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Best Buy wants your electronic junk

The retailer's recycling program seems expensive to run, until you look at the benefits: a green reputation and a way to get customers into stores.

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(Fortune Magazine) -- At a Best Buy store in Roseville, Minn., the traffic in electronics travels a two-way street. Out the door go flat-screen TVs, netbooks, and iPhones. In comes junk -- and plenty of it: TVs that can't decode digital signals, outmoded desktop computers, even the occasional eight-track tape player or ham radio.

Since March, when Best Buy began offering free recycling of gadgets large and small, more than 25 million pounds of ISTB -- that's company lingo for in-store take-back -- has made its way to the company's 1,044 U.S. stores.

About 60 items a day arrive in Roseville, where Christine Cartwright, a store manager who rolled out the take-back program there, says she never expected to get into the recycling business when she joined the retailer. Dealing with all the unwanted stuff adds work, but it also brings an element of surprise to the job. "You never know what people will bring in," Cartwright says. "Some of these televisions ought to be in a museum."

So how, exactly, did Best Buy become America's biggest collector of electronic garbage? Where does it all end up? And can a big-box retailer turn all that trash into cash?

We'll tell you, but first a word about how Best Buy came to embrace corporate responsibility and recycling. Some businesses take an expansive view of their social responsibilities because their founders set out to build a different kind of company.

Bill Hewlett and David Packard believed that the purpose of HP was to "make a contribution to society," while Howard Schultz decided that Starbucks would offer health insurance even to part-time workers because his father, a truck driver, had none. Other firms, like Nike or Wal-Mart, reformed their practices after their reputations got whacked.

Best Buy fits another category. "For us, it wasn't founder-driven or crisis-driven," says Brian Dunn, a 49-year-old company veteran who became CEO of the \$40-billion-a-year retailer in June. Instead, Best Buy began to focus on its social and environmental impact at the behest of its workers and customers.

Employees wanted to know what Best Buy was doing to become more environmentally sustainable. Some customers -- not most, but enough to matter -- said they preferred to do business with retailers that cared about their community.

Dunn took notice. The burly, straight-talking CEO, who got his start at Best Buy as a video salesman in 1985, tries to stay connected to staff and customers. He posts questions to an employee website called the Water Cooler, tracks consumer sentiment on social media like Facebook and Twitter (you can follow him at BBYCEO), attends focus groups, and invites customers to the company's leadership meetings.

"One of my roles as CEO is to be the chief listener," Dunn told Fortune during an interview at Best Buy's headquarters outside Minneapolis. "I don't believe that the model is any longer that there are a few really smart people at the top of the pyramid that make all the strategic decisions. It is much more about being all around the enterprise, and looking for people with great ideas and passionate points of view that are anchored to the business and connected to things our customers care about."

Best Buy, as a result, has decided that being a good corporate citizen makes business sense. As a manufacturer of electronics, Best Buy audits the factories of its suppliers, mostly in Asia, to make sure they don't exploit workers or pollute the environment. (It severed ties with 26 factories last year, out of about 200.)

The company promotes diversity, helping workers organize into networks of women, Hispanics, African Americans, Asian Americans, and gays and lesbians. (The women's leadership forum, called WoLF, reaches out to female customers.) Best Buy is strategic about philanthropy, which is aimed at teenagers; a program called @15 offers teenagers the chance to compete for college scholarships and grants to help them bring about social change.

Dunn believes that sustainability is a rising social value -- and therefore a business opportunity. Twenty Best Buy stores in San Francisco, Los Angeles, and Portland, Ore., began selling electric motorcycles last summer, after the company's venture arm took a small stake in Brammo, a startup based in Ashland, Ore.

"I view us as in the early innings of all this," Dunn says, "but it's very, very important to us." If \$12,000 electric bikes sell well, the company may try selling solar panels, wind turbines, and electric cars, along with home-energy networks to tie them all together.

Best Buy's commitment to corporate responsibility dovetails well with the company's emerging strategy and business model. To set itself apart from Wal-Mart and Amazon, its biggest competitors, Best Buy wants to do more than sell consumer electronics. It would like to help customers get better use out of technology, whether they are buying, installing, fixing, or disposing of their hardware. Says Dunn: "We're transitioning from just being a mover of boxes."

The company took a big step in that direction with its 2002 acquisition of the Geek Squad, then a small, Twin Cities-based computer-support company. Today Geek Squad agents account for about 20,000 of Best Buy's 160,000 workers. They work on home entertainment systems, car audio and GPS, mobile phones and appliances, as well as computers. Someday they may service solar panels or electric cars as well.

By offering recycling, Best Buy positions itself as the place to turn when customers need to dispose of their electronics, which often coincides with the acquisition of a new device. "It's not a fun experience going to the county recycling center," says Mary Capozzi, Best Buy's senior director of corporate responsibility.

Best Buy has been experimenting with recycling since 2001. The company began by installing kiosks in stores where customers can drop off cellphones, batteries, and ink-jet cartridges. That, it turns out, is good for business because all those items have residual value.

Cellphones in decent condition are spruced up and turned over to resellers like eBay or shipped to developing countries for resale; others are disassembled so that precious metals like platinum and palladium can be recovered and reused. Batteries, too, are sold back to manufacturers who recover zinc and other metals.

Best Buy shares in the recycling revenues with the contractors it hires to manage its waste stream.

Since March, Best Buy has offered to take back almost anything electronic, albeit with a few conditions. Households can bring in up to two items a day. Appliances and TVs that are 32 inches or bigger aren't eligible for

free recycling. (Best Buy will remove them free for customers who have a replacement product delivered, and it will send a truck to haul them away for \$100 for anyone else.)

What's more, customers pay a \$10 fee for recycling for 32-inch-and-under TVs, CRTs, monitors, and laptops. In return, they get a \$10 gift card. Best Buy is tracking usage of the gift cards to see whether the recycling offer is attracting new customers. "We're trying to see what the behavior patterns are of customers who recycle," Dunn says. "What do they buy next?"

TVs make up the bulk of the load, which is a mixed blessing for the company. Old TVs with picture tubes can't be resold. They have to be trucked away and taken apart before the materials are melted down for reuse. While recycled plastics, for example, might wind up in lawn furniture or new gadgets, the glass and common metals inside TVs don't have much value.

In that light, how does Brian Dunn feel when he sees a customer unloading an old TV from the trunk of a car into a Best Buy? "I'm happy because it helps make that connection between Best Buy and the customer and the community," he says. "Am I happy about it as a stand-alone P&L event? I assure you I'm not."

Still, the economics of trash are more complicated than they appear. In about 20 states and New York City, where electronics manufacturers are required by take-back laws to help finance recycling, companies like Samsung and Sony share the costs of disposing of old TVs. Executives won't say how much the recycling program is costing them. "Our hope is to make it a break-even proposition," Capozzi said. "Depending on commodity prices, it could become a profit center."

The take-back program could have other benefits as well, by driving innovative design and new business models. Manufacturers that know they will be responsible for the end of life of their products will design them so that they can be disassembled and recycled more easily, avoiding, for example, composite materials that can't be melted down. (Dell already uses fewer screws in its computers so that they can be snapped apart.)

Eventually that should move the consumer electronics industry away from today's throwaway model and toward the ideal of nature-inspired design, where every product is made into something else when it is no longer useful.

Best Buy, meanwhile, is so interested in giving products a second life that it acquired an Irvine, Calif., startup called DealTree, which provides software to manage online auctions, logistics, and returns processing of used goods. DealTree manages a trade-in program for Best Buy, under which the company offers gift cards in exchange for laptops, iPods, digital cameras, and other "gently used" electronics.

It's not hard to imagine a day when customers would lease, rather than buy, a new TV or desktop from Best Buy with the understanding that they could bring it back when they wanted to upgrade. Dunn says that a leasing model is not on the immediate horizon, but it's clearly something he's thought about. "We might guarantee you a five-year trade-in value on a flat-screen TV," he says, "because we want you to come back."

If nothing else, that would help early adopters overcome a chronic fear -- that just as soon as they buy that new TV, laptop, or phone, a better or cheaper model will come along. ■