

Media Markt: Another go at Internet sales

After its first failed attempt, Media Markt is ready to reintroduce its online business. Will it fare better the second time around?

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After its first failed attempt, Media Markt, the European electronics and home appliance giant, is ready to reintroduce its online business.

This new bid comes as the company faces other major challenges: developing its business presence in China, the growth of Amazon in Europe, competition from the rival chain Best Buy, changes in demand for certain kinds of products and the rise of generic brands.

A case study on Media Markt by IESE Prof. [Marc Sachon](#) and consultant Eric Laux looks at the strategic and operational implications of the company delving back into the Web.

Each company is unique

Media Markt, along with Saturn and Redcoon, form part of Media-Saturn Holding, a conglomerate controlled by the German group Metro.

Although part of the same holding company, each is managed independently. They even compete with each other. Most consumers are not aware that the three brands answer to the same boss.

In the case of Media Markt, that free hand to run the business applies not only to the parent company but also to its chain of outlets.

Each store is created as a limited liability company, and managers are offered a 10 percent stake in it. They are not treated simply as store managers, but rather as managing partners and entrepreneurs. So long as they live up to a key set of previously established performance

criteria, they are free to make decisions on products, pricing, purchasing, marketing and hiring.

For this reason, the merchandise on display from one store to the next is not the same. Each has its own merchandise and its own prices adapted to the surrounding area and the outlet's regular customers.

Open window on conflict

Media Markt's first stab at online sales came in 2000, with the creation of an autonomous, independent portal for selling over the Internet.

Things did not go so well. This was due, in part, to Media Markt's decentralized structure. Each store tailored its advertising and operations to the needs of regional customers.

The emergence of the portal, with supply that everyone could see, revealed how heterogeneous Media Markt's merchandise and pricing actually were.

Suddenly, Media Markt's brick-and-mortar stores had to match online prices established at national level.

To make matters worse, many customers who had bought products online showed up at physical stores seeking after-sales service, increasing each stores' costs but not their revenue.

Indeed, opening up to the Internet created a conflict among Media Markt's various sales channels. This weighed not only on sales and profits at conventional stores, but also on their shareholder managers, which ultimately triggered internal tensions.

Seeking a multi-channel strategy

The whole adventure was called off in 2007, but the company knew that renouncing online sales was simply not an option. With several studies showing that online sales are gaining more and more market share, while traditional sales are stagnating, at best, Media Markt knew it couldn't swim against the tide forever. It had to find a better way to go about it, one that resolved the conflict among its different channels.

In 2011, an opportunity emerged to acquire Redcoon, an Internet "pure player" that specialized in online sales of electronic goods at big discounts. The company used this

transaction to resurrect the online sales platforms of Media Markt and Saturn.

In order to implement the new multi-channel strategy, company executives established five pillars:

- the online model would be fully integrated with the physical stores;
- the same brand, be it Media Markt or Saturn, would be used both on the Internet and outside it;
- prices would be set on the Internet that were competitive and transparent nationwide;
- a wide range of products would be offered on the Internet, while the stores would continue to have a decentralized selection;
- logistics would be organized around a central warehouse, with the outsourcing of some modules, cooperation with the best suppliers and complete integration with the chain's stores.

The experience has allowed Media Markt to address some of the issues that were identified as critical problems in its first attempt at online sales.

But company executives still have some strategic issues to resolve: How does one maintain adequate incentives for store managers and avoid conflicts between sales channels?

How do you set online prices nationwide, while continuing to allow store managers to determine their own product catalogs and prices in their regions?

And how do you compete with the world's largest online store, Amazon?

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