Sears Integrated Retail Strategy

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Our Customers are Changing How They Shop

- 87% of consumers shop online before buying in stores
- 80% rely on their social networks when researching new products
- 70% use their smartphone for shopping in the store
- 73% would use their smartphone for a simple task over asking a store associate

* E.g. search results, inventory checks, product reviews, and social media

SEARS HOLDINGS
Omni-Channel

It is About the Customer
Omni-Channel

It is about Time

SEARS HOLDINGS
Omni-Channel

It is about information
THE ANYTHING, ANYTIME, ANYWHERE, COMMERCE EXPERIENCE

endless aisle of products, services & experience

seller
sears
kmart

home services

don the go

office

store

restaurants

travel

entertainment

location

personal shopper

home

web

tablet

mobile

game console

in car infotainment

connectivity

Shop Your Way

member

tv web

SEARS HOLDINGS
Trends

• Buy on-line pick-up anywhere
• More tablet and smartphone shopping (vs. desktop/laptop)
• Faster Delivery (2nd/Next/Same day)
• Blurring lines between social and commercial
SYWR In Review

- Launched in November 2009 to Kmart and March 2010 to Sears

- SYWR is....
  - One of the fastest growing loyalty programs in history
  - One of the largest loyalty programs in the world
  - Providing members – a digital social relationship with rewards
  - Providing SHC – purchase behavior insights and data driven promotional opportunities

- Today, the majority of sales made at Sears and Kmart are made by SYWR members
Store 2 Home
Buy On-line, Pick-up in-Store

Cut down on your time spent standing in line with our NEW Return in 5 option.

Your new option for faster returns. See how we can make your returns faster and easier than ever before!

It's easy:
1. Return in 5
   Just enter some info about the item you want to return. Online purchases: from your Sears.com purchase history. In-store purchases: from your receipt.
2. Scan it
   Then print the confirmation page and bring it to Sears! Scan it, and a store associate will complete your return.
3. You're done
   You'll be done in 5 minutes flat! If your item isn't returned or exchanged within 5 minutes you'll get a $5 store coupon.

Available at Sears Full-line stores only. Sears Hometown Stores and Hardware Stores excluded.
MDO (Big-Box) Service Area

Next day delivery capability for 81% of households and 92% of orders
Big-Box Categories

- **Appliances**: Refrigeration, Air Conditioning, Cooking & Microwave, Dish
- **Consumer Electronics**: TV’s, Audio and Speakers, Home Theaters
- **Fitness**: Cardio Equip, Strength Training
- **Lawn & Garden**: Tractors, Outdoor Storage
- **Outdoor Living**: Gazebo, Patio Furniture, Swing Sets, Gas Grills
- **Water Treatment**: Water Heaters, Water Softeners, Reverse Osmosis, Water Pump
- **Garage**: Tool Storage, Power Bench, Garage Door Opener
- **Recreation**: Game Tables
- **Furniture**: Sofas, Recliners
- **Bedding**: Mattresses
Online Order Fulfillment Speed – SHC at a competitive disadvantage

Online orders often took 3 to 5 days for delivery, putting SHC at a competitive disadvantage.
Play to our strengths

- Our solution is a fast, low investment option to create a Next-day delivery model
  - Leverage ground small package transportation
  - Leverage existing SHC assets including retail distribution centers
  - Leverage store and DC inventory
  - Minimal physical plant improvements needed

- The solution supports growth in Integrated Retail
  - Stores can be added to support peak volumes and regional growth
  - Retail DCs can be incorporated as needed

- SKU expansion much beyond store assortments will require a modified solution
  - Fulfillment by Sears
  - On-line fulfillment DCs will play a larger role
Considerations

- Process Improvement
  - Establish baseline productivity standards and capacity measurements
  - Develop productivity improvement strategies and Industrial Engineering Metrics

- Focal Areas and Potential Levers
  - Assortment Breadth and Depth
  - Clearance items
  - Apparel
  - Stock locator accuracy
  - Counter Detail Accuracy and Cycle counts
  - Pick Directing

- Inventory Management
  - In-stock
  - Order Profiling and assortment
  - Mitigating liability inventory

- Economics
  - Order picking, transportation costs
  - Inventory leverage
Sears can service 86% of the population within 1-day ground transit and ~99% in 2-days from the Cheetah sites.
Kmart can service 81% of the population within 1-day ground transit and ~99% in 2-days from the Cheetah sites.
Time-Line

75 Days from conception to pilot/ 9 months to national roll-out

- Nov 2011 Present proposal to Chairman
- Jan 2012 Pilot launched in 3 store locations
- Apr 2012 Production sourcing logic and store processing tools
- Jun 2012 Pilot store facing DC fulfillment
- Aug 2012 Network roll-out (Sears and Kmart)
Cheetah 2012 Peak Performance Results

- Superior fill rates: 99%

- Peak day orders processed exceeded expectations
  - Stores processed ~750 orders per day at peak

- During peak, 98.6% of packages from the Cheetah locations were delivered to customers within a 2-Day ground transit from order placement to delivery
  - 1-Day = 57.9%
  - 2-Day = 40.7%

- Store network can be readily enhanced to support peak/growth or achieve Next Day service levels
  - 18 additional Sears stores will provide next day service to 95% of population
  - Can provide Same Day service in major Metropolitan areas
Themes

• Know the scope and align resources: This project touches everything (DOM, Inventory, Stores, transportation, On-line (Search/browse, Cart, Check-out, Post-Order), merchants, marketing, SYW, network design, logistics --- Working team needs to reflect it.

• Align Store incentives. Stores get both the cost and the sales credit.

• Don’t chase shiny objects, understand and manage the scope

• Heavy IT requirements (need to blend the operations and the deep math)

• Set and measure your KPI’s early
What is ahead

- Continue to drive performance: POP/labor productivity
- Enhanced Distributed Order Management Logic
- Enhance/align site experience to leverage capabilities
- Grow Fulfillment By Sears business (FBS)
- Extend Order-By, Get-By Window (Same-Day)
What is ahead

- **Cost Minimization** Algorithm with limited Resources
- Created a **Single Hub** Environment at Kmart for Phase 1
- Allow for **Parcel** Type Delivery or Customer Pickup at Hub (No Signatures Required)
- Enable **Merchandise Pickups** at Sears Store, LMP, and Out of Store Shopping
- Optimize **Interleaving and Consolidation** of Merchandise
- **Mode** Optimization with **Variable Cost** Economics
- **Batch** Processing of Orders with 3 Order Cutoffs
- Strict Adherence to Customer and Seller **Time Windows** with Service Times
- Longer **Service Times** to simulate City Pickups and Apartment Type Deliveries
Golden Problem

High level statistics of the solution:

- Number of orders: 100
- Items per order: 6.5
- Number of routes: 11
- Number of total stops: 221
- Number of merchant stops: 121
- Merchant Stops per Order: 1.2
- Travel Distance: 561 miles
- Miles per stop: 2.54
- Total cost is: $1,577
- Cost per Customer order: $15.77
- Number of consolidated items: 32 (~ 5%)
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Fulfillment By Sears – leveraging our DC network

FBS can service 95% of the population in two days, providing a competitive service for Sears Marketplace Sellers
Thank You