



## **The Emerging Retail Business Model: The Revenge of Bricks and Mortar Retailing**

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### **Recent developments in online retailing:**



- Escalating bankruptcies
- Imploding business models
- Consumer flight to trust
- The revenge of bricks and mortar

In the future, there will only be one successful and pervasive Internet-only retailer.



Multi-channel retailers are beginning to dominate.

Virtual Retailers 2001



amazon.com. New strategy



**Many online retailers have gone bankrupt over the past year.**

**Dot-com Failures\***

April 2000 ..... 1  
 April 2001 ..... 55

\* As reported in *Women's Wear Daily*, May 2001

- |                   |                          |
|-------------------|--------------------------|
| Baby Gear.com     | Living.com               |
| Beauty Jungle.com | More.com                 |
| BigStore.com      | MVP.com                  |
| Big Words         | Mylackey.com             |
| Boo.com           | Scour                    |
| DeepCanyon        | Scout Electromedia       |
| Eve.com           | Solutions Media          |
| Gazoontite        | TheMan.com               |
| iBelieve.com      | Urban Box Office Network |
| Kibu.com          | Value America            |

**Bricks and mortar firms are acquiring many of these troubled pure plays.**

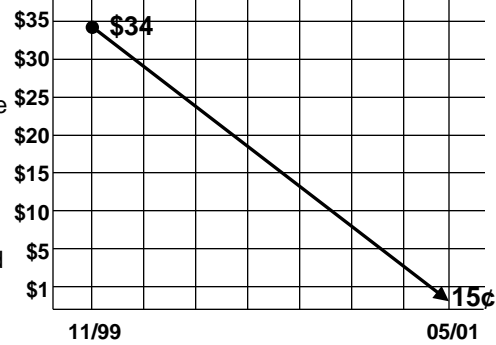
Traditional Retailer	Acquired Pure Play
KB Toys	eToys.com
Bertelsmann AG	CDnow
Ahold	Peapod
PETsMART	Pets.com
Sephora	Eve.com
Estée Lauder	Gloss.com

**A pure play eCommerce business model is no longer viable.**

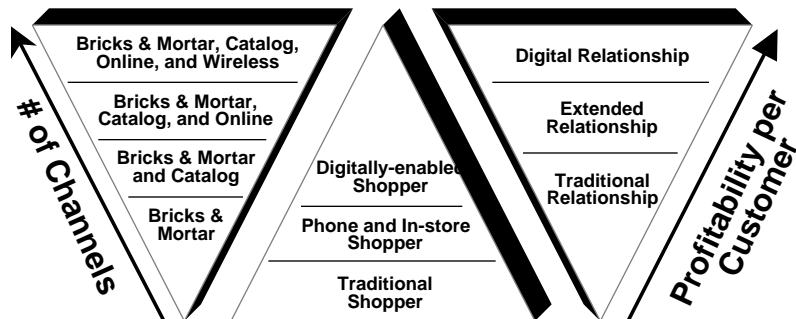


- **April 13, 2001:** Webvan CEO George Shaheen resigns
- **April 2001:** Ceased operations in Dallas-Fort Worth, Atlanta, and Sacramento
- **May 2001:** Postponed expansion and closed warehouses in New Jersey, Baltimore, and Washington, D.C.

**Webvan's Stock Price Implosion**



**We now know what we have always known.  
Integrated multi-channel retailers will win.**



**But we knew this in 1998!**

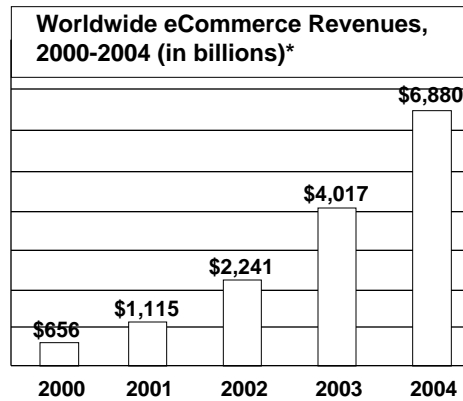
**Multi-channel retailers are seeing increased revenue, profitability, and customer loyalty.**

Multi-Channel Retailer	1999 Online Revenue	2000 Online Revenue	% Increase
Office Depot	\$350 M	\$850 M	+285%
Tesco	\$178 M	\$338 M	+ 90%
Toys R Us	\$ 49 M	\$189 M	+285%
JC Penney	\$ 80 M	\$175 M	+119%
Lands' End	\$110 M	\$175 M	+ 59%
The Gap	\$100 M	\$150 M	+ 50%
Sears	\$ 25 M	\$ 90 M	+260%
REI	\$ 30 M	\$ 60 M	+100%
Nordstrom	\$ 20 M	\$ 30 M	+ 50%

**Despite its difficulties, the eCommerce marketplace is still growing.**

**Did You Know?**

- Consumer spending via eCommerce is steadily increasing.
- The economies of eCommerce have improved.
- Online customer acquisition costs have decreased.
- Business-to-Consumer (B2C) online sales continue to grow.



**A retailer's brand is defined as the sum total of a consumer's experience.**



**Why are customers demanding multi-channel retailing?**



- *Anytime, anywhere* interaction with retailers of choice
- Confidence in a retailer's ongoing health and stability
- Heightened knowledge of a customer's personal needs and wants

### Back to the future...

- Promotions and incentives need to be cross-channel and contextual.
- Customer service must be customized for each channel.
- Operational capabilities need to be integrated across channels.
- The brand must be seamless across all channels.

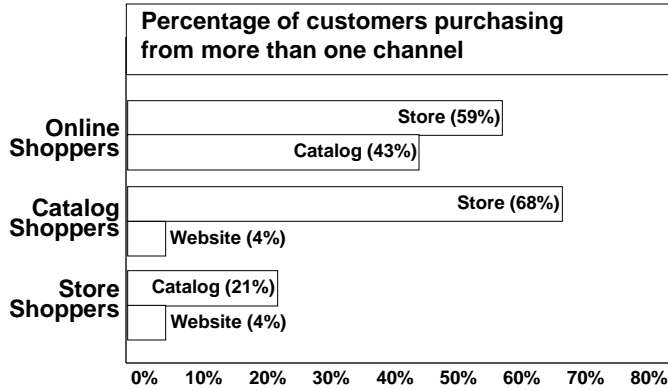


### What will be the retail business model of the future?

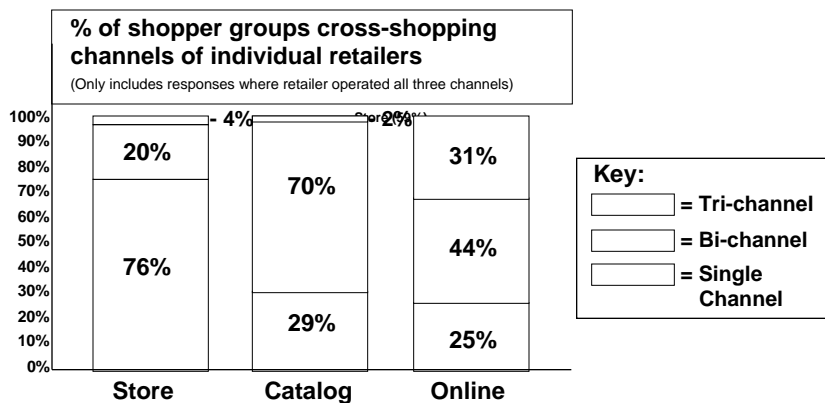
#### Integrated, Digital, and Multi-Channel

- Physical: Traditional bricks and mortar stores
- Direct: Mail order catalog businesses
- Online: Web-based operations
- Mobile: Emerging wireless technologies

**Studies indicate the extent to which customers use the various channels offered by a single retailer.**

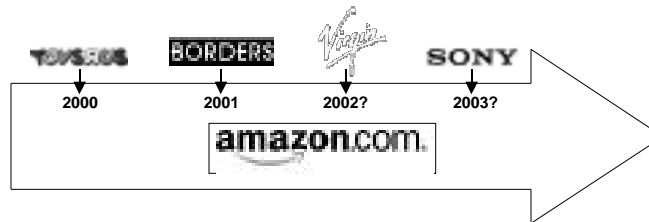


**Cross-channel shopping is steadily increasing.**



## The multi-channel approach is gaining acceptance.

Alliances can create strong multi-channel capabilities.



**"We stand ready to partner with everyone who has the appropriate level of customer-centricity."**  
—Jeff Bezos, founder and CEO of Amazon.com

## What will the future bring?

- Infrastructure will be the key enabler.
- Customers will demand change.
- The Internet will be PART of the solution, not THE solution.
- As always, rational business models will prevail.

