



Best Buy plugs into the power of customer centricity

success story:
retail customer value



Client	Best Buy Co., Inc. is North America’s number-one specialty retailer of consumer electronics, software and appliances.
Challenge	Company’s retail outlets were previously not configured to meet customers’ buying patterns and preferences
Solution	FICO® Advanced Models for developing a customer-centric approach to retailing
Results	Retailer has realigned and reconfigured its stores to match geographic demographics of shoppers, and identify and more completely tap into customers’ value, leading to an 8.4% increase in same-store sales.



FICO’s analytic models, which reveal relationships between the product combinations that customers buy, as well as the context in which they buy them, are decision management tools the company has recently brought to bear in its efforts to better understand customer purchase sequences.

FICO customer analytic technology helps retailer determine customer purchasing behavior

A journey of a thousand miles begins with a single step, or so goes the ancient Chinese proverb. For Best Buy, the \$30 billion-a-year consumer electronics retailer, the first step in its journey toward customer centricity happened five years ago.

That’s when CEO Brad Anderson visited one of his 900-plus stores to pick up a portable DVD player and battery pack to take with him on a flight to Europe. He selected the player, only to learn that Best Buy didn’t carry battery packs for that particular model. Anderson was understandably disappointed—and not just because it meant that his cinematic enjoyment was bound to come to an abrupt end somewhere over the Atlantic.

As Anderson saw it, the problem stemmed from the company’s systematic failure to take a customer-centric approach, by anticipating the entire range of activities a customer might engage in so as to fulfill a distinct set of needs. Rectifying the problem would be no easy task, to say the least, if only due to the inherent constraints of a physical store. After all, it meant ensuring the availability of all of the related products and services a customer would possibly desire in order to satisfy that distinct set of needs.

Yet today this customer-centric approach sits at the very heart of Best Buy’s growth strategy—and it goes well beyond merely informing what inventory gets stocked, and in which stores. Indeed, that elusive battery pack sparked a transformation that has ultimately ignited change across multiple facets of Best Buy’s internal IT and customer-facing operations, including marketing, sales and customer service.

So far, the transformation—what some insiders have dubbed “a customer-centric acceleration”—has helped produce impressive results. For its fiscal first quarter ended May 27, Best Buy reported net earnings of \$234 million, representing a 38% earnings gain over the prior year first quarter. Total revenue for the quarter increased 14% to \$7 billion.

But while much has been written about the big picture initiatives—in particular, the realignment and reconfiguration of stores to local neighborhood demographics, leading to an 8.4% increase in same-store sales (compared to 2.3% for traditional stores)—scant attention has been paid to the critical role of customer analytics in enabling the transformation.

» Pareto rules at Best Buy

To understand the impetus behind Best Buy's customer-centric approach, it helps to mention Vilfredo Pareto. In his study of global wealth distribution, the nineteenth century Italian economist observed that "a minority of input produces the majority of results". Pareto's Rule—or what marketers commonly refer to as the 80:20 Rule—speaks to the fact that most companies derive the vast majority of their revenues and profits from a small percentage of customers.

In the case of Best Buy, approximately 31% of customers drive 80% of the company's revenues. Even more striking where Pareto is concerned is the fact that a mere 7% of customers—call them "Best Customers"—drive approximately 43% of the company's overall sales volume. So valuable are these individuals to the company that it would take approximately 39 "Uncommitted Customers," which account for approximately 12% of all customers, to replace the lost lifetime value of a single "Best Customer."

The Everest-like slope of this customer value skew helps explain the rationale behind Best Buy's decision to allocate a disproportionate share of resources to better understand, entice and serve those customers who account for the bulk of the company's revenues and future growth potential. Facilitating personalized interactions with those customers is what customer centricity is all about.

» The rewards of demographic segmentation

In terms of implementation, customer centricity starts by enabling a 360-degree view of each customer relationship. This means overlaying transaction and interaction data from across multiple brands, formats, channels and geographies with third-party and publicly available data to create multi-dimensional customer profiles. The key is to then translate the data into actionable insights that can enable precision marketing messages and offers while delivering context-sensitive customer experiences.

By using proprietary processes for capturing data from every transaction and interaction, Best Buy can identify well over three-quarters of its customers—more than 100 million individuals.

When it comes to capturing, integrating and enhancing customer data, Best Buy is practically in a class by itself. The company's 15-plus terabyte customer database houses information about more than 75 million households and is informed by more than seven years of transaction and interaction data. These are impressive numbers, by any measure, and even more so given the inherent challenges most retailers face in identifying their store customers in the first place. By using proprietary processes for capturing data from every transaction and interaction, from phone calls and mouse clicks to delivery and rebate check addresses, and then deploying sophisticated match-and-merge algorithms, Best Buy can identify well over three-quarters of its customers—more than 100 million individuals.

That's not to say that the anonymous nature of retailing disappears. "When a customer walks through the door of one of our stores, the sales associate doesn't know who that customer is," said Matt Smith, Best Buy's senior marketing director of customer insights. "They can't tell if the individual is a high-value customer. They probably can't identify the customer's behavior or attitudinal space. But they can try to understand their demographics." In fact, the sales associates are trained to do exactly that.

Best Buy's groundbreaking efforts around demographic segmentation—made memorable thanks to a categorization scheme rich with names like Buzz (the young tech enthusiast), Jill (the suburban soccer mom), Barry (the wealthy professional guy) and Ray (the family man)—have been well-chronicled in the business press. Additional segments—Carrie, Charlie and Helen, to name a few—have been more recently added to the mix, to the point that every customer now falls somewhere in the categorization scheme

and every transaction can be mapped to a specific segment. The idea behind the naming convention is simple: Give each customer segment a distinct face, and then begin to put attitudinal values and behavioral metrics behind each of those faces. The approach is important, says Smith, because "it humanizes our segments."

In addition to helping associates interact with customers in more meaningful and productive ways, the approach created new opportunities for thinking about the diversity of marketplaces in which the stores are located. Different geographies—even different neighborhoods within the same city—can speak to very different product assortments and customer value propositions. Based on that insight, Best Buy has already spent tens of millions of dollars redesigning stores to adhere to the customer-centric format. Some stores are Buzz stores. Other stores are Jill stores. To date, the company has opened or converted 233 stores, with plans to convert all remaining stores by early next year.

Again, the idea is to better serve the type of customer most likely to walk through the door. Consider a Jill customer who visits a Jill store to buy a digital camera. She probably doesn't care about the nuances of megapixels or how data is stored and transferred. She just wants an easy way to capture, archive and share family memories. The Jill store is specifically designed to meet her needs, by offering a high-touch service environment. Personal shopping assistants address her questions and concerns. The questions are geared toward easing her discomfort with technology—and also assessing her mindset in terms of her decisioning process and stage in the purchase cycle. In the end, the Jill store offers a customized suite of products and services to enhance the Jill customer's shopping experience while maximizing the company's revenue opportunities.

» Bringing customers into focus

From cluster analysis to genetic algorithms, Best Buy's customer insights group deploys multiple types of behavioral modeling techniques to score individual customers in terms of their interests, lifestyles and passions. Is the

customer in the home theater space? Is he in the music, gaming or digital imaging space? Is he productivity-and business-minded? Having discerned this information, the company can anticipate—and actively drive—his next likely purchases. FICO® Advanced Models, which reveal relationships between the product combinations that customers buy, as well as the context in which they buy them, is one such solution the company has recently brought to bear in its efforts to better understand customer purchase sequences.

Of course, some purchase sequences are obvious—the fact, for example, that a Buzz customer buys MP3 accessories and MP3s thirty days after he buys an MP3 player. But what about the fact that the Buzz customer is also five times more likely to buy a digital camera thirty days after he buys an MP3 player? The insights team has built thousands of product combinations around transactional and behavioral correlations to help understand how to treat certain customers who buy certain items in order to drive highly relevant messages and offers. The goal is to combine the creative messaging and tonality best suited to each customer with very specific offers, based on their behavior, and to then package and deliver it in a format that is consistent with the brand.

One important aspect of modeling is the ability to determine customer value. To that end, the insights team has developed a behaviorally adjusted, forward-looking customer lifetime value model that may be the most sophisticated of its kind. In addition to measuring transaction-level profitability, for example, the model factors in a host of customer behaviors that would tend to either increase or decrease the value of the

relationship post-transaction. Are customers heavy rebate redeemers? Are they heavy users of the sales channel? Are they heavy returners? Looking through these various lenses, Best Buy gains not only a clearer view of customer value, but also insight into how to change customer behavior. “If we have ‘Uncommitted Customers’ who have a relatively low share of wallet, we can begin to understand how much to invest in those customers and what our returns are likely to be,” said Smith.

Besides customer value, the insights team looks at factors like “promotional sensitivity” (Which customers are price conscious and promotion-driven?), “channel preferences” (Which customers prefer to interact online versus in-store?), and “ability to buy” (Which customers have disposable income?). One factor of emerging importance is “technology adoption” (Which customers are likely to buy new technology ahead of the mainstream?). It’s no surprise, given the nature of Best Buy’s business.

» Moving fast

Its customer-centric strategy in place, Best Buy is shifting an increasing amount of resources away from mass marketing channels and toward personalized marketing streams. The company is also moving away from broad-based price and promotion tactics—e.g., sending every customer a coupon for 10% off—and toward customer-triggered incentive programs.

Best Buy believes that, given enough trigger responses and customization, consumers will find their own individual paths through the company’s communication streams. “If you think about communications moving from mass to one-to-one,” said Smith, “the tone of the dialogue changes from a monologue to a conversation.”

To sharpen that conversation, Best Buy is constantly evolving its ability to respond to customers in a way that fits within the context of their experience with the brand even as it continues to refine its segmentation scheme. The current version, launched ten months ago, is unlikely to exist in another 30 days. “We’re on our fourth demographic segmentation strategy in 24 months,” said Smith.

The speed with which Best Buy is iterating its customer-centric strategy helps explain why the company feels comfortable sharing so many details with the public. Also, there’s the uniqueness factor.

“There’s a uniqueness to how our customers experience our brand and there’s a uniqueness in the way we look at them,” said Smith. Nonetheless, competitors—and big box retailers, in general—are paying close attention to Best Buy’s every move. Before they attempt to replicate its strategy, however, they might recall another ancient proverb: To see heaven, you have to die yourself.



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