreements that become more difficult when family dynamics get in the way of business decisions.

And to be perfectly honest, I'm not sure I would have become the CEO of a multimillion-dollar company if it hadn't been started by my dad. Obviously, I had a leg up: I became CEO at a relatively young age because he had confidence in me. We were friends when we started and friends when we ended.

BETTER THAN YOUR ENDING UP ESTRANGED.

That's happened in more than one business.

IN STUDYING THE HISTORY OF CIRCUIT CITY, WAS IT FRUSTRATING TO SEE MOVES THAT YOU AND THE COMPANY SHOULD HAVE MADE AND DIDN'T? TO IDENTIFY QUESTIONS THAT YOU SHOULD HAVE ASKED?

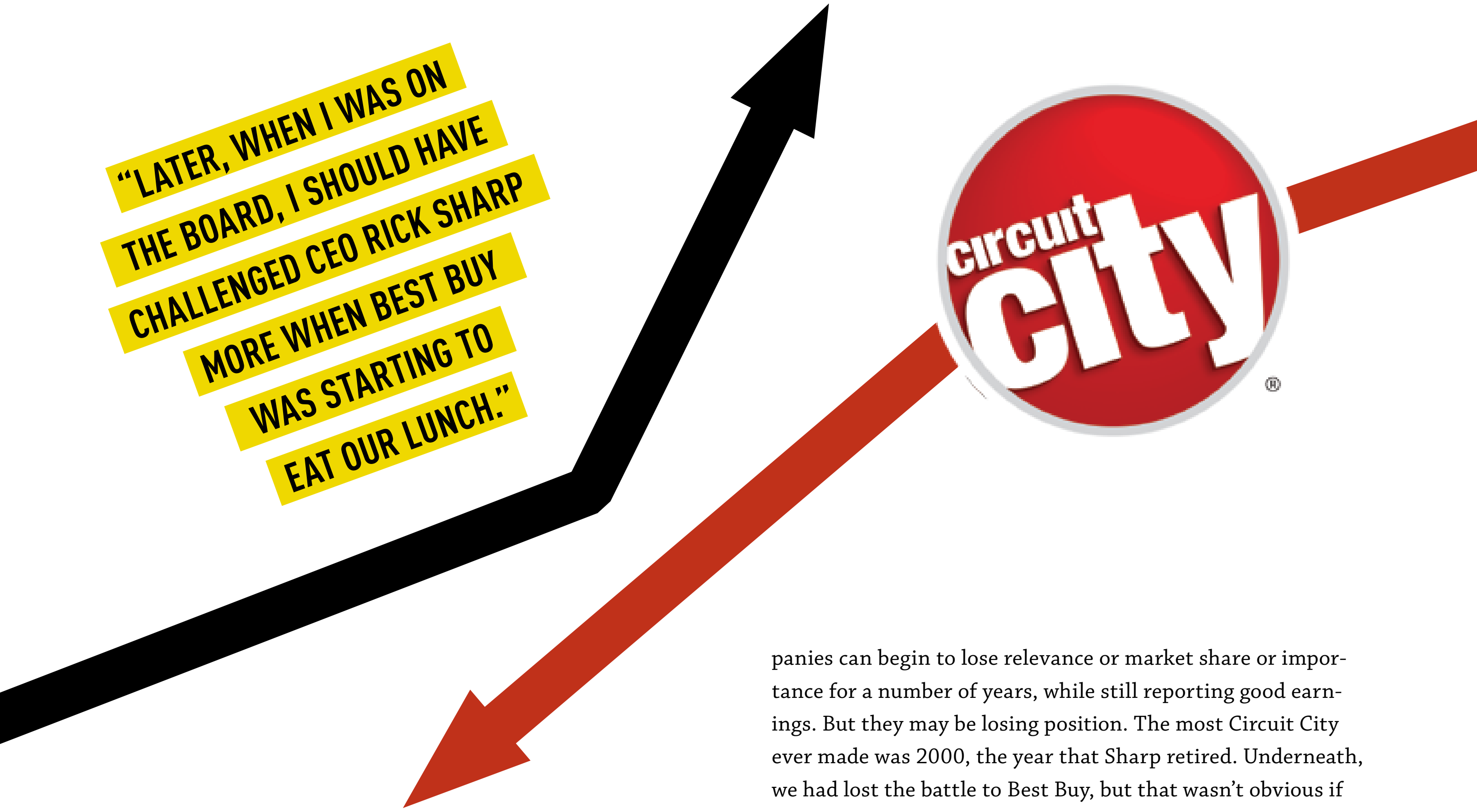
Of course. Clearly I should have challenged my father more in the early days, when we were making a lot of helter-skelter acquisitions. Later, when I was on the board, I should have challenged CEO Rick Sharp more when Best Buy was starting to eat our lunch. I certainly should have built a stronger infrastructure and a stronger team so that staying on as CEO would have seemed more appealing than retiring at an early age. But I did the best I could, and I have no regrets. Hindsight is twenty-twenty.

SPEAKING OF HINDSIGHT: IS IT FAIR TO OTHERS—AND TO YOU—TO BE SO CRITICAL OF DECISIONS MADE THEN?

If this were a private company, I might have a different answer. But Circuit City was a public company. I, and the other CEOs of Circuit City, are subject to analysis, and if that analysis leads to criticism, so be it. My purpose was not to criticize for the purpose of being critical or to aggrandize myself or delegitimize them—it was to understand, in the context of the time, what were the appropriate strategic decisions and what were the inappropriate decisions. I didn't deal with personal peccadilloes of any of the people who were involved, though if I'd wanted to I could have found a few.

DID YOU DRAFT ANY SECTIONS THAT SETTLED PERSONAL SCORES AND THEN GO BACK IN AND DELETE THEM?

There were a few lines here and there that, on rereading, I thought, "You know, that's not really appropriate or necessary." I guess I could have put in more scandal—not big scandals, but a few little ones.



> "LATER, WHEN I WAS ON THE BOARD, I SHOULD HAVE CHALLENGED CEO RICK SHARP MORE WHEN BEST BUY WAS STARTING TO EAT OUR LUNCH."

MAYBE IN THE SECOND EDITION.

No, I don't think so!

YOU STARTED PLANNING TO STEP DOWN AS CEO WHEN YOU WERE ONLY 48. DO YOU EVER FEEL, EVEN FOR A MINUTE, AS THOUGH YOU LEFT THE COMPANY ON THE RIGHT TRACK AND OTHERS DERAILED IT?

I think the tracks a company runs on are constantly changing. No company can be set up and run down the track for ten, twenty, thirty years. The economy is changing; the market is changing; the competition is changing; the customers are changing. So I don't think anybody derailed it. In fact, I would say that the track on which I left the company in 1986 led to its peak success, and Rick Sharp did a terrific job of managing the company from '86 to the mid-'90s. He did, in my judgment, a better job than I would have done if I had remained the CEO.

But the tracks shifted; things changed in the economy and in the marketplace. And the mistake Rick made was to keep pursuing the same strategy that he inherited and he enhanced and improved when that strategy was no longer as relevant in 1995 as it was in 1985. He didn't change with the times.

BY WALL STREET'S STANDARDS, SHARP'S FOURTEEN-YEAR TENURE WAS A SUCCESS AT THE TIME. EARNINGS ROSE BY A FACTOR OF FIFTEEN AND MARKET CAP BY A FACTOR OF NINE.

Absolutely. As in any major enterprise, the changes aren't always visible in either the top line or the bottom line. Companies can begin to lose relevance or market share or importance for a number of years, while still reporting good earnings. But they may be losing position. The most Circuit City ever made was 2000, the year that Sharp retired. Underneath, we had lost the battle to Best Buy, but that wasn't obvious if you looked only at sales and earnings.

HOW DOES SHARP FEEL TODAY ABOUT HIS LEGACY AS CEO?

I suspect he thinks that what happened to Circuit City was pretty much inevitable, that the world had changed and that its time in the sun was over. I think he feels that he did as good a job as he could and that there probably wasn't a magic bullet to turn it around. One thing I can say is that Rick is an entrepreneur at heart, and he is much more fascinated with building emerging businesses than with running existing, traditional, old-line businesses.

THE BOOK'S MOST STRIKING SECTION LOOKS AT CIRCUIT CITY'S THREE-YEAR STRATEGIC PLANS IN THE 1990S, IN WHICH MANAGEMENT REFUSED TO ACKNOWLEDGE THE RISE OF BEST BUY, FAILED TO ASK KEY QUESTIONS ABOUT HOW CUSTOMERS WERE CHANGING, AND MOVED THE GOALPOSTS ON WHAT CONSTITUTED SUCCESS.

I was surprised, as I looked back, by how many clues we failed to act on. And that may be the best lesson: When you think you have all the answers and aren't ready and willing to challenge yourself and your assumptions, that's when you fall into trouble. There were a few board members that challenged management, but most of the board went along. And, of course, I was on the board for most of it, so I share some responsibility.

YOU WRITE THAT, "A NUMBER OF SENIOR AND MIDDLE MANAGERS RECOGNIZED EARLY ON THAT BEST BUY WAS A SERIOUS

THREAT" BUT ALSO THAT "CIRCUIT CITY WAS STUCK IN ITS OWN BELIEF SYSTEM. IT CLEARLY UNDERSTOOD THAT THE WORLD HAD CHANGED, BUT IT COULD NOT BRING ITSELF TO ACT ON THAT REALITY." DID TOP PEOPLE TRULY UNDERSTAND WHAT WAS HAPPENING AND HOW CIRCUIT CITY FIT INTO THE CHANGED ENVIRONMENT?

Some people did. Of the three top people, two of them left the company because they felt a little frustrated that Circuit City was no longer on the right track. In any company, when the CEO and two or three of his top associates agree that something is the right strategy, it's hard for a board member and particularly for another member of the management team to be the squeaky wheel. You can squeak for a while, but you get drowned out. When you leave, they find another wheel.

YOU WERE CHAIRMAN OF CIRCUIT CITY THROUGHOUT THE '90S, AND YOU DESCRIBE THE DIRECTORS AS BEING INDEPENDENT BUT NOT ALL THAT EFFECTIVE. WHY NOT?

First of all, the times were different. Today, the big pension plans are much more critical of directors and much more focused on governance than they were in the '90s or even five years ago. I've been a director of public companies since I retired from Circuit City, and the scrutiny is a lot more intense.

Second, there are a lot of perks to being a director. When you're a director of a $10 billion company, that's a feather in your cap at your country club, in your business club, in your business. There are financial perks of $50,000 or $100,000 a year, and even for relatively successful people, that's a very noticeable piece of change. And in cases, camaraderie builds among directors. They enjoy each other's company; it's fun to be at a board meeting and joke with other peers and meet challenges together.

So board members have always been reluctant to challenge the CEO and rock the boat. That's inherent in the system, and I don't think that's likely to change.

WHAT ABOUT PROPOSALS FOR MORE DIRECT SHAREHOLDER PARTICIPATION IN NOMINATING DIRECTORS?

I'm not sure that's the answer. But the current system is self-perpetuating and makes it difficult for even the most conscientious director to be a squeaky wheel. I was on the board of one respectable public company, and I raised provoking questions—in what I thought was an objective and decent way—that management didn't want to confront. When I said, "This company needs to do long-range planning," it fell on unfertile ground. And after a year and a half, I was asked to step off the board. Public companies don't welcome outsiders raising hard questions.

WITH CIRCUIT CITY, THOUGH, YOU WERE VERY MUCH AN INSIDER. YOU CHARACTERIZE RICK SHARP AS BASICALLY DISMISSING INPUT FROM THE BOARD. WAS YOUR ONLY OPTION, THEN, TO EXERCISE YOUR "ONE CLEAR FUNCTION" AND FIRE HIM?

Or quit the board. I believe that's right.

HOW MUCH DO YOU BLAME THE CIRCUIT CITY BOARD—INCLUDING YOURSELF—FOR NOT PREVENTING THE COMPANY'S EVENTUAL FAILURE?

For the fourteen years that I was a board member and not the CEO, I blame the board for not challenging Sharp strongly enough. Of course, the board isn't capable of developing a new strategy—only the management can do that—and some of us pushed for a revision of the strategy, but maybe we didn't push hard enough. I'd give the board a C-minus.

But the board that succeeded Sharp? I'd give them an F. That was the board that missed the signals when they were much more obvious. It was the board that spent a billion dollars on repurchasing stock. It was the board that passed up opportunities to sell the company at $17 a share when it ended up, obviously, being worth zero. It was the board that failed to consider going private, when a lot of the messiness of closing stores and firing people and reorganizing strategy are much more feasible in a private company than they are in a public company. So the board from 2000 to 2009 missed all of those signals, all of those opportunities. And they handled the transitions poorly: I don't think they spent enough time thinking about who should replace Rick Sharp or Alan McCollough. They did a terrible job.

What killed Circuit City, as much as anything, was that decision to buy back a billion dollars' worth of stock. When the financial tsunami of 2007 hit, they had no resources with which to fight back. If they'd had a billion dollars in the bank in 2007, they would have gotten through that period, and there'd still be a Circuit City today. And maybe the next management team would have figured out a strategy to make the company more relevant. The reason it died is because they stripped themselves, financially, of any self-defense against any unexpected adverse set of events.

YOU SPOKE WITH MANY FORMER CIRCUIT CITY EXECUTIVES AND DIRECTORS, MANY OF WHOM AGREED TO GO ON THE RECORD AND ALLOW THEIR NAMES TO APPEAR IN THE BOOK. DID THEY GENERALLY AGREE WITH YOUR ASSESSMENTS?

Generally, yes. Universally, absolutely not. And to be fair, I probably interviewed a higher percentage of longtime Circuit City people than more newly hired people whom I didn't know

"WHAT KILLED CIRCUIT CITY, AS MUCH AS ANYTHING, WAS THAT DECISION TO BUY BACK A BILLION DOLLARS' WORTH OF STOCK. WHEN THE FINANCIAL TSUNAMI OF 2007 HIT, THEY HAD NO RESOURCES WITH WHICH TO FIGHT BACK."

as well and, if I had gotten their names and called, wouldn't have spoken as candidly. I'm sure there are people who would defend the last two CEOs in ways that the majority of people I spoke to wouldn't. But I tried to factor that in and tried to be objective and to listen for opinions less than for information, and to evaluate and analyze everything myself.

YOU'RE PRETTY HARSH WHEN ASSESSING THE COMPANY'S EXECUTION OF ITS 2001 STRATEGIC PLAN: "NOTHING OF SUBSTANCE WAS ACHIEVED." AND YOU NOTE: "TO THE BEST OF MY KNOWLEDGE, CIRCUIT CITY NEVER SERIOUSLY FACED THE BRUTAL REALITY OF ITS EXISTENTIAL PLIGHT." DO YOU THINK TOP MANAGEMENT—IF NOT THE BOARD—RECOGNIZED THE LONG-TERM TROUBLE THE COMPANY WAS IN?

The management that succeeded Sharp in 2000 wrote a thoughtful, intelligent, and somewhat alarmist three-year plan, laying out a number of things that needed to be done. It was a good road map. But none of it was accomplished. They understood that Best Buy was the enemy and that customers preferred Best Buy's marketing strategy to Circuit City's marketing strategy, and yet they failed to implement the changes that might have given the company a better chance of success. Later on, I think, management began deceiving the board with unrealistic projections for sales and earnings.

AS LATE AS 2006, FROM THE OUTSIDE, THINGS STILL LOOKED OK: THE COMPANY POSTED EARNINGS OF $151 MILLION, AND INVESTORS PUSHED THE STOCK PRICE UP OVER $31 A SHARE, THE HIGHEST IN SIX YEARS. WAS WALL STREET JUST WRONG ABOUT CIRCUIT CITY?

The company had a year of very good sales and earnings, but it was a bubble—the flatscreen-TV bubble. That was the year that flatscreen TVs dropped from $2,000 to under $1,000, and there was a huge run of demand. And I give Phil Schoonover—the last Circuit City CEO with any significant tenure—credit for seeing that coming and positioning the company; he made a lot of hay being able to meet the flatscreen demand. And that was reflected in increased sales, earnings, and enthusiasm on Wall Street. What Wall Street missed was that it was a bubble and not a perpetual change in Circuit City strategy or fortunes.

HOW COULD ANALYSTS MISS THAT? ISN'T THAT THEIR JOB—TO IDENTIFY BUBBLES AND TAKE THEM INTO ACCOUNT?

Well, I don't know that *no* one saw it. But the market as a whole missed it.

AND AS YOU WRITE, THE COMPANY AIMED TO TELL WALL STREET WHAT IT WANTED TO HEAR.

After I departed, management gradually became more interested in what investors thought than in what the customer thought. That is a critical failing—and one that many U.S. companies engage in. The policy of quarterly earnings, the Street's fetish about how every quarter has to be better than every previous quarter, continuous improvement without interruption or variation, is nonsense. It's not possible in the real world. When you couch your strategies to meet the demands of Wall Street for continuously improving earnings, you start doing things that don't make long-term business sense. Sometimes companies need to step back, make investments, make changes, and realign themselves in certain ways that hurt the bottom line in the short run but that position the company to be a lot more effective in the long run.

THROUGHOUT THE BOOK, YOU DISCUSS THE IMPORTANCE OF LONG-RANGE PLANNING. BUT THE BUSINESS ENVIRONMENT CHANGES SO RAPIDLY NOW THAT LONG-RANGE PLANNING SEEMS INCREASINGLY DIFFICULT. HOW FAR AHEAD SHOULD BUSINESSES BE LOOKING?

"Long range" varies with the industry. The retail industry is relatively quick on its feet, certainly with buying inventory: If you make a big blunder and buy a lot of the wrong dress or the wrong TV, you can flush it out of the system in three, six, twelve months, and that mistake is behind you. If you go into the wrong city or buy the wrong building, it takes two, three, four, five years to recognize you made a mistake, and the building can be sold or repurposed. So long-range planning in retail, as far as I'm concerned, is three years, and at Circuit City we did a new three-year plan every other year. If you do it every year, it becomes mechanical and thoughtless.

On the other hand, if you're in the steel industry or if you have to build an automobile factory, it's a multibillion-dollar investment that's for a single purpose, so it's got to have a twenty-year life. If you start a new copper mine, it costs hundreds of millions of dollars. You can't do that without a longer horizon than three years. So long-range planning for those industries might be every five years rather than every other year, but it's just as necessary.

BEST BUY IS VERY MUCH YOUR STORY'S ANTAGONIST. IF NOT FOR BEST BUY MAKING THE MOVES IT DID, WOULD THIS HAVE BEEN A DIFFERENT STORY? HOW MUCH OF CIRCUIT CITY'S DECLINE IS ATTRIBUTABLE TO BEST BUY AND HOW MUCH TO SELF-INFLICTED WOUNDS?

It's hard to sort that out. If Best Buy hadn't existed, I believe that Circuit City would have succeeded longer, but it wouldn't ultimately have succeeded. The Costcos and the Sam's Clubs and the other big-box retailers and mass merchants were taking a big piece out of Circuit City's hide at the same time that Best Buy was. Best Buy made Circuit City's problems more obvious, because it was a one-to-one comparison. And if Circuit City was failing and Best Buy was succeeding, it was easy for Wall Street analysts to conclude that there must be something wrong with Circuit City. They're now finding out that there's something wrong with the entire warehouse-showroom model, and Best Buy is losing ground to Amazon and online retailers.

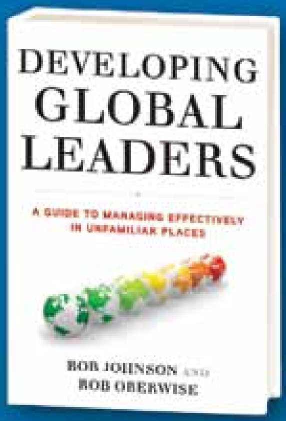
WHEN YOU LOOK AT TODAY'S BUSINESS LANDSCAPE, DO YOU SEE COMPANIES MAKING SOME OF THE SAME KINDS OF MISTAKES THAT CIRCUIT CITY'S EXECUTIVES MADE IN THE '90S AND '00S? WHAT ADVICE WOULD YOU GIVE TO TODAY'S CEOs?

First: Mind your business and let the price of the stock take care of itself. If you run a good business and show increasing earnings—not quarter over quarter but over two or three years of a business cycle—that's what you're paid to do. And if investors get weary along the way, that's their mistake.

The second piece of advice is to recognize that the market is always changing and that today's success is not going to continue indefinitely. Think about the hubris exhibited in Detroit in the late '80s and '90s, where they thought smaller Japanese cars were a passing phenomenon. They were sure that Americans wanted big cars and that the Japanese companies would fade away, and the evidence kept piling up, year after year after year, that Honda and Toyota had a better understanding of the American consumer than General Motors, Ford, or Chrysler. That's the kind of hubris—the failure to question your own assumptions even in the face of strong evidence—that American business needs to guard against.

Remember that complacency is the enemy. Every leader needs to continually question his own judgments, his own assumptions, his own strategies, to test them against reality and ask, "Is that strategy working? Are my assumptions correct?" When you think you know the answers, you stop challenging your own strategy, and that's when you get into trouble. ■

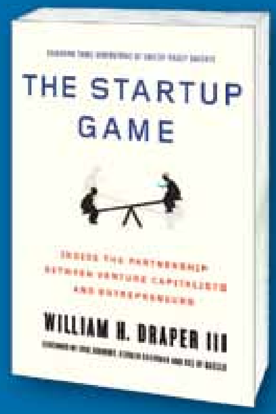
LEADING BUSINESS BOOKS FROM PALGRAVE MACMILLAN



Hardcover, 978-0-230-33751-0

"Practical, insightful, and full of lessons learned, this book should be required reading for every business executive that conducts business outside the United States."

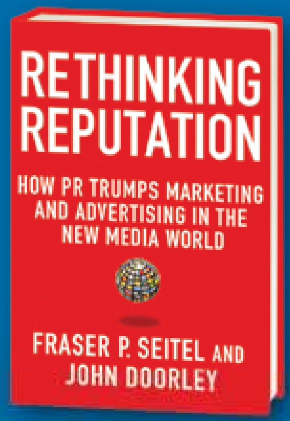
—Bob Knowling, chairman, Eagles Landing Partners



Paperback, 978-0-230-33994-1

"Required reading. William H. Draper III, to give him his correct title, has lived an adventurous life, which makes his book more exciting than simply a list of high-tech firms he has backed . "

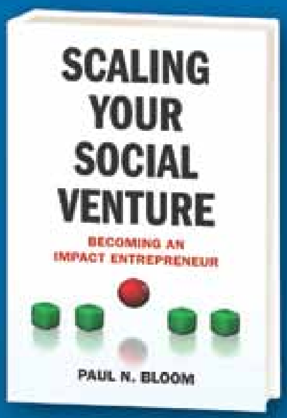
—*The Financial Times*



Hardcover, 978-0-230-33833-3

"A fun and educational discussion of building and protecting a reputation by two leaders in the field of public relations."

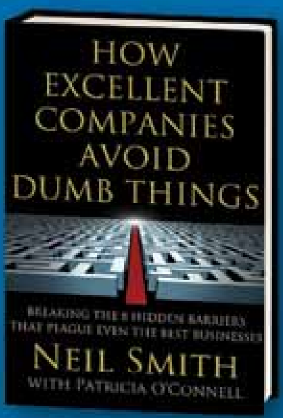
—*Kirkus Reviews*



Hardcover, 978-0-230-37728-8

"Offers a model that's as practical as it is motivating, providing leaders with what they need to build stronger, better organizations - organizations able to scale their impact!"

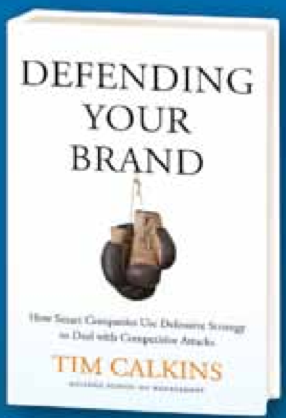
—Sally Osberg, President & CEO, Skoll Foundation



Hardcover, 978-1-137-00306-5

"A helpful reminder on how lack of oversight on even commonplace issues can interfere with an enterprise's productivity and success, this work will appeal to managers and leaders alike."

—*Publishers Weekly*



Hardcover, 978-0-230-34034-3

"A wake-up call to the fact that most companies are not smart about how to defend their company, brand or product. All your growth planning is worthless if you haven't figured out how to defend your business."

—Philip Kotler, S.C. Johnson & Son Professor of International Marketing at the Kellogg School of Management

palgrave macmillan

WWW.PALGRAVE.COM • DISTRIBUTOR OF I.B.TAURIS, MANCHESTER UNIVERSITY PRESS, PLUTO PRESS AND ZED BOOKS