The Rise and Fall of Circuit City

BY JESSIE ROMERO

The Richmond-based retailer became wildly successful — and then disappeared

Circuit City got its start as Wards TV, which had a bustling showroom in Richmond, Va., in 1960.

PHOTOGRAPHY: COURTESY OF ALAN WURTZEL

One of the great success stories of American retailing, Circuit City got its start in 1949 as a tiny storefront in Richmond, Va. From that modest beginning, founder Sam Wurtzel quickly built the company into a national chain, and his son Alan turned it into a household name. By 2000, Circuit City employed more than 60,000 people at 616 locations across the United States.

Circuit City is also one of American retailing's great failures. In November 2008, the 59-year-old company filed for bankruptcy. Within months, it closed its stores and liquidated more than $1 billion worth of merchandise, and on March 8, 2009, the last Circuit City store turned off its lights for good. Today there are few reminders of the groundbreaking retailer; the company's 700,000-square-foot headquarters complex outside Richmond is filling up with new tenants, and the empty stores have been taken over by new retailers.

In part, Circuit City was just one of the many victims of the financial crisis and recession, which also brought down other large national retailers such as Linens 'n Things and The Sharper Image. And businesses fail even during the best of economic times, as part of the natural process of "creative destruction" that is the engine of capitalism. But at business schools across the country, Circuit City's story is taught as an example of what can happen when success breeds complacency.

From Tire Store to Fortune 500

In 1949, New Yorker and serial entrepreneur Sam Wurtzel was having his hair cut in Richmond on his way to a family vacation in North Carolina. The barber mentioned that the first television station in the South had opened in Richmond less than a year earlier. Wurtzel, fresh from a failed import-export business, thought this new entertainment device might be his next opportunity.

The first experimental television stations began operating in the early 1940s, and commercial broadcasting began after World War II. Few households owned sets at the time of Wurtzel's barbershop visit, but the medium was growing rapidly: The number of TV stations in the United States nearly tripled in 1949, from 27 to 76. Through a friend, Wurtzel knew someone at Olympic Television, a small manufacturer in Long Island City; through relatives, he had connections to bankers and businesspeople in Richmond. Within a month, Wurtzel had moved his family from New York to Virginia and was selling televisions out of the front half of a tire store on Broad Street, a few blocks west of downtown Richmond.

Wurtzel thought his last name might be hard for people to pronounce, so he named his store Wards, an acronym for his family's names: W for Wurtzel, A for his son Alan, R for his wife, Ruth, D for his son David, and S for Sam. Rather than try to compete directly with the big department stores, he catered to lower-income consumers by offering installment payment plans. He also developed a unique sales technique: free in-home demonstrations. A salesman would drop off a television at a customer's home for the night, free of charge, and offer to pick it back up the next day. Once the set was in a family's home, they nearly always bought it.

Wurtzel had correctly foreseen the growing consumer demand for televisions — the number of households with sets grew from under 1 million in 1949 to 20 million by 1953 — and Wards TV grew quickly. In 1952, Wurtzel started selling appliances to capitalize on the post-war demand for refrigerators, washing machines, and electric stoves. Richmond was soon home to four Wards TV locations.

Wurtzel soon decided to join another retail trend: discount stores. The first discount store — a huge retail space offering a smorgasbord of merchandise below the manufacturer's list price — opened in New England in 1953, and the format spread quickly. In 1960, the discount chain National Bellas Hess invited Wurtzel to open a store-within-a-store called a "licensed department" at their new Atlanta location. Wurtzel quickly followed up with licensed departments in Norfolk, Va., and Camden, N.J., and in December 1961 he took Wards TV public to finance a nationwide expansion.

Excited by its success, the company embarked on a brash expansion strategy and nearly went bankrupt in 1975. But led by Wurtzel's son Alan, who had become CEO in 1972, the company closed or sold a number of unprofitable outlets, and by the late 1970s it was ready to start expanding again. It did so with a new name and a new retail model inspired by the early discount stores: the Circuit City "superstore." The superstores featured a large showroom attached to an even larger warehouse, with custom-built display areas to show off the merchandise. Most significantly, there was no central checkout area and customers couldn't pick up merchandise themselves. Instead, there were multiple sales terminals throughout the store and commissioned salespeople helped the customers make their purchases.

Those sports-jacketed salespeople were central to Circuit City's business model, which depended on selling big-ticket, high-margin items and lots of extended service plans. They were also what customers wanted at the time. "Circuit City was at their strongest when consumers didn't really understand what they were buying and were nervous about it," says Doug Bosse, a strategy professor at the University of Richmond. "When my family bought our first VCR, it was $600. That was a pretty big chunk of a family's discretionary budget. You would go into Circuit City and talk to a salesperson and ask for advice, and have them teach you on the floor how it would work in your family room."

Circuit City superstores, which sold both electronics and appliances, spread rapidly, from just eight in 1983 to 53 by 1987, in addition to the company's 37 smaller electronics-only stores.

Just like Wards TV, Circuit City was in the right market at the right time. As the baby boomers came of age and the country entered the 1980s boom, consumer demand for VCRs, CD players, and microwave ovens exploded. Factory shipments of consumer electronics doubled between 1980 and 1986, and the share of households with a VCR grew from 1 percent in 1980 to nearly 70 percent by the end of the decade. As Alan Wurtzel wrote in his memoir *Good to Great to Gone*, "I often thanked my lucky stars that Sam had decided to go into the retail electronics business and not the retail shoe business."

Wurtzel stepped down in 1986 and was succeeded by Rick Sharp, an executive vice president, who served as CEO until 2000. During Sharp's tenure, sales increased from $1 billion to $12.6 billion, earnings increased from $22 million to $327 million, and the number of stores increased from 69 to 616. In 1995, Circuit City entered the Fortune 500 at number 280, climbing as high as 151 by 2003. Circuit City was so successful that management expert Jim Collins featured the company in his 2001 book *Good to Great*, a study of the country's most profitable companies.

But Sharp championed two projects that might have been the beginning of the end, according to Collins, who wrote about Circuit City again in his 2009 book *How the Mighty Fall*. The first project was CarMax, which applied "big box" retailing to used-car sales. The initial CarMax opened in Richmond in 1993 and was immediately successful, and the chain expanded to 40 outlets by 2000. Circuit City spun off CarMax in 2002, and today there are more than 120 locations.

Less successful was a new DVD technology, called DIVX, which launched in 1998. The premise was that consumers could buy a DIVX-encrypted movie and then watch it on a special DVD player as many times as they wanted within a 48-hour period. In theory, DIVX was more convenient than renting tapes from a video store, but consumers didn't like it and other electronics stores refused to stock DIVX movies. Circuit City abandoned the idea within a year.

The issue was not the success or failure of these projects per se; CarMax was a great move, and DVIX was "costly but not critically wounding," according to Wurtzel. But in Collins' analysis, the attention paid to these projects meant that the management team and the board weren't paying attention to the company's core business — or to the growing threat of Best Buy.

Sacking the City

Best Buy got its start in 1966 as Sound of Music, an audio specialty store with several locations in Minnesota. In 1981, the Roseville, Minn., store was destroyed by a tornado, so founder Richard Schulze and his employees gathered up the merchandise, stacked it on tables in the parking lot, and advertised a huge "Tornado Sale." Customers lined up around the block, and the success prompted Schulze to pursue a discount sales strategy. Sound of Music changed its name to Best Buy in 1983 and opened its first of many superstores in Burnsville, Minn.

While the basic model was similar to Circuit City, Best Buy stores had a central checkout and allowed customers to pick out their own merchandise on the floor. And unlike Circuit City, Best Buy carried a wide variety of low-margin products to get customers in the door, such as computer peripherals, videogames, and CDs. Best Buy's store and staffing models were a better fit for consumers' changing preferences; as consumer electronics became cheaper and more ubiquitous, customers no longer needed or wanted a salesperson to help them with many of their purchases. Circuit City, on the other hand, stuck to its commission-based sales force and its reliance on high-margin products, and watched Best Buy take over its market share.

But Circuit City didn't see Best Buy as a threat. "We thought we were smarter than anybody," says Alan Wurtzel, who remained on the board of directors until 2001. "But the time you get in trouble is when you think you know the answers."

In 2000, Circuit City's earnings and stock price were at their all-time high — but Best Buy's earnings were higher, and it was also beating Circuit City in profit per store, total sales, and U.S. market share. Under the new CEO, Alan McCollough, the company began making changes, but the moves appeared to backfire. For example, in 2001 Circuit City stopped selling appliances, which made up between 10 percent and 15 percent of the business. Appliances were expensive to move and store, and getting rid of them freed up space for new products. But getting rid of them also meant Circuit City missed out on the residential real estate boom, when appliance sales soared.

In addition, the move was confusing to both employees and customers, and it might have helped the competition. "Best Buy still sold major appliances, and guess what, they also had TVs and computers and videogames," says Tom Wulf, a former Circuit City manager and trainer who directed the 2010 documentary *A Tale of Two Cities: The Circuit City Story*. "We were basically pushing our customers out the door, saying we don't want to sell to you anymore."

In 2003, Circuit City finally decided to eliminate its commissioned sales force. In one day, the company fired 3,900 of its highest-paid salespeople, with plans to replace them with 2,100 hourly associates. The move crushed employee morale and productivity. "Anyone who was working in the store thought, gee, if I'm too successful they're going to fire me, because I'll be making too much money," Wulf says. "So there was no incentive anymore to take good care of the customer."

In Wurtzel's opinion, it was "economically essential to reduce the cost of sales and to reduce commissions as a percentage of sales," but the change was badly mismanaged. "The preferable way to have done it is to be open and honest with the salespeople, to do it sensitively and reluctantly," he says. "Instead, it was done secretly and behind their backs, and they walked into work one morning and were told they were out of work."

Over the next five years, Circuit City's management made a series of questionable decisions, including buying a Canadian electronics chain, embarking on a round of store expansions, and laying off 3,400 more of the company's most experienced salespeople in 2007. "It's not a story where they did one thing really badly," says Bosse. "It's a story of hundreds and hundreds of smaller decisions that added up to be destructive."

Perhaps the most damaging move was a series of stock buybacks. Despite declining sales, Circuit City had a lot of cash on hand from spinning off CarMax in 2002 and selling a private-label credit card bank in 2003. Under pressure from shareholders, Circuit City spent almost $1 billion between 2003 and 2007 buying back stock at an average of $20 per share. But the purchases couldn't offset the fact that Circuit City's business was failing, and the stock was worth only $4.20 per share by the end of 2007. The ultimate result was that Circuit City didn't have any cash on hand to weather the economic storm that was coming.

Everything Must Go

Circuit City filed for Chapter 11 bankruptcy on November 10, 2008, and announced a restructuring plan that included closing 155 stores. But in the midst of the financial crisis, the plan wasn't enough to satisfy the company's creditors, and when Circuit City couldn't find a buyer, a bankruptcy judge ordered the company to liquidate.

At the time of the filing, Circuit City had 567 stores and about 34,000 employees nationwide. And although layoffs had begun at headquarters several years earlier, the company was still one of Richmond's largest employers, with about 2,000 people. Many employees remained hopeful that Circuit City would find a way to bounce back; the company had rebounded from near bankruptcy once before. "Up until the day they announced the liquidation, there was still a group of associates that were quite hopeful about the Phoenix rising again, the company being reborn and coming out of the ashes," Wulf says.

When that didn't happen, many of those same employees lost their life savings. Circuit City had offered an employee stock purchase program, whereby employees could invest up to 10 percent of their salary in company stock — which became worthless. "All those years of investing meant nothing in the end," says Wulf. "It really ruined some people's lives."

Circuit City's departure left a huge hole in the commercial real estate market as well, which was a loss not only for the landlords but also for the nearby coffee shops and restaurants that catered to Circuit City employees. Other Richmond companies also suffered or closed.

While business failures are painful for the people affected, however, they are an inevitable and even a necessary feature of capitalism, which the late Joseph Schumpeter, an Austrian-American economist, described as "the perennial gale of creative destruction." Circuit City isn't the only company to have been surpassed by a similar competitor, and in the long run the economy and consumers might be better off with Barnes & Noble instead of Borders or Kroger instead of A&P — or eventually with an online retailer instead of any of them.

If Circuit City had done things differently, would it still be around today? Maybe. It's possible the company could have found a way to "combine the strengths of Circuit City, which was very high touch, with the strategic vision of Best Buy, which was low prices and mass merchandising," as Wurtzel says. But it's also possible that the company was bound to be swept aside by Schumpeter's "perennial gale," leaving behind only bittersweet memories for ex-employees and a cautionary tale for everyone else. **EF**

READINGS

Collins, Jim. *Good to Great: Why Some Companies Make the Leap... and Others Don't*. New York: Harper Business, 2001.

Schumpeter, Joseph A. *Capitalism, Socialism, and Democracy*. 3rd ed. 1942. New York: Harper and Brothers, 1950.

Wurtzel, Alan. *Good to Great to Gone: The 60 Year Rise and Fall of Circuit City*. New York: Diversion Books, 2012.