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Showrooming at Best Buy

At the height of the 2012 holiday shopping season, stores were packed with customers checking out the best and brightest of the year's gadgets. People crowded around store counters to tap touchscreen buttons, marvel at the glowing displays of the newest tablets, and play the latest games and apps right there in the store. Despite the modest increase in store traffic, the cash registers at the end of the day told a sobering story. At home-goods retailer Target, sales were flat, with no increase in revenue at all over the previous year.[1] Best Buy, the world's largest electronics retailer, fared even worse: sales at stores opened in the previous year had fallen by over 4%.[2] At department store J.C. Penney, same-store sales fell by 26% compared to the same period the year before.[3] This was a marked contrast to the global online retail market, which was expanding at a rate of 17% per year.[4]

While many traditional retailers had been responding to weak holiday shopping by holding their customary "doorbuster" sales offering significant discounts, Amazon, eBay, and other online retailers opted to release mobile phone apps designed to give shoppers an easy way to search online for the best deals. Shoppers with a tight holiday budget still went to physical stores to check out new products, but these mobile apps could now be used to easily find better prices and discounts online. In effect, shoppers began using brick-and-mortar retail stores as showrooms. During 2012's holiday shopping season, 27% of mobile phone owners used their phone while inside a store to look up the price of a product elsewhere.[5] Price differences had in effect become transparent and effortless to compare. Traditional retailers now faced a critical question: How could they compete in a world in which shoppers could easily see competing prices and offers?

Retailers initially experimented with a combination of counter-attacks. Clothing retailer Macy's redesigned its stores to work more closely with mobile devices, allowing shoppers to pay for items with their phones and tablets in-store.[6] Other stores offered perks unavailable from online competitors, like extended customer service. Target and Walmart chose to fight fire with fire and created their own shopping apps to reach shoppers with coupons and discounts, while Old Navy, J.C. Penney, and Crate & Barrel introduced shopping apps designed by third-party companies. The most extreme reaction came from consumer electronics retailer Best Buy, which decided to permanently price-match online competitors. This meant that Best Buy would match any price that customers found from an approved list of competitors, including online retailers such as Amazon. Could a traditional brick-and-mortar retailer like Best Buy, which had higher operating costs than online retailers, afford to permanently price-match its online competitors?

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Online Shopping and Price Comparison Apps

The U.S. economy recovered slowly after the global recession of 2008. At the time, online shopping comprised only 5% of U.S. retail sales,[7] with most goods still being purchased offline. Unemployment remained high; people saved more and spent less in stores. According to ShopperTrak, retail foot traffic dropped over 28% year-over-year in 2011 and over 16% in 2012.[8]

Online spending told a story of a changing landscape, with online sales rising by 42% between 2008 and 2012.[9] The rise of Amazon and other online retailers was changing the way people shopped as the Internet made it easy to find user reviews and information on prices. In 2012, on the day after Thanksgiving—traditionally known as Black Friday, which marks the beginning of the American holiday shopping season—shoppers spent a record $1.042 billion online, an increase of 26% over the same day in 2011,[10] bringing online retail sales up to 9.3% of total Black Friday spending.[11]

As e-commerce grew, some shoppers of electronics still preferred to visit stores to check out a new flat-screen TV or listen to a stereo in person and then go home to spend time looking for deals online. With an interest in encouraging this behavior, Amazon was one of the first to launch a mobile app that would allow people to begin their price hunting earlier, when they were still inside the store.

Amazon's Price-Comparison App

Amazon was one of the companies most successful in pulling customers away from traditional stores. After the success of its retail website, it introduced a shopping app for mobile phones that shoppers could use to search for products in Amazon.com.[12] It soon followed that with its first price-comparison app in 2010.[13] Customers could type in the name of the product, say the name, or simply take pictures of it or of its barcode with their phone's camera. The app would then search for the item within Amazon's inventory and the inventories of other partner retailers, often finding it at a lower price (see **Exhibit 1**). To increase new customer adoption, Amazon offered a promotional deal of a $15 discount to anyone who used the app to buy online while in a physical retail store.[14]

In early 2014, Amazon came out with a newer, simpler app called Flow, which used computer-vision and instant object-recognition software to allow users to simply hold an item in front of their phone's camera—no need to type lengthy serial numbers or upload photos of products or barcodes. Flow also kept a record of past purchases, making it easy for customers to automatically order products that required replenishing, such as coffee machine pods. These apps made it possible to look for better prices and more selection online while examining the actual products in stores.

For those consumers who may have been dissuaded from shopping online due to additional shipping costs, Amazon designed a solution for that, too. For an annual Prime membership fee of just $79, shoppers could get unlimited free two-day shipping on millions of items of almost any weight and size.[15] This, in effect, made incremental shipping costs a non-issue. By combining transparent (and often lower) prices with free shipping with a Prime subscription, Amazon soon dominated how customers searched for all products online. For instance, in 2009 only 18% of shoppers began their online product search on Amazon, whereas 24% of shoppers began on Google. By the end of 2011, 30% of shoppers began their search on Amazon versus just 13% with Google[16] (see **Exhibit 2**).

Other Price-Comparison Apps

Amazon wasn't the only company developing price-comparison mobile apps. Soon after Flow was rolled out, a flood of similar apps entered the market from retailers and third-party companies. These apps varied in their complexity and the number of features they offered to users.

Some online retailers followed Amazon's lead and released simple apps that scanned barcodes and then looked for the product in their own online offerings. RedLaser, developed by a small start-up called Occipital[17] and purchased by eBay in 2010, used this type of simple barcode scanner. Shoppers could search for competing prices at many retailers, both online and offline.

Other third-party app companies like Loopt used mobile phones' GPS sensors to let users press a button to "check in" at store locations, and then be directed to related products and local discounts both for that store and for stores in the vicinity. Shoppers could access a variety of coupons on an as-need basis. Loopt also integrated social features from platforms like Facebook, where shoppers could see what their friends were purchasing and where they were checking in.

Other apps went further and combined geolocation with loyalty programs: Shopkick allowed for physical and online shopping by turning the physical shopping experience into a game with a points system. Unlike Loopt, Shopkick did not use the GPS sensors built into mobile phones, but instead used sensors placed inside stores to detect when a shopper had physically entered, a process called geofencing. The app then rewarded points to the shopper for entering the store.[18] This required shoppers to actually walk into the store to earn points—they couldn't just check in from other locations. Shoppers earned additional points when they scanned or searched for items inside the store. These points could then be redeemed for iTunes credits, restaurant meals, and retail gift cards.

People were visiting stores just to get coupons, accumulate reward points, and try out products that they often just ordered online at a cheaper price. Traffic to physical stores was increasing without an accompanying increase in in-store dollar sales.

The Rise of Showrooming

Shoppers very quickly integrated mobile price-comparison apps into their shopping habits. By 2012, 37% of customers had engaged in showrooming.[19] Consumer electronics retailer Best Buy, home goods retailer Bed Bath & Beyond, pet supplies retailer PetSmart, and toy retailer Toys "R" Us were among the retailers that Amazon showroomers visited the most[20] (see **Exhibit 3**). Shoppers surveyed said their top three reasons for showrooming were better online prices, the desire to see the product in person before ordering online, and the item being out of stock at the retail store. By the first quarter of 2012, online sales of consumer electronics had begun to rise sharply. A survey among all shoppers who showroomed cited consumer electronics as their top product type for showrooming[21] (see **Exhibit 4** for the top product categories for showrooming).

Smartphone price-matching apps gave shoppers the best of both offline and online shopping. Shoppers could use traditional stores as a showroom to check out the newest gadgets and then make their purchases on their phones, often with a better price and selection. Shoppers valued the combination of physical shopping with online prices, particularly when they did not have to worry about paying for shipping.

Mobile shopping apps were quickly displacing the computer as the go-to device for online shopping. For the first time, technology presented what former Best Buy chief marketing officer Barry Judge called "an opportunity [for a competitor] to steal a sale right when someone is in the throes of making a decision. That is what makes mobile so powerful."[22]

Brick-and-Mortar Stores Fight Back

By the end of 2012, traditional stores began to fight the effects of showrooming in various ways. Some stores chose to fight fire with fire by building their own apps or partnering with third-party app companies. Others invested in their store selection by offering exclusive products not sold online. Others hoped to entice customers back into stores by expanding their loyalty programs and discounts for repeat shopping. One major retailer even waged a war directly against online retailers by matching their prices.

Store-Owned and Third-Party Apps

Partnerships between retailers and third-party app developers took many shapes. Shopkick's points system, which encouraged in-store shopping by awarding points for "checking in" inside physical stores, provided a way for traditional retailers to draw in shoppers. In 2012, customers spent an average of three hours a month using the app.[23] "Our Shopkick customers buy twice as often as a non-Shopkick user, and have helped increase in-store traffic," said Fred Grover, executive vice president of clothing retailer American Eagle.[24]

The development of Shopkick and similar apps led to an increase in promotional and coupon-based spending by both retailers and manufacturers. The number of retail digital-coupon promotions increased by 50% between 2011 and 2012. Once downloaded and launched on a mobile phone, an app could deliver these coupons and offers to a shopper in a variety of ways: the shopper could take a picture of a product or scan its barcode, and the app would deliver related discounts. An app could also evaluate shoppers' purchase history to deliver tailored discounts for items they were likely to want or need. Through geofencing, the store could trigger additional coupons for other products in the store or at neighboring retailers.

These apps also made for the easy collection of real-time data on a variety of customers' moves and choices, allowing retailers to draw conclusions about where customers might hesitate over a price or an option, and prompt them to buy with extra discounts and offers. In addition, by scanning the data of items already placed in a shopping cart, an app could make further item recommendations or direct customers toward other departments of the store. Macy's, Old Navy, J.C. Penney, Target, Crate & Barrel, and Best Buy all partnered with third-party apps.

Assortment Changes

Some traditional retailers further responded to showrooming by adjusting their in-store product assortments. Such shifts closely reflected the types of products that were the most susceptible to showrooming, among them toys, clothes, and electronics. For example, Toys "R" Us began to carry products that could only be purchased at its stores or on its own website. Target established partnerships with clothing designers, including Missoni and Jason Wu, to develop exclusive products sold only at Target.[25] In early 2012, Target famously sent a letter to vendors asking for help in thwarting showrooming through the creation of exclusive products. The letter leaked to the press, and the *Wall Street Journal* reported:

> Last week, in an urgent letter to vendors, the Minneapolis-based chain suggested that suppliers create special products that would set it apart from competitors and shield it from the price comparisons that have become so easy for shoppers to perform on their computers and smartphones. Where special products aren't possible, Target asked the suppliers to help it match rivals' prices. It also said it might create a subscription service that would give shoppers a discount on regularly purchased merchandise.[26]

Some electronics retailers even took the extreme decision to diversify their product assortments away from electronics and into other types of goods. Chicago-area retailer Abt Electronics began to stock furniture, luggage, and exercise equipment, reducing its reliance on electronics.[27]

Pricing Policy Changes

For those retailers not willing or able to demand exclusive products, the alternative was to deal with the glaring price differences. Showrooming had a major influence on pricing policy, since the lower prices of online retailers were becoming apparent to customers. **Table A** shows Amazon's price difference (excluding sales tax, including shipping) compared to the website prices of Walmart and Target (including shipping), and to the in-store prices of Walmart and Best Buy.

Table A Amazon's Price Difference

Online Prices, All Products (%)		**In-Store Prices, Consumer Electronics (%)**	
Against Walmart.com	− 9%	Against Walmart	− 11%
Against Target.com	− 14%	Against Best Buy	− 8%

Note: In the left column, sales tax is excluded for Amazon but not for retailers with a physical presence. The law changed this in 2013–2014. In the right column, sales tax is included for both Amazon and physical retailers. Source: Anne Zimmerman, "Can Retailers Halt 'Showrooming'?," *Wall Street Journal*, April 11, 2012.

Retailers competing for shrinking shopping budgets, especially in the high-stakes holiday season, were forced to lower their prices to compete with online prices in what many termed a "race to the bottom." Yet, with the overhead costs associated with maintaining a physical store, the effort to price-match online retailers could be hazardous. Traditional big-box retailers mounted their first pricing attacks against online retailers in 2009. Walmart focused on books, the product on which Amazon had built its customer base, and dropped the price of its most popular books below $10. Its CEO commented on the tactic: "If there's going to be a 'Wal-Mart of the Web,' it's going to be Walmart.com."[28]

A more drastic means for retailers to compete against low prices online was to encourage manufacturers to adopt a minimum advertised price (MAP) policy.[29] Through MAP, a manufacturer of consumer durables would unilaterally force all its authorized resellers to abide to a minimum price for advertising the manufacturer's products in any media. MAP policies typically were introduced when the manufacturer provided cooperative advertising dollars for the retailer to spend on TV, print, and other media to advertise the manufacturer's products. In this case, retailers needed to respect the MAP and not advertise below a certain price. These policies were lawful if they did not limit the distributor's ability to advertise any price using its own funds.[30]

This was different from dictating prices via resale price maintenance (RPM), which used to be illegal until 2007 but was later ruled to be legal in most (but not all) cases by the U.S. Supreme Court. By 2014, manufacturers could set RPMs in their contracts with authorized retailers as long as it was not intended to reduce interbrand competition[a] through price fixing. Samsung, one of the electronics manufacturers that had a MAP policy, dictated that its resellers could not advertise prices lower than 40% off the suggested list price; that the policy applied to all media, including the Internet but

[a] Interbrand competition was that practiced among manufacturers and resellers selling different brands of the same type of product. It stood in contrast to intrabrand competition, which took place among resellers of the same manufacturer's brands.

excluding in-store signage;[b] and that products could be sold at any price. Retailers that did not abide by Samsung's MAP policy would incur sanctions and could ultimately have their reseller agreement terminated. A policy such as Samsung's ended up helping brick-and-mortar retailers more than online retailers.

Rewarding Loyalty

Loyalty programs had been a long-standing method used by retailers to boost repeat purchases from customers. Some methods for encouraging customer loyalty included special deals, coupons, rebates, and cash back on purchases. Stores such as Staples and Barnes & Noble offered 1% to 2% of the total money spent back to their card-carrying loyal shoppers.[31] PetSmart, another retailer susceptible to showrooming, had an in-store loyalty program called PetPerks, which, in addition to standard discounts on purchases, also sent members e-mails about coupons and sales as well as information targeted to pet owners such as care tips.[32]

Reward Zone, Best Buy's loyalty program, offered points and discounts to shoppers when they purchased items from a Best Buy store or the website. The company also offered special discounts, contests, and access to in-store events.[33]

More Drastic Measures

A few smaller retailers that could not build apps or reduce prices took more extreme measures to fight showrooming, such as finding ways to punish showroomers. Early in 2013, Celiac Supplies, a specialty grocery store in Brisbane, Australia, began charging a "just looking" fee of $5, to be deducted if and when a purchase was made. A sign was posted inside the store stating:

> There has been a high volume of people who use this store as a reference and then purchase goods elsewhere. These people are unaware our prices are almost the same as other stores plus we have products simply not available anywhere else. This policy is in line with many other clothing, shoe and electronic stores who are also facing the same issue.[34]

Many retailers were struggling with showrooming and were looking closely to the bigger retail chains for inspiration, particularly those such as Best Buy, who was suffering from this practice.

Best Buy's Response

Best Buy was hit hard by showrooming. In the last quarter of 2011, domestic same-store sales fell by over 5%.[35,36] Sales at stores opened one year before fell by a similar amount (see **Exhibit 5** for Best Buy's same-store sales changes from 2011 through 2012), after which its stock price fell by a quarter.[37] A big portion of Best Buy's income was tied to holiday shopping, when competition for dollars was fierce and customers were most sensitive to prices. During the holiday season of 2012, Best Buy posted a fourth-quarter loss of $1.7 billion.[38] Its losses were mirrored throughout the consumer electronics industry as sales in physical stores declined every year between 2007 and 2012. Online electronics sales during the same time period, however, climbed significantly every year.[39]

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[b] According to Samsung's MAP policy, "Pricing listed on an internet site is considered an 'advertised price' and must adhere to the MAP policy. Once the pricing is associated with an actual purchase (an internet order), the price becomes the selling price and is not bound by this MAP policy. Statements such as 'we will match any price,' and 'call for price' are acceptable."

Whereas Best Buy's share of Internet retail remained stagnant and its share of total retail slipped in the U.S., Amazon's fortunes seemed to be just the opposite. From 2009 to 2012, Amazon's share of U.S. Internet retail climbed from 10% to 16% and its share of all U.S. retail doubled[40,41] (see **Exhibit 6**). Part of the explanation had to do with these retailers' categories of choice.

The dramatic shift in electronics sales from brick-and-mortar to online retail was especially stark compared to how other products were selling (see **Exhibit 7**). Between 2008 and 2012, the share of online sales of home-and-garden and health-and-beauty goods relative to total category sales grew only slightly. At the same time, apparel-and-footwear and electronics-and-appliances' online share of total retail sales grew tremendously, with the latter almost doubling in four years.[c]

Best Buy soon began to wage a number of counter-attacks against showrooming. First, on the defensive, the company tailored its in-store barcodes to block customers attempting to showroom using mobile apps. It refrained from placing barcodes on some products inside stores[42] and used in-store exclusive barcodes[43,44] to prevent shoppers from finding lower prices through price-comparison apps on their phones. It also offered products only available at Best Buy, such as exclusive editions of Blu-ray movies.[45] The company then went on the attack and created its own shopping app. It also partnered with third-party apps like Shopkick in an attempt to win mobile-savvy customers back to its own brand. None of these actions seemed to deter consumers from showrooming. Eventually, Best Buy took the extreme decision of always matching lower prices that shoppers found elsewhere.

Permanent Price Matching

Best Buy's new policy of matching the prices on Amazon and other online retailers developed in waves, becoming larger and more encompassing as its bottom line continued to suffer. In early 2012, Best Buy promised to match prices from nearby brick-and-mortar stores, but carefully excluded online retailers.[46] Later in 2012, just in time for the holiday shopping season, Best Buy went further and announced it would begin to price-match online retailers. This announcement was saddled with a host of limits and rules. The matching would be good only for the holiday season and not during the most lucrative shopping week, from the Sunday before Thanksgiving to the Monday after. Further, only a carefully selected list of 20 online retailers would be matched, and the policy was not guaranteed, as Best Buy staffers could decide whether or not to match the price.[47] After 2012's disappointing sales results and another same-store sales drop of 1.1% in the fourth quarter, Best Buy took price matching one step further. In early 2013, Best Buy announced it would make price matching permanent.[48]

For the 2013 holiday season, Best Buy reframed this pricing policy as a front-and-center feature, announcing its "low price guarantee." The company embraced its image as an "Internet showroom" with a full-blown marketing campaign starring a host of celebrities, appropriately called "Your Ultimate Holiday Showroom." Eleven different commercials, which featured stars such as Will Arnett and Maya Rudolph, focused on the consumer experience at Best Buy, both online and in-store[49] (see **Exhibit 8**). With that, price matching became transparent and permanent at Best Buy.

Will It Work?

With the high costs associated with maintaining nearly 2,000 stores[50] and over 160,000 employees,[51] most of which were not borne by online competitors, embracing permanent price matching was a risky bet. Could Best Buy afford to sell its electronics, computers, and entertainment products at the price points of online retailers despite having higher operating costs?

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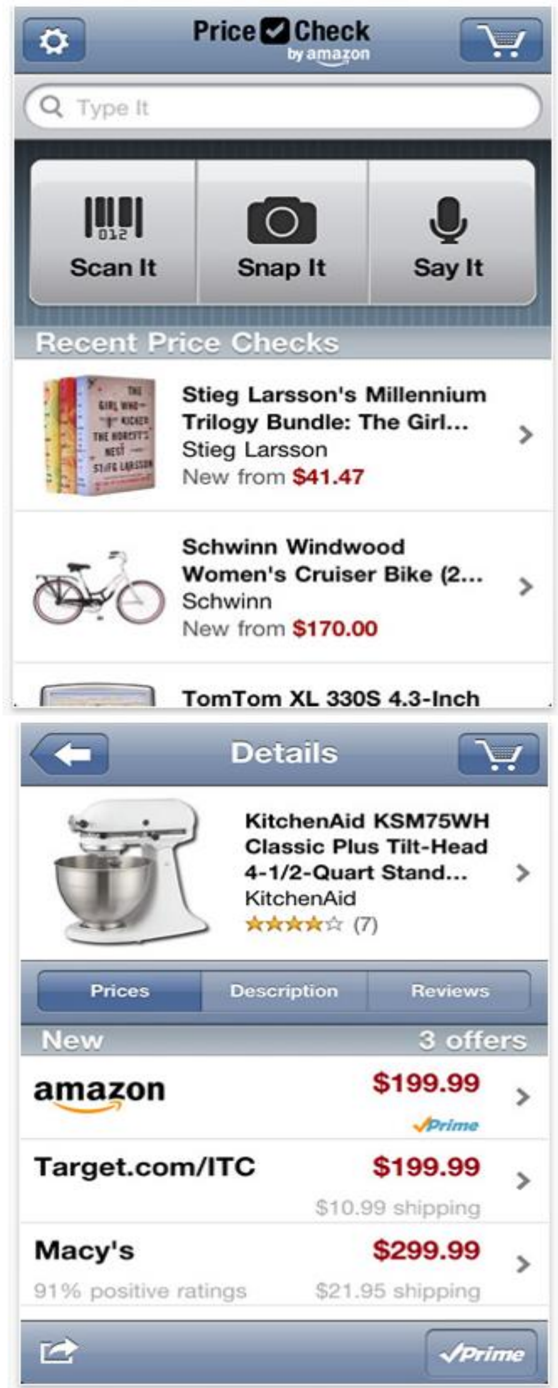
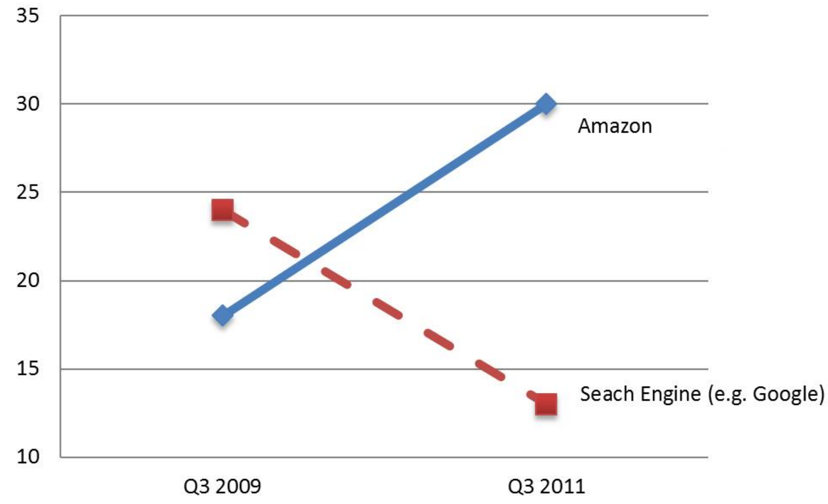
[c] Calculations based on data gathered from Euromonitor International's industry reports "Passport: Retailing in the US" (May 2014) and "Passport: Internet Retailing in the US" (May 2014).

Exhibit 1 Screen Images of Amazon's Price Check Mobile Phone App



Source: "Price comparison apps help shoppers get the best deal this Christmas," *The Independent*, November 23, 2010, http://www.independent.co.uk/life-style/price-comparison-apps-help-shoppers-get-the-best-deal-this-christmas-2141674.html, accessed June 23, 2014.

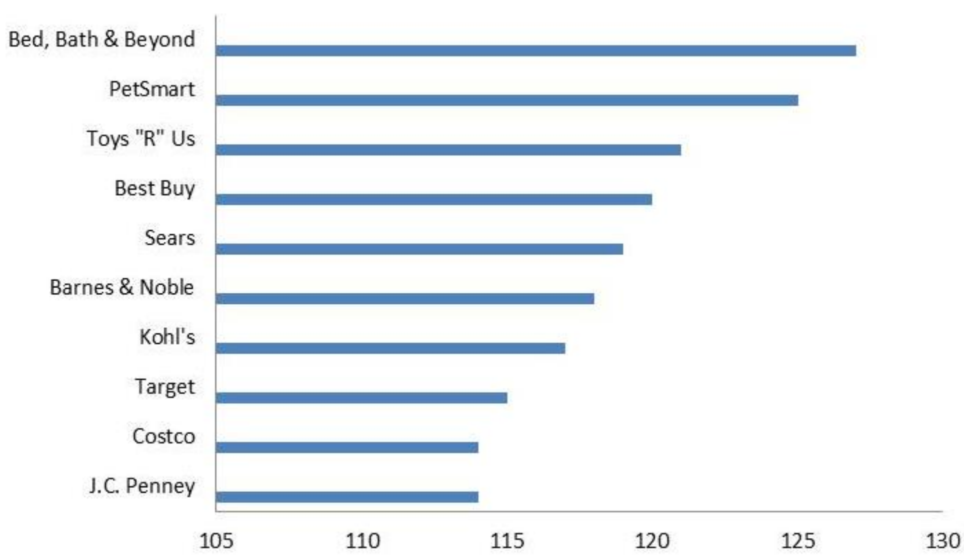
Exhibit 2 Online Shoppers Who Begin Their Product Search on Amazon vs. a Search Engine (%)



Source: Casewriter's diagram based on survey data obtained from July 2012 Forrester Research report "Why Amazon Matters Now More Than Ever," accessed June 15, 2014.

Note: Response to: "Where did you begin the search for your most recent online purchase?"
Q3 2009: 3,332 respondents.
Q3 2011: 2,827 respondents.

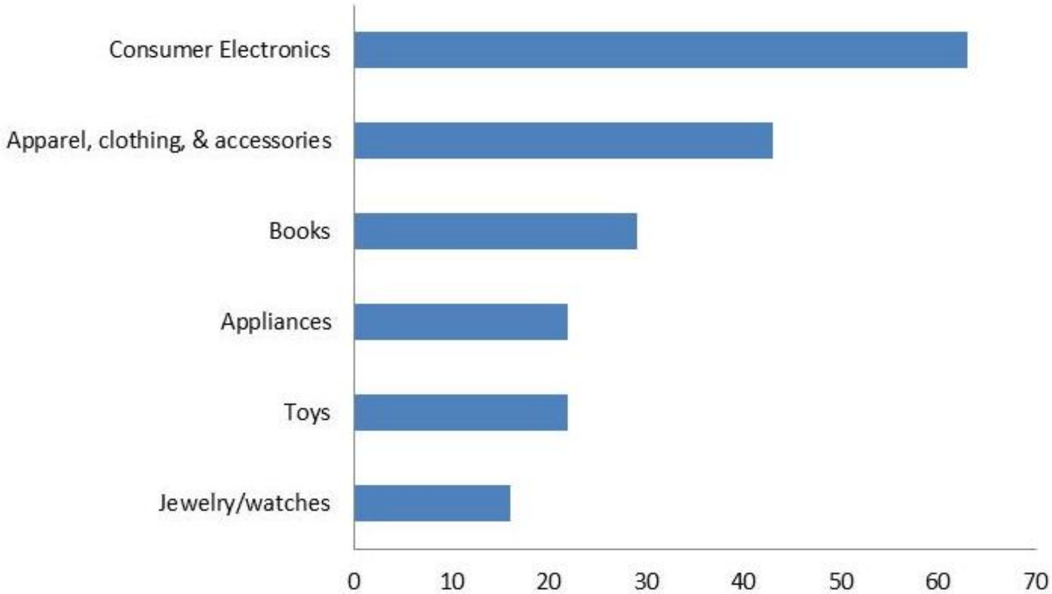
Exhibit 3 Intensity of Showrooming at Physical Retailers with Subsequent Purchase at Amazon



Source: Casewriter's diagram based on survey data obtained from the February 2013 Placed report "Aisle to Amazon: How Amazon is Impacting Brick-and-Mortar Retailers," accessed May 24, 2014.

Note: Response to: "Have you purchased an item on Amazon.com after looking at the same item in a physical retail store?" Showroom Index of 100 = average representation among retailers.

Exhibit 4 Most Popular Product Categories for Showrooming (% of respondents)



Source: Casewriter's diagram based on survey data obtained from the May 2012 comScore report "State of the U.S. Online Retail Economy in Q1 2012," accessed July 12, 2014.

Note: Response to: "Which of the following types of item have you bought online after using 'showrooming'?"

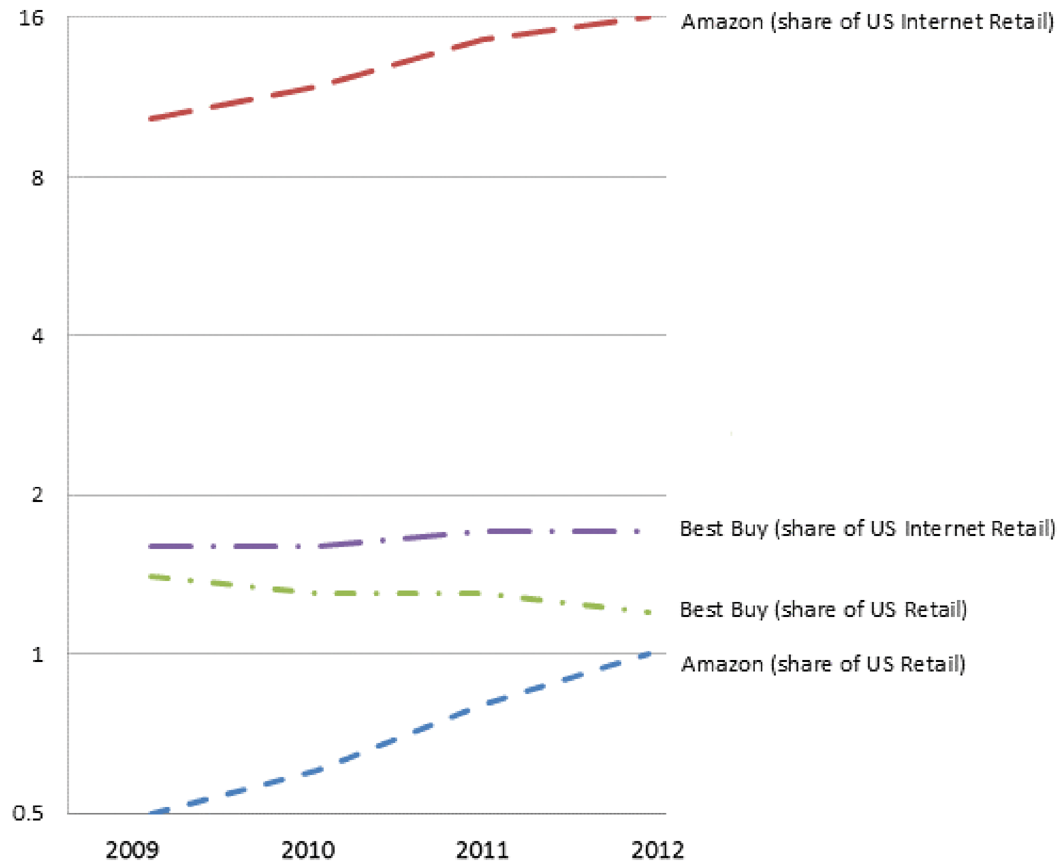
Exhibit 5 Best Buy Quarterly U.S. Same-Store Sales Growth before Price-Matching Policy (%)

Quarter	Growth in Same-Store Sales (%)
Q1 2011	4.7
Q2 2011	0
Q3 2011	-3.9
Q4 2011	-5.2
Q1 2012	-3.8
Q2 2012	-4.1
Q3 2012	0.1
Q4 2012	-1.1

Source: Company documents; "Best Buy Quarterly Comparable Store Sales—Continuing Operations Fiscal Years 2011–2015."

Note: Permanent price matching instituted in Q1 2013.

Exhibit 6 Company Share of U.S. Total Retail and U.S. Internet Retail, Best Buy vs. Amazon (%)



Source: Casewriter's diagram based on data compiled from Euromonitor International reports "Retailing in the US" (May 2014) and "Internet Retailing in the US" (May 2014).

Note: Y axis in logarithmic scale.

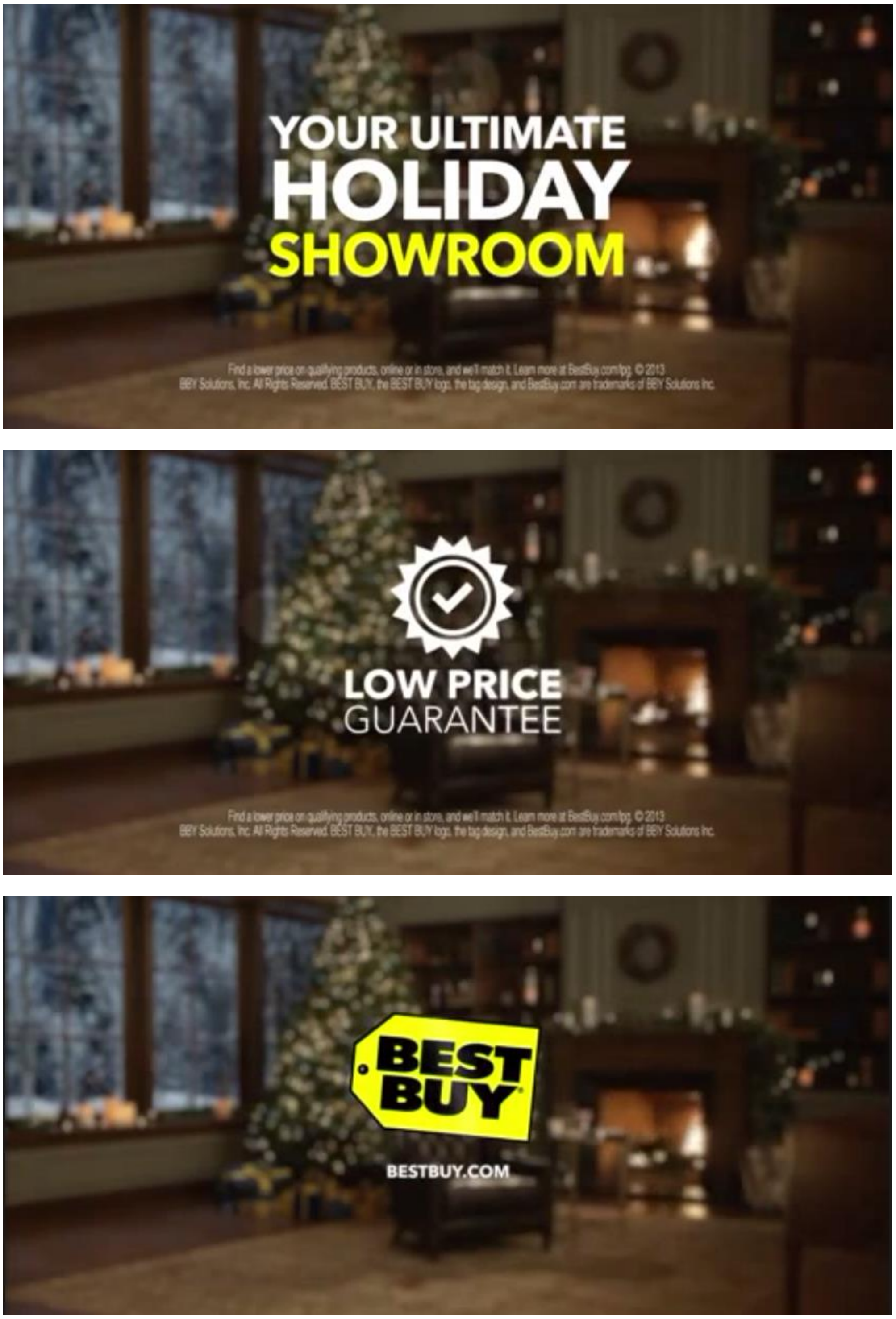
Exhibit 7 Online Share of Total Retail Sales in the U.S. across Product Categories (%)

	2012	2011	2010	2009	2008
Electronics & Appliances	27.31	23.80	19.39	16.27	14.76
Apparel & Footwear	17.12	16.12	14.89	13.45	12.07
Health & Beauty	1.55	1.46	1.39	1.31	1.29
Home Improvement & Garden	.79	.73	.64	.58	.50

Source: Casewriter, calculated from Euromonitor industry reports.

Note: The Health & Beauty category compares industry sales figures for Beauty and Personal Care with Health and Beauty Specialist retailers. The Electronics & Appliances category includes video game hardware. All figures comprise only specialist retailers and do not include mixed retailers (such as Walmart and Target); grocery retailers including hypermarkets (such as Walmart Supercenters); and supermarkets, warehouse clubs, or convenience stores.

Exhibit 8 Screen Images of Best Buy's "Your Ultimate Holiday Showroom" TV Commercials



Source: Best Buy television commercials.

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