i2®
The Supply Chain Results Company™

Solving Pricing Problems at Best Buy

Looking to create a consistent markdown system that would allow pricing decisions to be made on a store-by-store basis, Best Buy joined forces with i2 to develop i2 Markdown Price Optimizer.™ By implementing Markdown Price Optimizer, Best Buy has eliminated unnecessary markdowns, improved inventory management, and employed a consistent markdown process across the enterprise.

For retailers, one of the biggest challenges is managing prices to influence products' rate of sale—especially during the markdown process. Inventory levels, sales performance, seasonality, promotions, and various vendor-related issues are all factors that must be considered when creating a markdown.

Trying to find a systematic way of deciding when and how much to mark down proved to be particularly challenging for retail giant Best Buy, due to the shortness and volatility of its products' lifecycles.

"Best Buy had a lot of ad hoc ways of creating markdowns, because pricing as a whole has always involved a kind of intuitive, gut-feel approach," said Marsha Henry, Best Buy's Marketing Project Manager. "We're continually introducing the latest technology. In light of that, we have to manage a product lifecycle so that we can introduce products on a rolling basis, so that we're moving one product to introduce a new product."

This emphasis on offering its customers the newest technology available also challenged Best Buy to keep room on its shelves for the latest DVD player, digital camera, or VCR— all while maintaining optimal inventory levels of prior models. Too much inventory is costly, and leaves Best Buy with an obsolete product. Too little inventory could mean consumers don't get the products they want when they want them.

BEST BUY®

Challenges
- Increase revenues and profits by eliminating unnecessary markdowns
- Implement more scientific methodology for determining markdowns
- Better manage the process of selling out obsolete products

Solutions
- Plan markdowns by individual stores
- Make more intelligent choices about markdowns and their timing
- Create "what-if" scenarios

Results
- Eliminated unnecessary markdowns by planning per individual store
- Improved inventory management
- Implemented consistent markdown process across the enterprise

Company Description
The largest volume specialty retailer of consumer electronics, personal computers, entertainment software, and appliances in North America, **Best Buy Co., Inc.** is headquartered in Eden Prairie, Minn. With annual revenues of more than $19 billion, Best Buy currently operates retail stores in 44 states and is on track to have more than 550 stores nationwide by 2004.

"One of the great things that this tool does—and there's absolutely no way you can do this manually—is that you can plan markdowns by store. Before implementing Markdown Price Optimizer, we were taking markdowns across the chain. So we were cutting prices, regardless of how individual stores were performing. But *Markdown Price Optimizer creates individual markdown plans for all 480+ stores,* which is a great benefit because *we're able to eliminate unnecessary markdowns.*"

—*Marsha Henry*
Marketing Project Manager

"We really do have the latest technology, but we have to work to manage a product's lifecycle so that we have the latest and the best available," Henry said. "Managing the entire product assortment so that you have a good mix and selling out of products before they are obsolete is a balancing act."

Best Buy's size—480-plus locations throughout North America—added further complexity to the markdown process.

"Some locations sell certain products much better than other locations," Henry said. "They may not need markdowns. We needed to eliminate unnecessary markdowns through market segmentation of pricing for specific locations."

Why i2?
Best Buy was already using i2 solutions to manage the value chain functions of its online storefront, BestBuy.com, as well as i2's transportation and logistics systems.

In order to help Best Buy solve its markdown challenges, i2 proposed a joint development program to create i2 Markdown Price Optimizer, with Best Buy supplying information from the front lines of the retail industry, and i2 providing the best-in-class technology.

"When considering the markdown, Markdown Price Optimizer lets us know how we are going to get to zero inventory so that we can introduce a new product," Henry said. "It's helping Best Buy decide if it is the right decision to make this markdown."

"We chose i2 to help with our markdown problems because we already had a successful relationship with them," Henry said. "We were able to trade knowledge. We offered our insights on the retail industry, and i2 provided the complex algorithms and problem-solving capabilities. We were able to marry our expertise to create Markdown Price Optimizer."

i2 solutions enable retailers to merchandise, source, buy, move, and sell products with greater visibility and velocity across the value chain, delivering improved vendor performance and reduced logistics costs.

i2's Contribution

Markdown Price Optimizer, which is part of the i2 Revenue & Profit Optimization™ suite of solutions, serves as a decision-support solution that enables Best Buy to make the most intelligent—and strategic—choices about markdowns and their timing.

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Markdown Price Optimizer combines ease of use with multifaceted decision-making capabilities.

"From a tool perspective, it's really easy to use," Henry said. "But conceptually it's more complex. Markdown Price Optimizer looks at a demand curve and takes into consideration how much a product costs, how much we have on hand, and how much it's forecasted to sell, and then compiles all of those pieces to create a markdown scenario."

The ability to create "what-if" scenarios enables Best Buy to make more intuitive, timely markdown decisions.

"Time is a vital part of the markdown process," Henry said. "Markdown Price Optimizer allows us to create different scenarios, changing around the date of when we may want to create the markdown. The shorter the time frame we have, the less time we have to get out of a product, and that means Best Buy will have to take a deeper discount."

Best Buy's Results

Using i2 solutions, Best Buy is now able to make mark-down decisions for individual stores, instead of across the chain—eliminating costly, unnecessary markdowns.

"One of the great things that this tool does—and there's absolutely no way you can do this manually—is to plan markdowns by store," Henry said. "Before implementing Markdown Price Optimizer, we were taking markdowns across the chain. So we were cutting prices, regardless of how individual stores were performing. But Markdown Price Optimizer creates individual markdown plans for all 480-plus stores, which is a great benefit because we're able to eliminate unnecessary markdowns."

Markdown Price Optimizer is also enabling Best Buy to control inventory costs in a way never before possible.

"Markdown Price Optimizer allows us to manage inventory levels," Henry said. "If you're not managing markdowns effectively, you could find yourself in a situation where, with limited space available, you are carrying both the old product and the new one. That means increased inventory levels and unnecessary costs."

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