

_____ **Strategic Audit**

Student:

Sole Property of Essay Domain

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I. Current Situation

A. Current Performance

Best Buy Co. Inc is an American multinational company that deals with consumer electronics and its headquarters are in Richfield, Minnesota. The company operates in the US, Mexico, Canada, China and Puerto. The company operates under Best Buy Mobile, Best Buy, Magnolia Audio Video, Geek Squad, as well as Pacific sales brands in the US.

B. Strategic Posture

1. Mission

The mission of Best Buy Inc is to do whatever it is possible to make its customers fully satisfied. It is a growth focused company that aims at solving the unmet needs of its clients and it relies on its employees in solving these puzzles. The main value concepts of the company are having fun while being the best, showing respect, learning from its challenges and changes, integrity and humility and unleashing the power obtained from its people.

2. Objectives

The vision of the company is center around technology, people as well as the pursuit of happiness. The company looks for the unmet customer needs and then looks for the best ways of meeting those needs and best ways of serving the customers in order to grow. The company uses customer friendly approaches that are essential for the company during economic uncertainty days.

3. Strategies

The strategies of Best Buy include adding more stress within its existing markets, relocation, modelling as well as the expansion of the existing stores as a way of offering new products and services to meet the different needs of its clients. The company also rolls out new stores after undergoing deliberate processes that begins with detailed analysis of the market of its target metro area. After the metro area is established, the company then expands into small markets and suburban areas. The company also has a strategy of reducing greenhouse gas emissions and this includes the use of energy efficient lighting in stores, testing of solar panels, implementation of no-idling policy for its fleet and using technology in tracking energy usage.

4. Policies

The company has an employee policy that aims at educating employees on political activity pertaining employment in Best Buy Inc. as a domiciled company in the US.

II. Strategic Managers

A. Board of Directors

1. Hubert Joly, Chairman of the Board and Chief Executive Officer
2. Gerald Vittecoq, Kathy Higgins Victor, Lisa Caputo, Bradbury Anderson, David Kenny, Thomas Millner, and Patrick Doyle are the Independent Directors
3. Karen McLoughlin as the director

B. Top Management

1. Hubert Joly is the CEO and the Chairman of Best Buy Co. Inc
2. Sharon Mccollam, Chief Administrative officer and Chief finance officer
3. Mathew Watson, Vice President, Finance

III. External Environment (EFAS Table; see Exhibit 1)

A. Natural Environment

There is no too much natural environment that affected Best Buy Co. Inc. Some things such as weathers or eco-friendly boxes did not have any significant effects on the sales of the company, but they were very minute in the big market picture.

B. Societal Environment

1. Economic

The company operates most in the US and the economic slowdown in the US affected the company's business operations. The company also faced consumer related challenges at all its locations and markets. The company has also experienced quite dramatic and long lasting consumer behavior change as a result of the country's economic slowdown. As a result of the economic conditions of 2008, Best Buy Co. Inc asked its employees to leave the company on a voluntary basis, a strategy that allowed the company to settle down in the market. By the end of the 2008 fiscal year, the revenue of the company showed a remarkable stability as well as a consistency proving that the company was right in cutting down its workforce.

2. Technological

The company had equipped itself with the latest technology and gadgets required in the facilitation of its customer base. The company's future proofs program that was initiated by the company allowed its customers to make a choice of their required technology as per their requirements and also made sure the customers are regularly updated. The company has also been using website encryption technology as a way of ensuring transactions with its customers. The company also used technologies such as click stream on its websites that keeps an anonymous track of the preferences and likes of its visitors. The technology used by the company helped it in the development of a better and a secure shopping experience and also helped the company understand how its visitors used the company website.

3. Political-Legal

Best Buy Co. Inc. engaged itself in various activities in order to promote some candidates as well as political organization. In the US, it is not allowed to make a direct corporate contribution to any political party or candidates both at the federal level and in some states. The company is allowed to make individual contributions on behalf of the parties and political candidates. The company complied with all the laws that are related to political contributions and also strived towards the contribution to the interested parties for the wellbeing of the industry.

4. Sociocultural

Best Buy Co. Inc. engaged in effective community and social related initiatives. The company developed Children's Foundation that aimed at supporting local communities through grant making programs. The company also encouraged teens and taught them how to speak themselves up a move aimed at improving their education status at communities and schools and improving their relationships. The company partnered with other foundations such as Ashoka's Youth Venture, KIPP, Mercy Corps, American Red Cross Society among many others.

C. Task Environment

1. Threat of New Entrants.

The industry imposed certain barriers to prevent the entry of new companies into the market. This means that Best Buy Co. Inc. experienced a relatively low threat of new entrants into the market. One of the main reasons for the low entry in the market was because barriers were imposed in the industry and therefore new companies were required to comply with all government regulations to enter the markets. The existing players in the industry were also protected by the number of barriers making it quite challenging for new entrants to enter the market. Some of the barriers include tariff rates, entry restrictions, distribution channels and high capital requirements, barriers which limit new entrants from competing against the existing market players.

2. Rivalry among Existing Firms.

The threat among existing firms was very high in the retail market which Best Buy Co. Inc. operates. The main competitors of the company such as Apple Inc, Amazon and Wal-Mart store. All these companies gave Best Buy Inc a cut throat competition in the market. The success of the depended on the products it offered in terms of economic pricings and quality. Wal-Mart had effective strategy that saw it offer goods at very low prices a move that killed profit margin in other competitors.

3. Threat of Substitute Products or Services.

Customers usually seek electronic and entertainment gadgets that are essential in carrying out their daily business and works. Customers always want to replace their technological products with those products that are up to date with technology. There was therefore a low likelihood that customers replaced the products that were offered by Best Buy with substitute products.

4. Bargaining Power of Buyers.

Bargaining power was very high in Best Buy Co. Inc. The wants and needs of the customers were derived by the products quality as well as the prices offered and the wants and needs were subject to change. The company used customer centric model that highly weakened its ability of dealing with the customers. The model gave the company a high bargaining power over its buyers and this made it empower them to demand the company products at the prices that they preferred. Complying with the customer demands increased the company's cost of doing business.

5. Bargaining Power of Suppliers.

In 2009, Best Buy Co. Inc obtained its merchandise from a small number of vendor, which increased its vulnerability to the requirement and moods of the suppliers. The suppliers had every bit of power required in obtaining the profits they desired from Best Buy Inc. If the company had engaged in a very broad range of supplier networking, then it would not have remained subject to the bargaining power of suppliers.

6. Relative Power of Other Stakeholders.

To pursue customer centeredness, Best Buy Co. Inc. had to ensure a noticeable shift in power from its corporate office to the retail stores. The company's product assortment in its store was modified all with the aim of ensuring the satisfaction of its customers. The satisfactory compromise between an organization and stakeholders reflects the relative credibility as well as the relative power of various stakeholders.

D. Summary of External Factors

1. Political, Economic, technological, legal, ethical and socio-cultural factors. These are the factors that Best Buy Co. Inc. does not have control over.

IV. Internal Environment (IFAS Table; see Exhibit 2)

A. Corporate Structure

1. The company organization structure has over 40 regions.
2. Districts are assigned to regions that are controlled by regional managers
3. District management monitors 20 stores that are assigned to it
4. It has sub organizations such as Geek Squad and Best Buy Mobile divisions

B. Corporate Culture

1. Best Buy Co. Inc has the culture of ensuring accountability where everyone in the company has to be on board with it.
2. It has killed the culture of results being based on work environment only hence allowing employees to work where they want for as long as the job is done
3. Employees work on a standard 40- hours per week

C. Corporate Resources

1. Marketing

- a. Best Buy utilized mobile marketing to connect better and remain relevant to its customers. The company had also integrated mobile applications into its broader plan for launching its iPhone App as well as mobile web sites that will support the needs of the customers and enable finds the products that they are looking for.

2. Finance (see Exhibits 4 and 5)

- a. The company has a large net working capital, it has current assets worth over 18 billion and total liabilities of over 12 billion
- b. Most of its assets come from the merchandise that the company sells, cash, marketable securities and accounts receivable
- c. Availability of short-term financing to finance market dips or shortfalls
- d. It holds cash and cash equivalents and also invests the money in investment

3. Research & Development

- a. Best Buy Co. Inc. spent over a billion dollars in research and development. Its competitive advantage is created through tech advantage or patent and high research and development dictated its competitive advantage.

4. Operations

- a. The company operates in Canada and the US with over 70 retail shops.

5. Human Resources

- A The success of the company depends on the knowledge, skills and experiences of its human resources.
- b. It employed over 120,000 employees in all its branches

6. Information Systems

- a. It used information system to increase company sales- It takes advantage of the Internet with its website as it is one of the largest online stores. It also used Facebook pages to update customers on exclusive offers as well as special events.
- b. It also used mobile app

D. Summary of Internal Factors

- 1. Corporate culture influenced the success of the company as it enhanced accountability and created a good working environment for the workers
- 2. The Company's corporate structure enables smooth operation in its branches
- 3. The Corporate resources of the company enabled the company attain its financial success and competitive advantage

V. Analysis of Strategic Factors

A. Situational Analysis (SWOT) (SFAS Matrix; see Exhibit 3)

1. Strengths

- a. Well-known brand
- b. Strong past performance
- c. Robust internet presence and online infrastructure
- d. Company size and distribution network that is extensive

- e. Technological services core competency through its Geek squad

2. Weaknesses

- a. Many brands
- b. Financial position that has been weakening
- c. Poor inventory management
- d. Governance issues
- e. Senior leadership turnover

3. Opportunities

- a. Increasing the need for IT outsourcing
- b. Online purchasing of products has become more prevalent
- c. Quick obsolescence of mobile technology, hence requiring repurchases and frequent upgrades
- d. Emerging global markets including rebalance of global power, rising middle class and oil wealth

4. Threats

- a. Fluctuation of exchange rate
- b. Limited number of suppliers resulting to a growing number of wholesalers who are growing to become its competitors
- c. Shareholder lawsuits that were against governance and value destruction
- d. Cheap retailers like Wal-Mart
- e. Online competitors that set up brick and mortar distribution of warehouses due to internet taxes
- f. Financial legislation as well as compliance with financial instruments and credit cards
- g. Recession and unemployment impact on the country's discretionary income

B. Review of Current Mission and Objectives

1. Mission

The mission of the company has not changed. It remains that the company is a growth focused company that focuses on meeting the unmet needs of its customers and it relies on its employees in solving these puzzles.

2. Objectives

- a. The company looks for the unmet customer needs and then looks for the best ways of meeting those needs and best ways of serving the customers in order to grow. The company uses customer friendly approaches that are essential for the company during economic uncertainty days.

VI. Strategic Alternatives and Recommended Strategy

A. Strategic Alternatives

1. Strategic Alternative #1 – Electronic mail

- a. Corporate Directional Strategy- Digital marketing
- b. Supporting Business Strategy- External customer outreach
- c. Supporting Functional Strategies
 - (1) Mobile application- Mobile application will help the company send and receive emails from customers-whenver a customer emails from the mobile application, the email will be received on the end of the company hence prompt reply
 - (2) Technology incubators- The company personnel will be trained on how to handle this technology
 - (3) Website- Customers will also use the option of ‘contact us’ in the website to send mail and expect prompt reply
 - (4) Electronic mail- The company will also use electronic mails such as Yahoo and Gmail to send and receive mails from its customers
- d. Corporate Scenario
 - (1) Company website
 - (2) Company emails
- e. Pros
 - (1) It will earn the company increased income
 - (2) It will enhance brand promotion
- f. Cons
 - (1) It is very risky
 - (2) It can result to the change of the entire concept

2. Strategic Alternative #2 – Expansion of online platform

- a. Corporate Directional Strategy- Enhancing its website
- b. Supporting Business Strategy- External customer outreach
- c. Supporting Functional Strategies

(1) Social media- Social media presence will help the company in expanding its online platform and enable it reach a significant number of potential and existing customers.

(2) Enhancement of current website –The website must be configured and tailor made to suit the changing needs and demands of customers

(3) Re-designing mobile applications –the company mobile applications must also be tailor made to suit the needs of the customers and hence enabling the company reach its set goals.

(4) partnership with mobile application – Forming a partnership with mobile application company will help the company manage its mobile application better for better customer satisfaction.

d. Corporate Scenario

(1) Company Facebook and Twitter accounts

e. Pros

(1) It will result to expanded customer reach

(2) Customer visibility will increase

f. Cons

(1) Very strict competition from companies such as eBay and Amazon

3. Strategic Alternative #3 – Accessory vending machines

a. Corporate Directional Strategy-Increased product sales

b. Supporting Business Strategy- External customer outreach

c. Supporting Functional Strategies

(1) Enhanced technology – accessorizing vending machine requires enhanced technology to ensure customers receive the expected service

(2) Mobile application- Mobile application will help to inform the customers about the vending machines and where they can find them.

(3) Business subscriptions – It will help the customers access the vending machines

(4) Product showing – This will be done to inform the customers about the vending machines

d. Corporate Scenario

(1) Vending machines in different locations

e. Pros

(1) Encourages impulse buying and leads to added revenue

f. Cons

(1) Profitability challenges

(2) Complicated return policy

B. Recommended Strategy

1. Implementation of social media outreach
2. External customer outreach
3. Internal and external strategy
4. Mobile application
5. Postmates Venture

VII. Implementation

A. Corporate Directional Strategy

1. Digital marketing- Through social media such as Twitter and Facebook for promotions and campaigns and to act as service touch point. Sentiment analysis will help in monitoring and management of the company's social media outlets.
2. The current website must be enhanced in a manner that will make it more user friendly, enhance better search as well as comparison features.
3. Increased product sales- The company will assess vending machines through partnerships

B. Supporting Business Strategy

1. External customer outreach- It will be achieved through use of enhanced website, digital marketing and mobile applications

C. Supporting Functional Strategies

1. Mobile application- The company will re-design its buy mobile applications to ensure customers receive alerts whenever there are coupons in store. The company will look for a company that specializes in enterprise app development as well as web design and development.
2. Partnership with mobile applications or post mates will help the company ship products in the city within 1 hour it will also cross promote Best Buy with Post mates
3. Social Media Outreach- The company will execute campaigns over its multiple Networks from 1 web based dashboard to the other and it will incorporate comprehensive social analytics that will be locally integrated in its headquarters.
4. Post mate's relationship –The company will reach out and foster relationship with other companies in order to leverage brick and mortar.

VIII. Evaluation and Control

A. Corporate Directional Strategy

1. Digital marketing- Digital marketing will be controlled through mobile application and monitoring of social media accounts. The success of this strategy will be how well it attracts a large number of potential customers.
2. Increased product Sales-Increase in the total volume of products sold will be used to evaluate the success of the vending machines.
3. Enhanced website – The strategy will be evaluated based on how well it results to improved customer engagement. The website will be controlled from a control center set by the company to monitor all visitors and activities that the customer engages in.

B. Supporting Business Strategy

1. External customer outreach- Technology incubators will be used for tech events that will draw the attention of enthusiastic customers. Their improved presence in the store and online will be a good indication of their engagement.

C. Supporting Functional Strategies

1. Mobile Application- The number of customer clicking and buying online will gauge the effectiveness of the mobile application. The mobile application will be controlled and monitored from a control zone for all activities and for data collection. This will further be enhanced through the company's partnership with post mates as they will ensure the products are delivered to the clients in a faster manner.
2. The effectiveness of the use of social media outreach through Facebook and Twitter will be evaluated by the total amount of revenue

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EXHIBIT 1

EXTERNAL FACTOR ANALYSIS SUMMARY (EFAS) on

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External Factors	Weight:	Rating:	Weighted Score	Comments
S1:Natural environment	.20	5.0	1.0	This SF is important because impacts the performance of the company. Weight is high at .20 because of the importance of natural environment to the future survival of Best Buy. Rating is highest at 5.0 because Best Buy is the indisputable industry leader.
S2: Societal Environment Economic, social, political-legal, technological and sociocultural factors	.05	4.6	.23	I selected this SF because it has strong influence on the survival of Best Buy in the market. Rating is high at 4.6 as Best Buy sets the standard.
S3: Task Environment	.25	4.0	1.20	This SF is weighted high at .25 as its very important to firm's survival. Rating is high at 4.0 since Best Buy is above industry quality.

EXHIBIT 2

INTERNAL FACTOR ANALYSIS SUMMARY (IFAS) on

Sole Property of Essay Domain

Internal Factors	Weight:	Rating:	Weighted Score	Comments
Strengths:				
S1:Corporate Culture	.20	5.0	1.0	This SF is important because it is a distinctive competence that reverberates throughout the entire organization and provides a 20-30% cost and productivity advantage for Best Buy over its competitors. Maintaining the positive corporate culture is essential to survival in the increasingly competitive environment. Weight is high at .20 because of the importance of culture to the future survival of Best Buy. Rating is highest at 5.0 because Best Buy is the indisputable industry leader.
S2: Corporate Culture	.05	4.6	.23	I selected this SF because Best Buy has a very strong and supportive employee management, training, and development program which results in a very highly motivated, efficient and effective workforce. Weight is low as costs are important to competitive position but SF is less important to survival than other SF. Rating is high at 4.6 as Best Buy sets the standard.
S3: Corporate Resources	.25	4.0	1.20	This SF is weighted high at .25 as its very important to firm's survival. Rating is high at 4.0 since Best Buy pies are above industry quality.

Internal Factors	Weight:	Rating:	Weighted Score	Comments

EXHIBIT 3

STRATEGIC FACTOR ANALYSIS SUMMARY (SFAS) on

<p>Strengths</p> <ul style="list-style-type: none"> a. The brand is well known b. It past performance was strong c. High internet presence and online infrastructure d. Company size and distribution network that is extensive e. Technological services core competency through its Geek squad 	<p>Weakness</p> <ul style="list-style-type: none"> Many brands b. Financial position that has been weakening c. Poor inventory management d. Governance issues e. Senior leadership turnover
<p>Opportunities</p> <ul style="list-style-type: none"> a. Increasing the need for IT 	<p>Threats</p> <ul style="list-style-type: none"> a. Fluctuation of exchange

<p>outsourcing</p> <p>b. Online purchasing of products has become more prevalent</p> <p>c. Quick obsolescence of mobile technology, hence requiring repurchases and frequent upgrades</p> <p>d. Emerging global markets including rebalance of global power, rising middle class and oil wealth</p>	<p>rate</p> <p>b. Limited number of suppliers resulting to a growing number of wholesalers who are growing to become its competitors</p> <p>c. Shareholder lawsuits that were against governance and value destruction</p> <p>d. Cheap retailers like Wal-</p> <p>e. setting of brick and mortar by online competitors due to internet taxes</p> <p>f. Financial legislation as well as compliance with financial instruments and credit cards</p> <p>g. Recession and unemployment impact on the country's discretionary income</p>
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EXHIBIT 4

RATIO ANALYSIS ON Fiscal Years 20_05_-20_10_

Margins % of Sales	2005-02	2006-02	2007-02	2008-02	2009-02	2010-02
Revenue	100.00	100.00	100.00	100.00	100.00	100.00
COGS	76.32	74.95	75.60	76.15	75.57	75.53
Gross Margin	23.68	25.05	24.40	23.85	24.43	24.47
SG&A	18.42	19.72	18.84	18.45	19.96	19.87
R&D	—	—	—	—	—	—
Other	—	—	—	—	0.32	0.10
Operating Margin	5.26	5.33	5.56	5.40	4.15	4.50
Net Int Inc & Other	—	0.25	0.36	0.17	-0.38	-0.08
EBT Margin	5.26	5.58	5.93	5.57	3.78	4.42
Profitability	2005-02	2006-02	2007-02	2008-02	2009-02	2010-02
Tax Rate %	35.27	33.76	35.31	36.58	39.65	36.54
Net Margin %	3.59	3.70	3.83	3.52	2.23	2.65
Asset Turnover (Average)	2.90	2.78	2.83	3.04	3.15	2.91
Return on Assets %	10.39	10.29	10.83	10.69	7.02	7.72
Financial Leverage (Average)	2.31	2.26	2.19	2.85	3.41	2.90
Return on Equity %	25.00	23.49	24.04	26.34	21.98	24.03
Return on Invested Capital %	21.10	19.98	20.55	23.81	17.80	18.69
Interest Coverage	—	—	—	—	—	24.35

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EXHIBIT 5

**COMMON-SIZE INCOME STATEMENT ON
(Dollar amounts in millions)
For Fiscal Years 20_09_-- 2010__**

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+ Sales/Revenue	50.27B	50.71B
+ Cost of Goods Sold (COGS) incl. D&A	37.61B	38.11B
COGS excluding D&A	36.63B	37.17B
Depreciation & Amortization Expense	978M	945M
Depreciation	896M	897M
Amortization of Intangibles	82M	48M
+ Gross Income	12.66B	12.59B

EXHIBIT 6

IMPLEMENTATION, EVALUATION & CONTROL PLAN FOR For Recommended Strategic Alternative #_ –

EXHIBIT 7

TOWS MATRIX on Internal Factors (from IFAS)

<p style="text-align: center;">External Factors (from EFAS)</p>	<p style="text-align: center;"><u>Strengths (S)</u></p> <p>S1 Financial strength</p> <p>S2 Online presence</p> <p>S3 High levels of community service and strong leverage of social media</p> <p>S4 Reputation for excellent customer satisfaction</p>	<p style="text-align: center;"><u>Weaknesses (W)</u></p> <p>W1 Marketing goals too broad</p> <p>W2 Physical stores</p> <p>W3 weakened financial position</p> <p>W4 many brands</p> <p>W5 Dependence on few suppliers</p>
	<p style="text-align: center;"><u>Opportunities (O)</u></p> <p>Growing global demand for consumer electronic</p> <p>2.Dissolution of number one competitor; Circuit City</p> <p>New business ventures</p> <p>A more savvy, and knowledgeable consumer base willing to use the internet for product purchases</p>	<p style="text-align: center;"><u>S/O Strategies</u></p> <ul style="list-style-type: none"> ➤ Develop aggressive international growth strategies ➤ Software as a service ➤ Explore a growth strategy with vertical integration components ➤ Building visibility of inventory to customers

<u>Threats (T)</u>	<u>S/T Strategies</u>	<u>W/T Strategies</u>
<p>Rise of many competitors that leads to the loss of market share as well as the loss of revenue</p> <p>Low spending and distressed economy Suppliers have moderate to high bargaining power</p> <p>Rising labor wages⁵.</p> <p>Regulations negatively impacting private-label credit cards i.e.; decreasing revenue streams on domestic sales⁶.</p> <p>Domestic market for consumer electronic products maturing i.e.; flatpanel television market</p> <p>Long life of TV sets Direct competition from other suppliers such as apple stores.</p> <p>Increasing wage rates</p>	<ul style="list-style-type: none"> ➤ Explore integration with suppliers ➤ Develop entry strategies for emerging markets ➤ Development of aggressive international growth strategies 	<ul style="list-style-type: none"> ➤ Explore integration with suppliers ➤ Clos the least profitable ➤ Merger/ acquisition

EXHIBIT 8

PRO FORMA INCOME STATEMENT ON For Strategic Alternative #1 – Electronic mail

(Dollar amounts in millions)

	NOTE	KM USD	KM USD
Revenue	A9	9,890	14,359
Cost of sales		<u>(6,018)</u>	<u>(8,829)</u>
Gross profit		3,872	5,530
Administrative expenses		(5,670)	(3,089)
Other operating expenses		(260)	(62)
Other operating income		<u>(130)</u>	<u>22</u>
(Loss)/Profit from operations		(2,188)	2,401
Interest income		-	-
Interest expense		<u>-</u>	<u>-</u>
(Loss)/Profit before tax		(2,188)	2,401
Taxation	B5	<u>16</u>	<u>(16)</u>
(Loss)/Profit for the period		(2,172)	2,385
Other comprehensive loss:			
Foreign currency translation		(32)	(2)
Total comprehensive (loss)/ income for the period		<u>(2,204)</u>	<u>2,383</u>

**PRO FORMA INCOME STATEMENT ON
For Strategic Alternative #2 – Accessory vending machines**

(Dollar amounts in millions)

Gross sales	\$500	\$650
Less sales returns and allowances	200	230
Net Sales	\$300	\$420
COST OF SALES		
Beginning inventory	\$350	\$360
Plus goods purchased / manufactured	120	165
Total Goods Available	\$470	\$525
Less ending inventory	360	420
Total Cost of Goods Sold	\$110	\$105
Gross Profit (Loss)	\$190	\$315
OPERATING EXPENSES		
Selling		
Salaries and wages	\$35	\$41
Commissions	12	14
Advertising	10	12
Depreciation	14	15
Other	5	6
Total Selling Expenses	\$76	\$88
General/Administrative		
Salaries and wages	\$12	\$14
Employee benefits	4	5
Payroll taxes	2	3
Insurance	6	6
Rent	8	8
Utilities	2	2
Depreciation & amortization	3	4

**PRO FORMA INCOME STATEMENT ON
For Strategic Alternative #3 – expansion of online platform**

(Dollar amounts in millions)

Gross sales	\$500	\$650
Less sales returns and allowances	200	230
Net Sales	\$300	\$420
COST OF SALES		
Beginning inventory	\$350	\$360
Plus goods purchased / manufactured	120	165
Total Goods Available	\$470	\$525
Less ending inventory	360	420
Total Cost of Goods Sold	\$110	\$105
Gross Profit (Loss)	\$190	\$315
OPERATING EXPENSES		
Selling		
Salaries and wages	\$35	\$41
Commissions	12	14
Advertising	10	12
Depreciation	14	15
Other	5	6
Total Selling Expenses	\$76	\$88
General/Administrative		
Salaries and wages	\$12	\$14
Employee benefits	4	5
Payroll taxes	2	3
Insurance	6	6
Rent	8	8
Utilities	2	-
Depreciation & amortization	3	-
Office supplies	1	-
Travel & entertainment	3	3
Postage	1	1
Equipment maintenance & rental	0	0
Interest	0	1
Furniture & equipment	3	4
Total General/Administrative Expenses	\$45	\$52
Total Operating Expenses	\$121	\$140
Net Income Before Taxes	\$69	\$175
Taxes on income	22	32
Net Income After Taxes	\$47	\$143
Extraordinary gain or loss	\$0	\$0
Income tax on extraordinary gain	0	0
NET INCOME (LOSS)	\$47	\$143