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CASE STUDY & TEACHING

Transformation now or later? The case of 'Nordeste Eletro'

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Abstract

This teaching case addresses the decisions a traditional furniture and appliance retail company must make to remain competitive in the market, while facing the challenges of digital transformation imposed by an unexpected public health crisis. The main dilemma troubling its leaders was: how to migrate from the physical to the digital environment? The objective is to encourage students to reflect and decide on paths into the digital market amid uncertainty. This case is recommended for undergraduate and graduate courses in Business Administration, including Strategic Management, Competitive Strategy, Entrepreneurship, and Innovation. The theoretical basis adopted included the resource-based view in the context of digital transformation and organizational change. The case is based on a real experience of an incumbent company, whose name was changed to ensure anonymity. Data were collected through interviews and document analysis.

Keywords: Digital transformation. Strategy. Resource-based view. Organizational change. Teaching case.

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Resumo

Este caso para ensino aborda as decisões a serem tomadas por uma tradicional empresa varejista de móveis e eletrodomésticos para manter-se competitiva no mercado diante dos desafios da transformação digital impostos por uma situação inesperada de saúde pública. O dilema principal que assolava seus dirigentes era: como migrar do meio físico para o digital? Objetiva-se levar o aluno a refletir e decidir sobre os caminhos para a entrada no mercado digital em meio à incerteza. Recomenda-se a aplicação deste caso em cursos de graduação e pós-graduação em Administração, nas disciplinas de Administração Estratégica, Estratégia Competitiva, Empreendedorismo ou Inovação. A base teórica adotada incluiu a visão baseada em recursos no contexto da transformação digital e mudança organizacional. O caso é baseado em uma experiência real de uma empresa incumbente, que teve seu nome alterado para garantir o anonimato. Os dados foram coletados por meio de entrevistas e análise documental.

Palavras-chave: Transformação digital. Estratégia. Visão baseada em recursos. Mudança organizacional. Caso para ensino.

¿Transformación inmediata o a plazo? El caso de ‹Nordeste Eletro'

Resumen

Este caso de enseñanza aborda las decisiones que debe tomar una empresa tradicional de venta minorista de muebles y electrodomésticos para mantenerse competitiva en el mercado, enfrentando los desafíos de la transformación digital impuestos por una situación inesperada de salud pública. El principal dilema que preocupaba a sus dirigentes era: ¿cómo migrar del entorno físico al digital? El objetivo es llevar a los estudiantes a reflexionar y decidir sobre los caminos para ingresar al mercado digital en medio de la incertidumbre. Se recomienda la aplicación de este caso en cursos de pregrado y posgrado en Administración de Empresas, en asignaturas como Gestión Estratégica, Estrategia Competitiva, Emprendimiento o Innovación. La base teórica adoptada incluyó la visión basada en recursos en el contexto de la transformación digital y el cambio organizacional. El caso se basa en una experiencia real de una empresa incumbente, cuyo nombre fue alterado para garantizar el anonimato. Los datos se recopilaron mediante entrevistas y análisis documental.

Palabras clave: Transformación digital. Estrategia. Visión basada en recursos. Cambio organizacional. Caso para enseñanza.

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STARTING POINT

It was March 18, 2020. Between meetings, sales manager Roberto Macedo anxiously reflected on what he saw and heard on television, radio, social media, and in hallway conversations. The topic was the same in all of them: Ceará Government had decreed lockdown of in-person commerce for 15 days due to the advance of the COVID-19 pandemic.

Many ideas came to his mind: after all, what kind of disease was this that would force even Nordeste Eletro to close its doors? What would happen to the more than 2,000 employees, mostly salespeople, who depended on their sales commissions to meet their obligations? And the company itself, how would it fare in this situation? Had the time come for Nordeste Eletro, a chain of physical retail stores that sold furniture, electronics, and appliances, to fully immerse itself "in the digital world"?

A feeling of confusion spread among the corporate teams at Nordeste Eletro, especially the digital and sales teams. The biggest dilemma plaguing its directors was: how to migrate from the physical to the digital environment? Should they completely change their business model and become a digitally based company because of the pandemic? If not, what was the alternative? What steps could be taken to keep a traditionally physical company alive amidst a pandemic that would force everyone to stay indoors?

A (NOT SO) BRIEF HISTORY

Going back in time, the story of Nordeste Eletro begins even before it existed, when Mr. Marcos Araújo, the patriarch of the family, founded a small store selling designer furniture in a small town in Pernambuco in 1932. Years later, he and his family moved to Juazeiro do Norte (CE), where they began selling hats, umbrellas, and other miscellaneous items.

Devastated by a severe drought in the 1930s, Ceará became a difficult territory for the Araújo family, who ended up moving to Bahia, where, years later, they opened the first store of what was called Nordeste Eletro. The Nordeste (as is affectionately known) grew and split into two business groups that operate in seven of the nine states of the Northeast.

In 2020, among the local retail groups, Nordeste Eletro was probably the largest among its regional competitors, being especially recognized for its slogan and catchphrases that played on the idea of "everything fitting in your pocket with the easy installment plan." At the time, its business model was centered on selling furniture, electronics, and home appliances face-to-face in its physical stores.

With 48 stores spread across the states of Ceará, Bahia, Pernambuco, and Piauí, it has more than 2,000 employees, most of whom work in physical store operations.

ROBERTO'S EXPERIENCE, THE SALES MANAGER

Let's advance to 2009, when our main character, Roberto Macedo, began his career at Nordeste Eletro after experiencing various roles. He started as a junior entrepreneur while studying Business Administration; he worked as a marketing supervisor; he also worked in the quality area; and he was a member of an institution that monitored quality in organizations in Ceará.

One day, he received a call from a number he didn't recognize and, luckily, he answered. It was Eduardo, CEO of Nordeste Eletro. Roberto was intrigued, since Nordeste Eletro was a well-known company with which he had dealt before. At this moment, he wondered what a company director wanted from him, a newly graduated Business Administration professional.

"Roberto, I'd like you to come to the Nordeste Eletro office so we can talk. I have a proposal for you. Could you come tomorrow at 3 pm?"

"Of course. I'll be there," Roberto replied.

During that visit, Roberto was invited to a managerial position: to coordinate the sales sector of Nordeste Eletro. There was an evident demand, according to the CEO:

"We need to focus on data and market intelligence. Nordeste Eletro is a large company and needs to anticipate changes, to be one step ahead of the competition."

Roberto accepted the offer and had since worked as a manager at Nordeste Eletro, leading the sales area. At this time, he understood the company's culture and business model. Roberto also noticed several nuances. The company had several stores spread throughout its geographic area of influence, reaching almost all sub-regions of Ceará. The idea was simple: a customer who lived in a small town would only need to travel a few minutes to reach one of the stores.

Over time, Nordeste Eletro developed a logistical capacity for delivery in practically all of Ceará and in other states where it operates. Thus, many customers went to the store just to test the product and choose the best option, according to their specific needs.

Another thing Roberto noticed was the tradition, even on social media, of inviting customers to visit the store and see the promotions. The radio and TV ads, or even the leaflets delivered, always said "Run to Nordeste Eletro!" In the store, salespeople were trained to be welcoming and consultative, seeking to demonstrate to the customer that they would find exactly what they needed there.

Daily, he noticed that many customers, even those who didn't need to buy anything, would stop by the store to talk to the salespeople and say that the product they had purchased was of good quality and they were very satisfied. Often, they would simply stop by to chat, and the employees and salespeople already knew many of the customers by name, cultivating a very close relationship – something that is quite typical, especially in small-town stores.

Another characteristic of the company's business model was Nordeste Eletro's slogan, repeated by the announcer on the sound truck: "At Nordeste, everything fits in your pocket. And what a great installment plan, isn't it?" They used to work well with the installment payment method, in which the customer paid for their purchase in several installments, even if they didn't have a credit card. Thus, Nordeste Eletro became increasingly known for this slogan.

THE FIRST INSTALLMENT OF THE TRANSFORMATION

Roberto, leading the sales department, had fulfilled a good part of his commitment to bringing Nordeste Eletro in tune with the practices of the competition. Various areas of the company were using Business Intelligence (BI) tools – particularly marketing and market intelligence.

In 2012, he experienced a new direction for the company's next steps: Nordeste Eletro had hired a Chief Information Officer (CIO), IT director, named Marcos. The manager had extensive experience at a competitor company in the retail sector, which had already implemented e-commerce as a sales channel. Around the time of his departure, that company was amplifying its share of online sales in its revenue. The intention in hiring Marcos was clear: Nordeste Eletro needed to undergo technological modernizations, as its business model was anchored in in-person sales through physical stores, while competitors were deepening the importance of online sales.

At the time, the company understood that it needed to make internal modernizations. They were implemented over time with the introduction of BI, an application for sales assisted by store salespeople, in addition to the implementation of the Warehouse Management System (WMS), among other technologies suitable for operating the company's business.

Marcos had a lot of trust from senior management and used to work together with Roberto. Together, they managed to implement changes in the company's management model, especially developing agile management practices, in order to make the focus on technological and innovative management more natural, as part of the effort to modernize the organization and its work culture.

With the initial steps from the new CIO, they created a basic technology infrastructure to support a future digital operation, besides specific changes in work style, as a way to accelerate the firm's internal transformations. Therefore, in 2017, the company decided to include an online sales front in its operations. The first step in this direction was the creation of a digital catalog, a technology that customers could access and learn about the company's products through digital means.

There was still some apprehension regarding this novelty, given that Nordeste Eletro had a strong tradition in face-to-face and consultative sales, considered a differentiator of the company. The customer could access a wide range of products for their entire home simply by going to one of the stores and being served by one salesperson.

Soon after this action, however, they understood that it was necessary to take further steps, as one of the directors said:

“Yeah, I think this digital thing works, huh? I think we have to invest more in it!” said Débora, the operations director.

“Look, I think we need to be careful. Technology is expensive to acquire, and there’s still a lot of internal stuff we need to change to become a digital company,” opined Lynda, the company’s CFO.

In fact, everyone admitted that the company still needed to take bigger steps to achieve a fully digital operation: many processes were still manual. Also, there was no differentiation in inventory for online and in-store sales. As a result, many employees – even those in administration – were only accustomed to the physical in-person operation.

The performance of the board of directors, with leaders from various areas (operations, finance, logistics, technology, sales, and marketing, among others) working together, was seen as crucial to the success of the undertaking. At one point, in a board meeting, Marcos expressed his concern about this demand:

“Look, if we don’t work together and adapt the processes of all areas to this new digital format, things won’t work. It will be chaos!”

Everyone agreed, even though they were apprehensive about the changes to come, and said they would collaborate as much as possible, but they emphasized that someone would have to lead this project. Otherwise, the efforts would not be well aligned.

Thus, amidst the unease, it was decided to create a cell dedicated to online sales, which would handle all nascent digital initiatives. To this end, there should be a multifunctional team that would take care of everything from the development of systems to the training of employees to deal with the digitized Nordeste Eletro.

Called into the CEO’s office, Roberto received news he had already expected to hear:

“Roberto, you will be responsible for this cell. You are the right person. You know the operation like no one else, and you know well the competition’s operation in this digital environment.”

Roberto was excited and anxious simultaneously, but he felt he could handle the task. He assembled his team by choosing people from various departments, particularly IT, marketing, and market intelligence – all focused on implementing the digital front. Later, other people were invited on a case-by-case basis to contribute their expertise to make this change work and be well implemented.

Thus, Roberto led this front with one goal: to launch Nordeste Eletro into a new competitive environment, the digital market, with a major project: the launch of an e-commerce platform. There, a great challenge, both personal and collective, would begin.

ACROSS THE STREET... HOW WAS THE COMPETITION DOING?

We’ve reached 2019. In a management meeting to discuss results, the board analyzed some market signals with concern. Among comments and loose phrases, the subject was inevitable: the digital transformation of retail. They mentioned Amazon’s aggressive entry into Brazil, Magazine Luiza’s growing strength in e-commerce, which already represented 32% of its sales in 2018 (Magazine Luiza, 2024), and the more modest performance of chains like Casas Bahia – where digital accounted for 17% of sales (Via Varejo, 2024).

It was up to Roberto to present the accumulated results for the first half of 2019. A little tense, he presented many of the numbers already known and discussed previously by the board members. He also explained that Nordeste Eletro continued to be the market leader among local retail groups in the states where it operated, but that the numbers reflected a change in context: some digital companies (like Amazon) or those with a mixed characteristic, operating simultaneously in physical and digital stores (like Magazine Luiza), were gaining more ground.

"We noticed a slight reduction in our market share in the last year, with some competitors grabbing a portion of our market, both in furniture and in appliances," said Roberto.

There was much debate about whether migrating to "digital" was a myth, since many companies in the sector remained quite solid in in-person sales, even without moving to that channel. Regarding this, Emanoel, the marketing director, asked Roberto:

"By the way, how is the project to launch e-commerce progressing?"

"Our plan is for it to be live on Black Friday," replied Roberto.

One of the most important points of discussion at the meeting was about the data contained in Box 1, which highlighted the evolution of competitors' revenue from online sales.

Box 1
Comparison of Brazilian e-commerce revenue (2016-2019)

Especification / Year	2016 (R$ bi)	2017 (R$ bi)	2018 (R$ bi)	1st sem. 2019 (R$ bi)
Brazilian e-commerce	53,55	60,14	69,88	49,98*
Casas Bahia	**	6,9	7,6	3,3
Magazine Luiza	3,2	4,4	7	4,7

*approximation.
**unavailable.

Source: Developed with basis on Magazine Luiza (2024), Via Varejo (2024) and Associação Brasileira de Comércio Eletrônico (2024).

Based on the results presented and Roberto's response regarding Nordeste's long-awaited e-commerce launch, everyone was excited about the potential gains in the new digital world.

THE SECOND INSTALLMENT OF THE TRANSFORMATION: THE "BLACK BARGAIN"

Advancing in time, let's go to November 28, 2019, the day before the well-known Black Friday. Nordeste Eletro had been preparing for the big day for months, announcing it on all social media, TV, and radio, as well as through sound trucks and digital influencers. In short, everywhere.

This year, Nordeste Eletro would launch a novelty that would shake up the market: in addition to the physical operation in full swing on the day – nicknamed "Black Bargain" – there would also be online sales through e-commerce, which had just "come out of the oven".

In recent months, the digital team (led by Roberto) had been finalizing the details of the platform and conducting internal tests with employees, who were encouraged to use the system to understand flaws and improvements that could be implemented in time. However, the big debut would be only on Black Friday.

As usual, the support teams were on standby to handle any eventuality during peak online hours, typically between 10 PM on Thursday and 2 AM on Friday. Nordeste Eletro had prepared itself. The thought was: "Everything will be alright." At least that's what everyone was hoping would happen.

Amidst the rush, Roberto left the room where the team was working and went to get a coffee outside. Nordeste Eletro's corporate office, where Roberto and his team worked, was located above one of the group's main and most traditional physical stores. As he passed a group of salespeople chatting distractedly, he overheard, unnoticed, part of the conversation:

"I heard that today they're going to have the big launch of the website for online sales."

"Man, that's puzzling me! Are they going to replace the salespeople with online sales? Good heavens, how am I going to pay the bills? I just financed my house".

Roberto returned to his office worried. He wondered how he would convince Nordeste Eletro's sales team about the digital approach. Although he thought everyone was already used to the idea, he realized this was another challenge to face.

For the rest of the day, everything seemed fine: the platform was operating smoothly, and the team hadn't had any key problems. This situation continued into the early evening, and those who had been tense were able to breathe easier. But, at the busiest time online, around midnight, the problem arose:

"It crashed!" said one of the team members.

"What do you mean?" colleagues asked, almost simultaneously.

The system crashed right at the peak sales time. It was inoperative for much of the time when competitors were making the most profit. Some had already expected this result due to the short preparation time for launching. Others considered that a small detail could have caused the crash, since they had done several tests beforehand and everything had gone well.

After the episode, the consensus was that the digital initiative needed more time to be implemented, and it was decided to propose a longer schedule to the board, with more testing time. In the meantime, online sales would be restricted, especially since other aspects had become challenges stemming from the Black Friday experience.

The logistics employees were not used to the procedures for online delivery of orders. The systems still presented ambiguous information and instabilities. The financial processes were still inconsistent. Finally, there were difficulties with customers adapting to the online sales format. The internal challenges of the company's organization to make Nordeste Eletro a digital brand were finally perceived. Late in the afternoon of the following day, the team gathered. Some people were downcast, others murmured something along the lines of "I told you so," but the whole team knew that implementing e-commerce would be challenging anyway. Then Roberto shared a decision he had made with the board:

"Everything that happened yesterday shows us that we need to slow down and calmly structure this implementation, following a more relaxed step-by-step approach."

Everyone agreed that more structural changes were needed in the company to support the digital operation, but they were still confused about the changes required. Some questions that arose were: "Will salespeople be replaced by e-commerce?" "As we move to digital, will the stores close, as 'Magalu' has done?" "What will happen to our internal processes? Will they be digitized?" "Do the people who work here have the skills to deal with the digital context?"

From that point on, the team would continue working on the implementation for another 10 months, with extended deadlines and less pressure. Everyone was confident that digital technology would eventually arrive, even if only shyly, at Nordeste Eletro.

NOW OR NEVER!

In March 2020, the retail landscape was about to change drastically with the advent of social isolation due to the pandemic, and digitalization was becoming increasingly urgent. Physical commerce faced unprecedented challenges, forcing companies like Nordeste Eletro to rethink their strategies and accelerate the transition to the digital market. At that moment, Roberto was called to a meeting focused precisely on this topic.

Entering the meeting room, the CEO asked him:

"The company has 2,000 employees in 48 stores, all accustomed to selling face-to-face with the customer. Our differentiator has always been precisely the close, consultative relationship. However, our competitors are reinforced in digital sales and are highly prepared for this moment. How to face this reality?"

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Roberto hesitated, not knowing how to react to that question immediately. What would be the best way to allocate employees to this new business model? Furthermore, were they ready for this transition? What would be the path to follow? Thus, he asked to speak with his team before giving a final answer. The general manager fully understood and released him from the meeting room.

Upon leaving the room, Roberto summoned the entire digital sales team for a meeting. Everyone was apprehensive, amidst a permanent silence in the room. It seemed that no one could translate that feeling into words. After a few minutes in this atmosphere, Alexandre, one of the team members, summarized:

“Now there’s no way out. We were crawling, but, given the circumstances, we’ll have to rush to digital.”

Other members expressed concerns. There were doubts about the system’s capacity to support the operation, fears about the future of the salespeople, and uncertainty regarding the lockdown. People uttered that, contrary to what was being said, the lockdown could last months, similar to other countries.

The dilemma was posed to everyone involved in the digital and sales front of Nordeste Eletro. How to migrate completely to digital without losing the essence of the company and, above all, maintaining the jobs and the traditional relationship that sustained the brand?

TEACHING NOTES

The teaching note for this case is restricted and is available only to faculty members and instructors affiliated with academic institutions upon request at: https://periodicos.fgv.br/cadernosebape/article/view/97111

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Murilo Gabriel da Costa Silva: Conceptualization (support); Data curation (support); Formal analysis (support); Investigation (support); Project management (same); Supervision (leadership); Validation (leadership); Writing - original draft (same); Writing - revision and editing (support).

DATA AVAILABILITY

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