

Insight Into “Harmonized” Retail Strategies Of Three of Today’s Leading Companies



MARKET COMMENTARY

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Home Depot, Kroger and Best Buy Are Three Of America’s Most Successful Retailers Each Offers A Different Approach To Blending Online And Offline Channels

E-Commerce Has Disrupted Retail To Such An Extent That Synchronized Retail Is Now A Necessity For Most Retailers

For insight into how the retail landscape is evolving, look at a company like Sweetgreen, which raised \$200 million at a valuation of more than \$1 billion in October. ~50% of Sweetgreen’s orders are already placed online and the company plans to use the funding to “invest in its app, open new locations, and expand its new Outpost service, a new no-fee delivery system in corporate offices.” Companies that effectively marry technology with brick-and-mortar locations are transforming the retail industry and “harmonized retail” - a term coined by leading blogger [Steve Dennis](#), describes a fully integrated approach to retailing that provides a unified experience across online and offline channels. Another prominent example is Chick-Fil-A, which is now offering delivery from its restaurants through its new partnership with DoorDash, recently relaunched its mobile app, and is testing Mealtime Kits in Atlanta locations. Per the table below, a harmonized retail experience can include brick-and-mortar locations, mobile-phone browsing, e-commerce, storefronts, and social media channels. In today’s retail climate, successful retailers are seamlessly integrating digital experiences with the physical world. Brick-and-mortar retailers need to give consumers a reason to visit stores instead of making online purchases, and, to that end, an increasing number of online companies have started investing in physical stores.

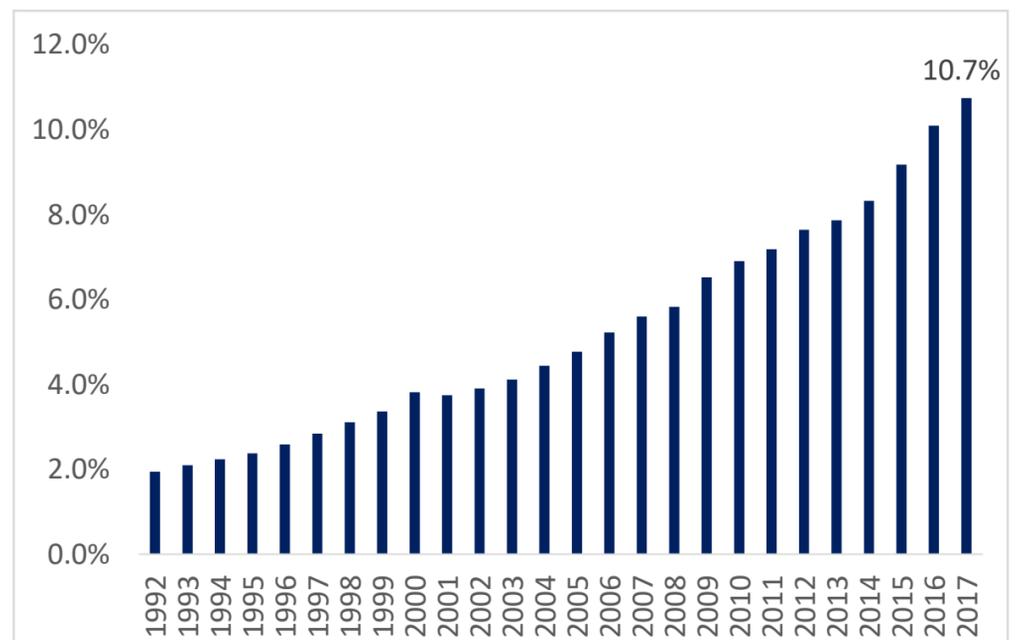
In *25 Amazing Omnichannel Statistics Every Marketer Should Know*, the following metrics (among others) are cited:

- 15 years ago the average consumer typically used two touch-points when buying an item and only 7% regularly used more than four. Today consumers use an average of almost six touch-points with nearly 50% regularly using more than four. ([Marketing Week](#))
- 55% of companies have no cross-channel strategy in place. ([The CMO Club](#))
- 90% of customers expect consistent interactions across channels. ([SDL](#))
- 71% of shoppers agree that it is important or very important to be able to view inventory information for in-store products. ([Forrester](#))
- 50% of shoppers expect that they will be able to make a purchase online and pick up in-store. ([Forrester](#))

Examples of Harmonized Retail

Scenario	Harmonized?
Buy In Store	X
Buy In Store + Return In Store	X
Buy Online + Return In Store	✓
Research On Phone + Buy In Store	✓
Research In Store, Buy Online, Return In Store	✓

E-Commerce as a Percentage of Total Retail Sales



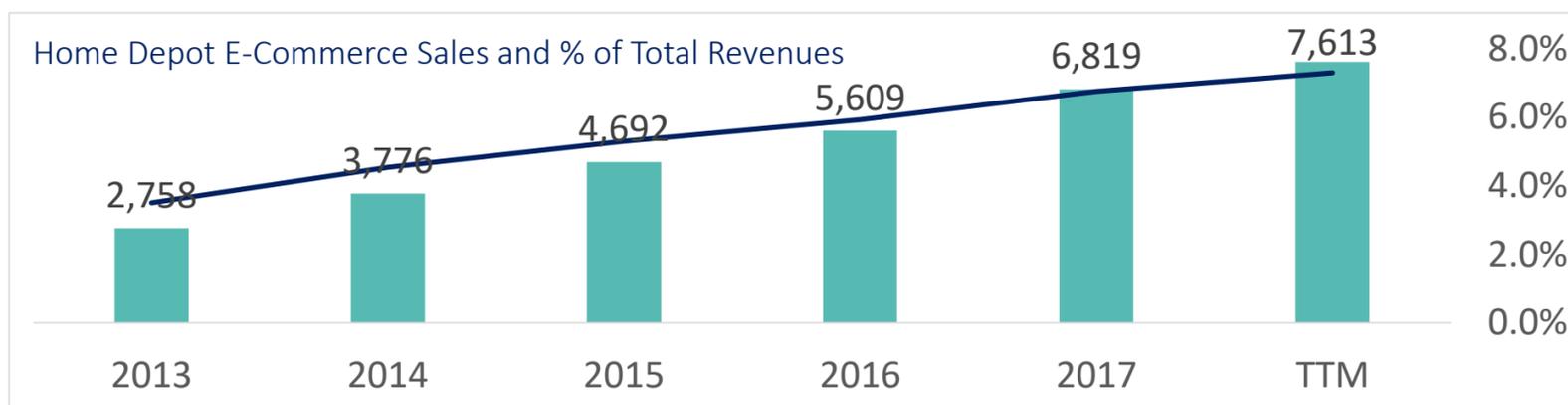
Source: CBRE Research (Left) and Creditintell (Right)

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Home Depot Has Been Investing Heavily In Supply Chain Infrastructure Over The Past Decade, With Great Success

Home Depot is widely recognized as a retail innovator, that blends online and offline, accounting for between 1.5-2% of U.S. ecommerce sales and owning a network of almost 2,300 brick-and-mortar locations. The company has invested heavily this decade in a holistic strategy that has seen it expand its ecommerce operations, implement BOPIS (buy online, pick-up in-store) and BOSS (buy online, ship to store) capabilities by developing a network of distribution centers, modernize its stores, and train its workforce. In 2018, Home Depot expanded its capabilities further by making several improvements to its supply chain. At the beginning of the year, CEO Craig Menear told investors 2018 would be “The year of the pilot.” Over the past twelve months the company has opened several test fulfillment centers and improved market delivery operations to enable more efficient distribution of goods. According to *Market Retailer*, Home Depot can now reach 95% of the US population in two days or fewer with parcel shipping and expects to be able to reach 90% with same- or next-day delivery in the near future.

The result of Home Depot’s multi-faceted efforts were recently summed up by their President of Online Business, who said: “You got to have a great mobile property, great tablet experience, great PC experience, great virtual experiences coming together with 2,200 stores, a full supply chain with multiple distribution centers across the whole country, over 350,000 associates, a tremendous assortment of goods and products that you can bring to bear in front of the customer, and then centralized associates and contact centers ... so all of those physical assets and the new virtual assets that we bring together [come] together in a symbiotic way to solve for the customer experience. That’s our term of interconnected retail.”

Key metrics below demonstrate the success and scale of Home Depot’s harmonized retail initiatives:

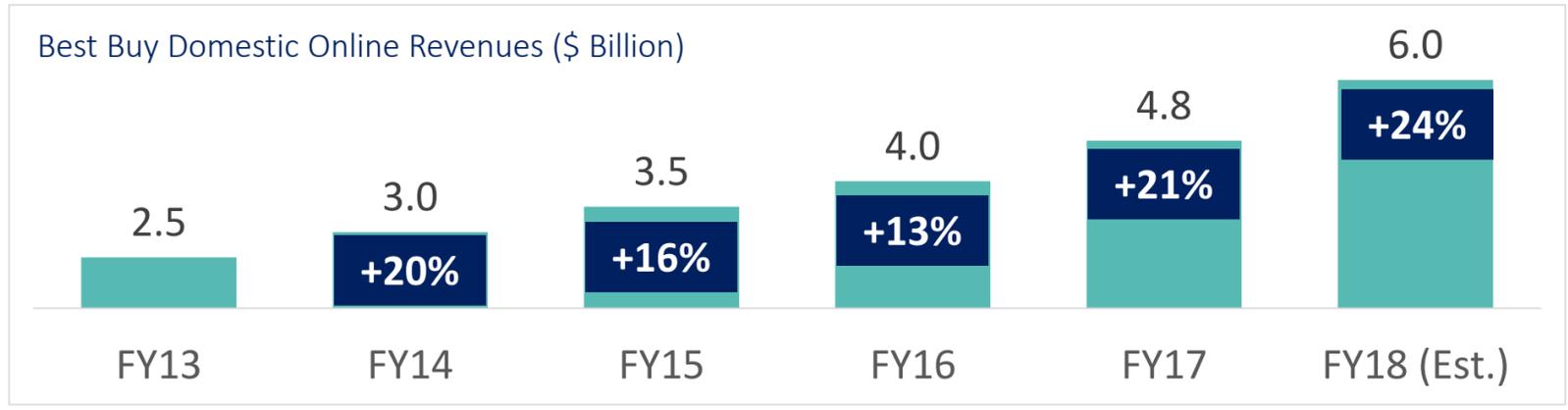
- The company has invested more than \$11 billion in its retail and distribution infrastructure over the past few years
- E-commerce sales represent almost 8% of Home Depot’s total revenues, more than double its 2013 total
- The company reports in-store pickups for 47% of its online orders.
- Approximately 40% of Home Depot’s digital sales are fulfilled by physical stores
- More than 1.8 billion projected visits to the Home Depot website in 2017
- 60% of Home Depot’s sales are influenced by a digital visit
- The company analyzes 1.7 trillion data points from its online data collection efforts annually
- The company is adding direct fulfillment centers and stockless, market-delivery operations in more than 100 locations

The “One Home Depot” Playbook: Key Strategic Investments

ENHANCING THE “ONE HOME DEPOT” EXPERIENCE: KEY INVESTMENTS

Icon	Category	Objective	Key Initiatives
	STORES:	Drive greater convenience and speed for customers	<ul style="list-style-type: none"> • Enhance Wayfinding, Lighting & Overall Store Environment • Modernize Front-End for Improved Speed of Checkout • Offer Lockers for Self-Serve BOPIS & BOSS
	ASSOCIATES:	Maintain a competitive and agile workforce	<ul style="list-style-type: none"> • Simplify Associate Tools for Improved Customer Support • Remain Competitive in Wages & Benefits • Improve Associate Flexibility for Scheduling
	INNERCONNECTED EXPERIENCE:	Create the best interconnected experience	<ul style="list-style-type: none"> • Continue Experience Harmonization (Stores & Online) • Improve Personalization • Enhance Website Ease-Of-User (e.g. Search, User Experience)
	PRODUCT & INNOVATION:	Maintain position as number one retailer in product authority	<ul style="list-style-type: none"> • Optimize Assortment • Advance Localization & First to Market Approach • Expand Décor Categories Online
	PRO & SERVICES:	Deliver one integrated approach for our Pro customers	<ul style="list-style-type: none"> • Build New Personalized B2B Web Experience • Broaden Assortment Through Interactive • Expand Interconnected Experience for Services
	SUPPLY CHAIN & DELIVERY:	Offer fastest and most efficient delivery in home improvement	<ul style="list-style-type: none"> • Expand Same-Day & Next-Day Delivery Options • Open Additional DFCs for Faster Customer Deliveries • Focus on Pro & Big/Bulky Product Delivery Options • Leverage Market Delivery Stores for Non-Top 40 Markets

Source: Company Reports and Presentations



Best Buy’s Retail Strategy Has Focused Relentlessly On Improving Customer Service and Experience

“Electronics retailer Best Buy is headed for the exits. I can’t say when exactly, but my guess is that it’s only a matter of time, maybe a few more years ... the company is losing market share. In 2011, the company’s stock ... lost 40% of its value ... The new conventional wisdom says that big box retailers like Best Buy are going the way of the dinosaur. Online giants, notably Amazon, are the future. Online retailers are more efficient, because they lack physical locations, and so can offer better prices. Shopping online is also more convenient.” – Forbes, January 2012

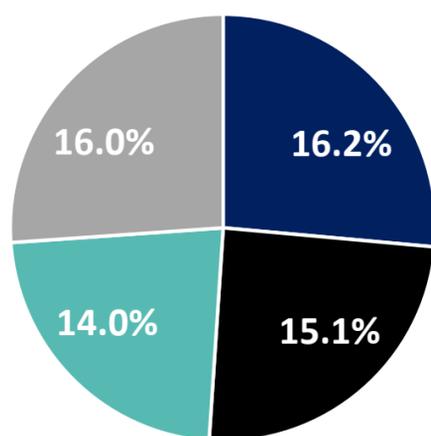
In 2012, Best Buy recognized shifts in the consumer electronics business and launched “Renew Blue,” an internal strategy to adapt and, quite literally, survive in the face of rapidly emerging retail and e-commerce trends. By 2018, the company had revitalized its fortunes and was neck-and-neck with Amazon as the electronics industry market share leader. What drove Best Buy’s rebound and impressive growth between 2012-2018 was a harmonized retail strategy with a heavy focus on customer service, experience and engagement, as well as major investments in supply chain infrastructure and cost-cutting initiatives.

A core tenet of Renew Blue was to build deeper and more relationship-based experiences with customers. Best Buy has employed several strategies to achieve this goal, including (1) partnering with brands such as Amazon and Apple to open mini-showrooms and, in certain cases, market products exclusively in stores, (2) implementing a price-matching strategy to prevent consumers from visiting stores and then buying products elsewhere, (3) investing in employees to limit worker turnover (which has fallen to 30% from 50%) and enhance their product knowledge, (4) updating company software and warehouse operations in order to expand same- and two-day delivery capabilities, and (5) launching programs such as Total Tech Support and developing in-home advisory programs to increase Best Buy’s high touch service approach.

Key metrics and initiatives below demonstrate the success and scale of Best Buy’s efforts over the past five years:

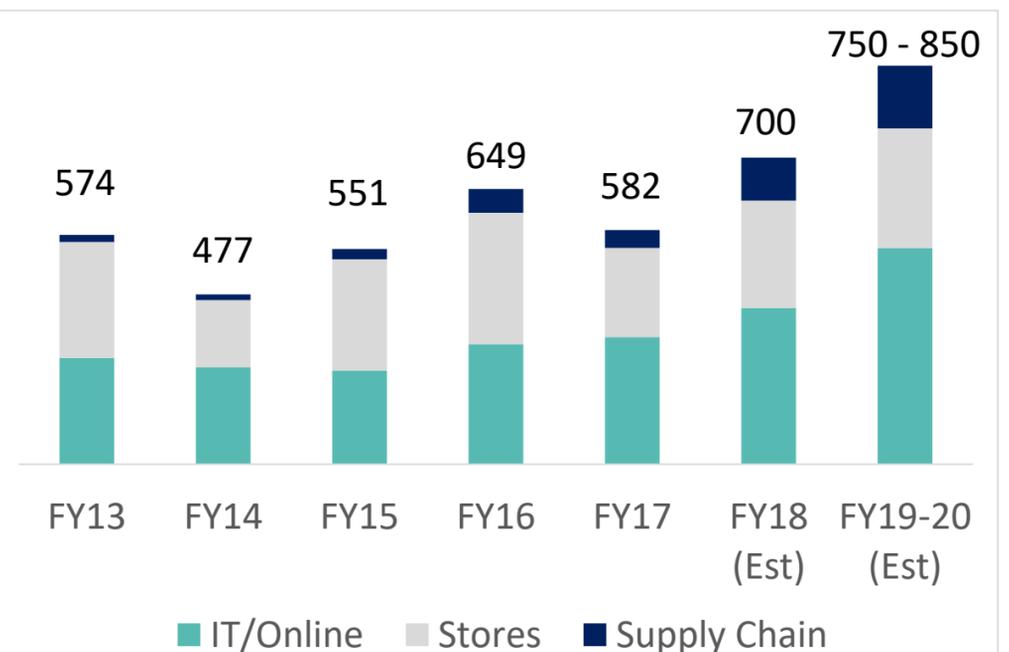
- Best Buy’s online sales have more than doubled since 2012 and are more than 15% of domestic total sales
- 72% of customers who use the app come into one of our stores with an item already in their cart
- Best Buy captures a 26% wallet share (of consumer electronics spend) for its existing customers
- Integration of Mobile and Inventory Management: When a customer enters a store, Best Buy’s app creates a personalized experience for the customer that synchs with its inventory management systems. Best Buy’s app will list local inventory and offer enhanced search filtering by products that are in-store and available for pick-up
- Same-day delivery: This pilot program allows for same-day delivery of online orders of products that are available in-store
- GreatCall Acquisition: In August, 2018, Best Buy acquired GreatCall, a provider of mobile products and connected services for seniors, for \$800 million in order to expand in the health and wellness category and further address the senior segment

Best Buy Market Share By Age Group



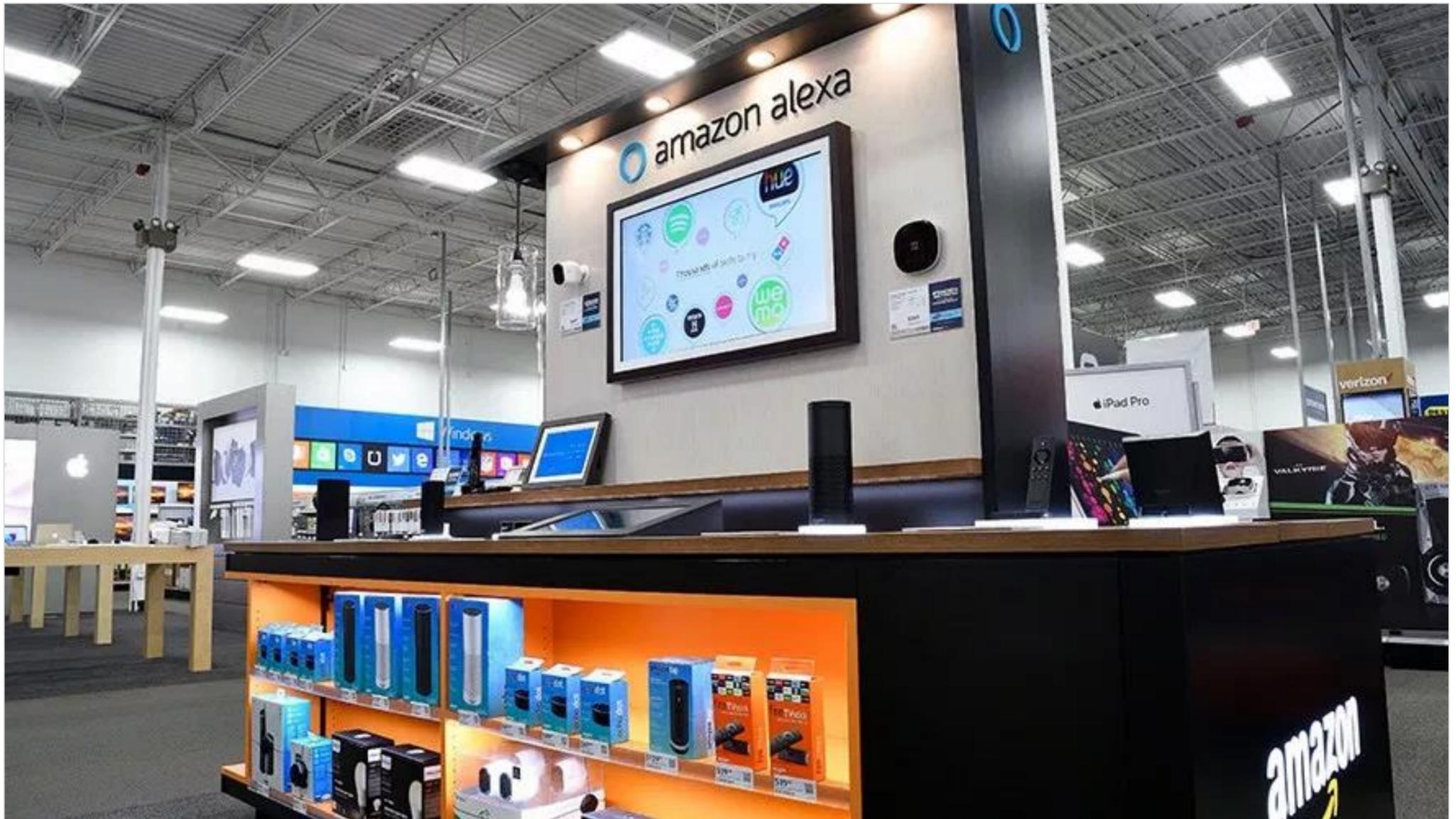
■ Millennials & Younger ■ Gen X
■ Baby Boomers ■ Silent Generation & Older

Best Buy Enterprise Capital Spend Per Year

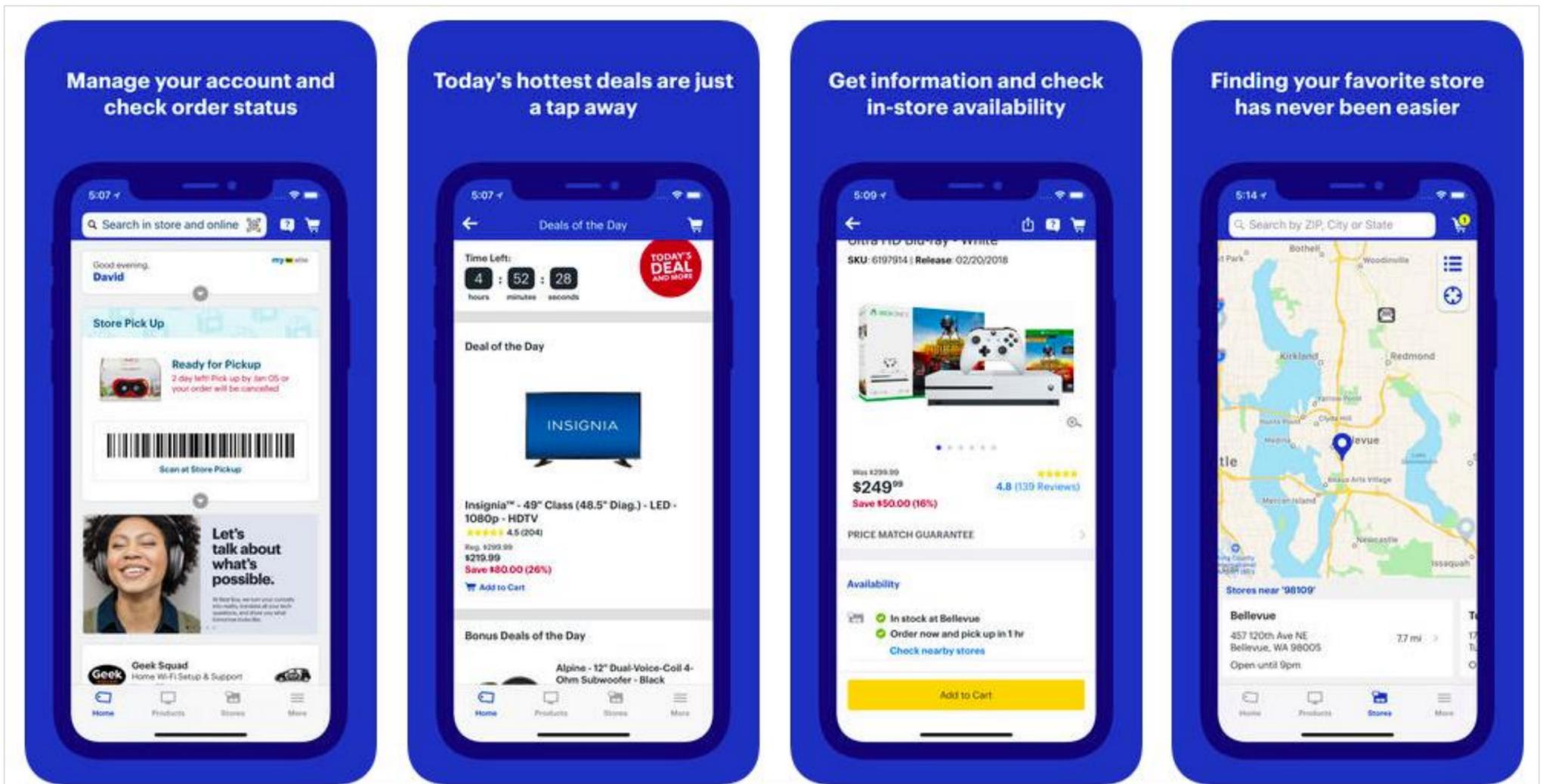


Source: Company Reports and Presentations

Best Buy Showroom Featuring Amazon Products



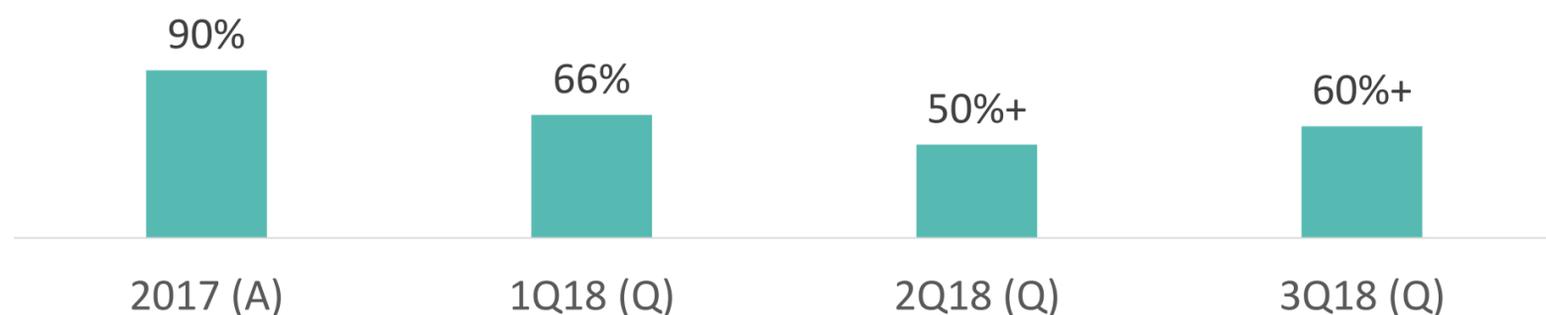
The Best Buy App Has Enhanced Its Personalization Capabilities



Source: fanvive.com (T) ; Clickz.com (B)



Kroger Digital Sales Growth – 2017 (Annual) and 2018 (Quarterly)



Kroger Has Actively Invested In New Technology And Formed Strategic Partnerships To Enhance Its Selling Capabilities

The grocery space is highly competitive, with large chains fighting each other for market share despite thin profit margins. Pressures from different formats – from dollar stores to e-commerce – have forced industry players to adjust their strategies and Kroger, as the second-largest grocer in the US (and the largest pure-play grocer) has been a leader in this regard, investing heavily in new technologies and formats in order to expand beyond traditional grocery.

The company's \$9 billion Restock Kroger initiative, which it launched in late 2017, intends to reposition the company by 2020 in order to expand its e-commerce capabilities and use of data in order to better personalize customer interactions. Kroger's stated goal is to engage its customers in multiple ways, synching online and in-store experiences seamlessly.

Since launching the Restock initiative, Kroger has inked several deals to further this goal, including:

- **January, 2018:** Expanding its Scan, Bag, Go program, which reduces checkout times, to 400 stores after a five-year long, 25-store pilot
- **May, 2018:** Taking a 5% stake in British online grocer Ocado with an investment worth about \$250 million, and licensing its technology. Ocado has begun collaborating with Kroger on the first of 20 robotic customer fulfillment centers in the US. The partnership is expected to dramatically increase Kroger's ability to reach customers quickly
- **May, 2018:** Acquiring private meal kit company Home Chef in a deal valued at up to \$700 million. The deal – with one of the country's largest meal kit providers – will enable Kroger to reach 98% of the US population within a two-day window
- **June, 2018:** Piloting a driverless car delivery service at a Scottsdale, Arizona store with Nuro, a Silicon Valley startup
- **August, 2018:** Launching a new e-commerce website (Ship) to deliver non-perishable grocery items in four markets—Cincinnati, Houston, Louisville and Nashville and expanding its partnership with Instacart to bring same-day delivery to 1,600 supermarkets
- **September, 2018:** Rebranding ClickList as Kroger Grocery Pickup. The curbside service is available at more than 1,000 stores nationwide and enables customers to order groceries online and pick them up in-store. Kroger is also – on a limited basis – integrating Uber into this program for customers who want to have their groceries delivered
- **October, 2018:** Partnering with Walgreens to sell Kroger-branded products at 13 Walgreens locations in Kentucky, with the intent of creating a one-stop shopping experience for customers seeking food, health and wellness, pharmacy, and beauty products. Additionally, partnering with Drinks Holdings to deliver wine to customers' homes in 14 states.

In sum, Kroger is clearly focused on offering shoppers convenience. The company has made numerous small innovations that improve customer experience, as well, including updating online search results to prioritize products that customers have previously purchased, launching a data analytics arm to better engage customers, and investing billions of dollars in driving down prices.

Ocado Warehouse (Left) and Nuro's Autonomous Vehicle Carrying Kroger Groceries (Right)



Source: Supermarket News (L) and ABC 15, Arizona (R)