e-business

From

'Brick & Mortar'

to

'Click & Mortar'

The consumer-centric Retailer in the e-business world

Christian Nivoix
Worldwide General Manager
Distribution Sector
IBM Corporation

IBM

Agenda

e-business: The Power of 'Push/Pull'

e-business: The Execution of 'Click & Mortar'

e-business: The next wave of 'Pervasive Computing'

Agenda

e-business: The Power of 'Push/Pull'

e-business: The Execution of 'Click & Mortar'

e-business: The next wave of 'Pervasive Computing'

Total customer orientation is the main reason for the new 'customer pull' model as an addition to the traditional 'product push' model

	'Product Push'	'Customer Pull'
Locations	one up to a few thousand	anywhere
Hours	fixed	anytime
Focus	Merchandising products in-situ	maximizing the customer's convenience
Price	fixed based on value & volume of goods	Product price equalized. Price negotiated at point of delivery, driven by service value
Marketing	segmented, homogenous groups	personalized, direct, one-to-one

It's not just an online store, it's an online service

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The power of e-business is the role as enabler and connector for the 'Push/Pull' coexistence

Product Push

Product Market Share

Data

Product

Mass Marketing

Hybrid Routes
to Market

Build/Ship to Plan

......Just in Case

Customer Pull

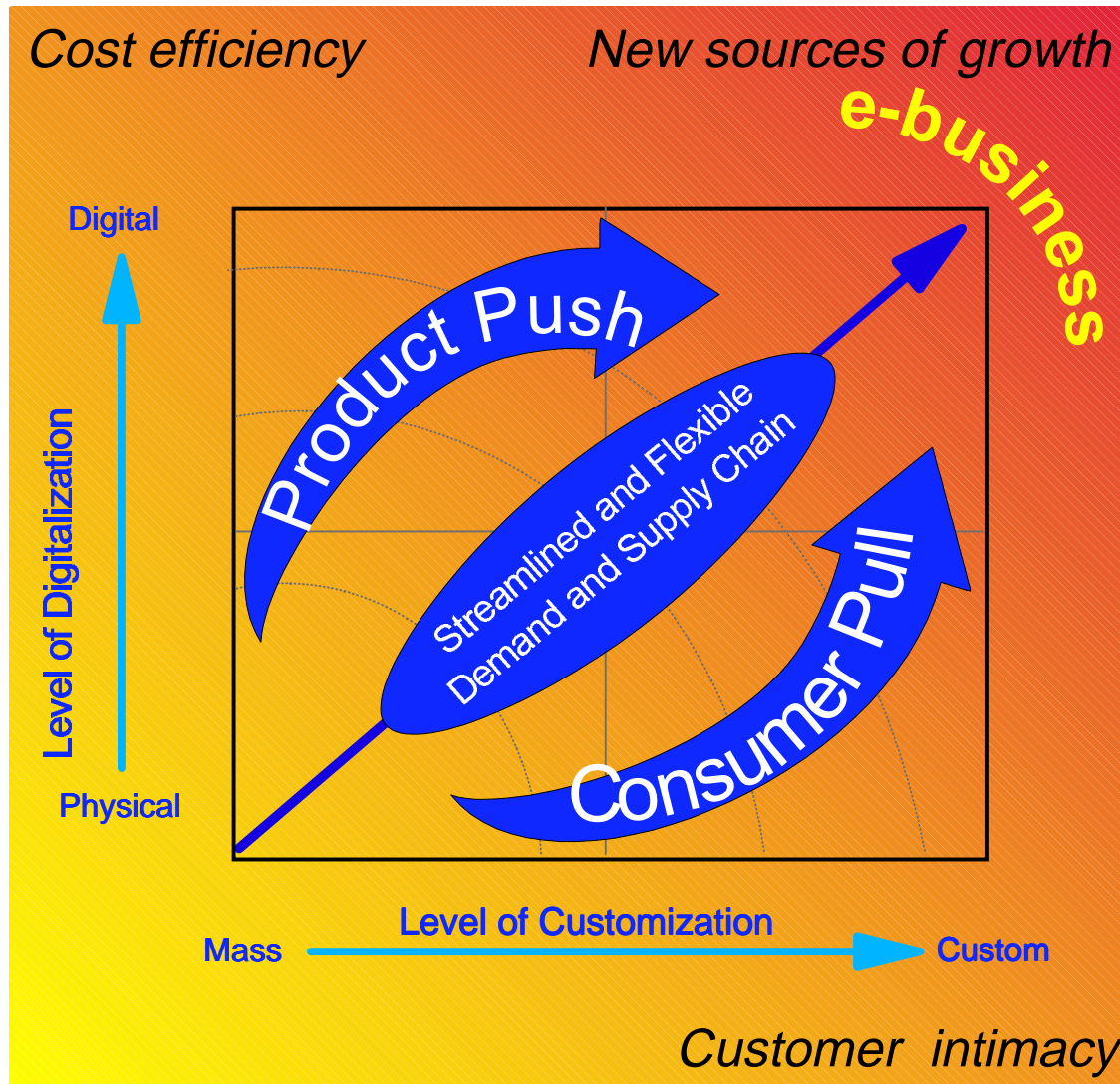Customer Wallet Share

Knowledge

Lifestyle

Segment of One

Multiple Channels Mgt.
integration

Build/Ship to Order

......Just in Time

The 'Push/Pull' strategy is enabled by 2 Megatrends with technology as a driving force

Business Focus Items
- ▸ **One Stop Shopping**
- ▸ **Product & Life Style Segmentation**
- ▸ **Multiple Channel Management**
- ▸ **Transaction oriented value chain**

Technology enabler
- ▸ **Web technology**
- ▸ **e-commerce**
- ▸ **Data mining**
- ▸ **GroupWare**

The 'Brick & Mortar' Retailer can differentiate through Lifestyle Segmentation and Multi-Channel Management to become a 'Click & Mortar' Retailer

	Brick & Mortar	Click & Order	Click & Mortar
Customer segment	Mass market	Category - specific	Lifestyle segments
Product assortment	Limited by store space	Unlimited depth by category	Multiple categories by customer segment
Merchandising	Store placement	Personalisation	Customer need anticipation
Points of sale	Store locations	Web site, affiliate programs	Store, web, interactive devices
Infrastructure	Stovepiped	Built from scratch	Common infrastructure for all channels
Examples	Carrefour	AOL Amazon.com Streamline	Safeway UK GAP
	Physical Stores	Online Storefronts	Multi-Channel Retailer

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Welcome to the new 'Click & Order' Mega-Brands

In less than three years, 40%+ U.S. adults recognize:

- America Online (84%)

- Yahoo! (65%)

- Netscape (58%)

- Amazon.com (46%)

- priceline.com (43%)

Source: Opinion Research Corporation International Study commissioned by priceline.com. Total percentage of U.S. Adult Population of 194 MM.

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Example: 'Click & Order' Aggregator

Example: 'Click & Order' Auction

The 'Push/Pull' Strategy requires an integrated Value Chain at Customer transaction level

Business Strategy

e-commerce

Knowledge Management

Suppliers ←→ Supply Chain Management | Enterprise Resource Planning | Customer Relationship Management ←→ **Customers**

Business Intelligence

Enablement Infrastructure

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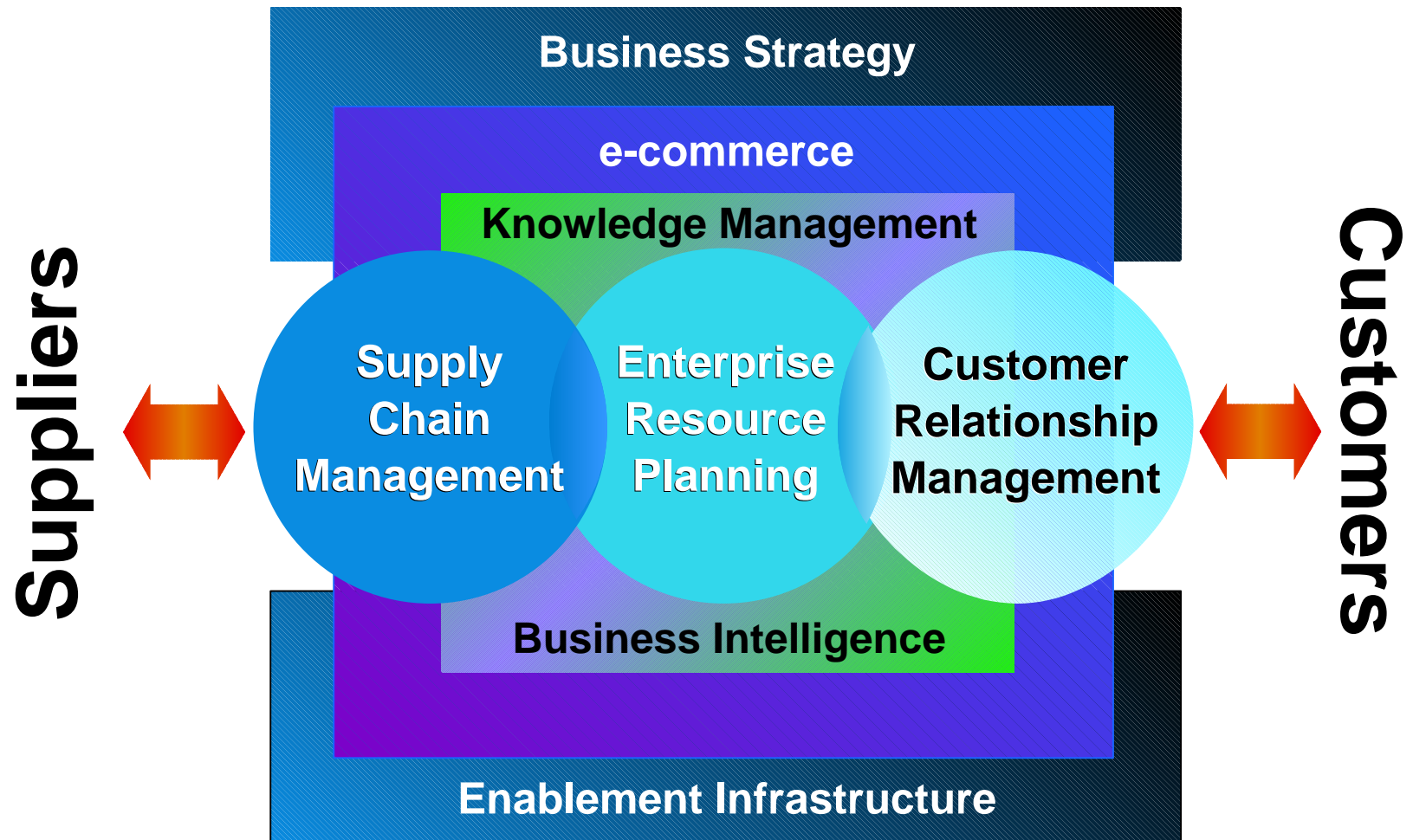
This implies the implementation of ANY^3, allowing Consumers to have the same experience anytime, anywhere, anyhow ...... their choice

"...are we consistently offering our customers the convenient, easy and enjoyable shopping experience they expect?"

M Drexler, 1998 Gap Annual Report

Consumer Experience
Consumer Experience
Consumer Experience
Consumer Experience
Consumer Experience

| Call Center | Internet | Mail Forms | Fax | Kiosk ATM | E-mail | POS | E-POS | Face to Face |

| Gap | Old Navy | Baby Gap | Gap Kids | Banana Republic | ??? |

e-business

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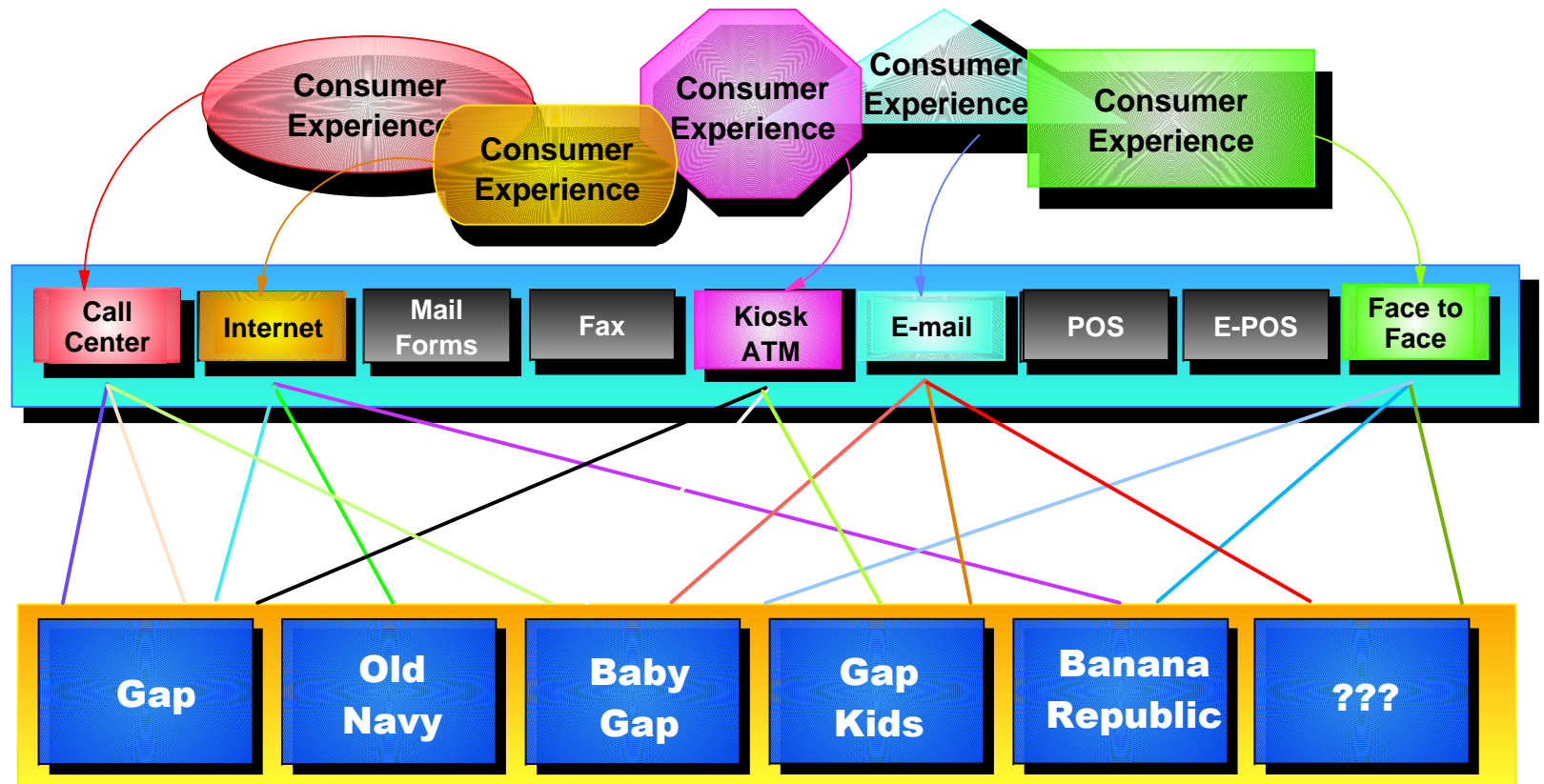
This requires to transform the entire CRM model to yield a customer centric, end-to-end, super-process...

Now you understand me!!!

Trust

Anticipation

Value-added, Customer-centric Experiences

Loyalty

Confidence

Call Center	Internet	Mail Forms	Fax	Kiosk ATM	E-mail	POS	E-POS	Face to Face
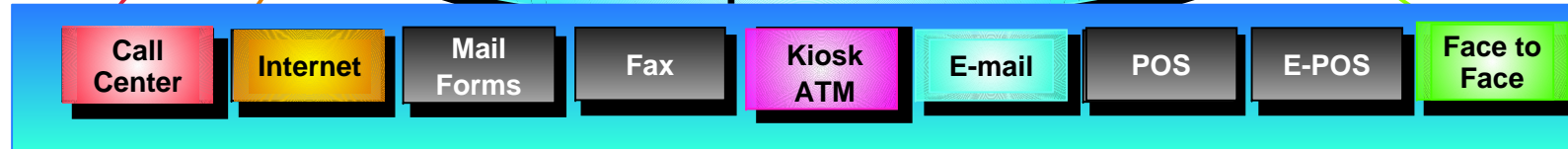
Access Point Enrichment

Integration Across Access Points

Personalization Service

Customer Centric Super-processes

Relationship Manager

Knowledge Base

Line of Business Databases/Systems

REI

REI has successfully integrated all customer channels - Direct, Catalog, Online, and Kiosk so that their customers have a single, seamless view of REI, and REI has a single integrated view of their customers.

www.rei.com

"The bar has been raised in all areas, from breath of product to sophistication and usability of the interface to navigation" - Matt Hyde, VP Online Sales

e-business Initiatives

- Channel Integration: "Any product, any time, any place, and answer any question."
  - ✓ Co-op membership enables data gathering
- Web Stores
  - ✓ Largest assortment of any channel
  - ✓ Detailed product information
  - ✓ Content deal with Outdoors magazine
  - ✓ Personalized e-mail marketing
  - ✓ Outlet store to liquidate overstocks
- In Store e-commerce
  - ✓ POS integration with web for info. & cross-sell
  - ✓ Up to 10 kiosks per store
  - ✓ japan.rei.com in 1999

- Pre-Sales Assistance
  - ✓ Present a Q&A decision-tree to guide customer purchase decisions
  - ✓ On-line Clinics
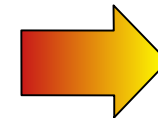
Key Results

- Rated the highest in its category by BizRate
- $50M in 1998 web revenue
- 50% repeat shoppers
- Multi-Channel shoppers spend $150 more per visit

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GAP: Synchronized Marketing

The Gap is leveraging the Internet in marketing to stimulate new and incremental revenues. The Gap's strategy is to offer customers a seamless shopping experience by aligning products, pricing, and service, across all channels.

"Our Brands are about satisfying the individual styles of our customers including their style of shopping" - 1998 Annual Report

e-business Initiatives

- Marketing power: Single brand strategy
  - ✓ Advertising Spending up 40%
  - ✓ Web integrated into marketing messages for added brand "luster"
- Cross-channel e-commerce
  - ✓ Installing "Web chair" kiosks in stores
  - ✓ Campaign to capture customer e-mail addresses
  - ✓ Testing same-day delivery

- Major infrastructure projects underway
  - ✓ New distribution centers ($300M/12 mths)
  - ✓ Multi-Channel Data Warehouse in plan
  - ✓ Doubling IT budget for 2000
  - ✓ Content Management (PAMS)
  - ✓ Value-Based Criteria for Prioritizing Projects
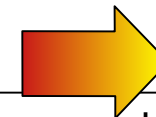
Key Results

- Comparable sales growth up 17% in 1998
- Net sales per square foot up nearly 20% over 1997
- 1998 On-line Sales $50M, $250M target for 1999)

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The move from a simple online presence to a fully integrated business model requires time

Channel Integration
- Internet channel integrated with business strategy.
- Internet channel integrated with store channel
- Cross channel systems, processes, organization.

Business Integration
- Real time integration of Internet commerce systems.
- Integration of Internet commerce with business processes.

Selling Online
- Selling merchandise online.
- Batch or manual integration with back end systems.

Marketing
- Promotional site with no Internet selling
- Target marketing or mass marketing.
- Information on product, store, promotions
- Customer registration.

Information
- General company and store information only.
- No marketing or promotional effort.

Companies need to assess the role best suited to capitalize on their core competencies

Multiple Markets ↑

Gateway

Customer Value: Provides single access to a broad range of products and services, making the Internet and finding information easy

Revenue: Advertising, sponsorships, membership and transaction fees

Moving towards transactions →

Online Exchange

Customer Value: Platform for exchange of goods and services

Revenue : Transaction, membership and listing fees

Moving aggressively towards specialisation and transactions

Off-line Facilitator

Customer Value: Provides information on products and services through branded Website

Revenue: Off-line product and service margins

Community of Interest

Customer Value: Provides context and content for specific themes and communities

Revenue: Advertising and subscription fees

Moving towards transactions →

Commerce Destination

Customer Value: Provides on-line shopping and purchasing

Revenue: Product and service margins and advertising

Single Market ↓

Content and Community Focused ← → **Transaction Focused**

Example: 'Click & Order' Convenience

Staples.com: - Netscape

File   Edit   View   Go   Communicator   Help

Bookmarks   Location: http://www.staples.com/   What's Related

Shopping Cart 🛒

Subtotal: $0.00
Free Delivery after $50
View Cart | Check Out

Product Search 🔍

Search by Keyword, Item No., Brand, Category...

Advanced Search
Search Help

Find It

Time Savers 🕐

• Personalized Lists
• Favorite Aisles
• Quick Order by Item
• Email Reminders
• Past Purchase History
• Product Matchmaker
Ready Made Lists

News & Hot Offers! ✉

Get bi-weekly updates on Staples News and Hot Product Offers!

Enter Email Address:

STAPLES .com
Your Online Office Manager℠

Login Name:

Password:

Company ID:

Login

Welcome! First Time User? Register Now

Go to Aisle!

• **Basic Office Supplies**
  Clips, Post-it, Scissors, Staplers, Tape...
• **Binders & Indexes**
  Sheet Protectors, Report Covers...
• **Cartridge,Toner & Ribbons**
  Printer Cartridges, Copier Cartridges...
• **Computers & Printers**
  PDAs, Notebooks, Monitors, Multifunction...
• **Computer Accessories & Media**
  Diskettes, Zip, CDR, Surge, Cables...
• **Filing & Storage**
  File Fldr, Hanging Fldr, Expandable Filing...
• **Furniture & Office Furnishings**
  Desks, Chairs, File Cabinets, Lighting...
• **Labels & Mail and Ship**
  Business Envelopes, Packing Tape, Boxes..
• **Maintenance & Breakroom**
  Batteries, Cleaning, Retail Supplies...
• **Office Machines**
  Calcs, Copiers, Fax, Shredders, Labelers...
• **Office Machine Supplies**
  Transparencies, Binding Supplies...
• **Paper Products**

Staples Specials for 10/7/99

Hot Deals   **Back to Business**

6⁹⁹   SPECIAL OFFER

SPECIAL BUY

Kensiko PS/2 Net Mouse
Was $14.98

More Hot Deals!

699⁹⁹

HP LaserJet 2100se
Printer Cable & LaserJet Paper
FREE instantly with purchase

More Back to Business Specials!

Buy More, Save More   **Clearance Center**

Document: Done

e-business enables a strategy to leverage business value from relationships with customers, suppliers and employees.

e-business applications

Knowledge Management

Suppliers　**Enterprise**　Customers

Business Intelligence

e-commerce enablers
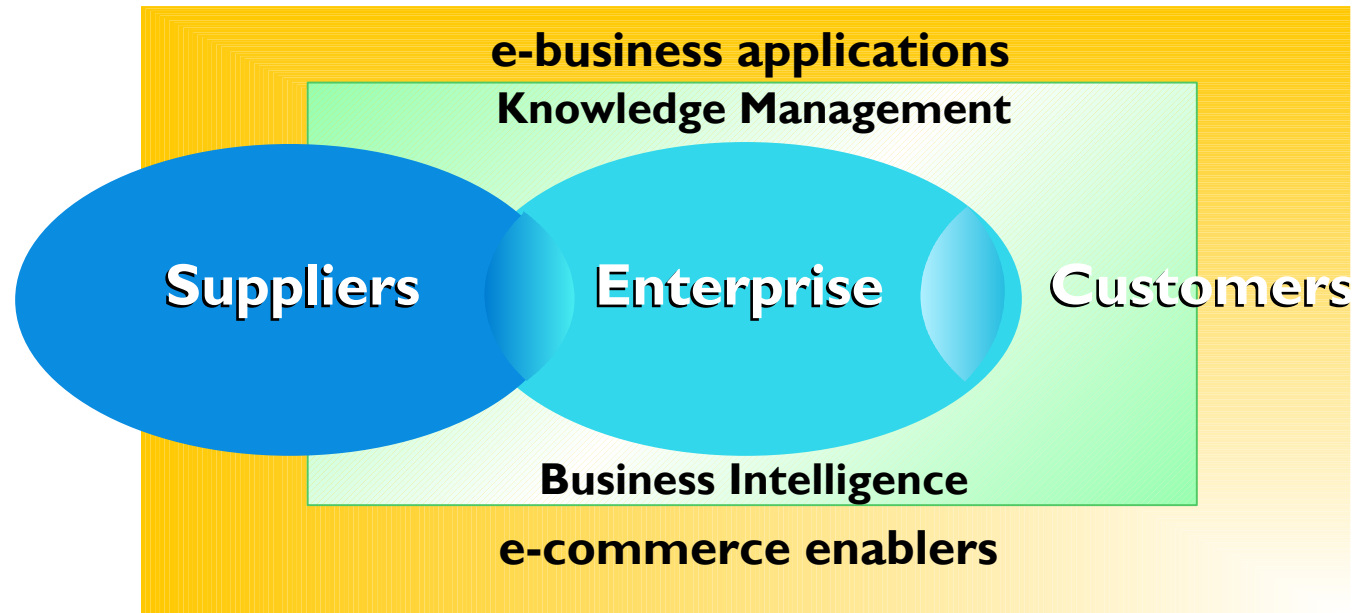
From independence to interdependence

From competent to responsive

From a transaction to lifetime loyalty

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Distribution and Fulfillment options are numerous, the choice depends on anticipated volumes, existing capabilities and alliances

	In-Store	Existing Distribution Center	New Dedicated Fulfillment Center	Third Party Fulfillment Companies	Distributor-Direct	Manufacturer - Direct
Start-up Cost	Low	Medium	High	Low	Low	Low
Difficulty of Start-up	Low	Medium	High	Low	Medium	Medium
Ability to Enforce Standards	Low	High	High	Medium	Low	Low
Ongoing Costs	High	Medium	Low	High	Medium	Low
Information Systems Costs	Low	Medium	High	Low	Medium	Medium
Examples	Early Wal-Mart, Early Macy's	Gap, Crate & Barrel, Spiegel, Eddie Bauer	Borders, Amazon, Crate & Barrel	Wal-Mart, Federated, e-Toys	CompUSA, Buy.com, CD-Now	Net Market, Crate & Barrel, Sears

Fingerhut: Leveraging Core Competencies

Acquired by Federated in February 1999, Fingerhut is focused on leveraging its core competencies in data base marketing and direct-to-customer fulfillment to increase sales to its own customer base, as well as create new growth opportunities.

"Our aim is to apply the technology of direct marketing precision to the Internet." - Will Lansing, CEO

e-business Initiatives

- Fingerhut Business Services (FBS)
  - ✓ Provide back-end fulfillment, warehousing & customer service outsourcing to e-retailers
  - ✓ 22 Clients (Wal-Mart, Levi, K-Mart, e-toys, etc.)
  - ✓ Database Inc. (coming soon) to provide database marketing, analysis, segmentation services
- E-commerce expansion
  - ✓ Own sites include fingerhut.com, andysgarage.com, thehut.com, figis.com
  - ✓ Buying stakes in range of e-commerce models (PC Flowers, FreeShop, Zone Network, HandTech, Roxy.com, etc.)
- Intranet, Extranet (supply chain) planned
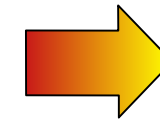
Key Results

- Federated stock up 29% since acquisition
- Projected $40M FBS revenue in 1999. $1B in 5 years.
- Projected $100M 1999 revenue from all Fingerhut sites. Target of 15% Federated revenue by 2003.

The entrepreneurial nature of the on-line business represents a cultural challenge for many Retailers

Frenetic Pace

"We are moving 10 times faster... Marketing plans don't get put together in six months, they get put together in two weeks."

"It's OK if we don't have it all figured out, we just have to move... Moving now at 80% is better than moving two months later at 100%."

Fluid Structure

"We have an all-hands-on-deck approach, so if I'm sitting there and a box needs to be taped, I don't call shipping, I just tape the box and move on."

"Here the people at the highest level, regularly interact with people at the lowest level."

Constant Learning

"With the Internet, everything's brand new, and as soon as you sit down and set a procedural way of doing something, things change."

Various organizational structures have been adopted by the top 100 Internet companies

Independent Business Unit 30%

Extension of Traditional Business Unit 4%

Internet Only 56%

4% Spin-off

6% No Centralized Management Focus
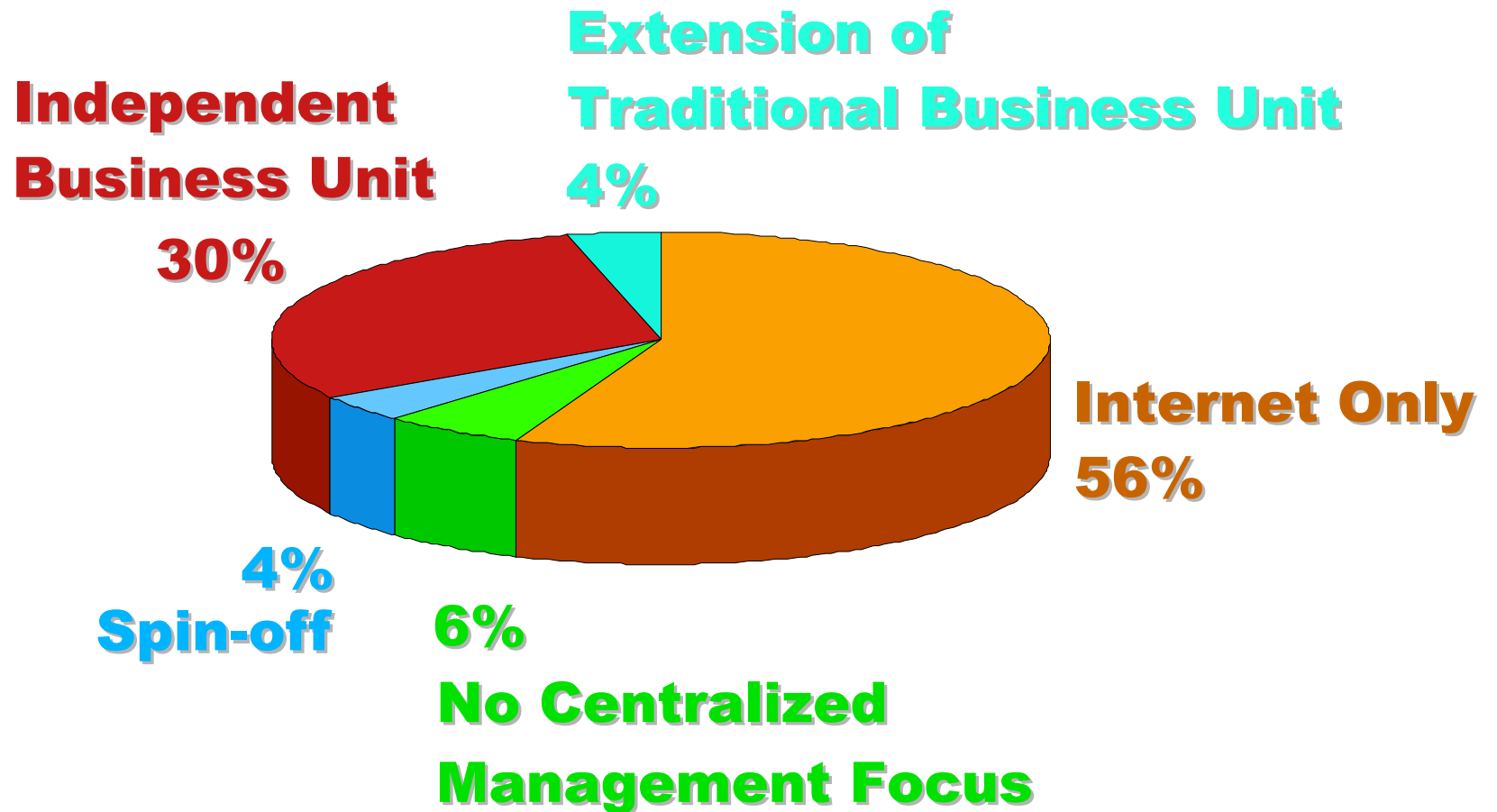
The organizational structure has to support the Multi-Channel model

People
- ▸ Leader
- ▸ Attract the Right Team
- ▸ Right Mix of Skills from Within & Outside

Innovation
- ▸ Leadership
- ▸ Culture that Encourages Risk-Taking
- ▸ Senior Management Support

Speed
- ▸ Highly motivated team
- ▸ Few Organizational Obstacles
- ▸ Adequate Resources

Funding
- ▸ Adequate Budget
- ▸ Access to Additional Capital
- ▸ Competitive Compensation

Focus
- ▸ Leadership
- ▸ Clear Goals & Objectives
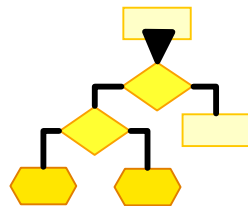
Structure
- ▸ Leadership
- ▸ Measurement criteria
- ▸ Culture that Encourages Risk-Taking
- ▸ Senior Management Support

e-business... Pulling it together across the Extended Enterprise

Segmentation

Products (SKUs)	Life Styles	Stores

CUSTOMER RELATIONSHIP (DEMAND MGT.)

Key Processes

FULFILMENT - SUPPLY CHAIN

Consumer Driven Collaborative Value Nets
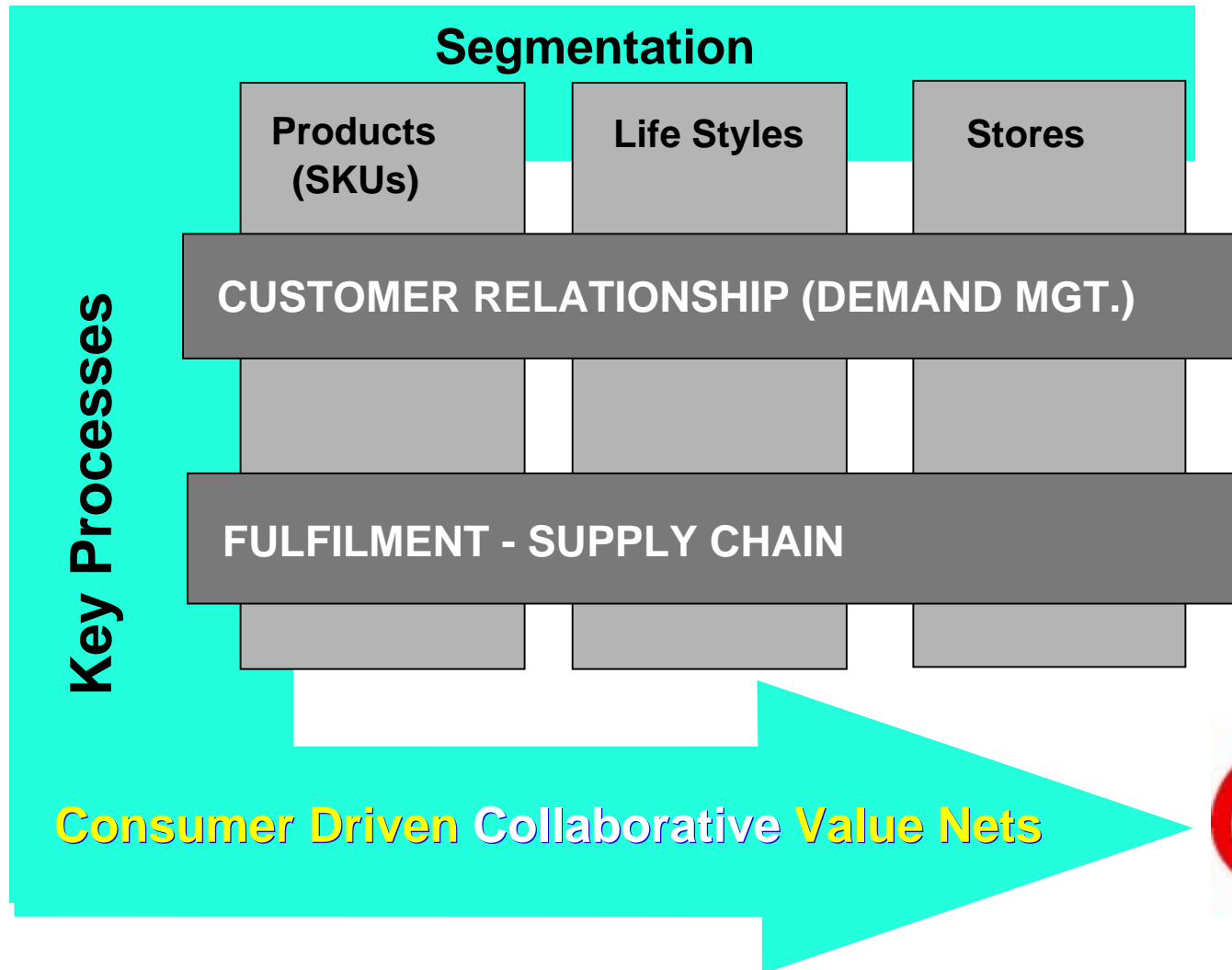
Customer 'Push/Pull' imperatives in the e-business world

► **Corporate e-business Strategy**

► **Global processes**

► **Corporate Centralized IT Standards**

► **Networked Learning Enterprise**

► **Collaborative Framework**

Speed.........

Agenda

e-business: The Power of 'Push/Pull'

e-business: The Execution of 'Click & Mortar'

e-business: The next wave of 'Pervasive Computing'

Every e-business Transformation is dependent on a number of Critical Success Factors

► **Clear Strategy and associated segmentation**
- Retailer Consumer Value Proposition (EDLP vs. Life Style)
- Business models :Traditional vs. Finder Fees (Product vs. Wallet Share)

► **Executive Skills and Profile**
- Marketing vs. Sale/Purchase - Socialized vs. Personalized

► **Global Common Business processes**
- Customer Relationship - Supply Chain

► **IT Business Blueprint**
- Enterprise Standards - Web Corporate Blueprint - Collaborative Framework
- Portals - Gateways
- e-business Utility - BPM - Pervasive Computing

► **Collaborative Management System**
- Reward system - Matrix Mgt. - Measurement System

► **Project Management Discipline**

There are 2 paths to transform a Brick & Mortar Enterprises into an e-businesses

▶ **Transform the Core Business**
- Requires sense of urgency
- Crisis situation
- Risky but rewarding if successful
- **IBM example**

▶ **Start a Separate Organization**
- Learn
- Focus
- Minimize Risks of Core business disruption
- Reintegrate to transform Core business when successful
- **e-Schwab and Macys.com example**

Another evolution has become visible at the example of Amazon.com becoming a Brick & Mortar company from a pure virtual e-business

IBM went through e-Transformation in 2 steps

Save $9.2B **Win Market Share**

80's — **Step 1** — 94/97 — **Step 1** continued — 97/2000's

+Step 2

Product Marketshare

CSAT: 70
E/R: 28%

Step 1

- **streamlined value chain**
  - ► global common processes
- **Market driven segmentation / Matrix Organization**
  - ► Industry/Products/Geography
    - − country as cost center
    - − businesses as profit center
  - ► Management & reward system
  - ► skills and profile
  - ► Learning collaborative Organization
- **IT transformation**
  - ► Datacenter consolidation
  - ► Outsourcing
  - ► Workgroup Management
- **Hybrid Marketing**
  - ► channel mix
  - ► buying pattern segmentation
  - ► business charter

+Step 2

- **e-collaborative value nets**
  - ► web enabled processes
- **engagement based e-business solution model**
  - ► scaleable e-business solutions
  - ► reusable assets
  - ► collaborative Marketing planning
- **e-business internal initiatives**
  - ► e-care for Customers
  - ► e-care for Business Partner
  - ► e-care for Employees
  - ► e-procurement
  - ► e-care for Influencers
  - ► e-commerce
  - ► knowledge management
- **e-business customer acquisition focus**
  - ► increase resources on e-business solutions acquisition segments

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IBM Business Results followed

Save $9.2B   **Win Market Share**

80's — Step 1 → 94/97 — Step 2 → 97/2000's

Share Price

| Product Marketshare | Product+Services Marketshare | Customer Walletshare +Process-Outsourcing |

Revenue

| CSAT: 70 E/R: 28% | CSAT: 76 E/R: 21% | CSAT: 80 E/R: 18% |

Earnings/Share

Net Income

Face-to-Face
Partner
Tele/Web

Retention Revenue
Acquisition Revenue

HW
SW
SVCS

90 91 92 93 94 95 96 98 2002

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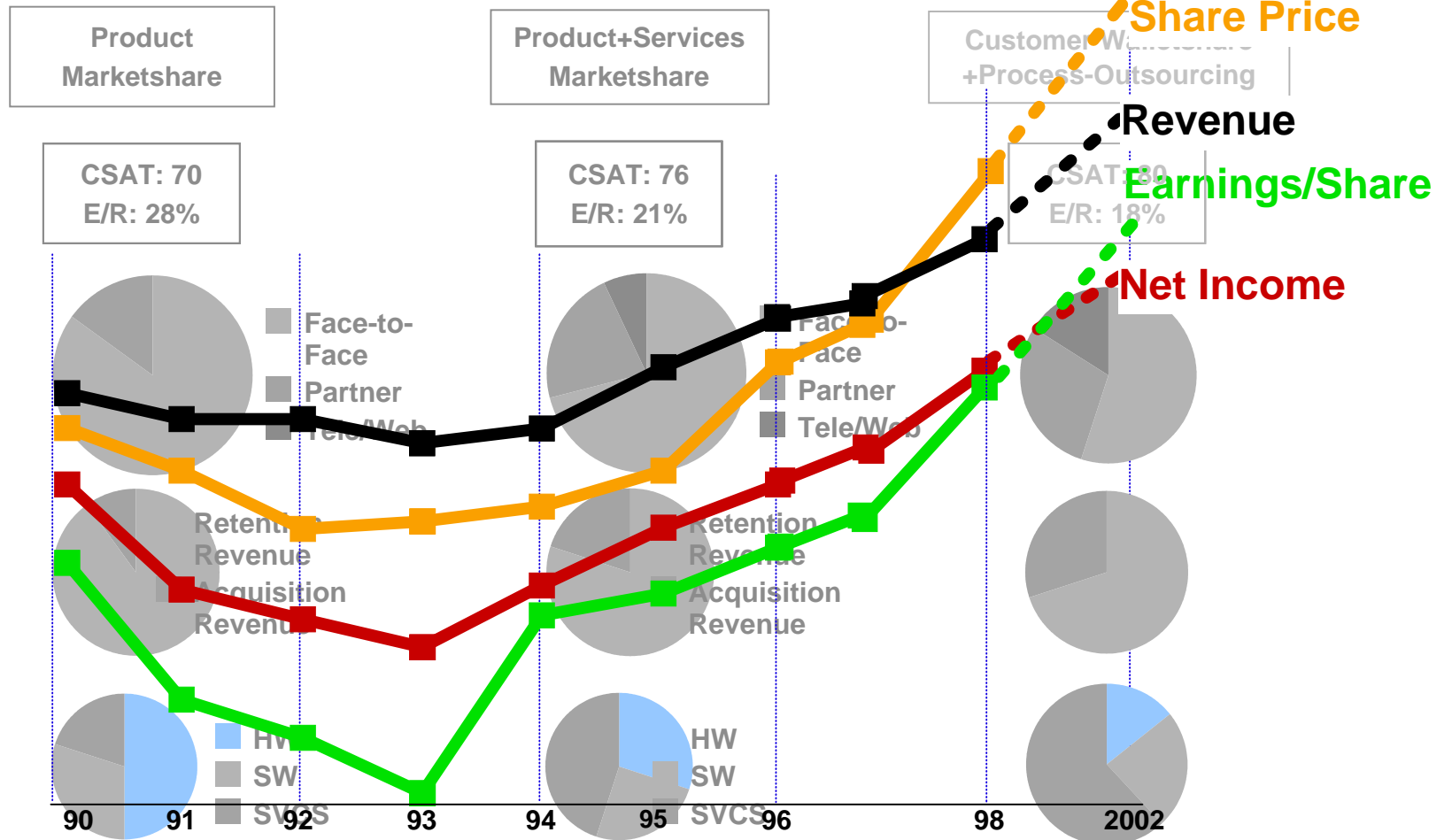
IBM Step 1: Milestones accomplished

- Saved $9.5 Billion in cost and expense between 1993/98
- Improved Customer Satisfaction by 5.5 points
- Reduced hardware development time from 48 to 16 months
- Improved on-time shipments from 60% to 95%
- Achieved a Production Procurement Competitive Advantage of greater than 3%
- Reduced Demand/Supply planning calendar from 60 to 20 days
- Reduced the number of skills management tools from 50+ to 1 for Global Sales and Services
- Reduced the time to close financial books from 26 to 6 days
- Reduced the expense of Finance and Accounting from 2.5% to 1.3% of revenue
- Reduced the number of Data Centers from 155 to 8
- ....more to do

Example: SAP @ IBM

SAP Selected for
- Fulfillment -164 Countries
- Production -28 Plants
- Procurement & Finance

25 Projects live
- Different stages of deployment

Why ?

Business Re-engineering Support
- Global Solution with Multi-Country Support
- Broad Functional Scope
- Imbedded Industry Best Practices
- Industry Proven Solution
- Business Process & Configuration Flexibility
- Disciplined and Integrated

Integrated Consistent with I/T Strategy
- Purchased Application Solutions
- Network Computing Architecture
- Speed of Implementation
- Integrated with IBM Hardware/Software/Services Solutions
- R&D Capability

Favorable Internal Results
- OEM Components - Semiconductors and Disk Drives

Example: IBM Datacenters

Before

- 155 data centers
- 100+ local "CIOs"
- 31 private, separate networks
- Hundreds of client configurations

Now

- 8 data centers
- One CIO
- One integrated, global network
- Moving to four standard configurations

Reducing Cost and Complexity

- **Annual IT costs down 25% since 1992
  Scaled Notes to 270K users in 2 years
  Outsourced to IBM Global Services
  Access to mobile workforce (40% & growing)**

Management Profile needed

Culture

FROM
- ►Hierarchical/Staffs
- ►Completed staff work
- ►Managing docility
- ►Respecting internal rules
- ►Lack of time to listen
- ►Details averse
- ►Personal power

TO
- ►IBU/Lean
- ►Intuition / Learn as we go
- ►Inspiring creativity
- ►Challenging / Re-engineering
- ►Open / Lateral thinking
- ►Leading execution
- ►Socialized power

Experience

FROM
- ►Mainframe computing
- ►Product (HW,Syst SW)
- ►Large customers
- ►Face to face sales
- ►PC averse / AA

TO
- ►e-business /Network computing
- ►Solution (HW+SW+SCES)
- ►End user & Small business
- ►Hybrid marketing
- ►Do it yourself

Management Style Needed

Leaders with Socialized Power tend to be:

- Inhibited & self controlled in their use of power
- Respectful of others rights
- Concerned with fairness
- Oriented toward justice
- Committed to the value of working per se
- Egalitarian
- Organization minded; joiners
- Ambivalent about power
- Collaborative
- Concerned with realistic goals
- Non-defensive; willing to seek help
- Builders of systems and people
- Replaceable by other leaders- leave system intact & self-sustaining
- Sources of strength for others

Leaders with Personalized Power tend to be:

Impulsive & erratic in their use of power
Rude & overbearing
Exploitive of others
Oriented toward strength
Committed to the value of efficiency
Proud
Self-reliant
Excited by the certitude of power
Competitive
Concerned with exceptionally high costs
Defensive- protective of own sense of importance
Inspirational leaders
Difficult to replace- leave a group of loyal subordinates dependent on their leaders
Sources of direction, expertise & control

"Us", the Team   "Me", the Silo

IBM's e-business Environment

e-commerce

e-care for Influencers

e-procurement

Best Online Relationship

e-care for Customers

e-Marketing Communications

e-care for Business Partners

e-care for Employees

e-business Initiatives

Web Application Server

Web Applications

IT

Web

Infrastructure
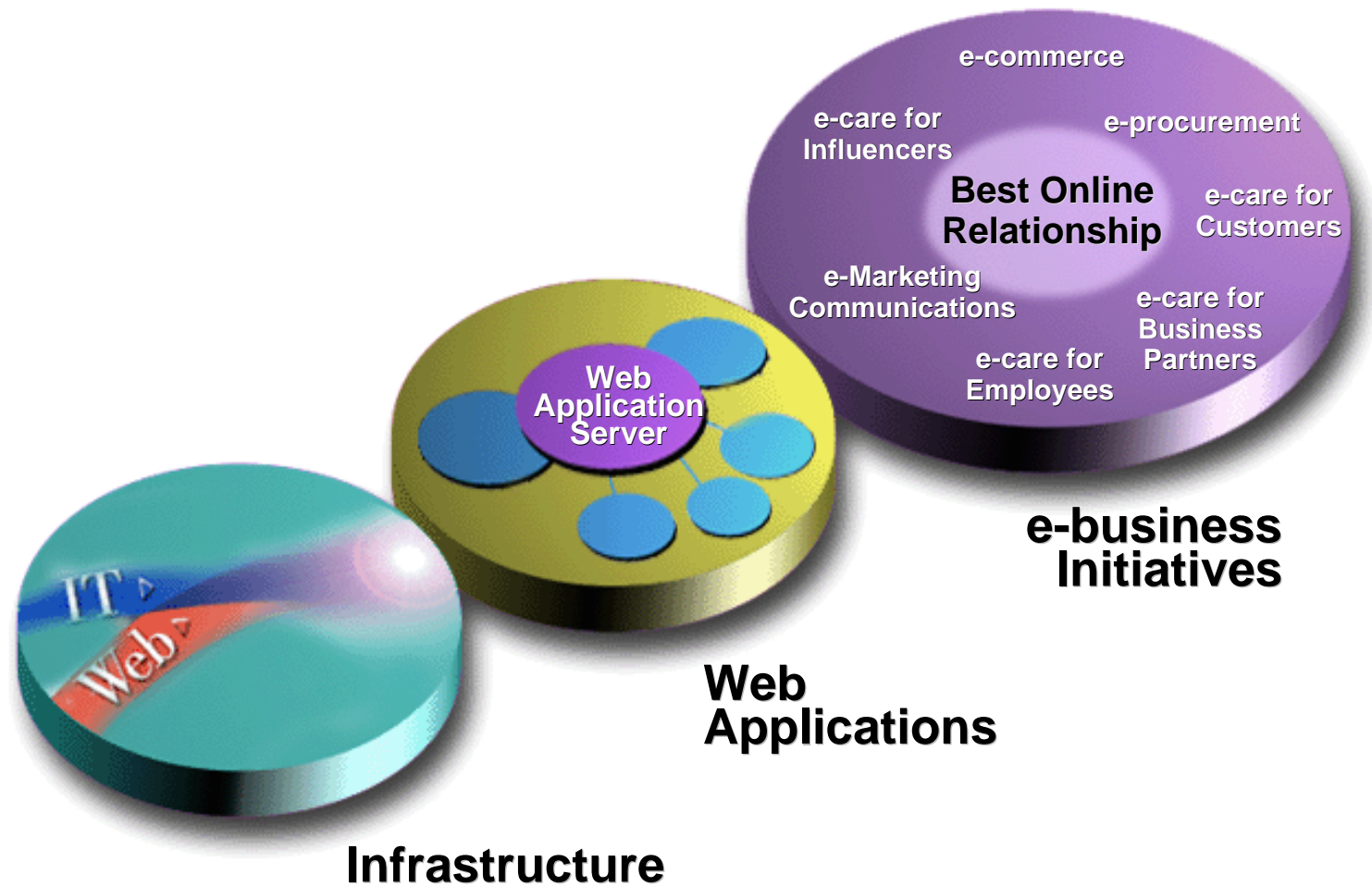
IBM Transformation Key Achievements

	1998	1999
e-commerce	$3.3B	$10B+
e-procurement	$1.2B	$9B
e-care for customers (Transactions)	14M	28M
Distance Learning Training	15%	30%

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Lessons learned
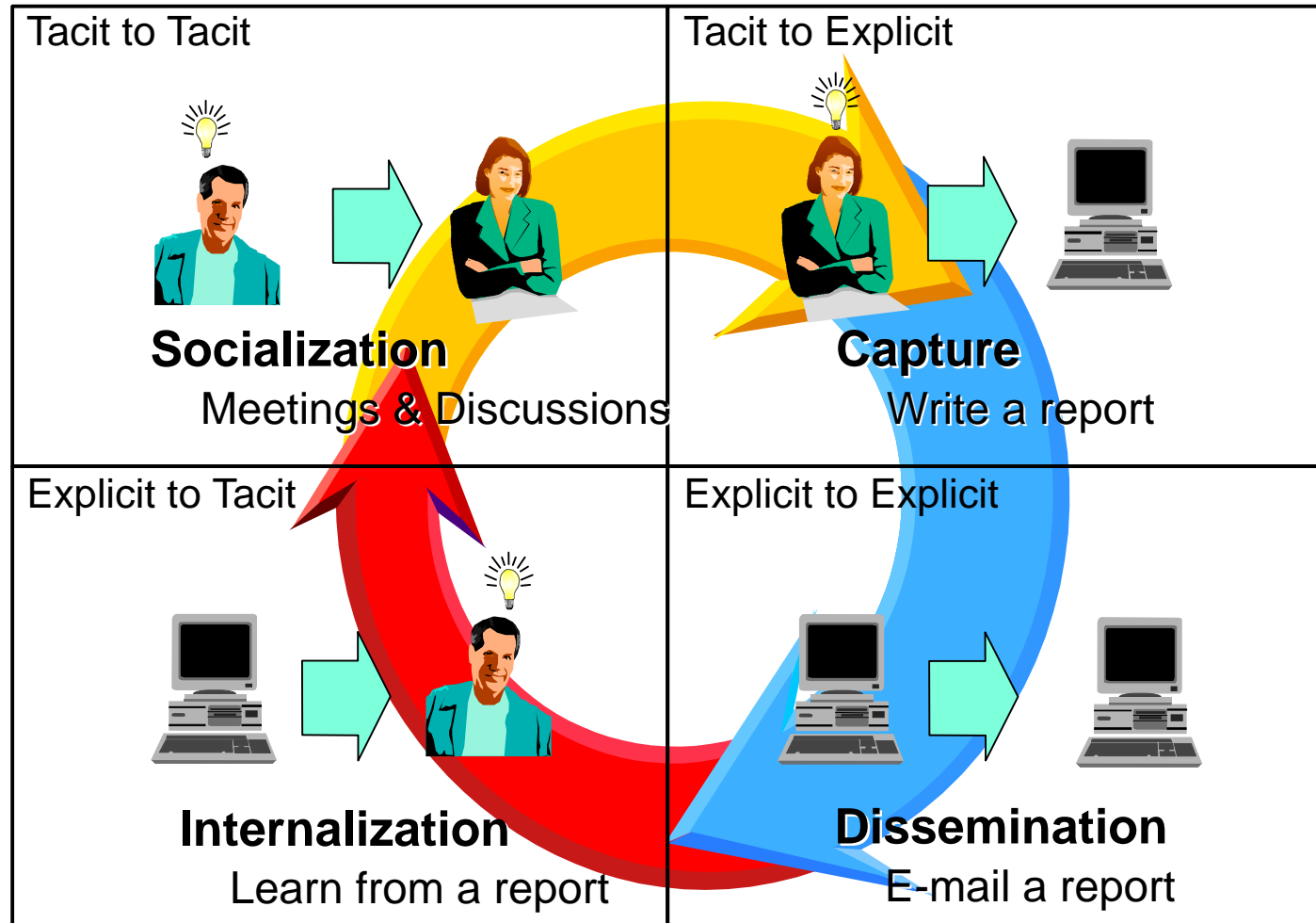
✓ Establish a compelling need at all levels of the organization

✓ Create a vision with value for all stakeholders

✓ Gain consistent executive ownership and involvement

✓ Embrace a holistic approach --- process, information management, organizational systems, culture. Limit personalization

✓ Empower for rapid decision making

✓ Forbid political games and silo's behaviour, plug savings in budget

✓ Focus on core capabilities . . . outsource others

✓ Plan for early program successes

✓ Set short term stretch targets and long term outrageous goals

✓ Scope projects and utilize project management disciplines

Communicate, Communicate, Communicate

Knowledge Management

Tacit to Tacit	Tacit to Explicit
Socialization Meetings & Discussions	**Capture** Write a report
Internalization Learn from a report	**Dissemination** E-mail a report

(Explicit to Tacit / Explicit to Explicit for bottom row)

Lotus Domino Frameworks

Agenda

e-business: The Power of 'Push/Pull'

e-business: The Execution of 'Click & Mortar'

e-business: The next wave of 'Pervasive Computing'

Pervasive Computing

- A <u>Computing Evolution</u> that will allow:
  - ▶ **a billion people** connected through **a trillion intelligent devices** to interact with **a million e-businesses** to make their lives more productive and entertaining

- A <u>Connected World</u> where users have:
  - ▶ a wider variety of specialized, simpler, and often less-expensive devices
  - ▶ convenient, secure access to data and services and the ability to conduct e-business at any time, from any location
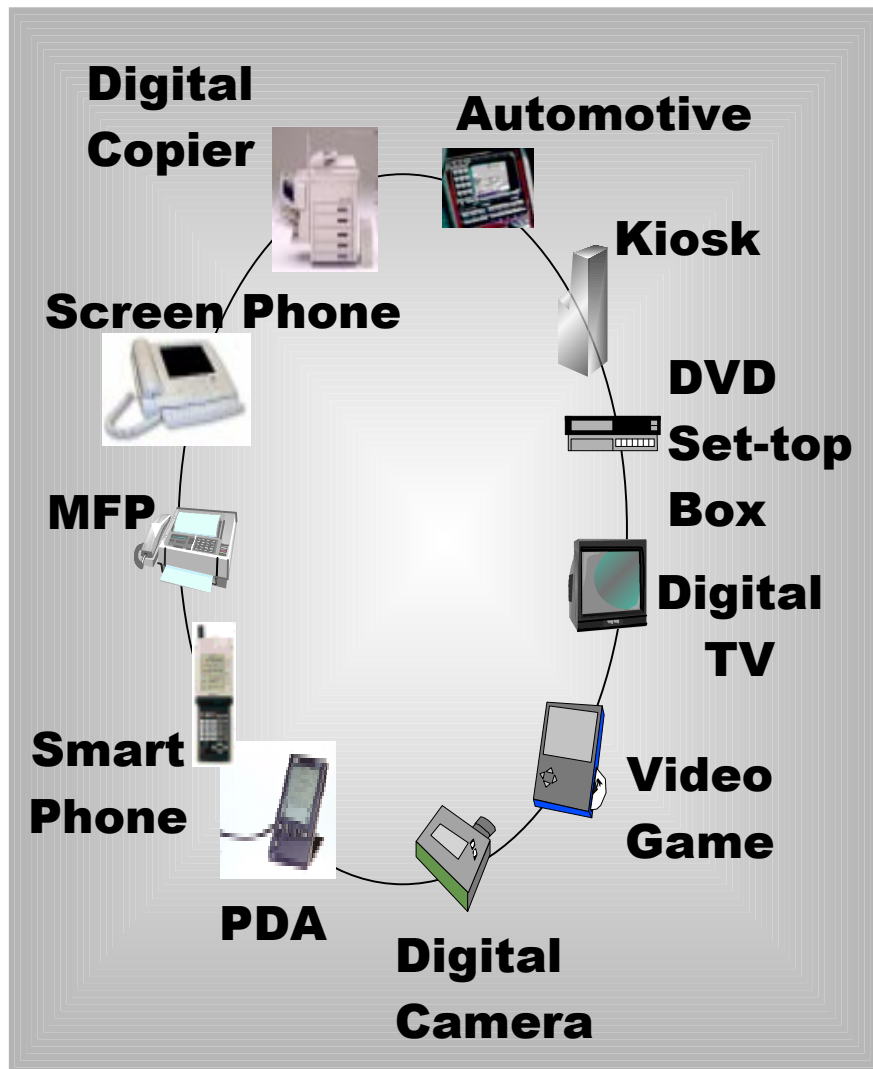
A New Class of Computing Devices

"APPLICATION-SOLUTION-ORIENTED"

Information Appliances & Embedded Devices

► End user Access

► diverse Equipment types

► Intelligence hidden everywhere

► Rich, digital information-handling

► Networked

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Conclusion:
Inventing the Future

IBM

"The best way to predict the future is to invent it."
Alan Kay