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Case Study

Nielsen Insights in Action: Plugging Into the Right Customers

Demand analytics help Best Buy focus on its most profitable opportunities

Company
Best Buy

Given Best Buy's meteoric rise over the past few decades, it's not surprising the Minnesota-based company is regularly named one of the world's best specialty retailers and one of America's "most admired" businesses. What started as a single stereo shop in the 1960s is now a global organization with more than 1,100 stores and over 150,000 employees around the world.

But in recent years, keeping the company's momentum going in the face of a deep recession and intense competition from discount superstores proved a major challenge. Consumers not only had less income to spend on electronics, but increasingly perceived a lack of differentiation between Best Buy and its competitors. For the Best Buy management team, achieving long-term growth meant developing new insights into its customers and understanding more clearly where there was latent demand for its products.

Company Facts

Best Buy

- Began in 1966 with a stereo component store called Sound of Music in St. Paul, Minnesota
- Operates in four continents and employs 180,000 workers worldwide
- Generates more than $49 billion in annual revenue

The Business Issue

When Best Buy teamed up with The Cambridge Group, a division of The Nielsen Company, they had been enjoying significant success based on their "geo-demographic market segmentation." The strategy consisted of dividing consumers according to who they were and what they'd bought in the past, leading to clearly defined profiles such as the "young early adopter," "suburban mom" and "affluent customer."

For several years Best Buy's novel approach paid off. But by 2005, the company had hit a wall in terms of how well it understood its consumers. Through its collaboration with Nielsen, the management team wanted to go beyond buyers' age, income and purchase history to what was truly driving their technology decisions. The goal was to get inside the customer's head so the company could build an even more compelling shopping environment going forward.

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The Solution

The Cambridge Group had two initial objectives in working with Best Buy. The first was to build a new "Demand Landscape" uncovering distinct customer segments, or "demand profit pools," whose needs hadn't been fully met by the retailer or its competitors. The other goal was determining the usage occasions, or "need states" that drove customers to purchase new technology.

> "It really opened up the complete picture because it is very forward looking, brought many aspects of the customer together, is more robust, and makes the economic opportunities clear."
>
> *Barry Judge, Chief Marketing Officer of Best Buy*

An interesting picture of technology buyers soon emerged. Families, many of them with two working parents, were becoming busier than ever. They were also becoming more geographically dispersed. As a result, people put greater emphasis on entertainment devices – including music and TV equipment, cell phones and cameras – that help them get the most out of their free time and stay connected with loved ones. Visiting an electronics store, as it turned out, was about more than buying a piece of equipment – it was enabling a lifestyle. To address these needs, Best Buy implemented several key initiatives.

One of the more fascinating groups was the "Enthusiasts" – who spend more on electronics than any other customer segment – and Best Buy wooed them enthusiastically. They trained their sales team to be certified product experts and created in-store demonstration areas where shoppers could try out new equipment. The retailer also began offering delivery and help setting up equipment through its "Geek Squad." While the efforts were primarily geared toward more discerning buyers, the increased customer support was also attractive to individuals who are less technologically savvy, creating an additional benefit for Best Buy.

The company also reached out to "Online Aficionados," who, like Enthusiasts, are early adopters of technology and knowledgeable about the products they buy. Members of this profit pool prefer to purchase online, but have traditionally demonstrated little loyalty to any one retailer. Best Buy tried to change that tendency. Though it already enjoyed a significant piece of the online electronics business, the company bolstered its website experience by providing customer reviews, product comparisons, easy access to support personnel and the ability to order online for in-store pickup.

Rather than replacing the geo-demographic information Best Buy was already using, The Cambridge Group's insights added to it. "The demand landscape approach was very appealing to us," said Chief Marketing Officer Barry Judge. "It really opened up the complete picture because it is very forward looking, brought many aspects of the customer together, is more robust, and makes the economic opportunities clear."

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A Win-Win Outcome

A restructuring of its stores and website required a significant expenditure from Best Buy, but the company's confidence in Nielsen's analysis was clear. "The new insights really helped us differentiate from competition by determining where to invest behind new benefits and at what level of investment," Judge said.

The results were dramatic. Best Buy more than doubled its online sales and, by the second half of 2009, saw the return of same-stores sales growth. In the fourth quarter of 2009, revenues increased 12.4% and profits jumped 37% over the previous year.

Obtaining a closer look at its most important consumers also helped Best Buy create the framework for future profit growth. The company has reached out across each of its departments to more closely align its products and services with the needs of Enthusiasts and Online Aficionados. Today, the technology retailer is seeing opportunity in categories where it was once a minor player, such as mobile devices. Best Buy's management team boldly asserted the goal of increasing its share of the U.S. mobile phone market five-fold to 15%.

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