

THE HUB

THINKING MARKETING FOR BUSINESS VISIONARIES™ | May / June 2006

CONSUMER INSIGHTS

Best Buy's Balance

Best Buy
CMO
Mike Linton
says letting
customers
customize is a
key to loyalty,
innovation
and growth.

What's your greatest challenge?

The speed of the marketplace is our greatest challenge. Then, within that, there's a question of balance—balancing the short- and the long-term; balancing where your resources go; and then evolving your marketing model. We need to build our competencies, foster innovation and continue to improve the ideas that work.

We clearly have to continue to do what got us here, and keep the old tools that work. We've also got to experiment with new tools. We've got to balance the short- and the long-term so that we're constantly innovating, but in a way that keeps the current business running well. That always keeps me alert.

How have those challenges changed over the seven years you've been at Best Buy?

As we get bigger, we have to do bigger things to move our brand forward. But while we're doing those big things we don't want to ignore opportunities that are innovative or different. That goes to one of the biggest CMO challenges, which, again, is balance. How much do you put in new media versus old media? How do you measure it? A lot of the new media is harder to measure.

How have you tackled the measurement issue?

If we can "math" it, we will "math" it—but with a lot of new things, a lot of true innovation, you can't "math" it until after

you do it. So, when I break my marketing into two components, I put it into "ready, aim, fire"—which is marketing where we have a good understanding of what we think it will do for us. And then there's a whole bunch of innovative ideas in a smaller bucket—which is "ready, fire, aim." We'll do it and then we'll try to measure it afterwards.



How would you define Best Buy's marketplace?

The digital evolution is at its next phase. When the digital wave first arrived about eight years ago—what were you going to buy? Maybe a desktop computer... maybe a nice TV with a DVD player. What else were you going to buy? Not much.

Then digital cameras and videogame players arrived and the internet started connecting everything. Fast-forward seven years, and we are now in the age of customization. There are desktops, laptops—you can network your home. There are digital cameras, digital camcorders, broadband, cable—you can get all kinds of different TVs.

You can get a signal from your cable or satellite company. Cell phones are now much more than just a way to call someone. You can port your music anywhere you want—you can port your movies anywhere you want. What you see is customers linking all of these technologies together in a much more individualized way. They are using media in a more customized way. That is a big evolution for a marketer like me and certainly for a company like Best Buy. →

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← What are the secrets of building customer loyalty against that backdrop?

That's an ongoing challenge in this kind of marketplace. We think about it in a couple of ways. One is, your brand needs to stand for something that is important. You have to be a mass-brand but also a loyalty-build-ing brand. That means you have to have a national footprint, but also the ability to connect with consumers on a much smaller basis, in a way that makes them feel like they can get what they need.

Best Buy used to have a great campaign called "Turn on the Fun." It was the highest scoring campaign in Best Buy's history. But we changed it over because we didn't think it could keep pace with the marketplace. We went from that campaign (which I would consider to be a "mass" story) to "Thousands of Possibilities: Get Yours" (which is a more integrated story).

We made that change immediately in advance of launching Reward Zone, our loyalty program. The intention was to build the mass brand with a nice footprint, and then build loyalty to segments, and ideally to individuals.

What was lacking previously? Why did you add a loyalty program?

I don't know if anything was lacking, exactly. Marketing today is all about opportunity and trying to keep up with the marketplace. The reason we were pretty hot on loyalty is that we sell in multiple categories. We wanted to reward our best shoppers, and we also wanted to reach them in a way that made sense to them, in a one-to-one, or at least a segmented way. And Reward Zone, which is our loyalty program, does that.

How do you use the data to drive sales?

We don't think of it that way so much as a way to build a relationship with the customer that makes sense to them. If you look at marketing as purely a driver of sales, you will miss out on building relationships in the long run. We're about helping our customers customize the right set of products and services for their lifestyles.

Reward Zone is one of the ways we help our customers do that, and obviously it needs to produce a good outcome for us. But we believe a good outcome will be driven by

the fact that 1) our customers are rewarded for shopping at our stores; and 2) over time, we communicate what makes sense to each customer versus presenting a giant brand with thousands of SKUs.

Why do you charge for the loyalty card?

The card is still in its early stages, and we're always evaluating what we're doing, but we wanted people who are really committed to the brand versus everyone having a card and not using it. So it was much more of a self-selection device. The last thing we wanted was millions of cards and a ton of them not doing anything.

You've profiled your customers by giving them names — Buzz, Barry and Jill, for example (see sidebar). What's the thinking there?

We don't talk about individual segments. Think instead about customizing the operating model at the point-of-sale. As the marketplace customizes, certainly geographies customize. So, as we look at segmenting our stores, we're trying to customize around each trading area in a way that makes the most sense. Then we try to customize the marketing around that, too.

We're still learning and developing as a company, but the thinking is that as the marketplace customizes, how do you grow as what was essentially a mass, specialty retailer? How do you stay on pace with that marketplace? Our choice is customer centricity.

Best Buy has placed a special emphasis on women and how they shop.

I would say that is one of our emphases but I wouldn't call out any one segment as different than any other. We're on a journey to try to figure out the marketplace. One of the things we did learn a lot about was women and how they shop the category and how they shop for brands. We're still learning about that. We're also learning a lot about that with Geek Squad (see sidebar).

Any special insights there?

None that I could share.

Any thought about the applicability of the Best Buy brand to kids?

Not at this time. If we're getting at

that, we're doing so through one of the segments, like suburban moms. We do find a lot of the technology comes into the house through the kids — if they're teens, in particular. But in the end, probably the person making the purchase decision for a child is an adult. It makes a whole bunch of sense for us to stay on that target.

There don't seem to be any ethnic groups within your profiles, either.

You're asking questions I really can't answer! We do a lot of ethnic marketing — particularly among Hispanics. You can see that in our newspaper buys and in our signage. But the segments are kind of what you see and we're segmenting based on the behaviors of demographics versus ethnicity.

Do demographics matter as much as they used to?

I would say that without a doubt demographics matter less and less — not just to marketers, but to everybody. As the marketplace customizes and people have more and more choices, you're just getting more customization everywhere. I think you have to use demographics sometimes, but fundamentally they matter less and less every year.

Is Best Buy still firing its "devil" customers as the press once reported? (see sidebar)

That was really an unfortunate use of words. That got taken way out of context. We don't think like that. This is way more about designing our stores for the customers who want it most, and designing the brand for the people who want to use it the most. We're about making the store most appealing to the people who are most attracted to it, and that got flipped on its side.

Do you have a definition of "shopper marketing"?

We really don't use that term but there are a number of other words we use — multi-channel or the customization of offer and media — that get at the same thing. Every brand and company has to find its own way there. What do the channels do for you? How much do consumers →

Best Buy's Escape. Best Buy is appealing to women and young men with smaller, more intimate stores that are intended to create a sense of community and turn shoppers into advocates, report Gary McWilliams and Steven Gray in *The Wall Street Journal* (4/29/05). For women, Best Buy's experimental Studio D stores feature "warm lighting and cozy nooks" resembling "a women's boutique." For young men, Best Buy's Escape stores are all "glass-and-metal" inside, with "the feel of a nightclub."

Best Buy VP James Damian says the big idea is "community-centric" retailing, or the notion of "neighborhood stores that are closely tied to the interests and activities of area residents." He comments: "If we could build a network where our customers become evangelists, or become our sales force, what could that mean in terms of loyalty? We think that's absolutely huge."

So far, the boutiques are less profitable than big-boxes, but CEO Brad Anderson says right now the emphasis is on learning — and some of that "has already helped shape marketing to women and young men at Best Buy stores."

Best Buy's Angels. It seems Best Buy has examined sales and demographics data, along with its databases, and has concluded that about "100 million of its 500 million customer visits each year are undesirable," reports Gary McWilliams in *The Wall Street Journal* (11/4/04).

These visits — by what Best Buy calls its "devil" customers — involve rebates, returns and re-stocking, and, net-net, lost revenues. CEO Brad Anderson's fear is that unless something is done to stop the devil-shoppers, Best Buy eventually will be squeezed to death by Wal-Mart on the low-end, and Dell on the high-end.

On the flipside, Best Buy has identified five kinds of its "most desirable customers" — the "angels" — who fall "into five distinct groups: upper-income men, suburban mothers, small-business owners, young family men and technology enthusiasts."

Best Buy has even given cute nicknames to these shoppers: high-income

men are known as "Barry"; suburban moms are called "Jill" and male technology enthusiasts are referred to as Buzz." Each store picks two of these groups as its focus, and trains its staff to identify and steer them toward highly profitable purchases, and perhaps sell them a highly-profitable service plan, too.

Best Buy's Geeks. The men wear white shirts and skinny black ties while the women don skirts and black tights. For \$150 they will hop into a black-and-white VW Beetle and drive to your home to cure whatever ails your digital lifestyle. They are called The Geek Squad, and they work for Best Buy, as reported by Mark Tatge in *Forbes* (1/12/04).

The Geek Squad is just one part of Best Buy's grand plan to outrun Wal-Mart and maintain its position as America's top retailer of really cool stuff — that is, all things digital. The notion is that, while many folks are drawn to a digital lifestyle, few are capable of either wiring themselves or maintaining their wired-ness. The Geek squad solves that problem.

Reverse Commerce. Best Buy has figured out a way to motivate its sales associates to drive shoppers out of the store and onto the internet, reports Desiree J. Hanford in a *Dow Jones Newswires* dispatch (6/22/05). In fact, the consumer-electronics retailer has gone as far as asking "its store sales associates to hand out coupons for online-only offers," according to Sam Taylor, senior vice president of Best Buy's online stores and marketing.

The key to this ostensibly counter-intuitive approach is simple: Best Buy is crediting "its stores for sales from customers who purchase items from its site and have them shipped to their residences."

The rationale is actually fairly obvious: "When you're trying to get people to buy into this multi-channel strategy, you have to give them an incentive," observes Patti Freeman Evans, a Jupiter Research retail analyst. And, as Scott Silverman of Shop.org, notes, it's imperative that consumers "view a company as ... the sum of its parts and not different divisions vying for customers' attention and money."

SOURCE: Reveries.com

← want to integrate them, and what do they want to be told and when?

If that's shopper marketing, then that's dead right. We haven't put a name on it like shopper marketing. I'm back to the customization story, and then, in the end, multi-channel. We're finding customers, given the breadth of what we do, using the channels in conjunction with each other to learn, versus just purely shop.

Are your boutiques — Studio D and Escape — still under development? (see sidebar)

They're still out there. We consider them to be labs, or tests. But we don't really talk about them very much. We never talk about tests. Our deal—and I really like it—is that we are always trying to test new things. One of the things I did not see coming into retail from consumer goods is how many tests you can actually run. You have a lot of stores and channels, and a lot of media that matter. You sell in many different categories and services. It's a lot different than some of the packaged goods places I was in, where you have fewer degrees of freedom to test.

What's the thinking behind the integration of your online and offline operations?

We have always believed that customers are going to use both channels. We try to develop them in a way where they work independently but also connect. I also think that, over time, phones connect in a big way—particularly when you get into services like Geek Squad. We are always working to connect those two channels while we build them out.

Well over half of our customers—our best customers in particular—are using the 'net for information and/or purchasing. We try to let people know the breadth of the brand and the business in the channels, and integrate them. That's one of the big challenges of any company—how do you make that work in a way that makes a customer happy?

What's your take on blogs as an element of the marketing mix?

They're a really interesting development. There's a lot you can learn from

blogs. In terms of exactly how to apply it in the marketing world, the jury is out on that one. I think it's a great source of information and understanding of what's going on. But we haven't done anything of significance in terms of developing marketing programs around blogs.

What is the opportunity of in-store television networks?

We have a different vision than some other retailers of how to run the inside of the store. We want to let our customers get to the technology and entertainment as much as possible. Our goal is to let customers experience the technology, play with it, and figure out how it fits into their lives.

It's not about TVs running ads or promotions. It's way more about engaging with the technology and entertainment that's there around you. Each store is taking on just a slightly different bent than each other because of our customization story.

So, if you look at our TVs, in particular, they're designed to showcase the TVs themselves. Then you'll see trailers for movies running in the theaters now, very often. We think that's what people want to see, versus "go and buy 'X' product." They're already in the store. We think they want to be entertained and play with products when they're in the store.

How do you see the relationship between Best Buy's supply-chain strategy and its consumer-centric marketing strategy?

All functions, over time, have to integrate more and more in every business to succeed. The complexity of the marketplace, the complexity of the media, the international supply chain—all of those things—the more integration you have, the better you are as a company.

How do you foster innovation at Best Buy?

Within marketing, we try to do new things that may not be new to the marketplace but are new to us. We'll find partnerships, and we'll try small experiments and let them grow up. I don't think there's one way to do it.

We're a big, sprawling company and I don't think you want innovation clustered in a single group. You want the company working on innovation as fast as it can. I try not to cluster it into a single group within marketing. Innovation can come from anywhere.

Any big surprises that stand out since arriving at Best Buy?

The pace of retail is really interesting, in terms of how fast it moves—also how much you get to work with, from a marketing perspective. Your brand could go a lot of places. I didn't see that, coming in. From deals with McDonald's to deals with the Rolling Stones—almost all the media matter to us, given the breadth of products and services we sell, particularly when you throw in things like the Geek Squad.

I thought that seven years ago, when I got here, it was a really fortunate time to arrive, and I was very fortunate to get on board with a company that was doing so many cool things. ■

Mike Linton is executive vice president and chief marketing officer for **Best Buy**, America's No. 1 specialty retailer of consumer electronics, personal computers, entertainment software and major appliances.

He is responsible for the marketing, brand management, research, customer care, consumer relations, promotions, advertising, public relations, communications and government and investor relations teams for Best Buy.

Mike joined Best Buy as senior vice president of strategic marketing in January of 1999 and became the company's first chief marketing officer in 2002. He is also responsible for leading the development of the Consumer Research, CRM and Brand & Product Management functions.

Mike's career began at Procter & Gamble in brand management, and then he moved on to become general manager for Progressive Insurance. He later served as a vice president and general manager at James River Corporation and then at Remington Products Corporation as vice president of marketing.