Innovation in Multi-channel retail

University of Chicago
Booth Innovation Roundtable
July 7, 2009

TOP ONLINE RETAILERS BY REVENUE

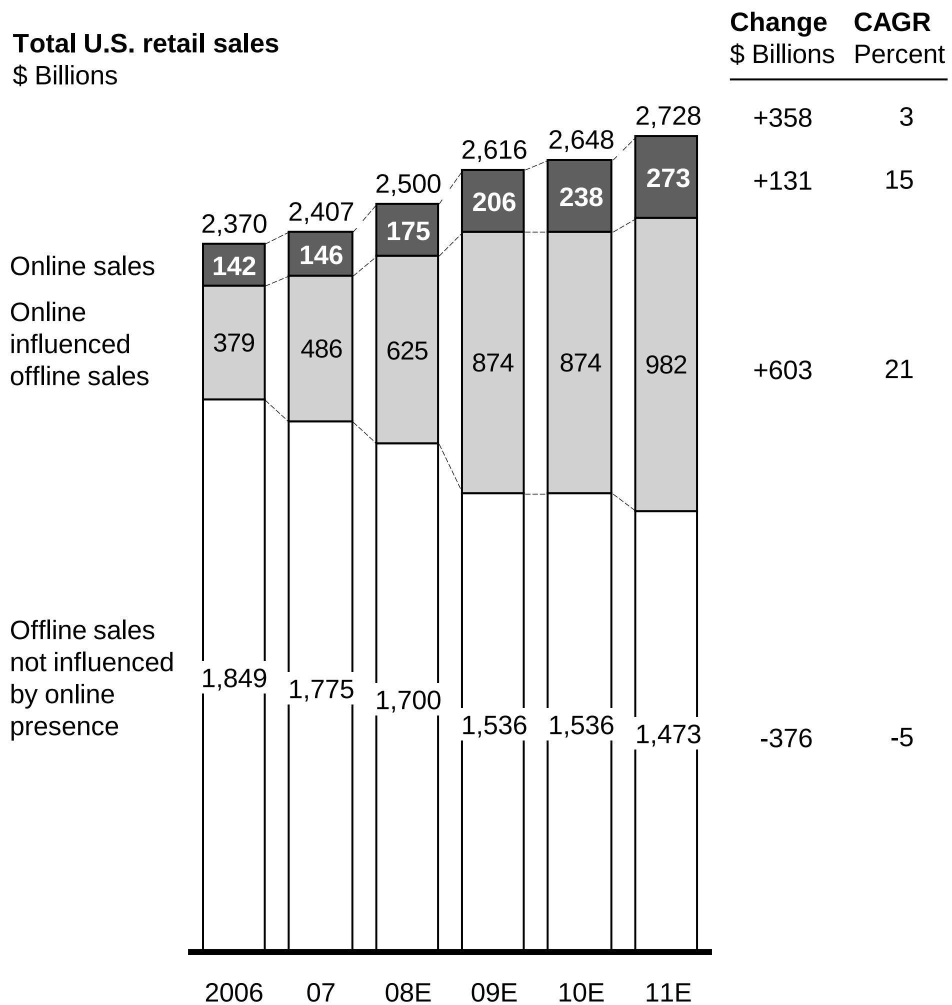
Retailer	2008 revenue			Average monthly traffic[1]	Conversion	AOV	Q1'09 CSAT
	$m	YOY growth	Multiple to Sears	000's			
1. Amazon.com[2]	$19,170	29.5%	20.4	56,586	3.45%	$170	84
2. Staples	$7,700	37.5%	8.2	8,339	8.50%	$325	73
3. Dell	$4,830	15.0%	5.1	15,978	0.85%	$650	76
4. Office Depot	$4,800	(2.0%)	5.1	7,150	9.90%	$193	72
5. Apple	$3,642	34.9%	3.9	49,092	0.92%	$170	75
6. OfficeMax	$3,085	(2.5%)	3.3	6,401	7.70%	$300	72
7. Sears Holdings[3]	$2,693	4.0%	2.9	17,832	1.41%	$243	71
8. CDW	$2,600	8.0%	2.8	18,500	3.20%	$859	70
9. Newegg	$2,100	10.5%	2.2	19,573	2.10%	$285	81
10. Best Buy	$2,015	13.2%	2.1	4,509	6.00%	$205	74
11. QVC	$1,993	6.0%	2.1	1,395	3.35%	$120	81
12. Sony Style	$1,828	3.0%	1.9	28,798	1.85%	$1,000	71
13. Wal-Mart[2]	$1,740	10.5%	1.9	13,000	2.30%	$115	77
14. Costco	$1,700	41.7%	1.8	12,497	2.88%	$410	74
15. JC Penney	$1,500	0.0%	1.6	14,344	2.30%	$160	77

Notes: 1) Unique monthly visitors. 2) Subject of mini-case study. 3) SHC data as estimated by *Internet Retailer*. Includes Lands' End. 4) Sears figures from Omniture, 1/1/08-12/31/08. 5) 2008 Browser satisfaction / purchase intent score; both Top 100 only.

Source: *Internet Retailer* Top 500, 2009 Ed.; ForeSee, Spring 2009 Top 100 Online Retail Satisfaction Index; Omniture; Multi-channel and Online Strategy team analysis.

GROWTH IN MULTI-CHANNEL ACTIVITY IS OUTPACING EVEN ONLINE RETAIL

Increasing multi-channel influence on sales

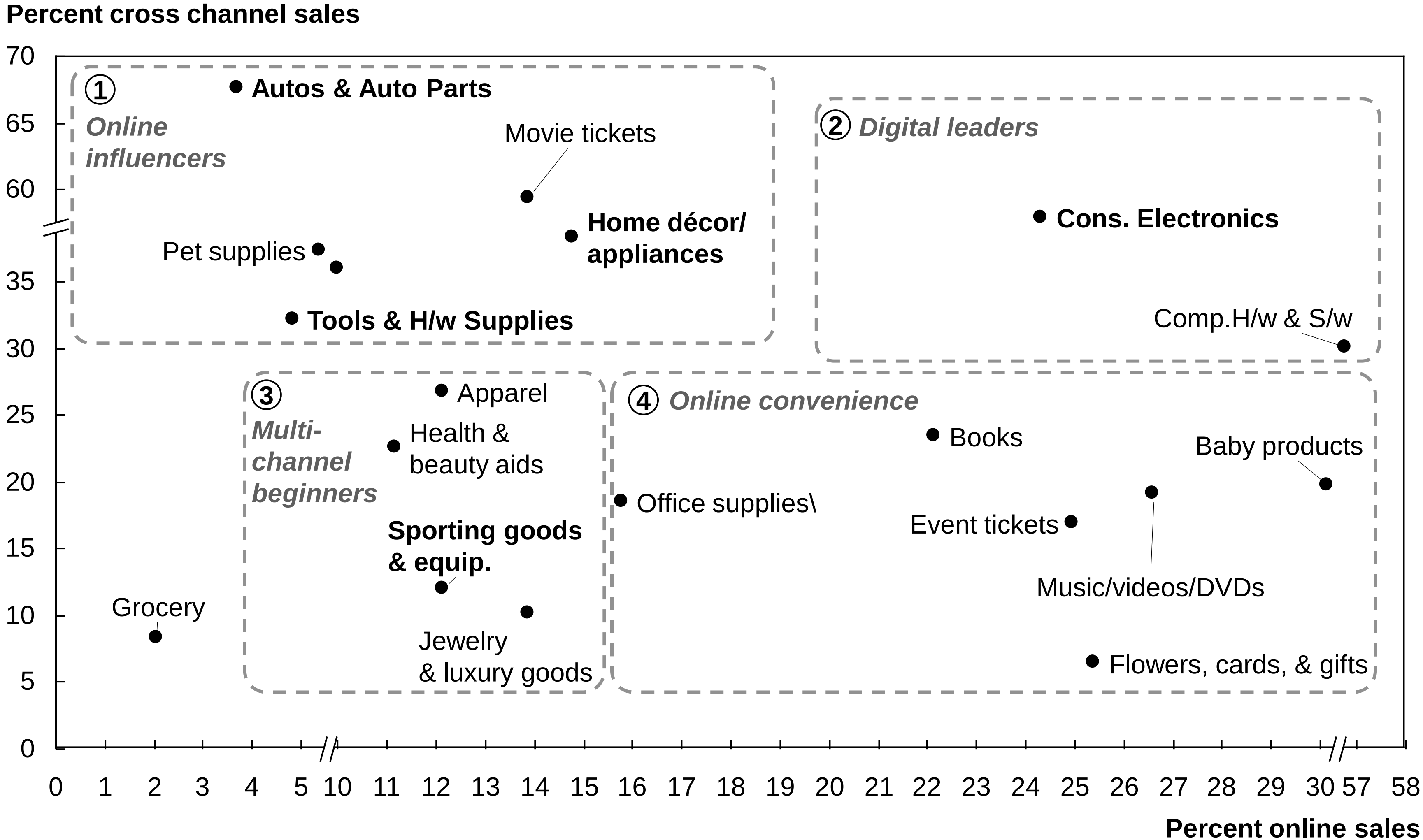


Source: Forrester Research; team analysis

CATEGORY DYNAMICS ARE EVOLVING INTO FOUR MODELS

Percentage of total retail sales, 2011

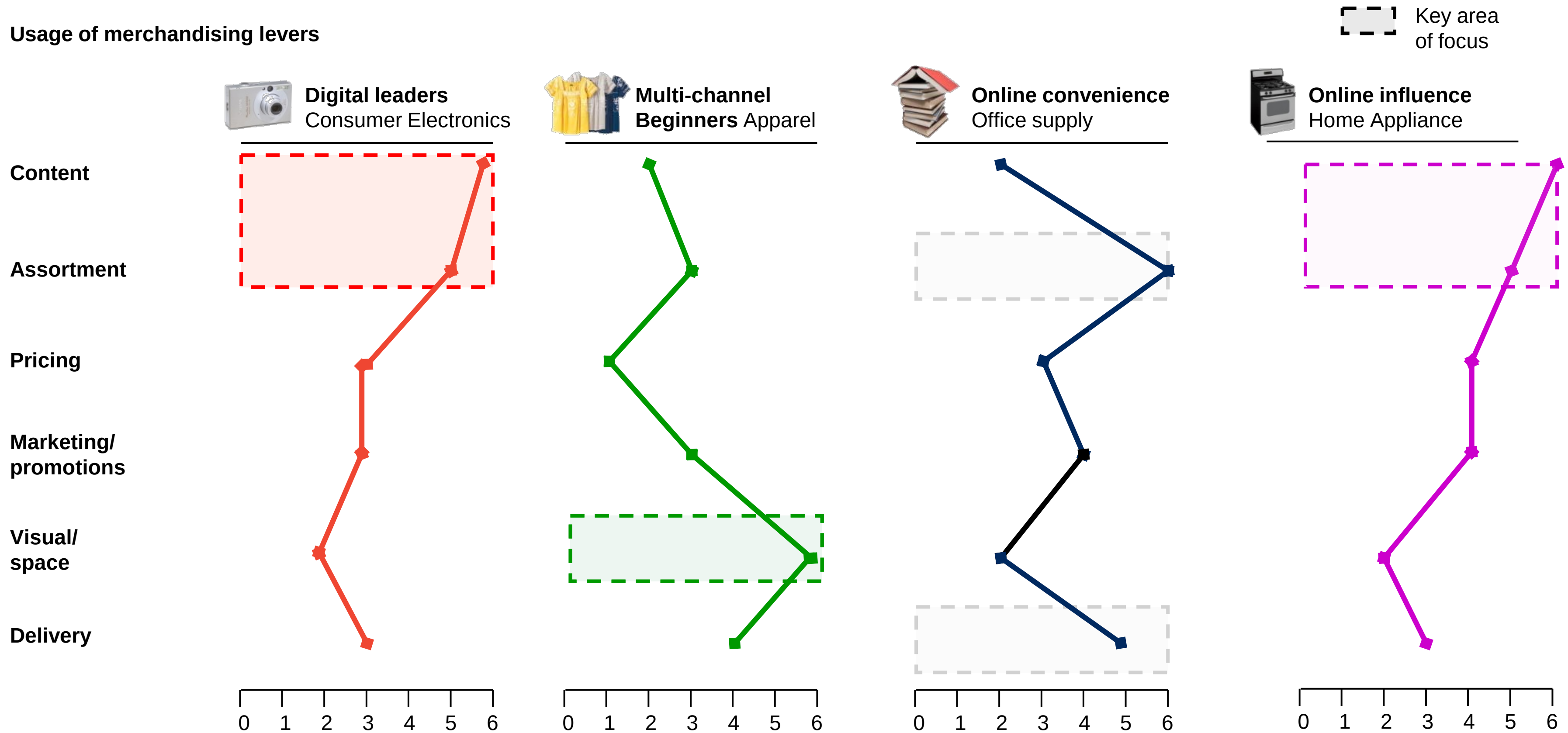
Influence of online presence for different product categories



* Industry average, % online sales = 10, % cross channel sales = 36

Source: Forrester research; McKinsey

ONLINE REQUIREMENTS VARY SIGNIFICANTLY ACROSS MODELS



Winners…

Digital leaders – Consumer Electronics:
- Robust (extended) assortment
- Deep content
- Rich comparison tools
- Enhanced customer service
- Collaborative filters to drive basket

Multi-channel Beginners – Apparel:
- Multi-channel promotions
- Rich-media to better showcase "look and feel"
- Clear multi-channel linkages
- 'Editorial' content

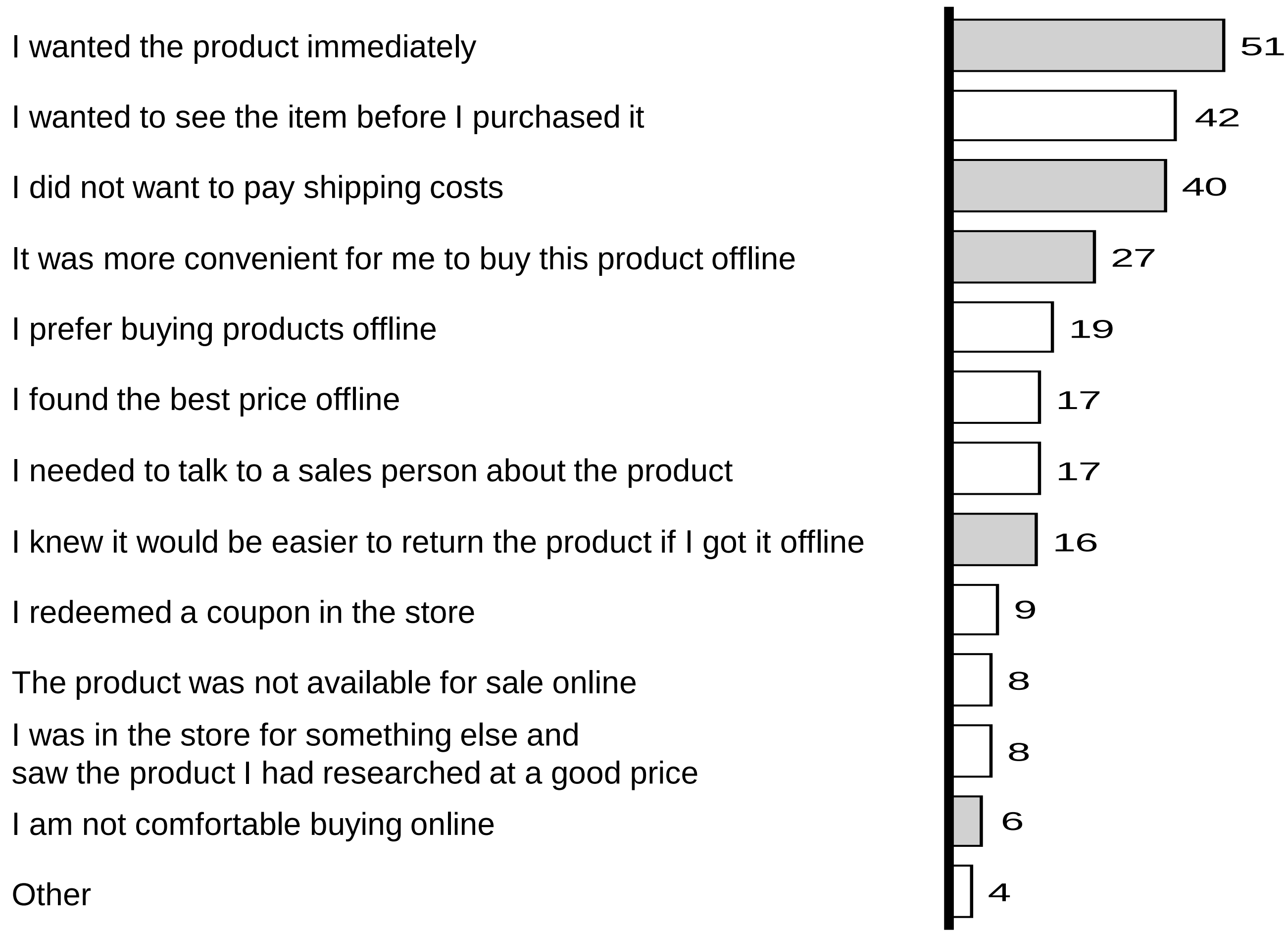
Online convenience – Office supply:
- Simple search yields robust results
- Simple transaction process
- Loyalty programs build switching barriers
- Efficient fulfillment
- Turn-key replenishment options

Online influence – Home Appliance:
- Rich content, from multiple source (e.g., 3rd party reviews, user reviews)
- Rich media to better "trial" products
- Tools/tactics to create cross channel "stickiness"

Source: Team analysis

ONLINE PAIN POINTS HAVE LED TO GREATER MULTI-CHANNEL ACTIVITY

Customer rationale for searching online and purchasing offline



Source: Forrester Research; team analysis

DELIVERING SUPERIOR CUSTOMER VALUE

Traditional retailers

Find ways to combine online and “traditional” assets to deliver more customer value than pure play online including:

- stores / expertise
- logistics / distribution
- service capabilities
- call centers

Customer

Online retailers

Find ways to overcome customer objections to completing transactions with pure play online retailers:

- fulfillment options
- decision-making content
- user-generated content

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