



A Bold New Vision

The Next Generation: "To boldly go where no retailer has gone before."

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EXECUTIVE SUMMARY

Best Buy has done very well establishing itself as a one-stop shop for consumer electronics, home entertainment systems, and common home appliances. Its success in surpassing the once electronics store favorite Circuit City has been attributed to its open environment, knowledgeable staff, vast selection, and acquisition of prime real estate.

However, Best Buy faces a multitude of new threats in each of its product spaces ranging from unspecialized retailer giants like Wal-Mart, Target and the Kmart/Sears merger, the strength of Dell in the personal computer market, the rapid insurgence of cheap online retailers and auctions such as Amazon and eBay, office superstores like Staples, Office Depot, and OfficeMax, and appliance retailers like Lowe's. The aforementioned retailers have all successfully gained a foot hold in the low to mid level consumer electronics market and have started to take away market share in those areas.

In order to combat these threats, we recommend that Best Buy take the following actions:

- Harvest the home office furniture sector
- Expand the home appliances sector
- Advertise drop shipment options
 - Encourage increased online purchases
- Adopt a trendy upscale style
 - Increase displays and shift away from warehouse layout
- Start a leasing program for consumer electronics
 - Create BargainBuy.com to sell certified used merchandise

This is our bold new vision for Best Buy, one that will use the company's tremendous momentum from the past decade to continue its dominance well into the 21st century.

BACKGROUND

Best Buy was originally founded as the Sound of Music Store in St. Paul, Minnesota in 1966 by Robert Schulze and an unnamed business partner. During the 1970's and 1980's the company expanded into many forms of electronics retailing including video and laserdisc equipment, 8-track stereos, photography, home office products, personal computers and TV's. The company was officially renamed the Best Buy Corporation in 1983 and opened its first superstore as it is known today in Burnsville, Minnesota. During the 1990's, Best Buy experienced unprecedented growth and rose to become one of the largest consumer electronics retailers. Best Buy also expanded their line of products to include DVD hardware, DVD software, and High Definition TV's and partnered with Microsoft to cross-promote products such as internet service, operating systems, and computer peripherals. This was followed in the last five years by the expansion of Best Buy into Canada as well as the acquisition of Magnolia Hi-Fi and Future Shop Ltd. Best Buy was recently named the Forbes Magazine company of the year.

Currently, Best Buy's focus lies in the following product categories:

- Consumer electronics
 - Televisions, DVD players, and audio systems
- Home office
 - Notebook and desktop computers
- Entertainment software
 - DVD's, video games and consoles, and miscellaneous software
- Appliances

PORTER ANALYSIS

Buyer Bargaining Power:

- Very little due to the sheer size of the company
- Buyers do have other options, i.e. Circuit City, Wal-Mart, or Lowe's
- Anything less than an organized movement of all buyers against Best Buy would not force them to lower their prices or change their business tactics
- Primary objective is to satisfy their customers' collective needs

Supplier Bargaining Power:

- As a lower end Fortune 100 company, Best Buy does not have significant bargaining power with major electronics suppliers such as Sony and Toshiba
- It does have some bargaining power over smaller suppliers still fighting to appeal to a tech savvy market
 - For example, when MSN was entering the internet service provider market, they made a deal in which Best Buy received \$100 for every customer who took a free MSN trial CD
- Best Buy offers immediate exposure to a large population of consumers with varying degrees of technical knowledge

Substitute Products:

- Consumer electronics
 - Manual cameras
 - Build-it-yourself computers
- Home office
 - Paper and pencil
- Entertainment Software
 - Board games

- Books, magazines, newspaper
 - Sports
- Appliances
 - Dry-cleaning
 - Cooking by hand

Complements:

- Consumer electronics
 - MP3's for MP3 players
 - DVD and video rentals
- Entertainment Software
 - Videogame systems
 - DVD players
- Appliances
 - Food
 - Dishes

New Entrants:

- Best Buy has the higher end market and Wal-Mart the lower end market, thus making it difficult for new entrants to secure a niche
- Best Buy already has a reputation for good quality and customer service

Rivalry:

- Circuit City
- Lowe's
- Wal-Mart, Target, Sears/Kmart
- Amazon, eBay, specialty online vendors

UTILIZING ITS STRENGTHS – A WORKING STRATEGY

From convenient locations to vast product offerings to personal shopping assistants, Best Buy's strengths stem from a commitment to convenience that is not only beneficial to the customer but also to itself. It has acquired a strong reputation as a store that carries mid to high-end electronics and entertainment systems and offers excellent customer service. Situated in shopping centers and in the heart of most growing cities, Best Buy has the quality real estate to make itself accessible to a large population that is most likely to purchase technologically advanced products.

Best Buy differentiates itself by focusing on middle to upper class customers and offering them help from knowledgeable employees. Starting in 2004, Best Buy began remodeling its stores based on the demographics of its customers, a strategy it calls consumer concentricity. Five prototypical customers were identified and given names: Jill, the busy soccer mom, Buzz, the young gadget loving male, Ray, the family man who seeks practicality, BB4B (Best Buy for Business), small employers, and Barry, the affluent professional male. Stores geared toward Jill, for example, offer technology centers for children and play classical or children's music. There is particular interest in the Jill stores because women have been cited as being a determining factor in up to 65% of the decision to purchase. Traditionally, women have not been targeted in electronics stores, but Best Buy is working to secure this market through personal shopping assistants. Best Buy carries home appliances in all of its stores but intends to expand their selection, particularly in Jill stores, and thereby hopes to become the one-stop-shop for women.

Best Buy publicizes the fact that its employees are non-commissioned to strengthen its claim that its employees are most interested in suiting the customer's needs and thus the employees' advice can be trusted as sincere

rather than an attempt to make a sale. In comparison, Circuit City representatives were long distrusted for being on commission, but recognizing the importance of establishing trust, Circuit City also switched to a no-commission approach in 2003. Much of Best Buy's current strategy revolves around convenience, and thus when a customer decides to purchase a single item, employees are ready to recommend complementary accessories and service plans. It is through the sale of these complementary items that Best Buy profits greatly. For example, once a customer decides to purchase a computer, monitor, and printer, an employee suggests the purchase of cables, replacement ink cartridges, plain paper, photo paper, blank CD's, a surge protector, back up batteries, and 3-title software packages distributed by Best Buy. The customer is then encouraged to buy service plans that will cover the cost of repairs and even replace items that are deemed lemons, i.e. ones that require 3 or more repairs. The customer's every need is addressed, and Best Buy's reputation for providing excellent customer service is thus enhanced.

It is in Best Buy's interest to offer accessories when selling their merchandise. For example, a television or computer accessory cable, if purchased elsewhere, would cost only \$2, but the unknowing customer buys the recommended \$25 cable out of convenience, allowing Best Buy to pocket the difference in cost. Best Buy also sells "Learning Place" CDs for \$100, which walk a person through the use of Microsoft Office, Windows, and other common programs. Because Best Buy makes its own CDs for mere pennies, almost 100% profit is made per disc. The service plans are also a major source of revenue because whether or not the customer purchases the plan, Best Buy does not lose additional money. Best Buy pays to cover each item in the store by a contractual liability insurance policy with the New Hampshire Insurance Company. If a customer pays for a service plan, then when a repair is needed, the customer can bring in the item and have it

repaired for free; Best Buy does not pay extra since there is already an insurance policy on it. If a customer opts not to buy a service plan, then he must pay market value for the repair. Best Buy once again does not pay additional funds for this repair because the item is insured, and pockets the money paid for the repair. Best Buy thus profits in either situation by providing what appears to be a service to the customer. It makes sense for Best Buy to cover their items with insurance and hence the service plan is just another way to cover a fixed cost.

UNSTABLE GROUND – GROWING COMPETITION

After its remarkable growth in the 90's that has continued into the new millennium, Best Buy has clearly established itself as the number one consumer electronics retailer in the nation. With over \$24 billion in sales corresponding to a 17.2% sales growth in 2004, compared to Circuit City's \$10 billion in sales and a 2.1% sales growth, Best Buy may seem to be running away with the market. However, despite its torrid pace of growth, Best Buy still must respond to a multitude of threats from the outside posed by unspecialized mass-market retailers such as Wal-Mart, Target, and Kmart/Sears, online retailers like Dell, Amazon, and eBay, office supply stores such as Staples, OfficeMax, and Office Depot, and focused specialty stores like GameStop and Lowe's. Best Buy, in relative comparison, is too small compared to Wal-Mart and Target to compete effectively in the product spaces in which they have inserted themselves, namely low end consumer electronics. Furthermore, attempting to compete effectively with the low cost mass market retailers would require selling more products in this space and would result in a terrible price war which Best Buy would lose, whereas retailers like Wal-Mart and Target would easily survive due to their core competencies in areas other than electronics. Furthermore, Best Buy cannot

afford to undercut internet vendors nor auction markets that have little overhead cost, and thus should not try to do so. Therefore, Best Buy has no direct single competitor, but has a multitude of them in each of its product categories.

Consumer Electronics:

Best Buy's most profitable product category in 2004 was consumer electronics, i.e. televisions, DVD players, and audio systems, which accounted for 37% of its total revenue. However, taking advantage of the recent decline of Circuit City, largely due to the very success of Best Buy, Wal-Mart slipped into the number two spot for consumer electronics in 2003 with sales of \$16 billion, a gain of nearly 11% over the previous year. Its lower overhead and cheaper land are major advantages that allow it to offer lower prices on electronics than Best Buy, and the sheer size of its more than 5,200 stores, which dwarfs Best Buy's otherwise impressive 800 stores, makes it one of the few retailers that can directly compete with Best Buy nationwide. Although its quality is still at the lower-end, its move toward higher quality products such as plasma and HDTV's could steal a significant portion of Best Buy's profits in the consumer electronics market. Similar retailers like Target and Kmart/Sears, the latter of which plans to focus primarily on video games, home-entertainment centers, and MP3 players, will only add more pressure on Best Buy's most profitable sector.

Home Office:

The outlook is no brighter when it comes to Best Buy's second most profitable and fastest growing product category, home office, which accounted for 35% of its revenue. The main reason for this growth was the rapidly increasing sales of notebook and desktop computers, but here Best Buy will have its hands full competing with Dell, the world's number one

direct-sale computer vendor. The success of Best Buy in this market is somewhat out of its hands, as it is heavily dependent on the success of Dell's competitors like HP, Compaq, Toshiba, and Sony. What Best Buy can do to help its cause is to apply its consumer-centric approach to selling PC's just as it does in selling consumer electronics, offering the best in customer service and education. One danger of overusing this strategy is that it cannibalizes its market. Its recent acquisition of the Geek Squad to promote consumer awareness of computers and other technical innovations does well to attract customers still uncomfortable with the new technology. However, the very act of educating those customers reduces Best Buy's future consumer base, who would be more likely to buy from direct-sale online retailers that have less shopping service but far lower costs. This threat is very quickly growing urgent. Even now, it has become increasingly common for consumers to utilize the knowledge and expertise of the Best Buy staff in deciding what to buy, and then making the actual purchase from an online store.

The ever-growing threat of online retailers cannot be understated, for it is not only Dell that Best Buy must contend with. Companies like Amazon.com can offer discounted prices on virtually all of Best Buy's products due to their lack of overhead, and similarly, a variety of smaller online retailers can set up shop on eBay and offer a specialized selection of products, further undercutting Best Buy. Even the high end market, where Best Buy has its strongest position because of its reputation for quality and service, is not safe from the online threat. Brad Anderson, the chairman and CEO of Best Buy, can see the possibility of his company facing the same dilemma as Toys "R" Us, being unable to match Wal-Mart's prices while losing its higher end products to specialized online retailers.

Meanwhile, in the office furniture department, retailers like Staples, Office Depot, and OfficeMax are the undisputed champions. Best Buy just

recently got back into office furniture because it is a complementary good to desktop computers, and thus it wants to prevent losing potential PC customers to competitors like Staples who offer both PC's and the accompanying furniture. However, this was more an act of courtesy to its customers rather than an actual attempt to challenge the existing office superstores, and thus does not represent a significant part of Best Buy's financial strategy.

Entertainment Software:

Third on the list of Best Buy's most profitable product categories is entertainment software at 22%, still a very respectable chunk of its total earnings. Once again, Best Buy faces growing competition in this market, and from yet another set of companies. As acknowledged by Roxanne Espinoza, a Personal Shopping Assistant at Best Buy since 2003, Best Buy is losing its share in the video games market to specialized competitors like GameStop, who boast larger inventories of hardware, i.e. video game consoles, which are a necessity for selling the accompanying games and accessories, and also sell pre-owned/refurbished games and consoles at a much reduced price. Combined with Kmart/Sears' renewed emphasis on the video games and entertainment aspect of retail electronics, and the ever-present undercutting threat of online retailers, Best Buy will again be forced into an uncomfortable position in terms of its future strategy. While they cannot afford to totally discontinue its line of video games and accessories, since that would subtract a large portion of their customer base who would potentially buy other products in their stores, they will also find it increasingly difficult, if not impossible, to compete with the prices of more specialized retailers. Meanwhile, sales of the other form of their entertainment software product category, namely movie DVD's and audio

CD's, are falling due to loss of units sold from unspecialized retailers like Wal-Mart.

Appliances:

Finally, the smallest sector of Best Buy's product revenue mix is in appliances, accounting for 6% of their total revenue. According to Mrs. Espinoza, a Best Buy personal shopping assistant since 2001, the kitchen appliance section is still losing money, and is in competition with Lowe's Home Improvement, although neither are yet fully positioned as appliance retail stores. As evidenced by a trip to a "Jill" type store in Pasadena, CA that specifically caters to suburban moms, the selection of appliances was sparse, occupying only a small corner of the store's floor space. Unlike the previous cases with consumer electronics, home office, and entertainment software, where Best Buy is at or near the top of the market and is widely recognized as a carrier of such products, here Best Buy is fighting to make the market profitable at all and make its name known. If they decide to stay in appliances, then they need increase their selection and establish themselves at the top of the market.

OPPORTUNITIES

Best Buy should utilize its current reputation for providing mid to high quality products and excellent customer service. Best Buy's first easy step would be to better advertise drop shipment options when making purchases online as a way to combat internet retailers. Currently, online retailers charge a large sum for shipment costs, especially for large orders. Best Buy has the upper hand in this area since the inclusion of an extra order or two in its store shipments would be easy; customers in turn not only save money but also receive their product faster. The second more important step is to

move away from the product space in which Wal-Mart and Target have placed themselves and move into the even higher end consumer electronics and PCs product space. Third, harvesting the home office furniture section would be a wise move since there is intense competition for office goods from specialty stores such as Staples and OfficeMax. The freed up space could instead be used towards expanding the home appliance section, thus securing a position as the only major carrier of home appliances. Even without comparison to the home office sector, the appliance sector is primarily free of competition especially in large cities where Mom and Pop appliance stores are unlikely to exist. Finally, Best Buy may also want to cater to the interests of the technologically savvy. One way of doing this is to expand its products to the more do it yourself category for relatively little additional cost and floor space.

Targeting higher end customers is a natural position for Best Buy to take due to its electronics savvy work force which leaves Wal-Mart and Target unable to follow suit. This inability on the part of Wal-Mart and Target arises due to the nature of the target demographic of Wal-Mart and Target, which is the low to middle class consumer. These consumers are not likely to purchase expensive high quality electronics, and thus it would be foolish for Wal-Mart and Target to stock their stores with such items. Best Buy will also have an easier time wooing high-end buyers who are more likely to want attention since its staff is already expected to help the customers and the practice of providing personal assistants is in place.

Home office furniture has been included in their inventory thus far as a service to the customers, but this is an area in which pursuing convenience is not particularly lucrative for Best Buy, especially with respect to sales per square foot of floor space. Not only does home office furniture deviate from Best Buy's image as a carrier of technological merchandise, but it is also an arena that requires competing with several office equipment specialty stores.

Furniture in general tends to be a de-centralized market that is not suited for domination by a single company. The space saved from harvesting home furniture can instead be used towards expanding the home appliance section of stores. Such a move is advantageous for several reasons. First, there is currently little competition in the appliance sector, especially in large cities. Lowe's is growing as the home improvement store but in terms of product offering, it is still closer in design to a Home Depot, albeit more female friendly. Second, increasing home appliances would increase the number of female consumers, a demographic that is traditionally ignored yet has been found to be involved in over half of all major purchasing decisions.

Expanding into the more do-it-yourself category is also a justifiable move because there is little competition in this area in a retail setting and the floor space requirements are minimal. The only competition in this area is Fry's Electronics, which is still too small to effectively compete with Best Buy, and targets a wholly different kind of customer. The other competitors in this area are the internet warehouses; however, due to the time and cost of shipping parts, Best Buy should still be able to compete effectively even with the low cost parts suppliers while providing superior service at a comparable price. Expanding into the electronics parts market also addresses the fact that Best Buy's consumer base is becoming increasingly knowledgeable about electronics, and doing so will provide a way to continue to do business with this segment of the market by enticing the increasingly knowledgeable back into their stores. The existing knowledgeable section of the electronics consumer base is also filled with many of the customers that are likely to drop a large amount of money on electronics and will thus provide a method to get this section of the consumers into the store.

As a result of this transition, Best Buy's new target market should be the following demographics, the upper-middle class wealthy, the 20-40 year old professional urbanites known as "yuppies," the very technologically

savvy, and ultimately, more women. In other words, Best Buy's new target consumers should be the people who have the decision making capabilities, financial resources and/or the inclination to make expensive, high end consumer electronics purchases.

STRATEGY IMPLEMENTATION

There will be several issues to address in order for Best Buy to successfully transition into this newly defined niche. By moving into the higher end electronics market, especially in PC's, Best Buy will be infringing on the territory of high quality consumer electronics/PC vendors such as Dell. Currently, Dell is considered to make higher quality PC's than are sold in Best Buy's product line of desktop and laptop machines. However, for all practical purposes, the quality of PC's sold at Best Buy is roughly comparable if not superior to machines such as the ones made by Dell. Thus the challenge arises in convincing the consumer that the electronics/PC's are of comparable quality. Luckily, accomplishing this goes hand in hand with appealing to this more wealthy and trendy demographic.

In order to appeal to this new demographic, Best Buy must reshape the look and feel of its advertisements and stores. It must abandon the look and identity of an electronics warehouse that very much resembles a Sam's Club or Costco and assume a much more stylish and trendy look, perhaps through adoption of a showroom or model exhibition format. One possibility is to stylishly layout models of all the products sold in furnished rooms or large display tables, so that the customer can walk from room to room being dazzled by the displays. Best Buy must aim to sell more than just electronics – it must sell a lifestyle. The look and feel of this reinvented Best Buy should be a cross between a model-room based IKEA and a trendy Apple store.

Best Buy must provide the consumer with a “shopping experience.” It needs to become more of an integrated shopping and entertainment center. Possible ways in which to achieve this are to add things such as:

- Internet cafes for people to eat and surf the web, such as the Best Buy store website, while they take a break from shopping. Rights to internet advertising could be sold to companies, and Best Buy could promote their own in-store products for free
- PC/console game rooms where children and game fanatics can play games for free, which could be used to promote entertainment software/PC sales

The advantage of creating such general entertainment centers is that it would encourage people come to the stores, an essential step to getting consumers to buy products, and promote bandwagon buying trends. If customers are surrounded by others that are making similar purchases, they are more likely to buy products. Promoting the appearance of a bustling shop is also useful in buttressing the image of a trendy store where the younger more technology aware generation want to be.

Additional floor space can be made available by converting the warehouse-sized Best Buys into two story buildings by inserting a second floor. The initial cost of course would be very high and Best Buy’s in second tier locations can be used for experimentation to gauge success. Best Buy probably does not want to shut down its most profitable locations for the duration of the renovation, but the store would need to have a large enough customer base to support the new entertainment centers.

A BOLD NEW MOVE – LEASING

Up until now, the leasing of electronics has been a virtually untapped market. A quick and telling search on Google reveals only one major

company, Aaron's Sales & Lease Ownership, that leases electronics, computers, appliances, and furniture, which would certainly be no competition for the likes of Best Buy. Part of the reason this market hasn't taken off yet is because large, lease-worthy electronics have only recently become commonplace enough for leasing options to be viable. Although computers are now becoming a household commodity along the lines of a refrigerator or microwave, and not much more expensive, large-scale entertainment centers consisting of big-screen TV's and home audio systems are still out of reach for the average family, but a tantalizing option. Furthermore, even for those affluent enthusiasts who can afford to splurge thousands of dollars on the latest state-of-the-art setup, the rapid pace of technological development means that their investment will become obsolete in a matter of years. Therefore, Best Buy should enter the market of leasing consumer electronics and provide this large potential customer base with a means of enjoying the luxury of a next-generation home media center today for a price that they can afford.

In analyzing the best leasing strategy to employ, one should understand the differences between buying and leasing. The most obvious distinction is ownership. Any piece of consumer electronics that a customer buys is, of course, his to keep once he's made all of the payments. A leased device, on the other hand, is owned by the leasing company, which allows a customer to rent the device for a specified amount of time, at which point the customer can then choose to purchase it or sign a new lease on an updated device. Up-front costs would be mostly similar, perhaps with an additional security deposit for any leased device as part of a credit check on the customer. Monthly payments, however, are much different. A customer would pay significantly less to lease a device than to buy it because they're effectively only paying for the device's depreciation during the lease period, on top of some rental charge, instead of for the entire purchase price. As an

added bonus, a leaser has the freedom and flexibility to either return his relatively outdated device at the end of the lease term and walk away, or sign another lease for an updated version of the old device, and hence stay at the cutting edge of technology for a small marginal cost. At some point, the leaser may then become pleased enough with the device or wealthy enough to buy the next version of the device at the end of one of his lease periods. A leaser would have the added responsibility of keeping his device in relatively good shape over the course of his lease, or else face penalty charges for damaging it. However, given the nature of the typical leasing customer, this is not a major issue; for example, the average leased car is in better shape than the average purchased car, in large part due to the personality of the leaser. Finally, a company can re-sell previously leased devices to recoup a good portion of the initial purchase price, perhaps under a policy like the certified pre-owned vehicles that many car companies sell.

In executing a business model of leasing electronics, great care must be taken in implementing this idea due to the enormous liability for the company of maintaining ownership but not possession of the product. For example, as previously implied, only very high end, high cost, electronics should be leased as it is difficult to sell outdated low end electronics and recoup much of the cost of the item. It is also likely that lower priced items will not be as enticing to lease as opposed to purchasing it outright. It is also likely that the lower the cost of the item, the lower the liability of the consumer, and thus the worse the treatment of the product leased.

Secondly, the term of the lease should be for a considerable amount of time. This is due to several factors, the first being that it is more difficult to lease used high end electronics to a consumer. Therefore, in order to entice the consumer into leasing used electronics, the monthly leasing cost would have to be substantially lower. Also, a long-term contract is required in order to prevent abuse of the leasing system where people rent only month to

month, thus incurring large costs in shipping, handling, and installation fees for Best Buy. Thus the minimum term of leasing should be calculated as a function of several inputs, including the value of the item, historical depreciation of similar items, as well as longevity of the item. The lease terms should be roughly in the range of one to three years with a slight penalty for the premature termination of a lease, or perhaps some payment of the rest of the contract. Various enticements can also be added in order to induce the customer to take a contract for a specific length of time. For example, in order to induce customers to take the longest possible leasing terms, the monthly payments can be reduced and increased options can be given, such as the right to purchase at a reduced price at the end of the leasing term, or offering better deals on the purchase or leasing of other associated items.

With the creation of these fixed payment contracts, it should also be considered that lower costs for leasing terms could be offered to the customer by allowing them to pay more of the leasing term up front. For example, the leasing term for one year out of three could be paid in advance, and perhaps the monthly payments would be reduced an additional 5-10% beyond what is owed on the remaining term of the contract.

Once the contract period is over, the customer will of course be allowed to exercise the option to purchase the product, lease another product, or simply terminate the contract. However, in the event that the customer chooses to terminate the contract, Best Buy will be left with an inventory of used high end electronics. Thus one last thing that must be considered is a means of liquidating this inventory. Several methods of liquidating the inventory exist; an aforementioned one of which was to sell the electronics under a certain type of certified pre-owned status which can have its own section in some part of the store. However, this approach does have drawbacks, as a large amount of floor space would have to be

committed to this endeavor. In addition, it is inconsistent with the look and feel of the new Best Buy that is to be established. An alternative to selling used hardware in the actual store is to dump the excess merchandise online, i.e. at a website like BargainBuy.com. The excess inventory could be auctioned off in an eBay style format or simply be sold as a subsidiary used online store which could possibly be named Bargain Buy. Indeed, consumers have often shown willingness on eBay to purchase used electronics if the price is right, in particular very high end electronics that do not get outmoded too quickly. Therefore, even a three year old plasma screen television could still command a fairly handsome price. This online method would also have the advantage of allowing Best Buy to further strengthen their online market share, and would be highly competitive due to the possible significantly reduced cost to the consumer versus other online retailing options for the exact same high end products.

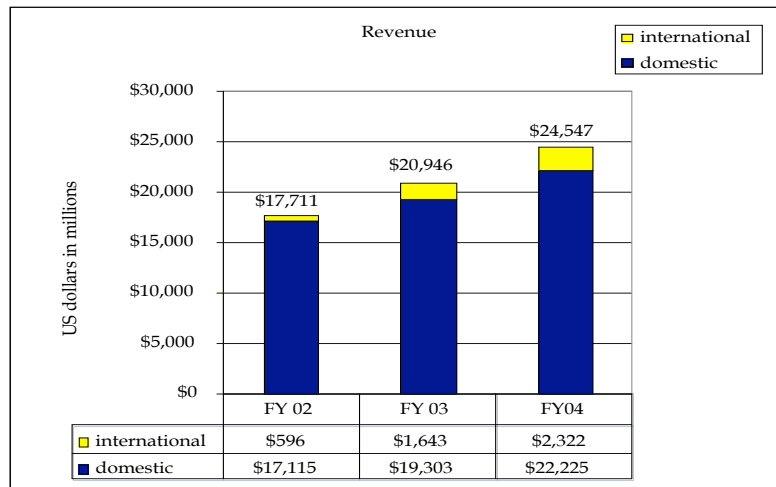
The potential benefits of leasing are clear. By offering a leasing option for very high end, high priced electronics, Best Buy would be adding to their consumer pool by making products which before seemed cost prohibitively unattainable to an affordable option. As a consequence, Best Buy would not only be reaping greater profits directly from the leasing, but would also be clearing valuable shelf and inventory storage space and saving on the cost of said space as well as gaining interest free loans from the pool of consumers that are leasing and would be able to leverage that credit into other investments and interests. In addition, some of the depreciation cost on the leased items could be avoided with the conversion of the assets into fixed payment income sources for their period of greatest depreciation.

CONCLUDING REMARKS

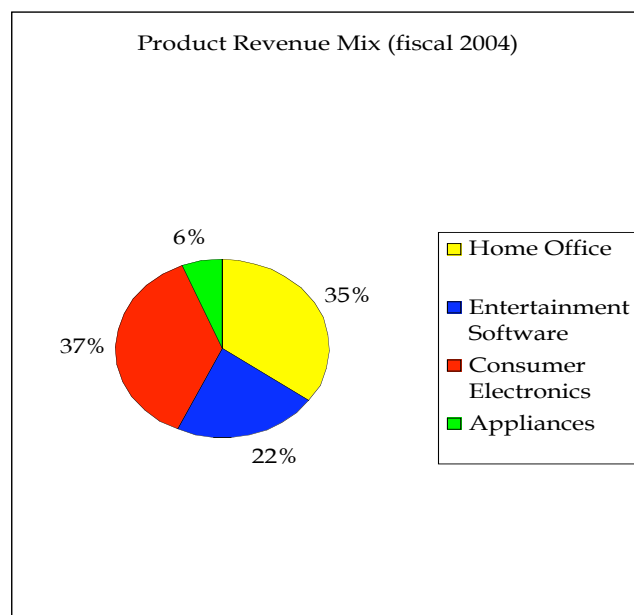
Best Buy has grown significantly in the last decade, establishing a strong position in the consumer electronics and home entertainment system market. A total company focus on convenience for the customer has propelled them to the top thus far, but this position has become an increasingly precarious one. With fierce competition in each of its product spaces from low cost retailers and online specialty stores, Best Buy needs a new approach to prolong its success. Luckily, as can be seen by their adoption of consumer centricity in developing a niche through customer service, embracing and making new strategies work is something Best Buy does well. We foresee Best Buy developing a trendier look, offering more high end electronics, and becoming an industry first by offering leasing options for the home entertainment sector in particular. With this bold new vision, Best Buy should be able to keep its top position for years to come.

APPENDIX

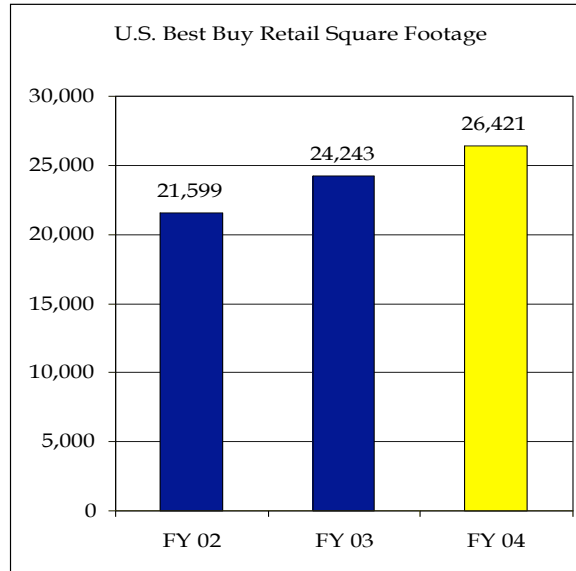
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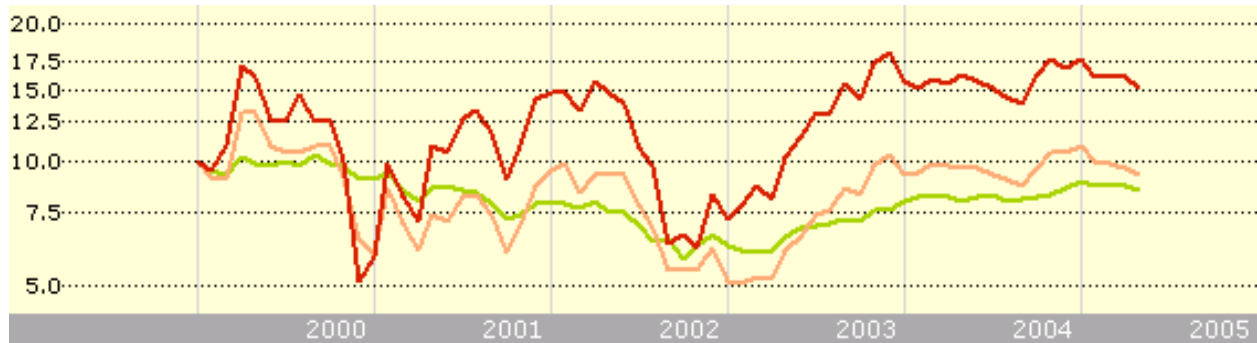
A1. Revenue for domestic and international Best Buy operations



A2. Product revenue matrix reported in 2004



A3. Domestic Best Buy retail square footage in thousands



A4. Success of Best Buy relative to competitors and S&P 500

- Stock: Best Buy Company
- Industry: Electronics Stores
- Index: S&P 500

Percentage growth of \$10,000
Figure from Morningstar.com

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