

MARKETPLACE

THE WALL STREET JOURNAL

FRIDAY, APRIL 29, 2005 B1



Nathan Kirkman/ESI Design; Bloomberg News/Landov (inset)

Slimming Down Stores

Big-Box Retailer Best Buy Experiments With Boutiques; Burger King's Shrinking Acre

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LAST MONTH, Jill Wennmaker and her daughter drove an hour each way to attend a class on making digital scrapbooks out of photos and other images at Studio D, a stylish electronics boutique in Naperville, Ill.

Mrs. Wennmaker, 51 years old and a special-education teacher, says the cozy setting and pleasing décor set the small store off from big-box electronics retailers in the area. Rather than being crammed with blaring stereos and big-screen TVs, Studio D "is welcoming," she says, noting that it offers

advice and training on photography, personal computers and MP3 music players. "There's nothing else like it," she concludes.

That's music to the ears of Studio D's owner, **Best Buy Co.**, the nation's largest retailer of consumer electronics and a symbol of huge stores filled with tons of consumer electronics.

Over the past decade, Best Buy's bigger-is-better strategy has left competitors such as **Circuit City Stores Inc.** and **Ultimate Corp.** in its wake. Now, however, it's experimenting with intimate, 3,500- to 5,000-square-foot concept stores that target specific groups. In the case of Studio D, that's

women who make the buying decisions for their households; for another experimental store, Escape, in Chicago's hip Lincoln Park neighborhood, Best Buy is trying to attract young, high-techsavvy men and women.

The concept stores are the latest move on the part of Best Buy to reshape its customer base. Last year, it created a furor in retailing by embracing a strategy that shuns the 20% of customers who cost it money. While controversial, that effort has begun to pay off. In the quarter ended Feb. 26, sales at stores embracing the new strategy rose 8.4% compared with a gain of just 2.3% at existing stores.

Best Buy's Escape store (above) is miniscule compared with company's traditional big box (inset).

Today, as Best Buy casts about for a way to woo prized customers and expand internationally, it has further good reason for dabbling with concept stores. With 838 warehouse stores in the U.S. and Canada, the company is running out of places to put its 50,000-square-foot behemoths.

It's a problem that bedevils other businesses seeking to expand. A number of restaurant chains are also building smaller units. Among other reasons, the U.S. fast-food market is in many places oversaturated and there are fewer developable parcels of land, particularly in major cities.

At **Burger King Corp.**, Chief Executive Greg Brenneman's turnaround strategy hinges in part on building restaurants that could be just two-thirds the size of a traditional unit, capable of fitting on a half-acre of land, rather than a full acre. "Land costs matter," Mr. Brenneman says, "and being able to put these on smaller sites that you can get into high-traffic areas is crucial."

Wendy's International Inc. is experimenting with two new formats. One restaurant is about two-thirds the size of a traditional Wendy's, seating between 50 and 60 people instead of today's average of about 88. Tom Mueller, president of Wendy's North America, says the new restaurants are designed primarily for small towns or "filler locations" between cities or between two "flagship stores." The company is also experimenting with "drive-through-only" locations. A third chain, **Applebee's International Inc.**, has built some 60 restaurants with "smaller footprints" seating 145 instead of the usual 200.

At Best Buy, executives hope that experiments with boutiques will teach them how to create stores that match the hobbies and electronics interests of prized groups of customers. Toward that end, Studio D and Escape both encourage hours-long visits, emphasize training and other services. "We are in the process of reinventing what Best

Buy means to its customers, [and] finding new ways to serve diverse customer groups," says Bradbury H. Anderson, Best Buy's chief

executive officer.

Rivals have similar ambitions. **Sony Corp.** hopes to open as many as 60 of its boutique Sony Style stores in the next few years. **Dell Inc.** and **Apple Computer Inc.** also are opening retail kiosks or stores in upscale shopping malls around the U.S.

Unlike its rivals, Best Buy says the concept stores work best as satellites to its local warehouse stores. Studio D, for instance, got rid of a home-theater section in favor of a second meeting area after customers said they preferred a referral to a Best Buy because of its better selection.

Best Buy hired **ESI Design Co.**, known for its work on interactive museums, to design Studio D and Escape. Studio D's warm lighting and cozy nooks resemble those in a women's boutique, while Escape's glass-and-metal interior has the feel of a nightclub.

Edwin Schlossberg, ESI's president, says the goal was to create a setting where "you could expect to bump into friends rather than a place with every single variety of digital camera."

James Damian, a Best Buy senior vice president, describes the central idea of Studio D and Escape as "community-centric" retailing -- neighborhood stores that are closely tied to the interests and activities of area residents.

Both stores sell yearly memberships that provide discounts on services and access to group events or private parties. And neither limits selling to the store floor. Studio D, for instance, sends staff to school and community events to demonstrate digital cameras. Escape has a hulking Lincoln Navigator that can ferry customers to or from Wrigley Field, home of the Chicago Cubs baseball team, and to clubs and parties.

In place of the stack-'em-high and sell-'em-low approach to electronics merchandising, Studio D emphasizes services, such as printing large-format photos, custom stationery or creating a family calendar on a computer. It also charges \$40 for individual consultations -- such as how to add a laptop PC to a network.

Such activities can lead to customers inviting friends into the store to attend classes together, view a neighbor's photo exhibit or settle a debate on technology, Mr. Damian says. He adds: "If we could build a network where our customers become evangelists, or become our sales force, what could that mean in terms of loyalty? We think that's absolutely huge."

Some visitors have done just what Mr. Damian hopes for. Charles Hwang, a 26-year-old graduate student from Singapore, took a nontechie friend to Escape recently to introduce him to the newest cellphones and MP3 players. "I love this store," Mr. Hwang said. "All the latest gadgets are in this store. If you go to a RadioShack, you don't see this stuff."

Nic Sagez, a 27-year-old University of Chicago graduate student, says he has visited Escape five times since it opened in November, mostly to try out new games and rent time on its members-only videogame console booths. He recently took five friends to the store to play Halo2 on the networked game-console. "It's definitely smaller, not as overwhelming as a Best Buy. The ambience is more hip than a Best Buy," he said.

Still, Studio D and Escape generate less profit per square foot than Best Buy stores, Mr. Anderson concedes. "Initially, we care much more about what we learn than the economic model of those two strategies," Mr. Anderson said. The concept stores have already helped shape marketing to women and young men at Best Buy stores, he says.

Insiders say a proposal to add up to 10 Studio D stores is expected to soon go before the Best Buy board. However, Mr. Anderson says it's too soon to know whether Studio D or Escape could operate profitably as stand-alone units.

He might consider the habits of Mr. Sagez, the graduate student. For all his enthusiasm about Escape, Mr. Sagez says going there has led him to spend more on game rentals than on buying games. "People more are playing with a device here and getting it online," he says. "It's cheaper."