



Bringing New Concepts to Market: CarMax CEO Shares Lessons Learned

From tiny startup to industry leader, CarMax has been a true Richmond business success.

CEO Austin Ligon, who spoke to the Virginia Council of CEOs, said one of the biggest lessons he's learned is that leaders must give up some of their responsibilities so their companies can grow.

In the Beginning

In the early '90s, Circuit City began exploring ways to invest in a new business and create additional value for shareholders. When someone suggested selling used cars as a separate business, Ligon said, "it was one of those few times in life when the lightbulb goes off." He realized he could directly apply what he learned from Circuit City superstores—and bypass problems faced by new car dealers.

The results of extensive consumer research answered one key question: Why can't car buying be fun? CarMax developed the low, no-haggle pricing concept and opened its first prototype store in 1993.

Test, Test, Test

Once you think you have a viable product, Ligon cautions against spending too much time developing your prototype.

"Get it out and let consumers tell you what's wrong," he said. "They'll find things you may never have thought of. You don't know what you don't know."

Jannemieke Keener, CEO of Keener Communications, said she learned a lot from hearing Ligon.

"I learned that when you try something new, you should do it on a small scale," she said. "Let the consumer tell you what they like and especially what they don't like. Then start expanding."

If your concept doesn't work at first, but you really believe you have a good idea, Ligon suggests putting it aside—for now.

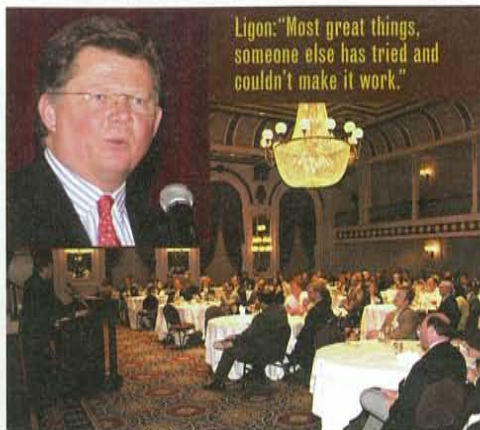
"Most great things, someone else has tried and couldn't make it work," he said. "And don't ever be too proud to steal someone else's great ideas."

Confront Competitors

"Always take your competition seriously," Ligon warned.

When CarMax opened its first store, it had no competition. By 1996, it had four fierce competitors.

"For the next three years we doubled our growth base, opening 27 stores in 37 months. We hadn't planned to grow that fast or to build superstores, but we had to make decisions on the fly.



You can't let competitors steal your prime markets."

This strategy paid off. By 1999, CarMax outlasted its competition. But it came at a cost.

It's About the People

During this rapid growth, CarMax lost the depth in its management team. Ligon attributes the company's early success to the four years it spent building a well-trained management team. Newer stores were not performing as well as older stores.

"Always over-invest in people," Ligon urged, "because it's impossible [to do]."

Steve Samuel, CEO of Graphics Gallery, can relate. "I realize that as CEO, I need to increase the depth in my management team to take our company to the next level," he said.

Samuel said he is impressed with how CarMax responded to this challenge: during a period of rapid growth, it intentionally stopped expanding. It's what Ligon called the pause-to-regroup stage.

"We spent two years just focusing on the business, letting the management team settle in and getting our operations back in place. "Over the next 24 months, we went from break-even to \$94 million in revenue."

Samuel said he understands that that wasn't easy to accomplish.

"I think CarMax showed remarkable discipline to back off the accelerator when they were in major growth mode and they no longer had the competition they had," he said.

For the second year in a row, CarMax was named to the *Fortune* "100 Best Companies to Work For" list and in 2006 was named most admired company in automotive retailing.

"I'm very proud of this," Ligon said. "It's really hard to make the list. You have to ask, 'how do you make a used car business a place where you're proud to tell your mother you work?'"

By Kathleen Hall

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