



Dawn Keller – Best Buy
Prediction Markets Conference
Kansas City
November 1, 2007

Internal Case For Change

“None of us is as smart as all of us”

Japanese Proverb

“If only HP knew what HP knows”

Former Hewlett-Packard CEO Lew Platt

**“It is increasingly harder for someone with insight
to do something about it or get connected
with someone who can.”**

Shari Ballard [Best Buy EVP], on why big companies routinely fail

Why Do We Need A Prediction Market

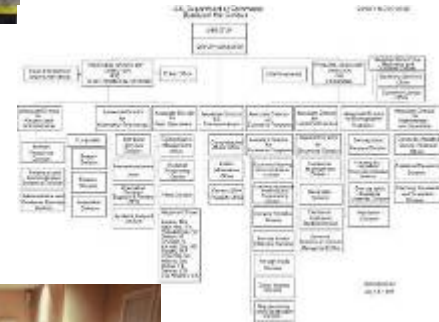
Truth #1: Everyone has insight



Truth #2: BBY is already determined to unleash individual insight & collective intelligence



Truth #3: The larger & more spread out the organization, the harder it is to transmit insights to where they're needed



Truth #4: The more senior you are, the less likely it is that you will receive insights.



Truth #5: Companies are neither democracies nor free markets. A few people at the top make decisions/allocate resources.



Consequences for Best Buy

As we grow in size, scope, and complexity,
our senior decision-makers
get fewer insights ...

making it more difficult for them
to make good decisions.



BUT ...

Knowledge, insights, and ideas are out there.

**A Prediction Market is but one way
to help the company listen.**



How Trading Markets Can Help



1. Markets can invite insight from anywhere/everywhere
2. Markets can protect anonymity; get better information
3. Markets are dynamic, real-time indicators
4. Markets consolidate everyone's insights/information/sentiment into a single, actionable, easy-to-understand metric: **A PRICE**

Our Vision



Tens of thousands of BBY employees trade “stocks” around future BBY events, using their own insights



The prices of these “stocks” are listed on Tagzone. They instantly change as supply and demand ebb and flow



Price levels and acute price changes inform senior-level decision-making

Factors in Our Favor



Our Business:

- Very dynamic
- Increasingly complex
- International, multi-brand, multi-business
- Harder to predict

Our Structure:

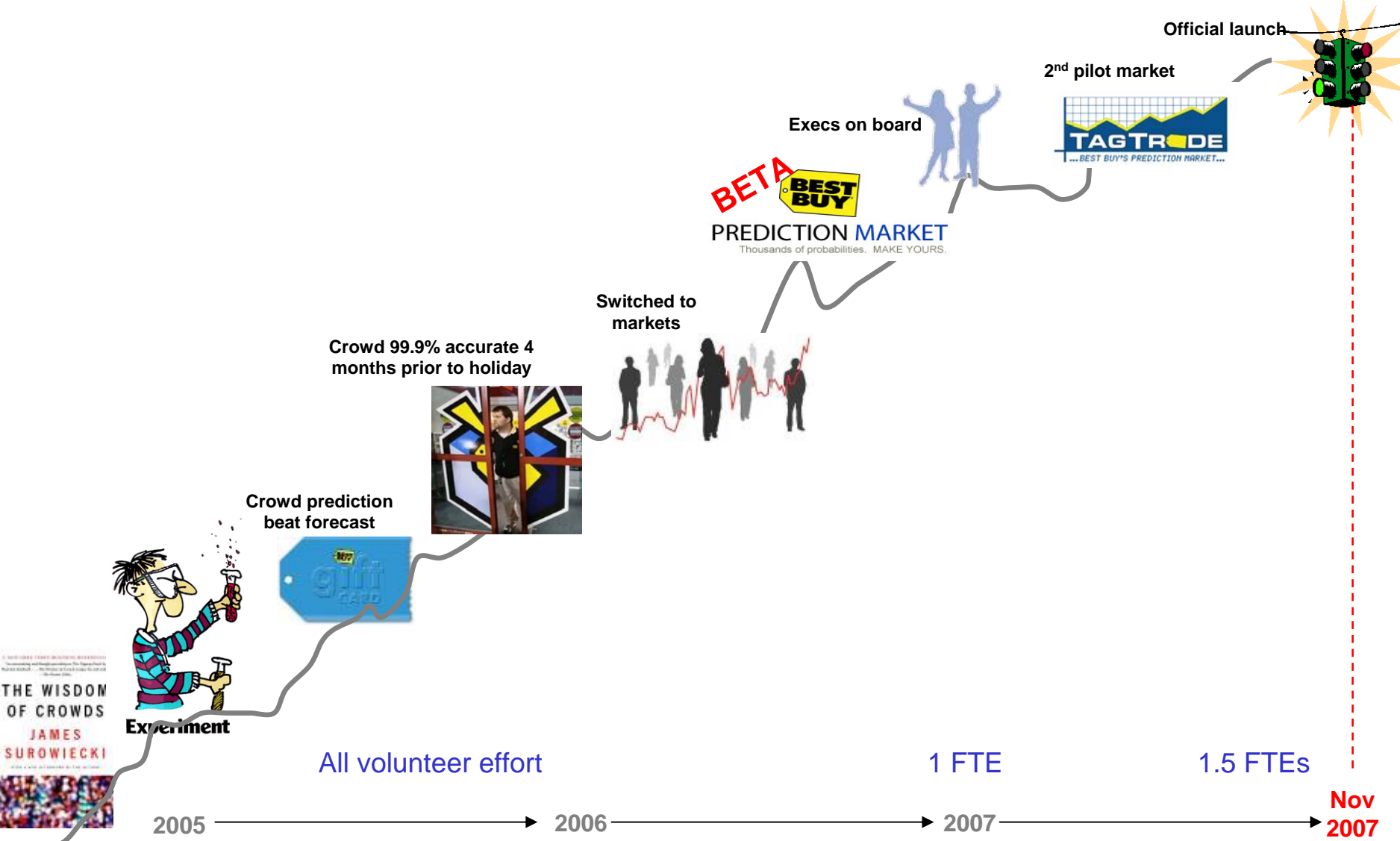
- Majority of employees spread across the country, globe
- These customer facing employees hold significant insights
- They have the fewest access points to decision makers

Our Culture/Values:

- Have Fun While Being the Best
- Unleash the Power of our People
- Invite each employee to contribute his/her unique ideas, insights, and experiences in service of customers
- Executive humility
- Less top-down, more bottoms-up

Journey Thus Far

Inspiration to Incubation to Implementation



Two Test Markets to Get Feet Wet



Fall 2006

- Small group (100+) of test traders at Corporate Office

Spring 2007

- Retail Management – Upper Midwest (Store, District, Regional level)
- Returning Corporate Office participants

Primary Objectives

Understand participation patterns and drivers

Understand how to communicate the market

Learn how to choose, structure, write, and time stocks

Secondary Objective

Market Performance

A Look Inside



TAGTRIDE Prediction Market - Microsoft Internet Explorer provided by Best Buy Co., Inc.

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Top 10 Traders

- 1) dwass | \$4,926,150
- 2) BADINGMAN | \$3,042,501
- 3) scmd01 | \$1,861,540
- 4) greblow | \$1,686,441
- 5) TheBatman | \$1,474,923
- 6) J_Lebowski | \$1,473,159

Hello, BBYTrader00 (Sign Out) | Portfolio

Data current as of: 2007/05/24 12:15:04 -500
Tip: Think the price is too high? You can sell stock and make money as the price falls. [Learn how!](#)

Today's Most Active Stocks

| Symbol | Stock Name | Price | Change | Volume | |
|--------------------------|--|---------|--------------------|--------|-------|
| PIRATES | Pirates3: Bigger Opening Weekend Than Spider-Man3? | \$46.26 | ↓ \$36.94 (44.40%) | 97,524 | Trade |
| ATTACH | Geek Squad Svcs Attach Rate Hits 32% in May (ME) | \$5.22 | ↓ \$10.89 (67.60%) | 40,515 | Trade |
| RZMCJUNE | RZMC New Enrollments > 50,000 in June | \$56.22 | ↑ \$3.72 (7.09%) | 29,018 | Trade |
| T4CSIMAY | (T4) CSI Index Score: May >= 79.0% | \$92.76 | ↑ \$9.56 (11.49%) | 19,940 | Trade |
| REV.MAY | (T4) POS Sales Hits or Exceeds May Budget | \$9.11 | ↓ \$9.13 (50.05%) | 19,127 | Trade |
| HDA.HTI | HT Install Attach Rate - June (Scale) | \$61.06 | ↓ \$5.76 (8.62%) | 17,419 | Trade |
| GMP.MAY | (T4) POS Margin % May (Scale stock) | \$42.56 | ↓ \$12.42 (22.59%) | 16,450 | Trade |
| CSI.MAY | National CSI Index Score Hits 79 in May | \$95.69 | ↑ \$5.22 (5.77%) | 15,638 | Trade |
| DBS.NEW | DirecTV Subs June: % That Are NEW Subs (Scale) | \$52.50 | ↓ \$4.94 (8.60%) | 15,432 | Trade |
| T4LABOR | (T4) Labor Expense as % of Budget - May (Scale) | \$54.98 | ↑ \$6.23 (12.78%) | 14,400 | Trade |

Today's Top Gaining Stocks

| Symbol | Stock Name | Price | Change | Volume | |
|--------------------------|--|---------|--------------------|--------|-------|
| T4MEMDAY | T4 Memorial Day Wknd POS Revenue (Scale) | \$82.49 | ↑ \$26.27 (46.73%) | 6,900 | Trade |

Done Internet

A Look Inside

All Stocks

Number of Stocks: 14

| Symbol | Stock Name | Price | Change | |
|--------------------------|--|---------|-----------|-----------------------|
| ATTACH | Geek Squad Svcs Attach Rate Hits 32% in May (ME) | \$9.53 | ↓ \$9.47 | Trade |
| CSI.MAY | National CSI Index Score Hits 79 in May | \$95.69 | ↑ \$2.93 | Trade |
| DBS.NEW | DirectTV Subs June: % That Are NEW Subs (Scale) | \$50.00 | ↑ \$3.74 | Trade |
| DBS.UPGR | DirectTV Subs June: % That Are UPGRADES (Scale) | \$56.22 | \$0.00 | Trade |
| GMP.MAY | (T4) POS Margin % May (Scale stock) | \$42.56 | \$0.00 | Trade |
| HDA.DBS | DirectTV Attach Rate – June (Scale) | \$67.92 | \$0.00 | Trade |
| HDA.HTI | HT Install Attach Rate - June (Scale) | \$61.06 | ↓ \$2.35 | Trade |
| MAY.ESE | Rev from May Exclusive Sales Event Coupons (scale) | \$66.82 | ↑ \$2.25 | Trade |
| PIRATES | Pirates3: Bigger Opening Weekend Than Spider-Man3? | \$24.05 | ↓ \$29.69 | Trade |
| REV.MAY | (T4) POS Sales Hits or Exceeds May Budget | \$10.91 | ↓ \$7.33 | Trade |
| RZMCJUNE | RZMC New Enrollments > 50,000 in June | \$56.22 | ↓ \$6.03 | Trade |
| T4CSIMAY | (T4) CSI Index Score: May >= 79.0% | \$93.99 | ↑ \$2.31 | Trade |
| T4LABOR | (T4) Labor Expense as % of Budget - May (Scale) | \$54.98 | ↑ \$2.48 | Trade |
| T4MEMDAY | T4 Memorial Day Wknd POS Revenue (Scale) | \$78.58 | ↑ \$16.33 | Trade |

A Look Inside



TAGTRIDE market | Stock: CSI.MAY: National CSI Index Score Hits 79 in May - Microsoft Internet Explorer provided by Best Buy Co

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Address http://www.bestbuytagtrade.com/Main.php?do=stock_detail&stock=CSI.MAY Go Links

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CSI.MAY: National CSI Index Score Hits 79 in May



[Trade Now »](#)

| | | | |
|-----------------|----------|----------------|------------------|
| Symbol: | CSI.MAY | Change: | ↑ \$2.93 (3.16%) |
| Price: | \$95.69 | Your Holdings: | 0 |
| Trade Time: | 11:49:06 | IPO Date: | 2007/05/06 |
| Today's Volume: | 11,800 | Judge Date: | 2007/06/02 |
| Avg Volume: | 13,895 | Status: | Active |

[Watch this Stock](#)

[Visit the Web Site](#)

Stock Charts

Top 10 Traders

- 1) dwass | \$4,926,150
- 2) BADINGMAN | \$3,042,501
- 3) scmd01 | \$1,861,540
- 4) greblow | \$1,686,441
- 5) TheBatman | \$1,474,923
- 6) J_Lebowski | \$1,473,159
- 7) BJaedike | \$1,190,955
- 8) Local_Pirate | \$1,090,390
- 9) packerfan | \$992,621
- 10) subaru81 | \$971,810

[Top 100 Traders](#)

[24 Hours](#) | [1 Week](#) | [1 Month](#) | [3 Months](#) | [6 Months](#) | [1 Year](#) | [All](#)

(4 items remaining) Opening page http://www.bestbuytagtrade.com/Main.php?do=stock_detail&stock=CSI.MAY... Internet

Examples of Stocks



About 50 contracts

- Revenue, POS Margin, comps, etc.
- Holiday/Drive time – e.g. DI revenue during Mother's Day; Gift Card sales during Dad's Day; Memorial Day Revenue
- Loyalty programs - RZMC enrollments; ESE coupon revenue, etc.
- Expenses – e.g. Labor as % of budget
- CSI scores
- Services attach rates; HD-Advantage performance, etc.
- SKU level sales forecasts (Private label, CD new releases, insert-advertised items, new Geek services, etc.)
- External - Hot topics on analyst calls; iPhone ratings
- Sports and entertainment stocks to drive participation

Spring '07 Pilot – Participation Stats

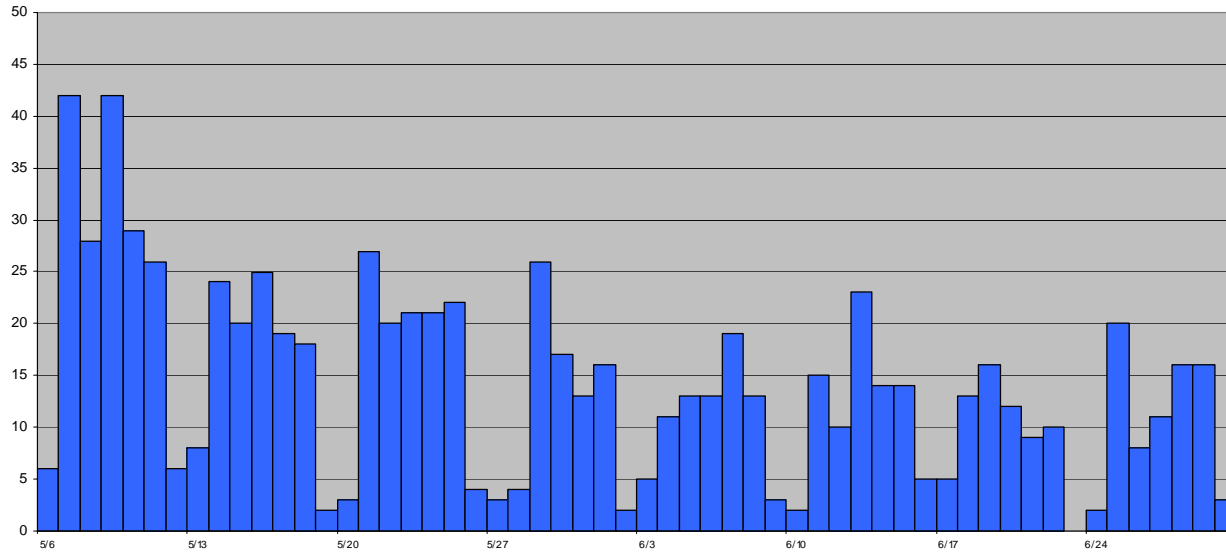


| | All Traders | Corporate | Retail – T4 |
|---|----------------|----------------|---------------|
| Total Traders (Registered) | 159 (196) | 79 (97) | 80 (99) |
| Total Transactions | 10,300 | 7450 | 2850 |
| Transactions per trader - Median (high/Low) | 22 (2/1213) | 24 (2/1213) | 21 (2/288) |
| Stocks per trader – Average (median) | 11.6 (9) | 12.4 (9) | 11.7 (9) |
| Traders per Stock - Average | 40.5 | 21 | 19.5 |

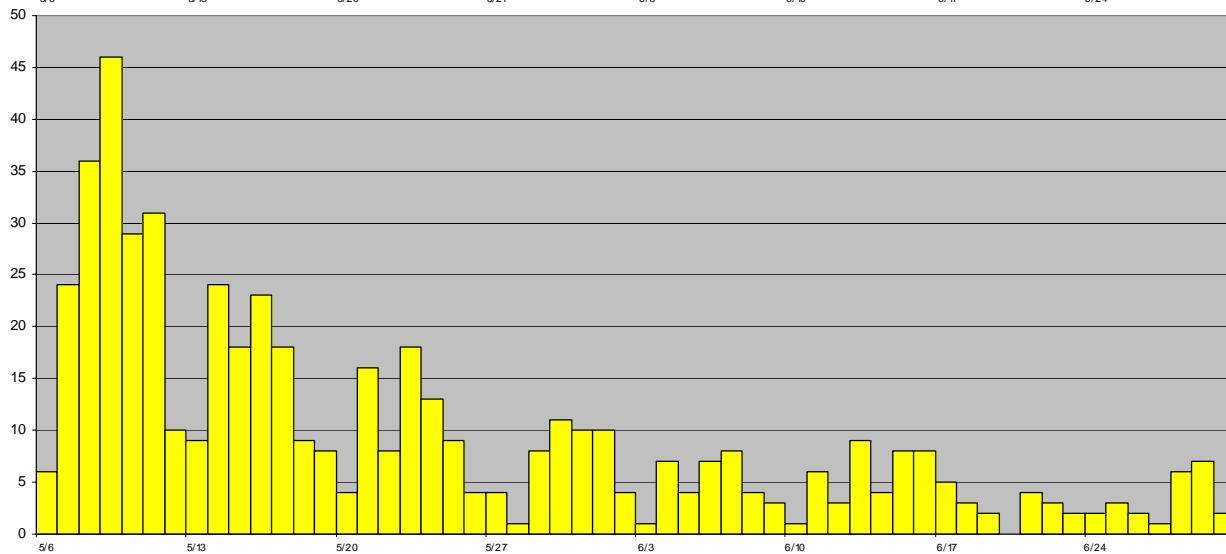
On the whole, Retail participation was not that different from Corporate. Biggest deltas were:

- More 'uber' traders at Corporate
- Steeper drop off with Retail over time

Traders per Day

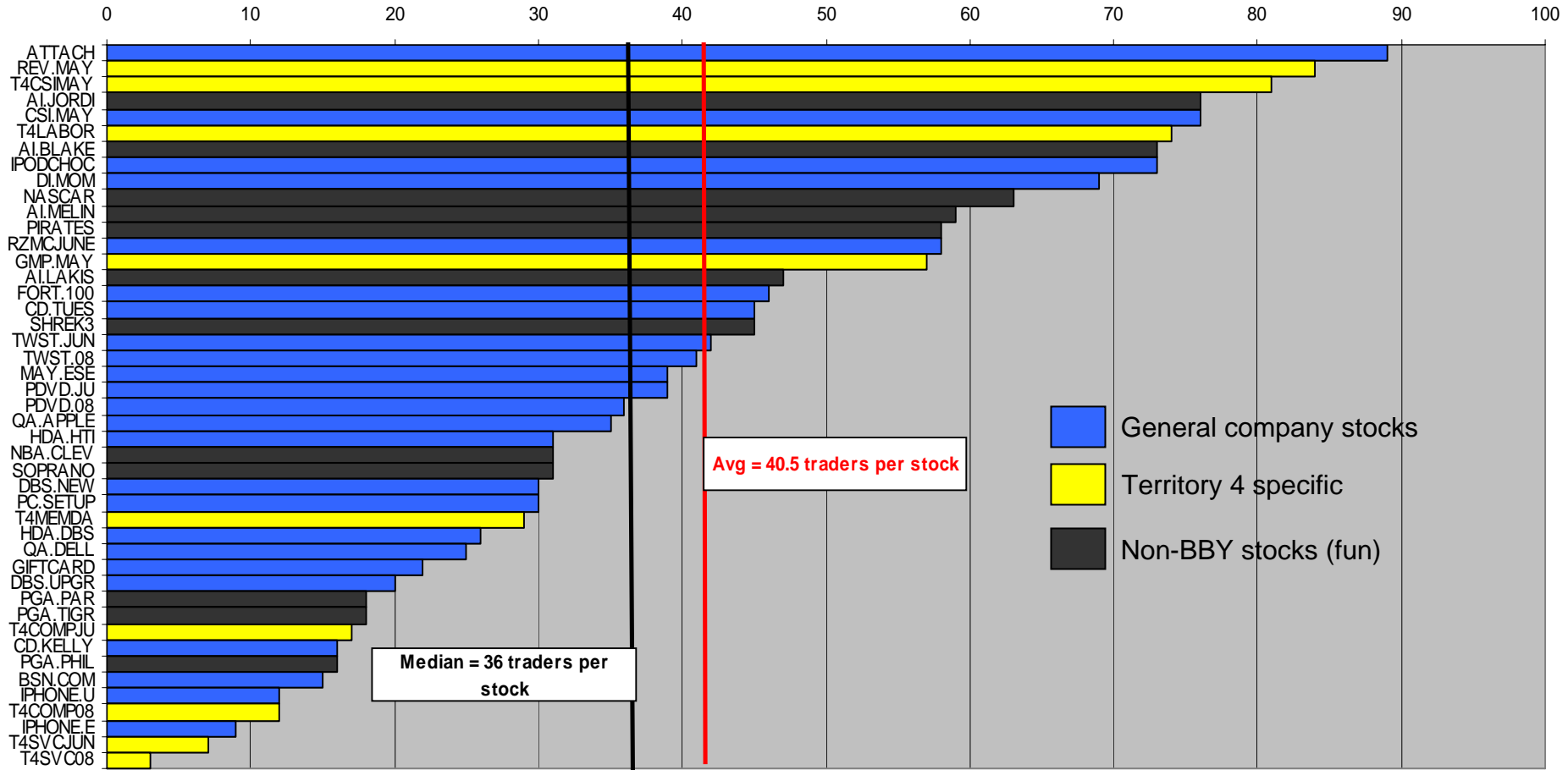


■ Corp employees



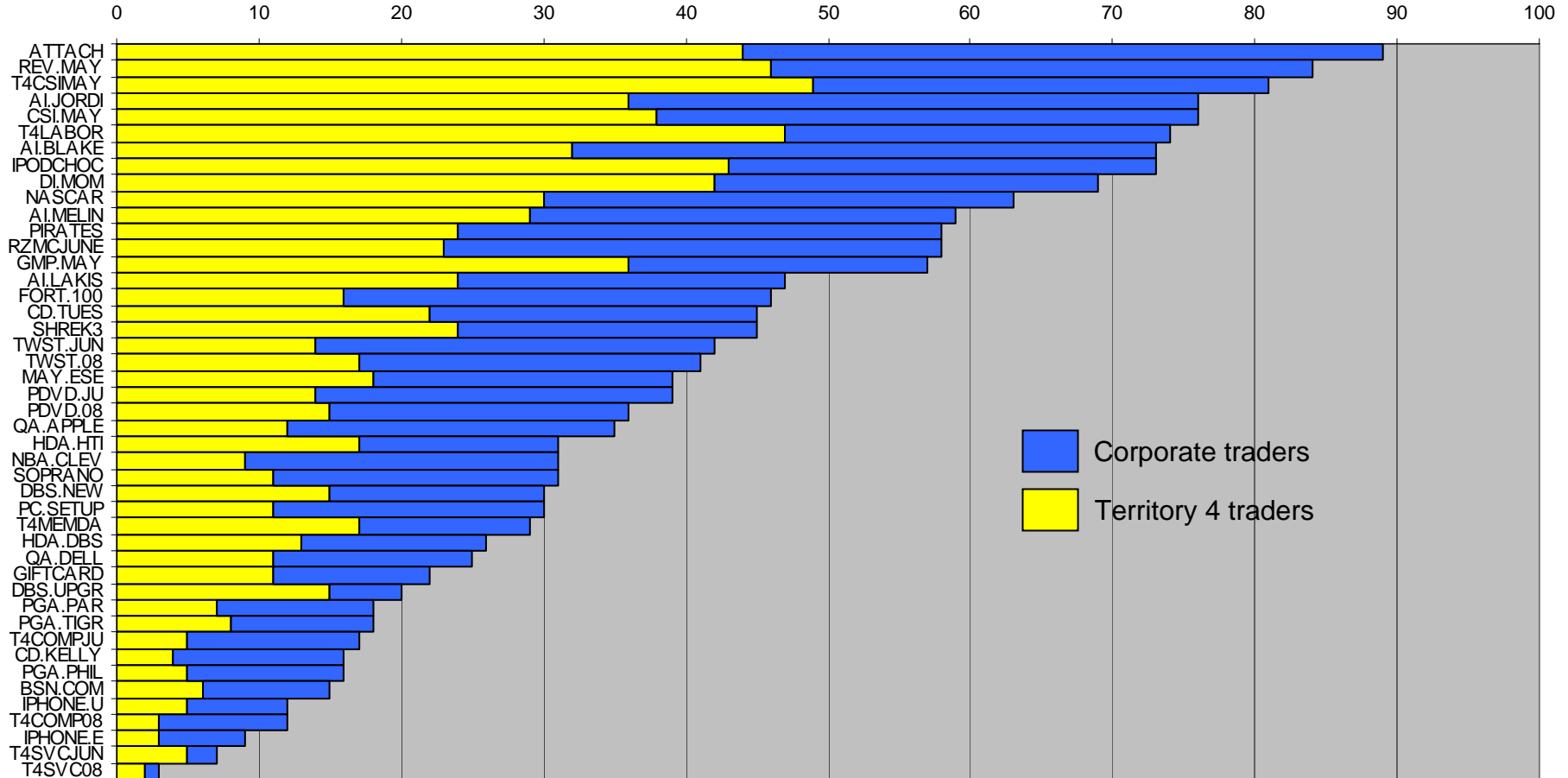
■ Retail employees

Unique Traders per Stock



Generally, we saw parity across the 3 broad stock categories.

Unique Traders per Stock

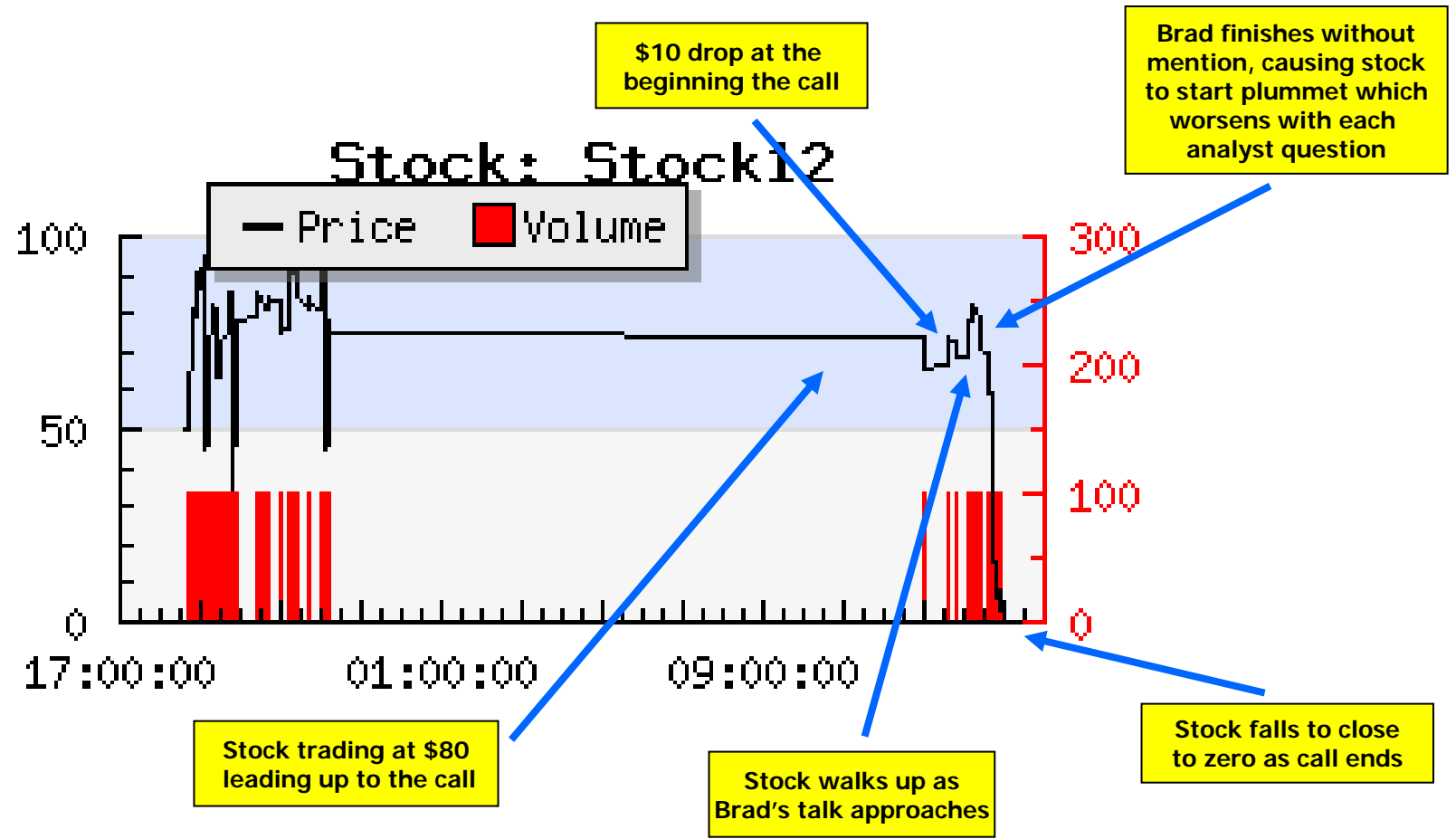


Stocks attracted corporate and T4 employees equally, with some logical exceptions.

Instant Access to Employee Sentiment

Q2 Earnings Release

Brian or Brad will mention 'lifestyle groups' in the analyst call

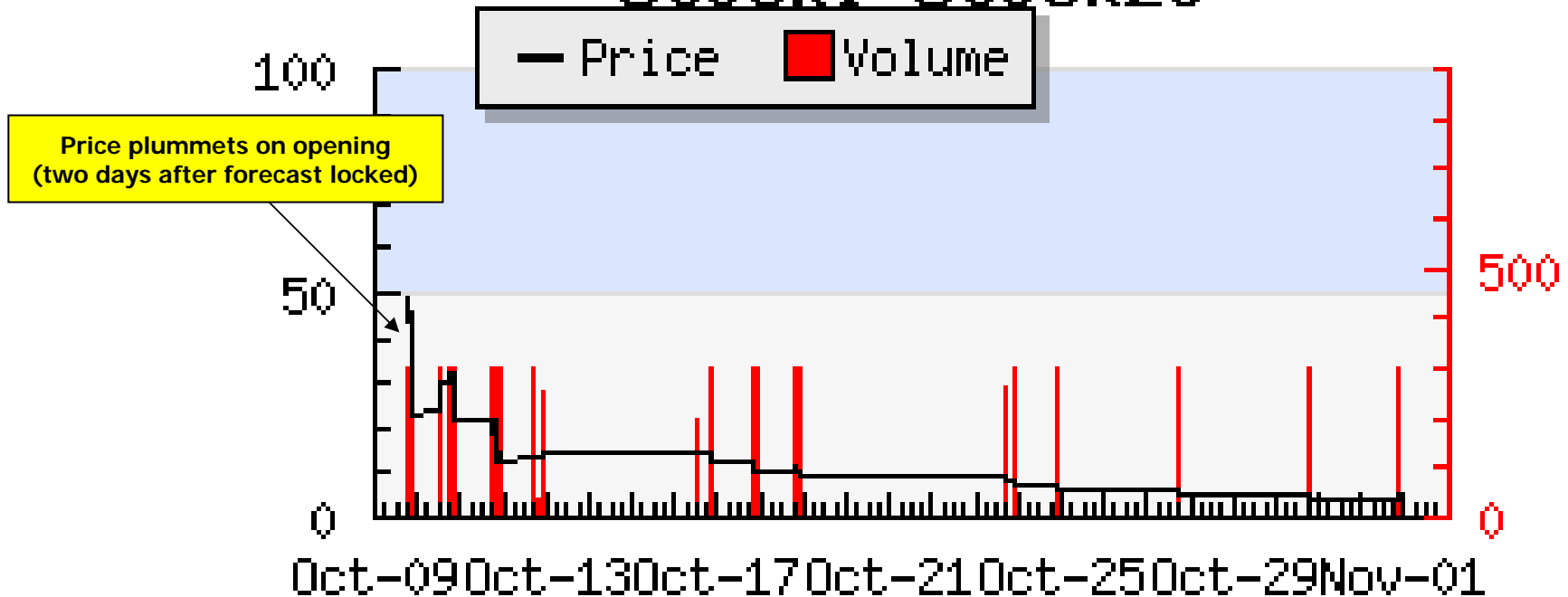


Market Reveals Hidden Opinions

October [product category] Revenue

Will [product category] Team make their October forecast (Version 8)?

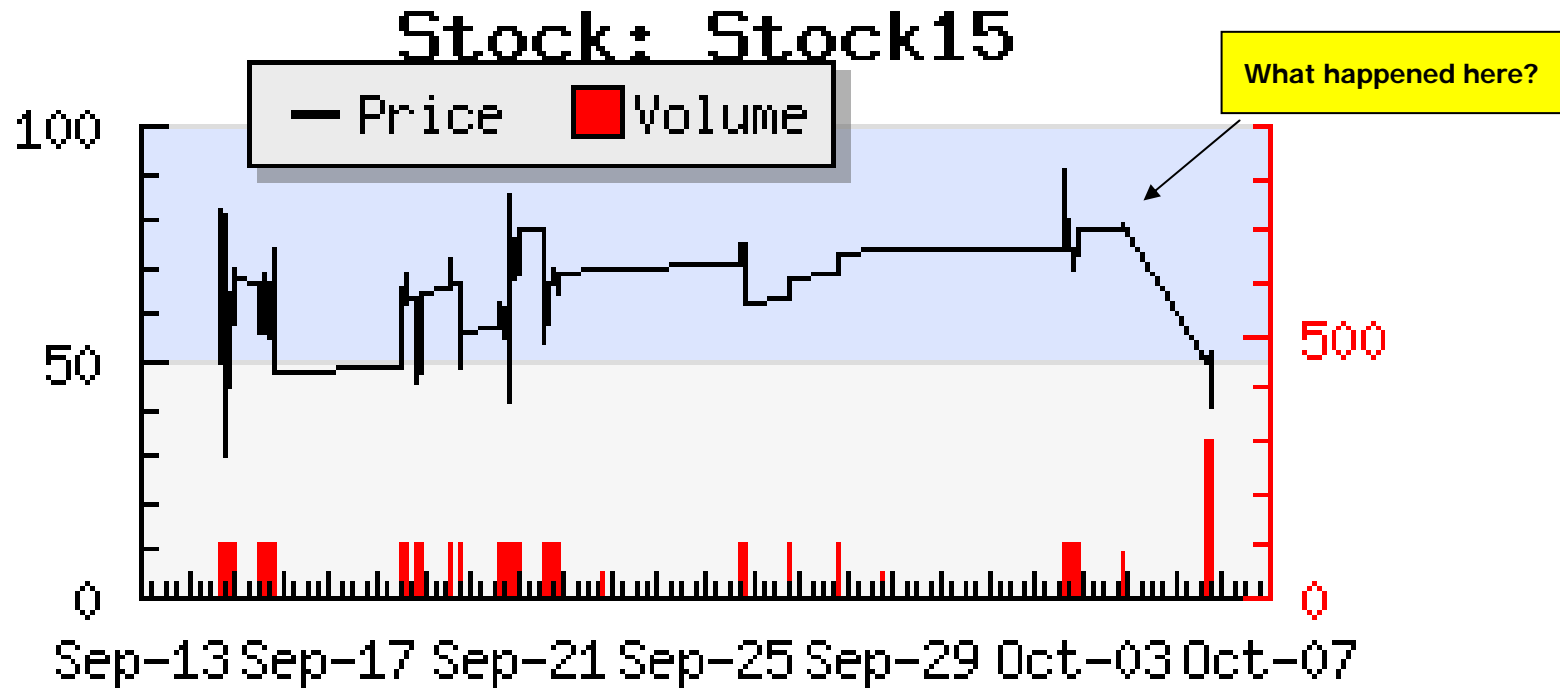
Stock: Stock28



Market Provides a Quantitative View ...

Shanghai Store NSO

Would the soft-opening be finalized/announced 'on schedule'?



... VS. Project Status Reports

Overall China NSO dashboard around the same time



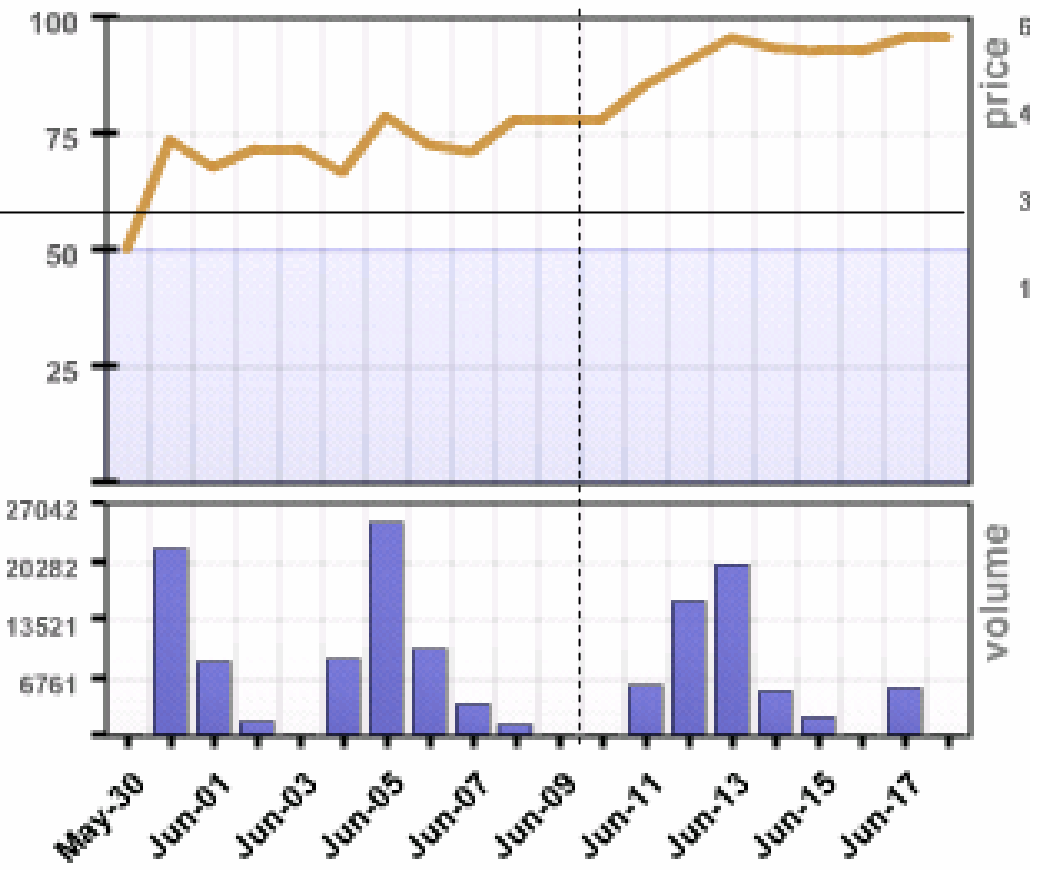
Market Knew To Be Bullish

STOCK:
How Would Gift Cards Do
Over Dad's Day Week?

GIFTCARD: BBY Gift Card Sales—Dad's Week (Scale)

Official Forecast: \$XXM
(stock price \$60)

Actual Results: beat forecast
by \$5M (stock price > \$100)



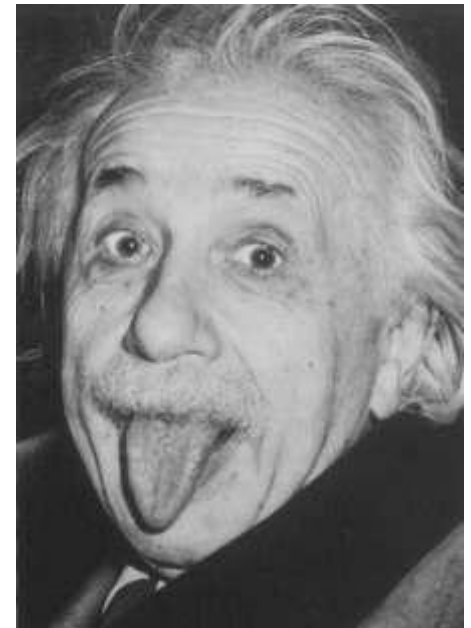
Engaged Traders

75% fun, interesting



78% told 2+ people about the market

42% easy to understand



65% important to the company



Source: Post Market Survey, Top 2 box

Smart Traders

All or most of the time ...

- **51%** I traded stocks based on some insights I already had (I work on the team etc.)
- **46%** I did minimal research on stocks (read prospectus, checked out some websites etc.)
- **10%** I did extensive research



Source: Post Market Survey, Top 2 box

What's Next

November 2007 Launch Plan



WHAT

- Phase 1 Roll-out

WHO will have access to trade

- All corporate employees (hard launch)
- US retail employees (soft launch)

WHEN will the market run

- Go Live - Week of 11/14
- Continue throughout holiday season
- Reset and resume end of FY

HOW will we drive awareness/trial

- Corporate: various communication vehicles
- Retail
 - No concerted marketing effort until after holiday
 - Viral – e.g. word of mouth, company blog, message boards, etc.

KEY OBJECTIVES

- Deliver insights & value to the business
 - Solicit and develop lead customers
 - Over time – how to 'operationalize' this into decision making
- Continue to learn:
 - Participation drivers & patterns
 - Incentives that drive rational investing
 - Best applications of the market (forecasting, project management, new product/service development, new business ideas, etc.)
 - How to select, structure, write stocks

What We're Looking For in Stock Ideas

- Where is information potentially distorted, delayed, or diluted on its way to Sr. management?
- Where does management want/need a better gauge of employee sentiment/confidence?
- What businesses are most challenging (least conducive) for traditional forecasting methods?
- What initiatives/outcomes require increased visibility by a broader audience?
- What economic assumptions require better input from those closest to customer?
- For what major initiatives do leaders require a more accurate health check?

Challenges & Opportunities Ahead ...



Challenges

- Lead customers – need early adopter group of leaders who will engage w/the market real time to inform their decisions
- Getting the organization's attention - Proverbial noise in the system – Matrix, Holiday, org changes
- Keeping its attention - Sustaining trader participation over time
- Maximizing value of market while mitigating legal concerns – uncharted territory. Could compromise scope/value of stocks; depth of employee participation

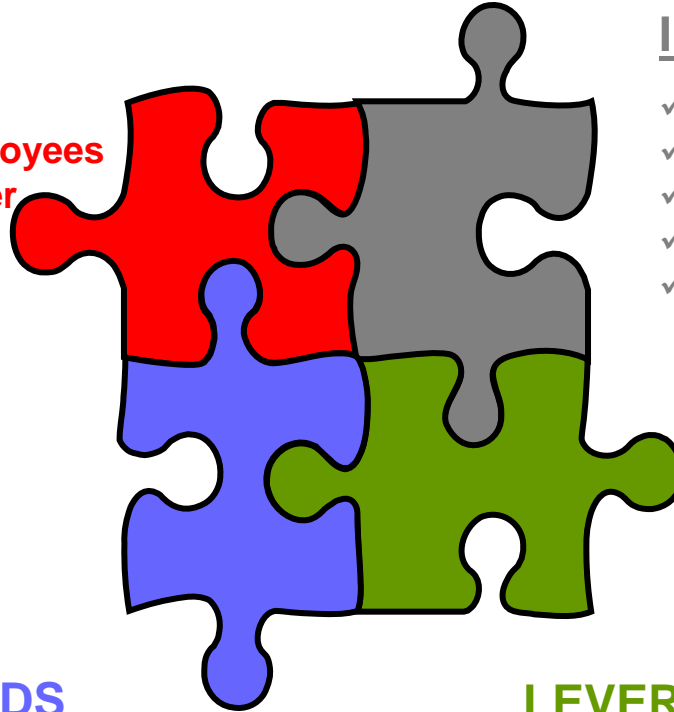
Opportunities

- Can we use market for assessing new ideas, vetting decision options
- Can we integrate with things like internal blog/social networking site, internal idea capture/management tool, etc. to create ecosystem of various 'listening' and 'crowd-sourcing' tools
- How quickly can we expand participation & engage all employees (including part-time, service technicians, logistics, international, other brands, etc.)

2008: Grow and Integrate

GROW PARTICIPATION

- ✓ Scale at Corporate
- ✓ Grow virally with Field employees
- ✓ Explore International & other brands



IMPROVE MARKET OPS

- ✓ Competition Structure
- ✓ Incentives/Prizes
- ✓ Trader Communication
- ✓ Stock Pipeline
- ✓ Training

SUPPORT INSIGHT NEEDS

- ✓ Identify areas of opportunity
- ✓ Foster key business leader partnerships
- ✓ Synchronize with decision rhythms

LEVERAGE NETWORK

Join community of leading companies and academics to accelerate our learning in this new space

Please contact us at:

PredictionMarket@BestBuy.com