



# Love it? Lease it!

How Best Buy can strengthen its early adopter and late majority customer base by remodeling its lease-to-own service

**The Lease Squad**

December 9, 2021

# Executive Summary

## Industry Trends

- Leasing services have become increasingly popular
- More “Buy Now, Pay Later” financing models are emerging in recent years
- Leasing and rental services for appliances and electronics has become extremely successful in other countries

## Consumer Analysis

- Consumer spending habits have drastically shifted post-pandemic
- Consumers are looking to invest more in technology
- New spending habits are predicted to remain post-pandemic

# Executive Summary

Best Buy strives to employ customer obsession and provide a seamless customer experience. The company is now seeking proposals on how to meet unaddressed consumer needs.

We created a recommendation for a reenvisioned leasing service that will expand consumer markets and strengthen brand loyalty.

## **Best Buy's Progressive Leasing Model**

Best Buy's current Progressive Leasing model has been criticized for targeting low-income shoppers. This service is only available to those who were denied from a Best Buy credit card and customers can end up paying over double the retail price. The current model does not align with Best Buy's dedication to customer obsession.

## **Reenvisioned Leasing Service**

Our reenvisioned leasing service will act more as a rental service, rather than a financing plan. We suggest implementing a resale process at the end of the leasing term to regain profits. This reenvisioned leasing service will expand Best Buy's customer base to early adopters and the late majority and mend its brand image.

## **Future of Best Buy**

Our proposed solution will allow Best Buy to repair its brand image, expand its customer base, and realign its strategy with customer obsession.

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# Introduction + Trends

- Introduction
- Target Market
- Consumer Trends
- Industry Trends



# Introduction

**Best Buy is America's largest consumer electronics retailer. In order to maintain a competitive advantage in the ever changing industry, Best Buy must implement new strategies to strengthen brand loyalty and expand into new consumer markets.**

## Customer Obsession

Best Buy differentiates through its customer centric model. With stellar customer service and experience, Best Buy prides itself on being customer obsessed. Keeping customer needs at the forefront in any new venture is critical to the success of the company.

## A Post-Pandemic World

The COVID-19 pandemic has drastically changed consumer behaviors. With individuals spending more time at home, consumers are looking to invest more in technology and engage in home-improvement projects.<sup>1</sup>

## Ideas for Growth

In order to expand customer base, Best Buy should remodel its Progressive Leasing service for big-ticket items. This altered leasing service will allow early-adopters to upgrade to the newest technologies with ease and provide late-majority and lower income individuals with more affordable resale options.

# Best Buy Should Target Early Adopters and the Late Majority

Currently Best Buy's target market are millennials with low-to-middle income. Honing in on early adopters and the late majority will expand and strengthen Best Buy's current target market.



## Early-Adopters

The majority of millennials are classified as early adopters.<sup>2</sup> Early-adopters are consumers that purchase new products before others. They are often young, willing to pay more for premium products, and higher income individuals.<sup>3</sup> While only making up 13.5% of the population, early adopters are valuable to companies because they are opinion leaders that influence other consumers to purchase products.<sup>4</sup>



## Late Majority

The late majority makes up 34% of the populations and are characterized as being cautious spenders who wait to try new products until the majority of consumers have.<sup>5</sup> They are typically older, less educated, and lower income individuals.<sup>6</sup> The late majority aligns with Best Buy's current customer base. However, continuing to target the late majority is crucial since they make up such a large percentage of consumers.

# Spending Habits Have Drastically Shifted Post-Pandemic

The COVID-19 pandemic has drastically changed consumer purchasing behavior. Adapting to these changes is crucial to maintain a successful business and cultivate customer obsession.

## The “New Normal”

- **51%** of consumers report a desire to splurge in post-pandemic spending<sup>7</sup>
- **28%** of consumers invested in amenities such as home theaters, gyms, studios, etc.<sup>8</sup>
- **30%** of consumers plan to continue investing in technology to improve their homes post-pandemic<sup>9</sup>
- **41%** of millennials have adopted the “Buy Now Pay Later” model in 2021<sup>10</sup>



**“Consumers attitudes, behaviors and purchasing habits are changing—and many of these new ways will remain post-pandemic.”**



# Leasing Services Are Gaining Popularity

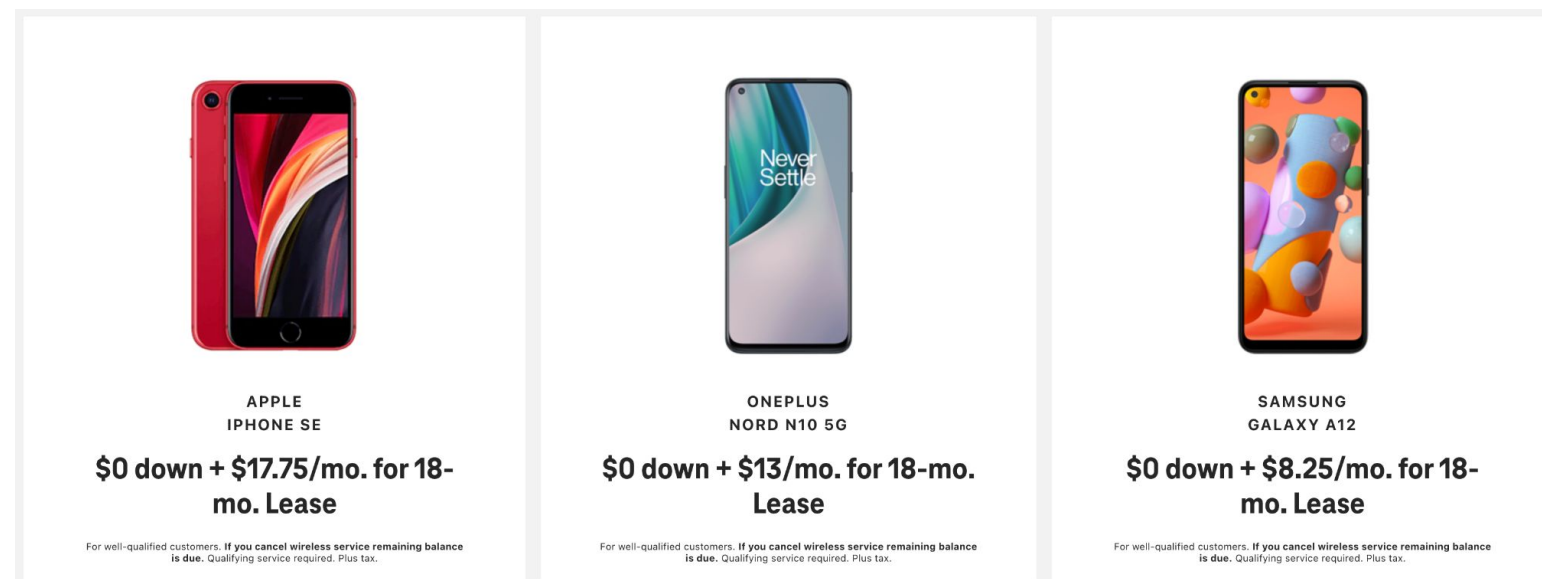
Leasing services are becoming increasingly popular for cell phones and other big-ticket items.

## Cell Phones

The majority of major cell phone providers offer financing options. However, there has been an increase in lease-to-own payment plans in recent years. T-Mobile's "JUMP! On Demand" program allows customers to upgrade their device and lease it with low monthly payments.<sup>11</sup> After the leasing term is up, customers have the option to buy out the device or upgrade again.

## Retail

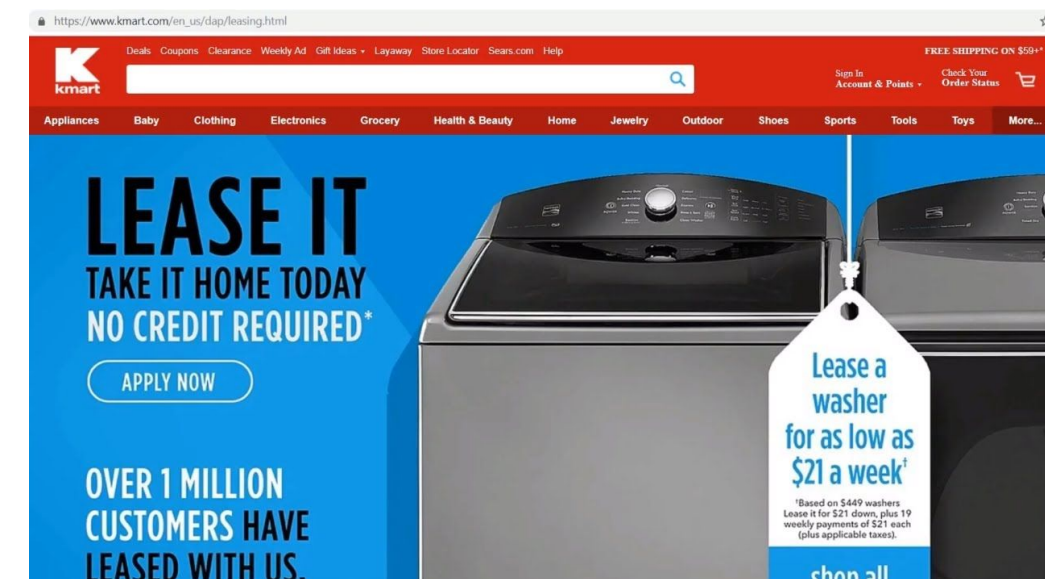
Leasing models have also started to become popular in retail. Stores like Sears and Kmart have begun leasing big-ticket items. Products available to lease are items like washer/dryers, televisions, patio sets, and more. Kmart's leasing model has been extremely successful, with over one million customers choosing to lease appliances and other big-ticket items.<sup>12</sup>



Device	Leasing Option
APPLE IPHONE SE	\$0 down + \$17.75/mo. for 18-mo. Lease
ONEPLUS NORD N10 5G	\$0 down + \$13/mo. for 18-mo. Lease
SAMSUNG GALAXY A12	\$0 down + \$8.25/mo. for 18-mo. Lease

For well-qualified customers. If you cancel wireless service remaining balance is due. Qualifying service required. Plus tax.

Examples of T-Mobile Leasing Options



LEASE IT  
TAKE IT HOME TODAY  
NO CREDIT REQUIRED\*

APPLY NOW

OVER 1 MILLION CUSTOMERS HAVE LEASED WITH US.

Lease a washer for as low as \$21 a week\*

\*Based on \$449 washers. Lease it for \$21 down, plus 19 weekly payments of \$21 each (plus applicable taxes).

shop all

Kmart Leasing Promotion



# Recommendation

- Current Leasing Service
- Reenvisioned Leasing Service
  - What it is
  - Who it's for
  - Why it works
  - Product Journey





# **Current Leasing Service**



# Goldy's Negative Purchasing Journey

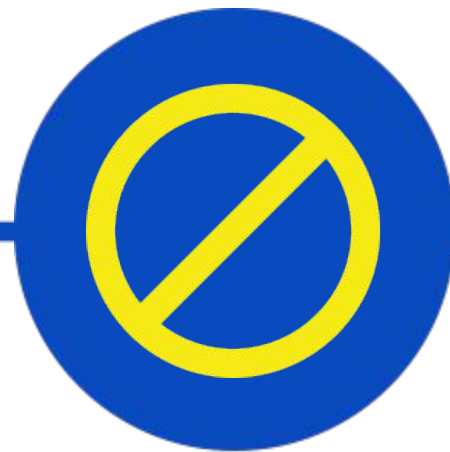
Goldy's purchasing journey demonstrates the pitfalls of the current leasing service.



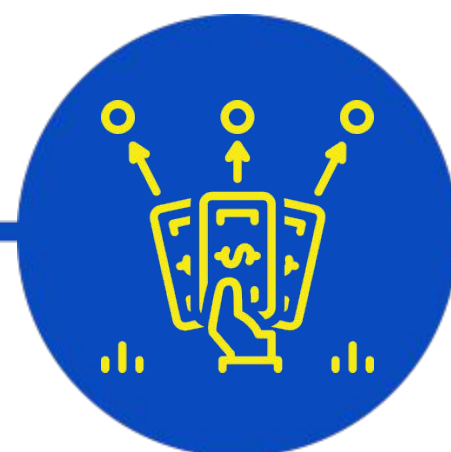
Goldy is a broke college student who wants to buy a new TV to celebrate a Gopher football win



He applies for credit card to save 10%



Goldy gets denied from a credit card due to his history of overspending



Best Buy employee offers the option of "Progressive Leasing" to pay off his TV in installments



Goldy decides to lease his TV and ends up having to pay almost double the original price



Goldy goes into debt and no longer has the spirit to cheer for the Gophers

# Best Buy's Current Leasing Service Faces Controversy

**Best Buy's Progressing Leasing service faces criticisms for targeting low-income consumers, but alternatives are no better.**

## Criticisms of the Current Model

Best Buy's current Progressive Leasing program has been criticized as being predatory toward low-income shoppers.<sup>13</sup> The lease-to-own service is offered to shoppers who do not qualify for the Best Buy credit card as an alternative financing option. For a year long lease—in addition to a \$79 fee—customers can end up paying over double the retail price.<sup>14</sup> The current leasing model is damaging Best Buy's brand image and does not align with the company's dedication to customer obsession.

## Alternatives Pose Issues

If Best Buy did not offer this Progressive Leasing service, many low-income consumers would find other alternatives such as buying from rent-to-own retailers or payday loans.<sup>15</sup> These alternatives also involve high interest rates that are risky for low-income customers.

## Emergence of Financial Technology

There has been an emergence of many new financial technology (fintech) companies in recent years. Companies like Afterpay, Sezzle, Klarna, and Paypal are offering “buy now, pay later” services. However, fintech companies are facing issues with lack of trust, low transparency, security breaches, and more.<sup>16</sup> In addition, these fintech companies take a 4-6% commission fee per transaction.<sup>17</sup> Given that Best Buy already has a leasing service established, it is preferable to remodel the service in-house to avoid paying additional commission fees.



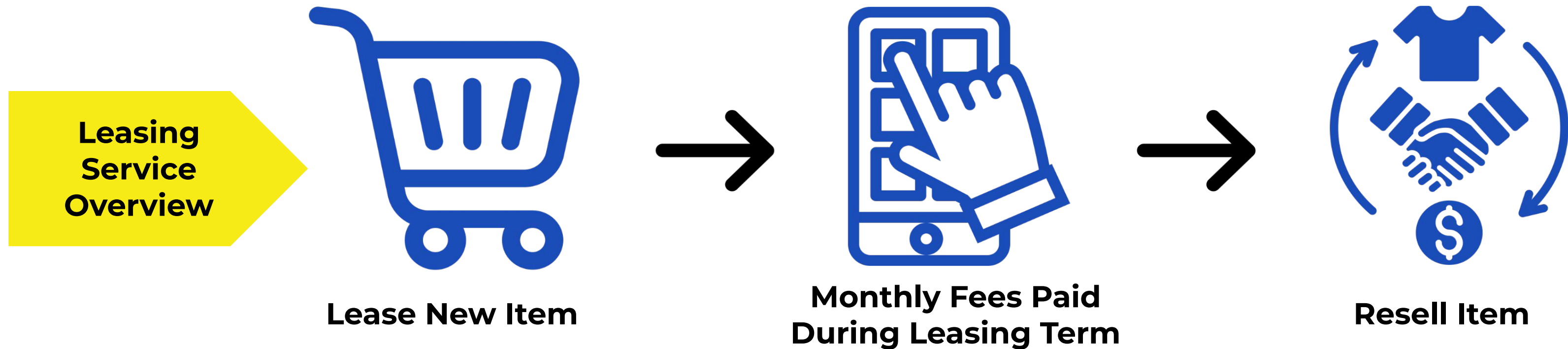
# **Reenvisioned Leasing Service**

## **What it is**



# A Reenvisioned Leasing Service Benefits Best Buy

**Shifting to a conventional leasing model and implementing a resale option will allow Best Buy to appeal to early adopters and late majority.**



Best Buy should shift to a conventional leasing model that acts as a rental service, rather than a financing plan. The new service would allow for leasing terms in increments of 6, 12, 18, and 24 months. The company should revise the current leasing strategy to include a resale process at the end of the leasing term to regain profits. According to Lease Accelerator, many companies fail to consider end-of-term management and lose potential profits.<sup>18</sup>

This shift in strategy allows Best Buy to appeal to early-adopters who are interested in new technology and late-majority/low-income customers who can purchase the resale items at a discounted price. In addition, Best Buy can mend its brand image and refocus on customer obsession.

# Resale Process Poses Opportunity for Future Expansion

**The resale process allows for a smooth transition from end-of-term leased products to discounted resale items.**

- 1** Customer reaches end of their lease agreement and decides to not buy out the product
- 2** Customer drops off product or Best Buy representative goes to pick up product
- 3** Product is brought to storage/warehouse
- 4** Geek Squad performs an inspection for product quality
- 5** Product is posted online at a discounted price
- 6** New customers now have the opportunity to purchase the product at a lower price

**Future Opportunity:** open Best Buy outlet stores that sell lease returns and old models at a lower price point



# Geek Squad Guarantee Alleviates Worry of Subpar Products

Ensuring that all resale items are thoroughly tested through a Geek Squad® Certification provides customers with a “like-new” product.

## Current Open Box Conditions

- **Excellent Certified:** comes with a Geek Squad® Certification considering the product to be “like-new”; fully inspected, tested, and approved
- **Excellent:** looks brand new
- **Satisfactory:** minor to moderate signs of use, no original packaging
- **Fair:** operational but may show significant wear, no original packaging<sup>19</sup>



End of term leased products will go through a **Geek Squad® Certification**. This process ensures that resale items are functional and provides customers with more comfort when buying a previously-owned product. Prices will be adjusted to match the condition of the product.

The service gives customers a “like-new” experience during the resale process. These products will be **covered under manufacturer warranty, eligible for Geek Squad plans, and the Return and Exchange Policy.**



# Reenvisioned Leasing Service Who it's for



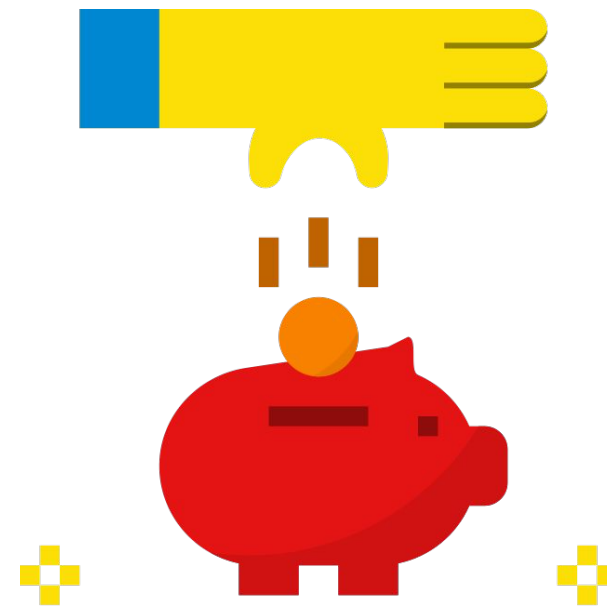
# The Leasing Service Appeals to a Varied Consumer Base

To better understand who the leasing service will be appealing to, we created three personas of potential customers: the tech lover, the thrifty spender, and the travel enthusiast.



## Tech Lover

- Always looking to buy the newest technology
- Keeps up to date with technology trends
- **Benefits from the leasing service to easily upgrade devices**



## Thrifty Spender

- Never fails to find the best deals
- Extensively researches products before purchasing
- **Benefits from the resale service for discounted items**

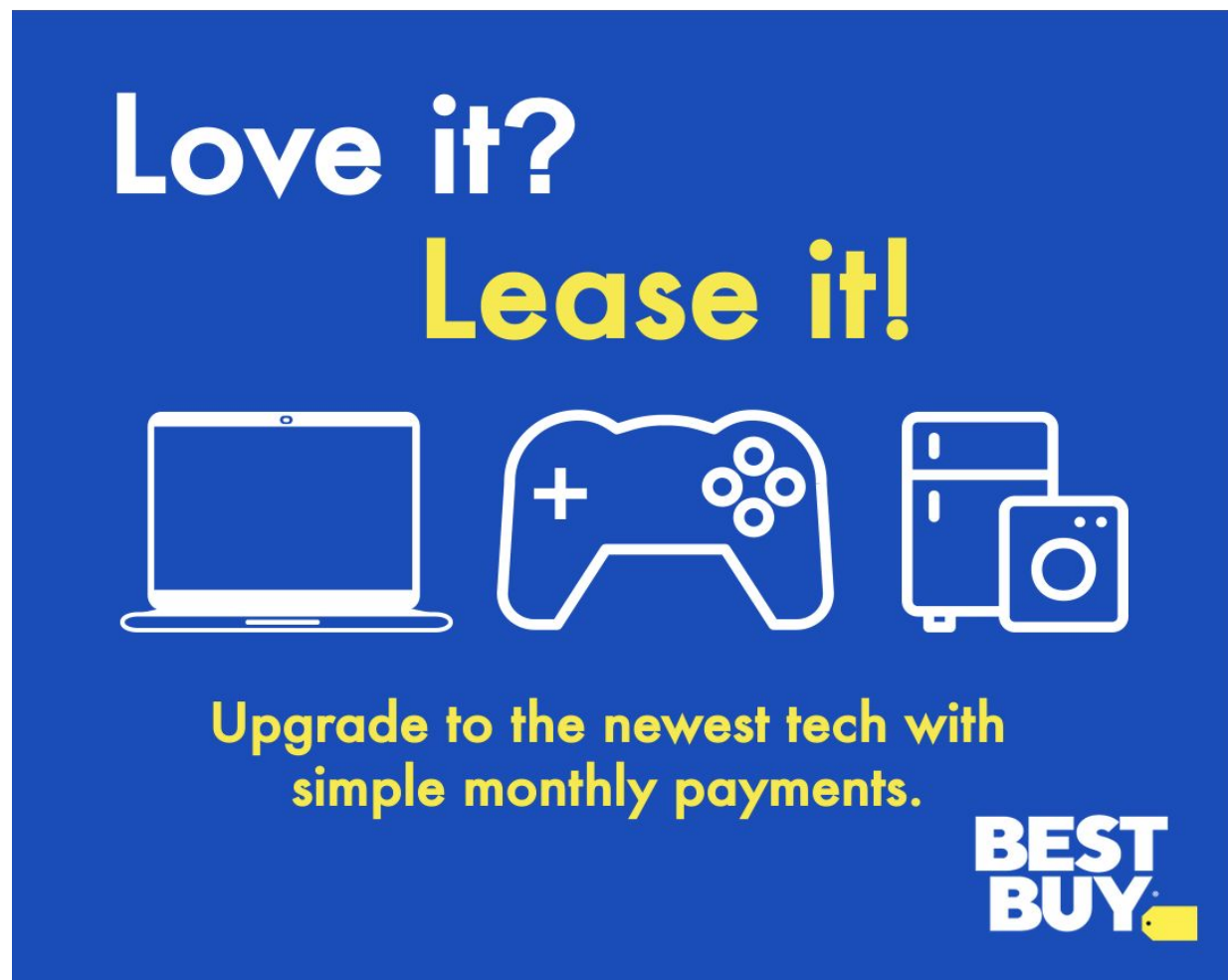


## Travel Enthusiast


- Loves traveling and never lives in one spot for too long
- Finds moving personal belongings often troublesome
- **Benefits from the short-term leasing contracts**

# Refocused Marketing Strategy Targets Two Markets

Marketing to both early adopters and the late majority—instead of low-income customers—will strengthen the promotion strategy.



Love it?  
Lease it!



Upgrade to the newest tech with simple monthly payments.

**BEST BUY**

Early adopters are always looking to try new technology.<sup>20</sup> They are more likely to pay more for new products, making them an optimal choice to target for our leasing service.<sup>21</sup>



**BEST BUY**



Just like new.

Buy gently used items for huge discounts!

quality certified by **Geek SQUAD** guarantee

The late majority is 34% of the population and waits to adopt a product until the majority does.<sup>22</sup> Since late majority customers are typically less affluent, marketing our resale service with discounted items to them is ideal.



**Reenvisioned  
Leasing Service  
Why it Works**



# Lease Financing Model Provides Additional Profits

The pricing model benefits both the customer and Best Buy.



**\$999.99**

Samsung - 55" Class Q70A Series  
QLED 4K UHD Smart Tizen TV<sup>23</sup>

**\$19.06 / mo.**

**Leasing Price**

(12 month lease, \$228.72 total)

Customer saves **nearly \$700**

Best Buy gains **over \$160** of additional profit

**\$857.13**

**Resale Value**

Customer saves **nearly \$150**

Best Buy regains remaining value  
of product at the same margins as  
a new product

# Leasing Services Succeed in Other Countries

**New companies providing rental services for appliance have proven to be successful in other countries.**

## **New Rental Companies Emerging**

Since the start of the COVID-19 pandemic, there has been a significant increase in customers that want to rent larger appliances instead of buying.<sup>24</sup> This has led to the success of several new companies, primarily in Asia, that offer this service.

The company that had the most success during the pandemic was Furlenco. This company is still in the development stage, but they have raised over \$240 million in equity.<sup>25</sup> Another company, Cityfurnish, has just offered a 45 day free trial to all of India.<sup>26</sup>

**The current market in India for furniture rental is \$1.5 billion and is expected to grow by over \$750 million over the next two years.<sup>27</sup>**



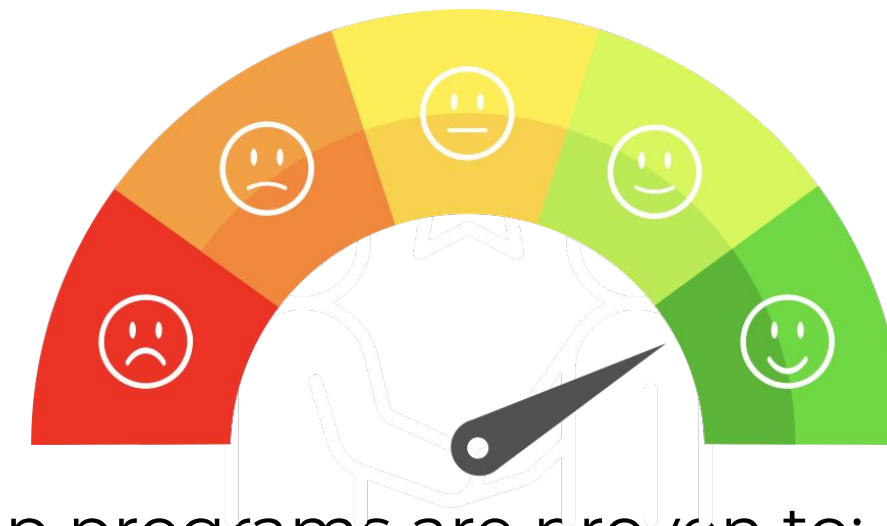
# Leasing Service Strengthens the Totaltech Membership

Implementing the leasing service will make the \$199.99 yearly Totaltech membership more attractive to customers that plan on leasing.

**BEST BUY**  
**totaltech**<sup>™</sup>

Free delivery/installation, 2-day shipping, and discounted repairs—included in the membership—make the leasing process smoother. 69% of survey respondents said they would abandon orders due to high shipping costs or long delivery times.<sup>28</sup>

Totaltech members will be exempt from paying the additional leasing fee. These cost savings and added benefits will encourage leasing customers to purchase a Totaltech membership.



Membership programs are proven to:

- Increase brand loyalty
- Provide a steady stream of revenue
- Sell more products/services
- Generate higher revenue
- Improve referral rates<sup>29</sup>

The leasing service will boost membership sales and allow Best Buy to capture more of these benefits.





**Reenvisioned  
Leasing Service  
Product Journey**



# Product Journey of a 55" 4K Television

The product journey demonstrates the steps of the leasing/resale process.



**\$999.99**

Samsung - 55" Class Q70A Series  
QLED 4K UHD Smart Tizen TV



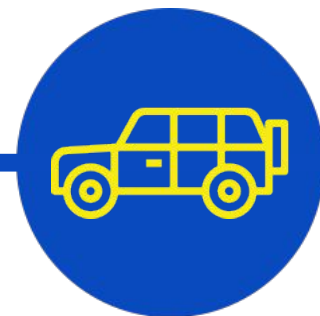
Travel Enthusiast  
decides to lease a  
TV and picks up  
item from Best  
Buy Store



Customer pays  
monthly payments  
of \$19



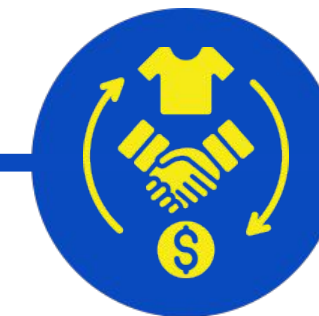
Customer decides  
to upgrade after 12  
month lease  
period



Customer drops  
off the TV at Best  
Buy store



The Geek Squad  
inspect product  
quality and rates  
condition



TV is listed on the  
resale market



Thrifty Spender  
decides to  
purchase the TV at  
a discounted price  
of \$857



# Implementation + Impact

- Timeline
- Financial Benefits
- Why it's Worth the Risk
- Soft Benefits
- Customer Obsession



# Planning and Gathering Customer Feedback Increases the Chances of Success

Incrementally testing for continued success and customer satisfaction is imperative to the progression of the launch.

Test the leasing service with the identified market

Expand the service to all eligible items

**January 2022**

**June 2022**

**January 2023**

**January 2024**

Introduce the service into the mainstream market for select items with short-term leases

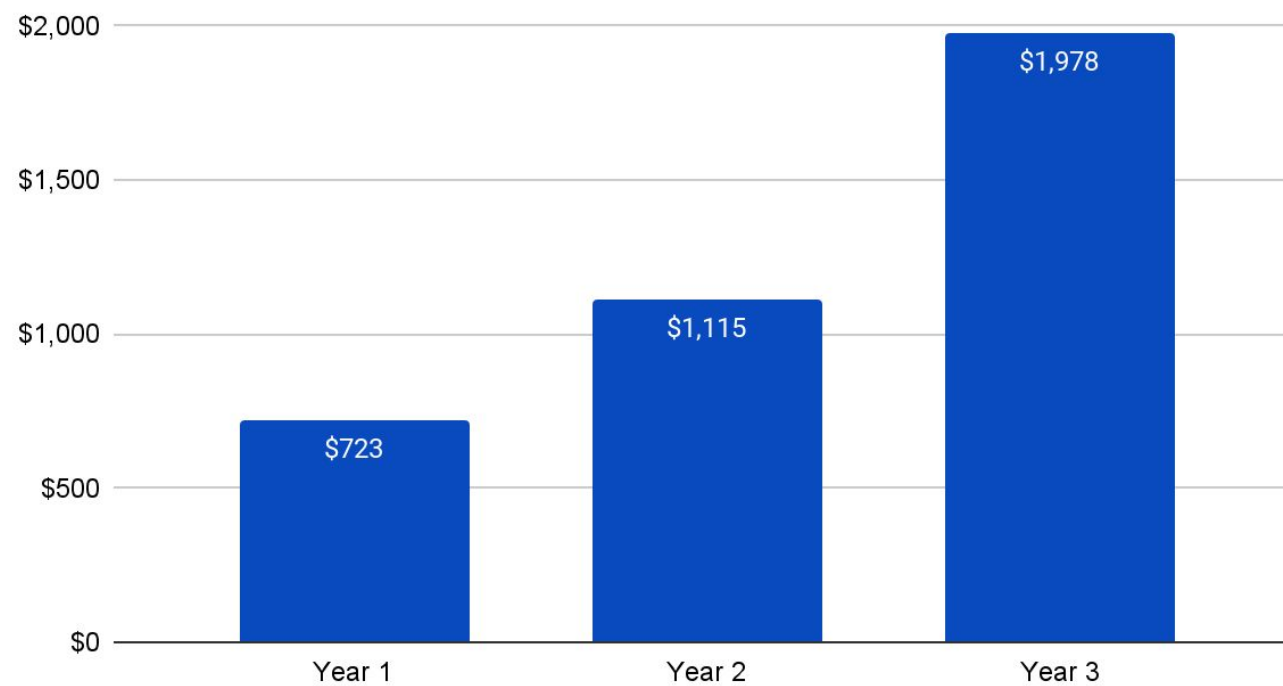
Launch resell warehouses

# Leasing Service Provides Additional Profits

Implementing the leasing service will result in increased profits as the service grows.

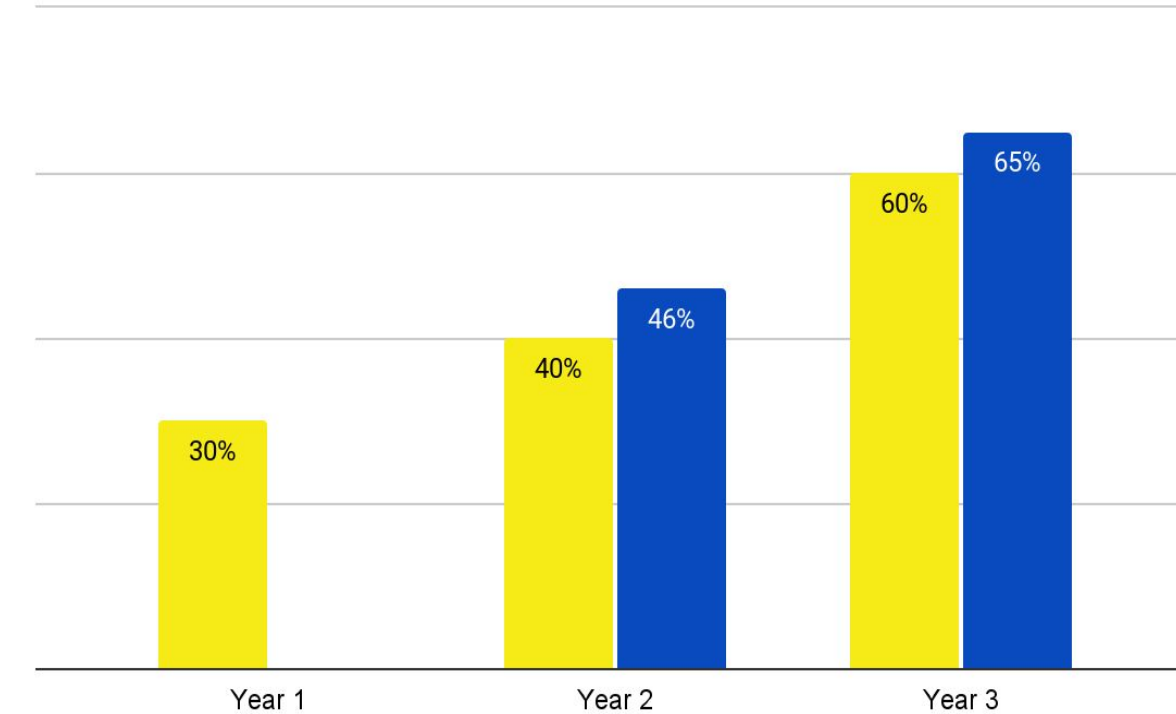
	Year 1	Year 2	Year 3
<b>Expected Lease Revenue (millions)</b>	\$723	\$1,115	\$1,978
<b>% of Leased Items</b>	30%	40%	60%
<b>% Increase in Profit</b>	-	46%	65%

Expected Lease Revenue (in millions)



Implementing the leasing service projects revenue growth over the long-term

% of Leased Items % Increase in Profit



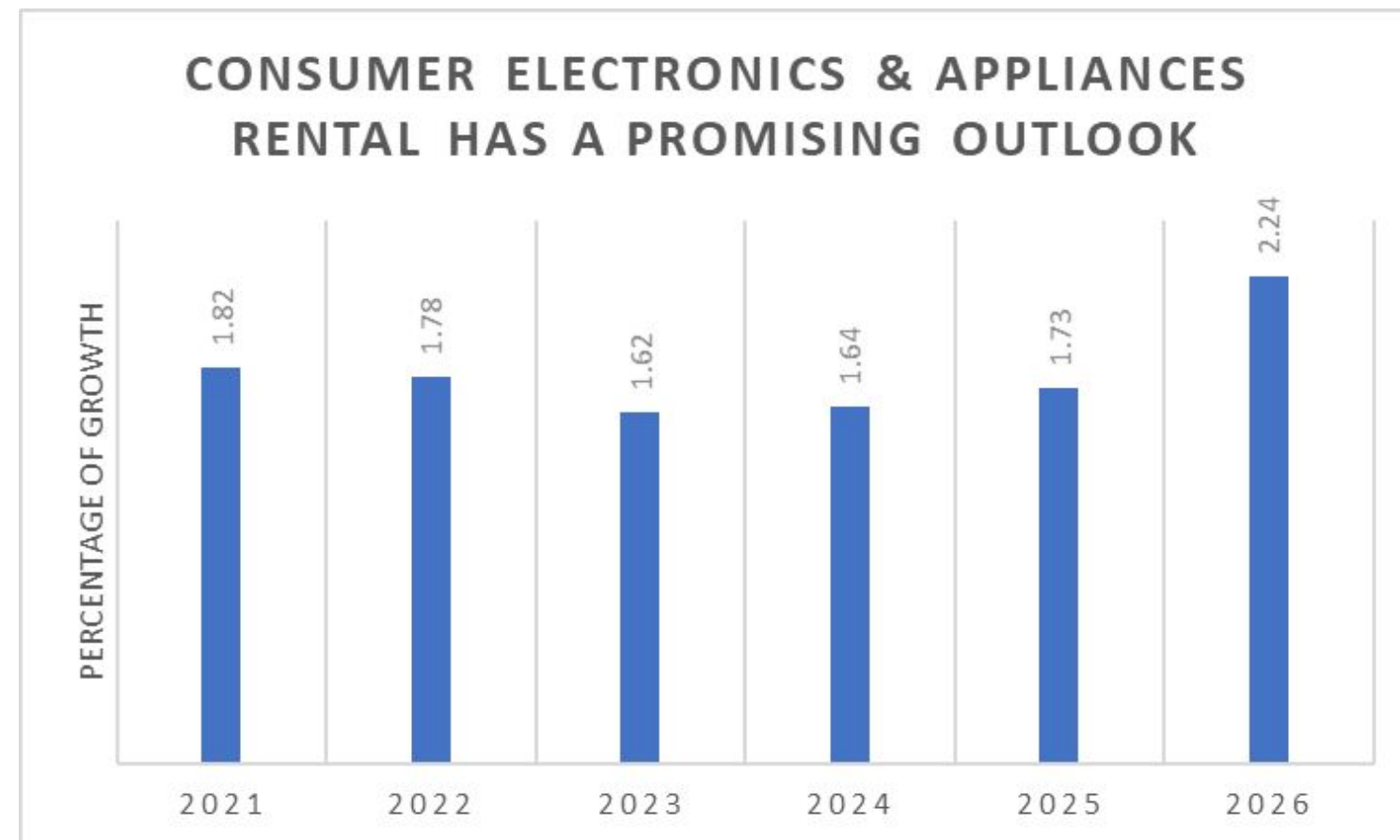
As the items available for lease grows, an increase in profit follows

# The Benefits from the Growing Leasing Market Outweigh the Risk of Implementation

**Best Buy is positioned to gain more revenue by joining the consumer electronics/appliances leasing market.**

The Consumer Electronics and Appliances Rental industry provides a variety of items, including TVs, refrigerators, computers and stereo systems, for consumers on rent or lease-to-own basis.

The consumer electronics and appliances leasing market revenue is expected to grow, rising at an annualized rate of 1.8% to \$9.3 billion in the coming years.<sup>30</sup>



There are alternative solutions like partnering with “Buy Now, Pay Later” companies like Afterpay and Sezzle that take on the financial risk. However, implementing our proposed leasing service in-house will allow Best Buy to get an early mover advantage in this growing industry, avoid paying commission costs, and capture additional profits.

The benefits that Best Buy can gain by implementing this service outweigh the potential risks of missed payments.

# Reenvisioned Strategy Mends Brand Image

**Implementing the reenvisioned leasing service will allow Best Buy to expand its target market and mend its brand image.**

## **Brand Image**

The reenvisioned leasing strategy will allow Best Buy to repair its brand image. One of the main criticisms of the current service is that the leasing prices are too expensive. By incorporating the resale service to regain profits, Best Buy can offer more reasonable leasing prices and mend its brand image. The COVID-19 pandemic caused extreme disruptions in brand loyalty, with 39% of consumer cited abandoning trusted brands for new ones.<sup>31</sup> Now more than ever, it is paramount that Best Buy offers the best customer experience to maintain a positive brand image and retain a loyal following.

## **Expanding Markets**

The leasing service will expand Best Buy's current target market to both early adopters and the late majority. Best Buy will be synonymous with not only high end technology, but also great deals and savings. Implementing this leasing service will allow Best Buy to capitalize on two markets and diversify its customer base. The resale service will attract more late majority/lower-income customers. This will allow Best Buy to restore its relationship with the customer base who may have had negative experiences with the original leasing service.

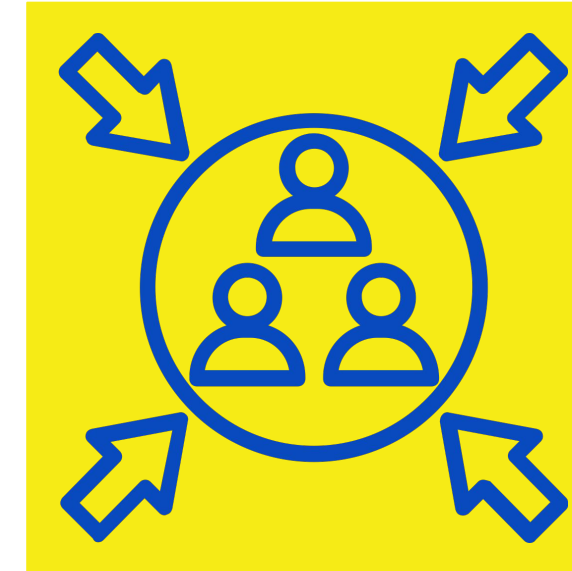
# Leasing Service Reinforces Customer Obsession

**Maintaining customer obsession will improve the customer experience and strengthen brand loyalty.**



## **Seamless Customer Experience**

Every customer interaction matters. Best Buy must be committed to creating a perfect experience for every customer. With a dedicated team at Best Buy committed to installation, quality inspection, repairs, and more, every step of the leasing process will feel seamless. Creating a perfect customer experience will strengthen brand loyalty and encourage customers to return.



## **Putting the Customer First**

The reenvisioned leasing program will keep the customers' best interests in mind, while also benefiting Best Buy. With more reasonable prices and expanded leasing options, the leasing service will feel less like a money grab and more like a convenient service. These new changes align with Best Buy's customer obsessed model and will make the consumers will feel like valued customers.





# Appendix

- Appendices
- Works Cited



# Appendix I: SWOT Analysis

## Strengths

- Expands early adopter and late majority customer base
- Increases brand loyalty
- Provides cheaper resale options for low-income customers
- Gives customers the chance to try technology before committing

## Weaknesses

- High turnover rate of tech
- Cost of installation / transportation
- Resources needed for Geek Squad guarantee
  - Maintenance / refurbishing costs
  - Labor costs

## Opportunities

- Create Best Buy outlets for resale items
- Strengthens customer obsession as consumers get access to more products (early adopters) / able to afford discounted technology (late majority)
- Expand to more items like washers and dryers

## Threats

- Fairly large project
- May be viewed as another predatory financial service
- Emergence of financial technology / financing alternatives

# Appendix II: Success Factors of Leasing Services

According to lease accelerator, the 15 factors of successful leasing programs are:

1. Conduct lease versus buy analysis
2. Source leases competitively
3. Standardize contracts
4. Manage end-of-term
5. Define a leasing strategy
6. Appoint an executive sponsor
7. Enforce policies and controls
8. Invest in talent
9. “Gain-share” with business units
10. Build a system of record
11. Automate business processes
12. Track at the asset level
13. Verify data periodically
14. Arm stakeholders with insights
15. Measure leasing KPIs<sup>32</sup>

# Appendix III: Example Lease / Resale Pricing Model

**Product:** Samsung - 55" Class Q70A Series QLED 4K UHD Smart Tizen TV (\$999.99)

## Cost Breakdown

Yearly Value :  $\$999.99 / 7 = \$142.86$

\*Televisions have ~7 year useful life<sup>33</sup>

Monthly Value:  $\$142.86 / 12 = \$11.91$

60% Service Fee:  $\$11.91 * 60\% = \$7.15$

Customer's Monthly Payment:  $\$11.91 + \$7.15 = \$19.06$

Total Customer Payment:  $\$19.06 * 12 = \$228.72$

One-time leasing fee:  $\$79^{34}$

## Resale Breakdown

Resale Value:  $\$999.99 - \$142.86 = \$857.13$

## Best Buy Benefit:

$\$79 + (\$7.15 * 12) = \$164.80$

Best Buy gains \$164.80 of additional profit due to leasing service

## Customer Benefit:

$\$999.99 - \$228.72 - \$79 = \$692.27$

$\$999.99 - \$142.86 = \$857.13$

Leasing customer saves \$692.27

Resale customer saves \$ 142.86

# Appendix IV: 3-Year Financial Projections

Working model

	(Millions)							
<b>2021 Revenue US</b>	<b>\$43,293</b>							
by segment:								rev increase 2020 to 2021
consumer electronics	30%	\$12,988				<b>2020 revenue</b>	<b>\$40,114</b>	\$3,179
appliances	13%	\$5,628	total:	\$18,616				% increase
								8%
<b>2022 expected revenue</b>	<b>\$46,724</b>							
consumer electronics	30%	\$14,017			30% leased sales	60% profit	exact profit	
appliances	13%	\$6,074	total:	\$20,091	\$6,027	\$9,644	\$3,616	
<b>2023 expected revenue</b>	<b>\$54,043</b>							
consumer electronics	30%	\$16,213			40% leased sales	60% profit	exact profit	% increase
appliances	13%	\$7,026	total:	\$23,239	\$9,295	\$14,873	\$5,577	54%
<b>2024 expected revenue</b>	<b>\$63,903</b>							
consumer electronics	30%	\$19,171			60% leased sales	60% profit	exact profit	% increase
appliances	13%	\$8,307	total:	\$27,478	\$16,487	\$26,379	\$9,892	77%
<b>Assumptions</b>								
Revenue is increasing by	8%							
Consumer electronics are	30%	of total revenue						
Appliances are	13%	of total revenue						
Total leased sales year 1	30%							
Total leased sales year 2	40%							
Total leased sales year 3	60%							
Leasing profit	60%							

Assumptions:

1. Technology has a lifespan of ~5 years
2. On average, the 12 month lease term will be the most popular
3. Service fee will be 60% of each monthly payment
4. Percentage of leased sales will be 30%, 40%, 60% respectively in the next three years

DATA SOURCE: Vailshery, Lionel Sujay. "Revenue Share of Best Buy in the United States in 2021, by Segment." Statista, May 27, 2021. <https://www-statista-com.ezp3.lib.umn.edu/statistics/249733/revenue-share-of-best-buy-in-the-us-by-segment/>.

DATA SOURCE: Vailshery, Lionel Sujay. "Revenue of Best Buy in the United States from 2012 to 2021." Statista, May 27, 2021. <https://www-statista-com.ezp2.lib.umn.edu/statistics/297453/us-revenue-of-best-buy/>.

# Endnotes

- <sup>1</sup> Curtis, Mark, and Martha Cotton. "Fjord Trends 2021." Accenture. Accenture. Accessed December 6, 2021. [https://www.accenture.com/\\_acnmedia/PDF-142/Accenture-Fjord-Trends-2021-Full-Report.pdf](https://www.accenture.com/_acnmedia/PDF-142/Accenture-Fjord-Trends-2021-Full-Report.pdf).
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