



# SHOPTALK™ DAY 1

the nextgen commerce event

MAY 15-18, 2016 • ARIA, LAS VEGAS

The Fung Global Retail and Technology team attended Day 1 of the inaugural Shoptalk conference, which its organizers describe as “the tech event for nextgen commerce.” We joined more than 3,000 attendees, including C-suite executives, entrepreneurs and retail leaders from 20 countries, on Monday as they gathered in Las Vegas to explore disruption in the retail industry, particularly in how consumers discover, shop and buy. Among those we heard from and met with were representatives of large retailers, startups, brands, technology companies and investment groups.

While we heard on Day 1 about essential technologies such as omni-channel from Jerry Storch, CEO of Hudson’s Bay, and the ubiquity of mobile devices in retail transactions from Sephora, Kohl’s and Foot Locker, the CEOs noted that rumors of the death of brick-and-mortar stores are greatly exaggerated; rather, such stores are an essential part of the retail landscape. Discussing more traditional practices, several CEOs remarked that organizations and people represent the backbone of effective retail organizations.

Highlights of the day's presentations are below—including Fung Global Retail and Technology Managing Director Deborah Weinswig's interview with Nigel Oddy, Chief Executive Officer, House of Fraser, on digital store trends and technologies. Join us tomorrow for continued coverage, and on Wednesday as Deborah moderates the startup pitch session at 10 a.m.

[Click here](#) for the full agenda and [here](#) for the speaker list with bios.

## THE RETAIL REVOLUTION, REVISED

**Jerry Storch, CEO, Hudson's Bay Company**



Brick-and-mortar stores are not on the road to extinction, Jerry Storch, CEO of Hudson's Bay Company, told Shoptalk attendees in a keynote address that kicked off the event. "The vast majority of sales still take place in stores," Storch said. "The Internet is transformational, but it's not yet transcendent. It doesn't replace everything else."

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Storch offered a revised narrative of the retail revolution. Rejecting the common plot that focuses on the death of retail, he offered a three-part narrative: In Episode 1, the rise of physical stores; Episode 2, the rise of the Internet; and, in the final phase, Episode 3, the stores fight back. For Hudson's Bay Company, he explained, fighting back means a future working as a store operator, consolidator, real estate proprietor and above all, an innovator.

The current retail narrative is riddled with myths, Storch explained, challenging the audience to fact-check their perceptions. A major myth, that the Internet is killing store-based retailing, is simply wrong, he said. In fact, according to the Department of Commerce, 90.2% of sales happen in traditional stores. This number changes to 83% of traditional retailing when gasoline and other factors are removed. He dismissed as myth the attitude that retail chains need to shrink massively and rapidly. This has not taken place at Hudson's Bay Company, nor has it been a trend across the board among the



retailers we follow at Fung Global Retail and Technology. The exception, of course, is select retailers that have failed to innovate or adapt to changing market demands.

The perception that the rapid growth of e-commerce has led customers overall to prefer online shopping is another myth, Storch said. In truth, customers rely on an omni-channel shopping experience. He noted that retail's "all-channel universe" offers many, many ways for customers to find, select and purchase an item. "And we gotta do them all, because we gotta meet the customer's needs," he noted.

Traditional retailers may struggle amid competition from online retailers that offer lower prices, but online selling is in fact still more expensive. "Anyone can sell an infinite amount of commodities below cost," Storch said. He added, "Anything that can be digitized will be." This will eventually turn the Internet into the dominant mode of distribution because logistics don't apply. However, "until they invent a transporter," he said, the purchase of physical products will not be completely digitized. "For physical products," he noted, "direct-to-home will not dominate sales, because of the high freight cost."

Who will own the future of retail? The answer, Storch said, is not "internet-only companies." The future, he suggested, will see a convergence where brick-and-mortar stores add more digital options and internet-only retailers come to understand they need physical stores. This follows the online-to-offline trend that we have reported, in which both smaller online-only retailers such as Warby Parker and e-commerce giants such as Amazon come to the realization that they need physical locations for customers to visit.

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#### **Michael Dubin, Founder & CEO, Dollar Shave Club**

Continuing the theme of rethinking the future of retail, Michael Dubin, Founder & CEO, Dollar Shave Club, spoke with Courtney Reagan, a retail reporter at CNBC, about disrupting legacy brands with a new business model. He built a subscription business with millions of members in only four years, growing Dollar Shave Club to over three million members. Members receive shipments either monthly or bimonthly, and offerings have expanded from simple razors to over 20 grooming products all offered under the club's motto, "Shave time. Shave money."

Commenting on the competitive challenges the company faces as a seller of commodity products, Dubin compared his strategy to Starbucks. "What Starbucks did for coffee, we are doing for razors," he said. Both companies create a lifestyle and culture around a daily activity that had previously been seen as mundane or just another chore. Men are the primary customers (not their wives), although customer preferences have changed. "Guys are evolving," he said. America is still 5-10 years behind Asia, he noted, but American men are starting to pay a lot more attention to the products they use on their face and hair.

*"Organization health is the best competitive advantage."*

As with all new companies, there's a concern that copycats will enter the market. Focusing on how to prevent that, Dubin explained he is building an experience that evokes emotions. This is accomplished in many ways, including investments in an online content platform. Dubin noted that one key success thus far has been customer retention, which he attributes to the fact that there are no subscribers; everyone is a member, as suggested by the "club" noted in the company name. The company launched in March 2012, and the average member has been a part of the club for 3.2 years.

"Organization health is the best competitive advantage that you can have," Dubin noted. He did mention that recruiting talent is among the company's biggest challenges. It has been difficult to find the best engineers and coders, he said, although that has become easier as the company has grown.

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**Ron Johnson, Founder and CEO, ENJOY**

Identifying and retaining the right talent for success in the changing retail landscape was a topic that resonated in the morning's discussions. Describing his new business, ENJOY, as a "personal commerce" platform, former JCPenney CEO and Founder and current CEO of ENJOY, Ron Johnson, emphasized that digital commerce is about convenience and a seamless experience—and hiring the right people. "I have 210 employees, and I still know them all by name," he said. ENJOY is a new retail model that helps consumers not only buy, but also set up and start using tech products. Johnson founded it using lessons learned from his previous positions at Apple and JCPenney. Speaking during an interview with CNBC, Johnson challenged retailers to think differently about scheduling, employees and talent in order to create happy employees and thus happy customers.

ENJOY sells tech products like tablets and drones at the same price as big retailers like Best Buy and the Apple Store, however it differentiates itself through a new retailing model. With each purchase, the products are delivered and set up in customers' homes by a member of its "fleet" of experts. Leaving behind the expense of brick-and-mortar stores, ENJOY's overhead costs include investing in high-quality employees and in-depth training. Those employees deliver products wherever and whenever customers request and then work with the customer to set up the new products.

This model allows e-commerce retailers to create an "in-store" experience in customers' homes, because the product delivery is more personalized than traditional mail delivery. Integrating the online experience with that of brick-and-mortar outlets will make it more difficult for e-commerce competitors to "lock up the consumer electronics industry," Johnson said. By providing the experience, the company continues to disrupt the traditional retailing model. "The magic is the experience," he said. "We don't build stores. We just hire people. It's a lot less expensive than building stores."

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## PHYSICAL RETAIL GOES DIGITAL: DIGITAL STORE TRENDS AND TECHNOLOGIES

### House of Fraser: A Heritage Brand Moves Into the Future

Deborah Weinswig, Managing Director of Fung Global Retail & Technology, interviewed Nigel Oddy, CEO of House of Fraser.



In the conversation, Deborah Weinswig and Nigel Oddy discussed topics ranging from the benefits of launching an online business later than one's competitors to Chinese consumers' enthusiasm for all things British. Key takeaways from the discussion are below.

House of Fraser, a British department store chain with stores across the UK and Ireland, was acquired in 2014 by the Sanpower group, a Chinese conglomerate that was founded in 1993. House of Fraser represented one of Sanpower's first acquisitions outside of China, and the company saw the move as an opportunity to create an aspirational, affordable department store that is unique and differentiated from its competitors.

Oddy noted that House of Fraser's British heritage plays well in China. "I was at the premiere of Paddington Bear in China," he recounted, "and every time a picture of London came on there was a cheer from the audience." The strong demand for British culture and brands in China is aided by the popularity of shows like *Downton Abbey*, he said, which was a top show in China. Addressing growth in China, Oddy said the middle class offers the greatest opportunity. The company will open a store in September in Nanjing and another one in Suzhou this year. Management also plans to add a store in Chongqing.

In terms of its online business, House of Fraser entered the digital world ten years ago, which was very late compared to its competitors. Although the late entrance initially seemed a disadvantage, it proved to be an advantage, as the company operated a mobile business from day one. That ensured consistency across all channels and a seamless experience for the customer. The company offers 1,500 brands in its stores and each brand is also available online. Roughly 35% of the company's business is "click and

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collect” today, in which consumers order online and pick up their orders in stores.

Oddy stressed the importance of offering a seamless experience to customers regardless of the channels in which they shop. The focus should be on the customer rather than the channel. Promotions cannot be offered in one channel and not the other, and product assortments need to be consistent across channels, as well employ consistent messaging. House of Fraser was one of the first retailers to hire a Chief Customer Officer and approach customers in a holistic way. Customers also want to feel special and they value feeling as if they are getting something exclusive. As an example, last week the company offered 20% off to its loyalty members (2.5 million customers).

The apparel category has been as challenging in the UK as it has in the US. While Amazon’s success has clearly had an impact on the market, customers continue to seek experiences, and Amazon cannot offer a compelling in-store experience, Oddy said. That leaves room for retailers that are able to offer a differentiated experience to customers.

The beauty category is about the experience; the interaction the customer has with the stylist or makeup artist gets consumers to stores, Oddy noted. Beauty is a key category for House of Fraser and they are trying to add more indie brands to further differentiate their product offering. Private label is another key part of the business, with 16 house brands offered across women’s, accessories, men’s and home.

## BRAND INNOVATORS

### Ashley Stewart, Foot Locker, Kohl’s, Sephora

In 2013, plus-size retailer Ashley Stewart was facing its second bankruptcy in less than three years. Investor and board member James Rhee stepped in, resigned from the board and his other roles as an investor, and became CEO. This marked the first time he had ever run a company, but he developed a plan to turn it around.

When Rhee joined Ashley Stewart, the company had a bad reputation in the market, the culture was toxic, it lacked corporate credibility, there was a one-way conversation between the company and its customers, it did not have wi-fi and e-commerce capabilities were very limited

Rhee came into the company and approached the employees from a place of humility, saying, “I’m the least qualified person for this job. Help me succeed.” Rhee thought kindness was what the brand most embodied.

He also focused on the customer. Any department customers did not care about or that was not relevant to them was immediately removed. This was the beginning of a brand new, completely customer-centric approach to running the company. “We spend

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more time thinking about the woman when she is not transacting with us,” he noted.

Mary Beth Laughton, SVP Digital, Sephora, discussed the significance of mobile in online sales as well as the overall shopping experience in a panel led by Rohit Singh, Managing Director, Consumer Products & Retail Group, Americas for the Corporate Client Solutions Group at UBS Securities. Seventy-five percent of purchases are mobile engaged in some form. Opportunities exist in sales and adding in-store engagement. Sephora is spending a lot of time on third-party social media apps, she said, in addition to their own app.



Ratnakar Lavu, CTO at Kohl’s, said closer to 80% of purchases have some mobile component. In order for department stores to continue to exist and thrive they have to figure out a way to engage customers in stores. Some opportunities include self-checkout, product information available more readily in stores and product recommendations.

Pawan Verma, SVP and Chief Information Officer at Foot Locker, said the mobile channel has touched 75% to 80% of transactions. Foot Locker focuses on engaging the consumer and then transacting with the customer rather than the reverse. The next step will be to use IoT (internet of things) technology to engage consumers, including wearable chips in shoes as one example.

When asked about the most promising technologies in mobile and the most overrated technologies, Ms. Laughton at Sephora commented that promising technologies must add value to the consumer, or enhance the experience in some way. RFID technology is an example; as sensors become more powerful there is more opportunity. Beacons are overrated she said—Sephora has been testing them. At Kohl’s, mobility and IoT will be the right solutions, although the company is still searching for the exact solutions.



## DISRUPTIVE STARTUPS AND PIONEERING BRANDS

### New Marketplaces

We attended a session titled *New Marketplace Startups*, part of the Disruptive Startups and Pioneering Brands track of Day 1. Although online marketplaces are not an entirely new concept, there has been a resurgence of interest in the space with new marketplaces created to match buyers and sellers, often in more specialized areas. At this session we heard from the CEOs of various new marketplace startups, including: George Arison, Founder & CEO, Shift; Bill Bobbitt, Co-Founder & CEO, Move Loot; Nick Huzzar, CEO, OfferUp; and Andy Nielsen, President & CEO, Everything But The House.

Shift is an online marketplace that was started just 20 months ago and already has a \$100 million GMV run rate. The Shift marketplace is specialized for the buying and selling of automobiles. It aims to generate trust in a transaction that often lacks that important factor. Arison commented that women often will pay more than a man will for a car when they walk into a dealership, but it should be just as easy for women to buy cars. Other than differentiating themselves from physical dealerships in its policy of equal treatment, it also covers a broad geographic market, serving a more diverse set of buyers. Currently 50% of users are mobile, and the company expects 90% will be on mobile devices in 2-3 years.

The founders of Move Loot thought that “moving is super painful,” so they started their company to create a marketplace for moving and selling furniture. They are not alone as home furnishing is one of the fastest growing ecommerce categories. Amongst the features available to the 100,000’s of users are: manage listings, curation, pick-up and delivery. Fifty percent of Move Loot’s traffic comes via mobile but 90% of purchases come from the Internet. Customers for Move Loot, which are 60% women and 40% men, can be broken down into several different buckets including: young professional, younger families and downsizers. In order to meet the demand of the various demographics, Move Loot mixes up its regional marketing.

OfferUp provides a way for people to buy and sell locally by bringing buyers and sellers into the experience. They have gone from \$1 million in 2014 to \$14 million in 2015, and have been facing the challenge of keeping up with growth. OfferUp is a mobile first company that is transforming how people buy and sell locally, experience is built into the app and 95% of traffic comes from mobile. The customers for OfferUp tend to skew towards the United States and generally skew slightly towards women.

Everything But The House provides an online market place for estate sales. They did \$30 million in revenue last year and have an average of 80% repeat purchase revenue every month, with the average order value right in the “sweet spot.” Although the traffic is split evenly between mobile and desktop, mobile tends to see stronger conversion. Everything But The House provides no hassle and great value. The company’s offerings appeal to its “best,” customers that are mainly women aged 45–60 who consider shopping to be a hobby and love to discover content.

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