
Sears Integrated Retail Strategy

October 2013

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SEARS HOLDINGS



DieHard



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

Omni-Channel



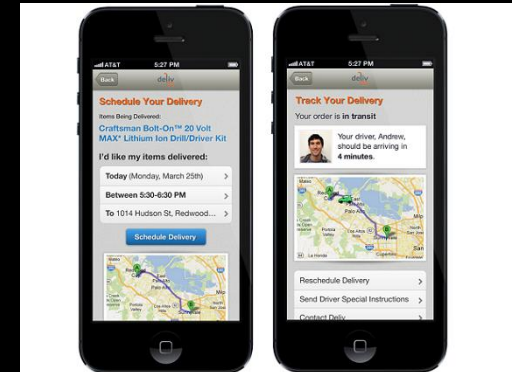
It is About the Customer



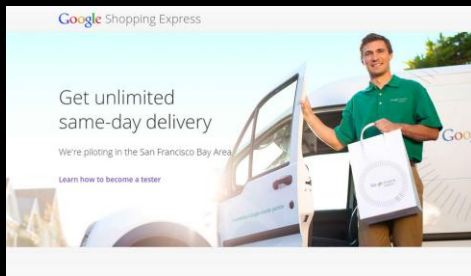
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Omni-Channel




It is about Time







Local products from local stores, hand-delivered to you in about an hour for just \$5 per order!




[Learn more](#)



Shop locally
Use eBay Now to see what's available at stores in your neighborhood.



Delivery in about 1 hour
Order any item you see, and our valet will deliver it to you in about an hour.



Just \$5 per order
We charge just \$5 per store with a \$25 minimum order. No complex algorithms, just lots of happy customers.

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It is about information



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THE ANYTHING, ANYTIME, ANYWHERE, COMMERCE EXPERIENCE



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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

Find it here... *ship it free!* Quick Search ▶

free shipping!
On eligible items ordered online in store.
[See details](#)

Order online here.
Pay online here or pay at any register with cash, check, gift card or credit card. [Find out more ▶](#)

Millions of possibilities online [shop sears.com ▶](#) View our weekly ad [get great deals! ▶](#)



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Buy On-line, Pick-up in-Store

buy online, pick up in store – fast & free

Buy online, pick up in store today, ready in 5-guaranteed. Guarantee is valid on all participating items purchased in store or online and picked up at our merchandise pick-up. If you do not receive your merchandise within 5 minutes of scanning your receipt, you will receive a \$5 coupon off your next in-store purchase.

special purchase
SAVE \$20
\$679⁹⁹
LG® 47" class LED
1080p 120Hz HDTV
46.9" measured diagonally
Reg. 699.99 #06771816/47LJ4400
Limited to warehouse quantities. No rainchecks.

42" LED
120Hz

READY IN 5 GUARANTEED

It's Easy!

- Step 1: Select the Item
- Step 2: Choose "Pick Up In Store" and Enter Your Zip

It's Fast!

- Step 3: Pick the Store Nearest You
- Step 4: Place the Order and Await Your Email Confirmation

It's Guaranteed!

- Step 5: Go to the Store's Merchandise Kiosk with Your Email Confirmation (You'll walk out in 5 minutes OR Get a \$5 coupon good for your next in-store purchase!)

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



We'll process your store or online return in **5 minutes guaranteed.** [learn more](#)

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

It's easy:

1



Just enter some info about the item you want to return.

Online purchase: from your sears.com purchase history

In-store purchase: from your receipt

2



Then print the confirmation page and bring it to Sears! Scan it, and a store associate will complete your return.

3



You'll be done in 5 minutes, tops! If your item isn't returned or exchanged within five minutes you'll get a \$5 store Coupon.

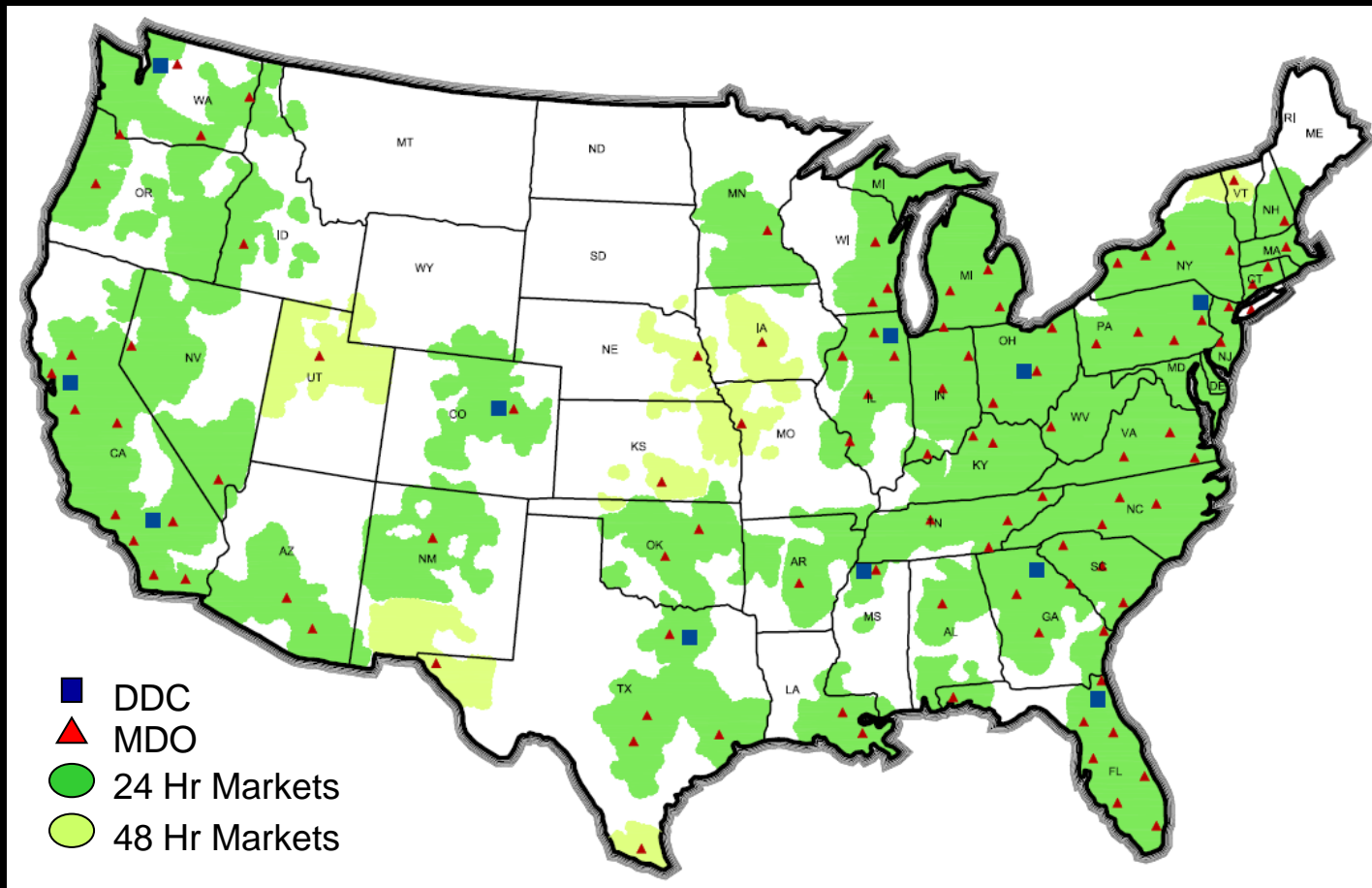


Available at Sears Full-line stores only. Sears Hometown Stores and Hardware Stores excluded.

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MDO (Big-Box) Service Area



Next day delivery capability for 81% of households and 92% of orders

Big-Box Categories

Appliances



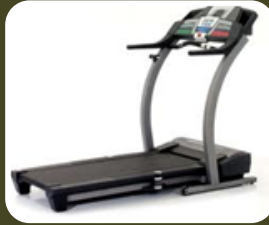
Refrigeration
Air Conditioning
Cooking &
Microwave
Dish

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

Play to our strengths

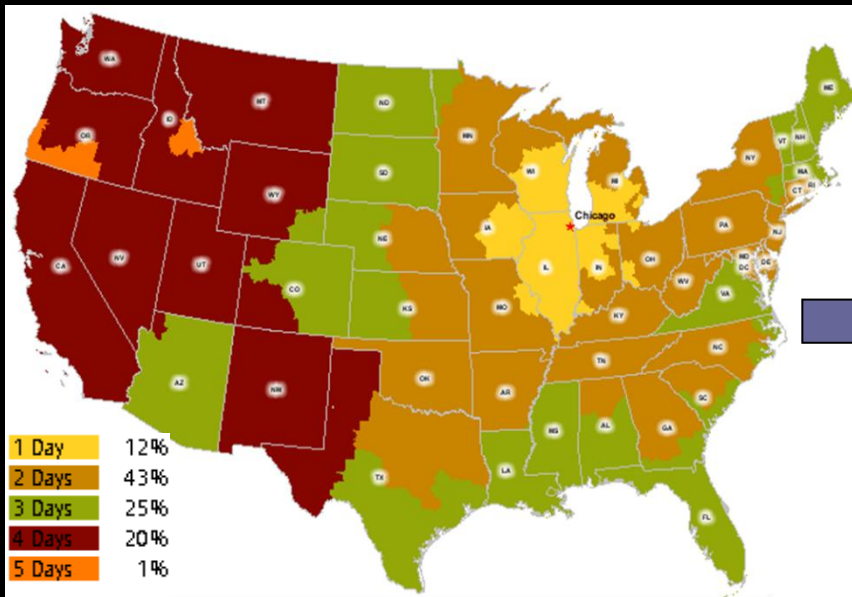
- Our solution is a fast, low investment option to create a Next-day delivery model
 - Leverage ground small package transportation
 - Leverage existing SHC assets including retail distribution centers
 - Leverage store and DC inventory
 - Minimal physical plant improvements needed
- The solution supports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

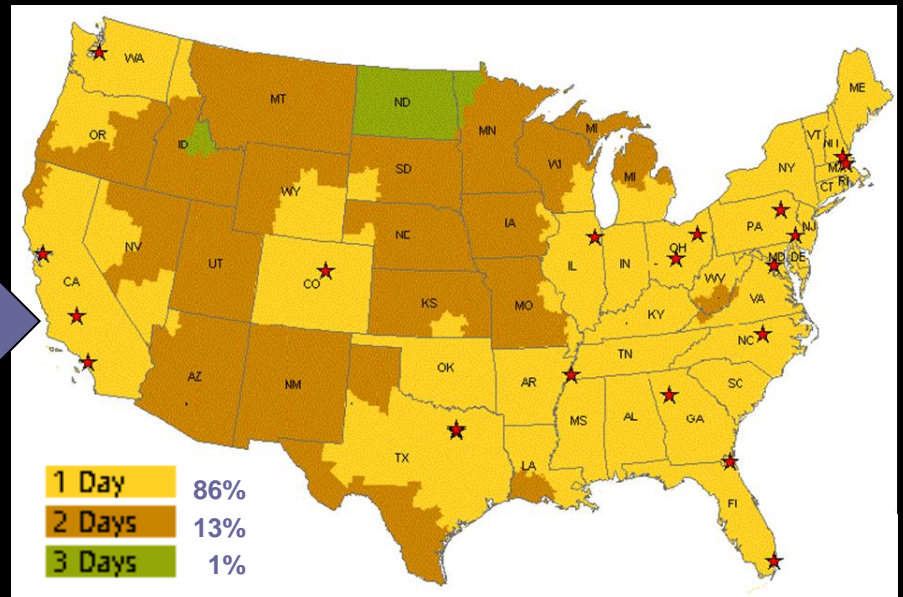
- Process Improvement
 - Establish baseline productivity standards and capacity measurements
 - Develop productivity improvement strategies and Industrial Engineering Metrics
- Focal Areas and Potential Levers
 - Assortment Breadth and Depth
 - Clearance items
 - Apparel
 - Stock locator accuracy
 - 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

Expanded 1-Day and 2-Day Service – Sears.com

Sears can service 86% of the population within 1-day ground transit and ~99% in 2-days from the Cheetah sites



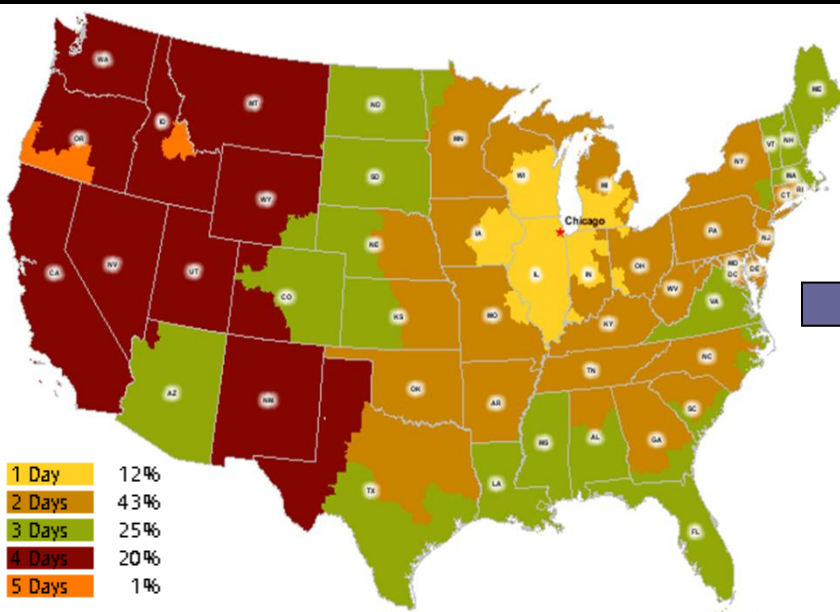
Old Network



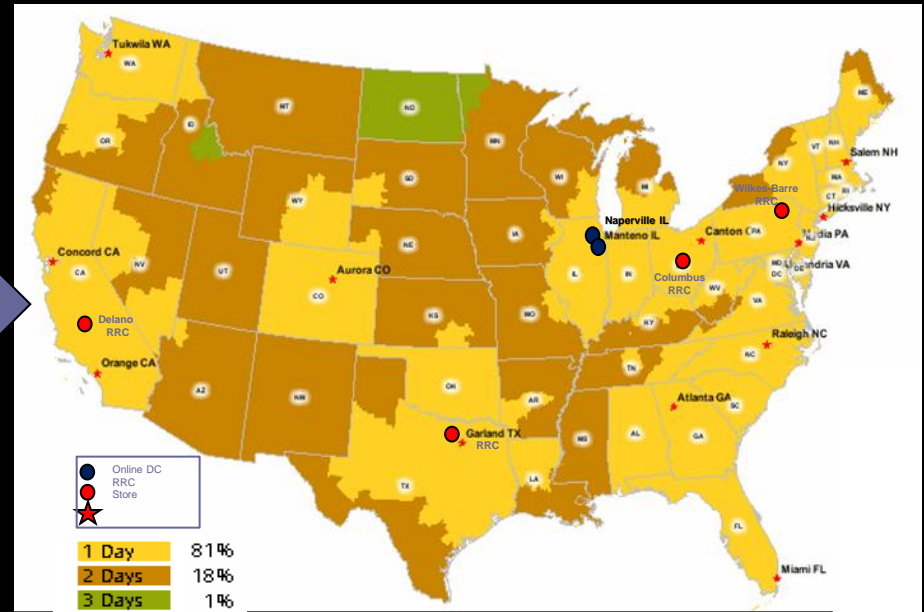
Cheetah Sears Network

Expanded 1-Day and 2-Day Service – Kmart.com

Kmart can service 81% of the population within 1-day ground transit and ~99% in 2-days from the Cheetah sites



Old Network



Cheetah Kmart Network

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



LMP Seller



Out of Store Shopping

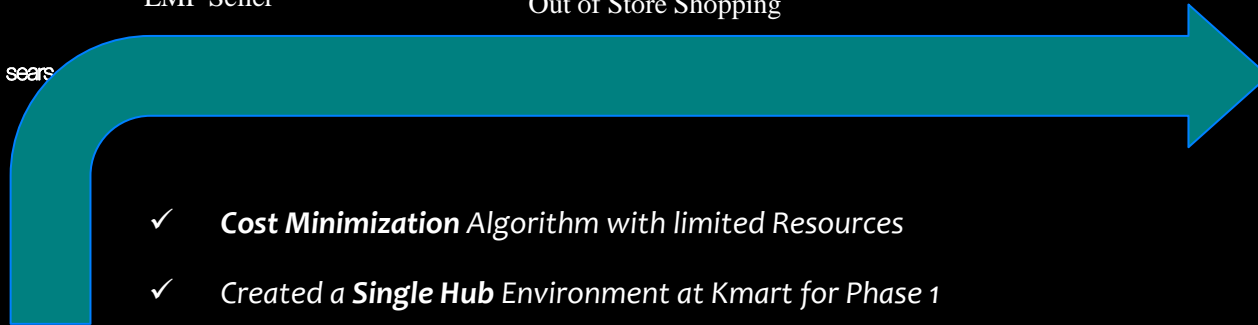


Customer Home



sears

Pickup Site



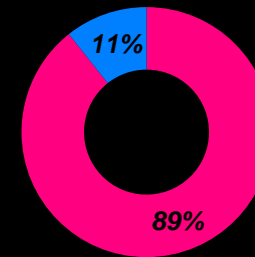
- ✓ **Cost Minimization** Algorithm with limited Resources
- ✓ Created a **Single Hub** Environment at Kmart for Phase 1
- ✓ Allow for **Parcel Type** Delivery or Customer Pickup at Hub (No Signatures Required)
- ✓ Enable **Merchandise Pickups** at Sears Store, LMP, and Out of Store Shopping
- ✓ Optimize **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



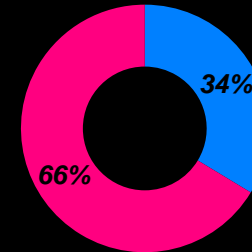
Golden Problem

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%)



■ Labor Cost (\$1,408.9)
 ■ Fuel Cost (\$168.3)



■ Service Time (18.96 hour)
 ■ Travel Time (37.4 hour)

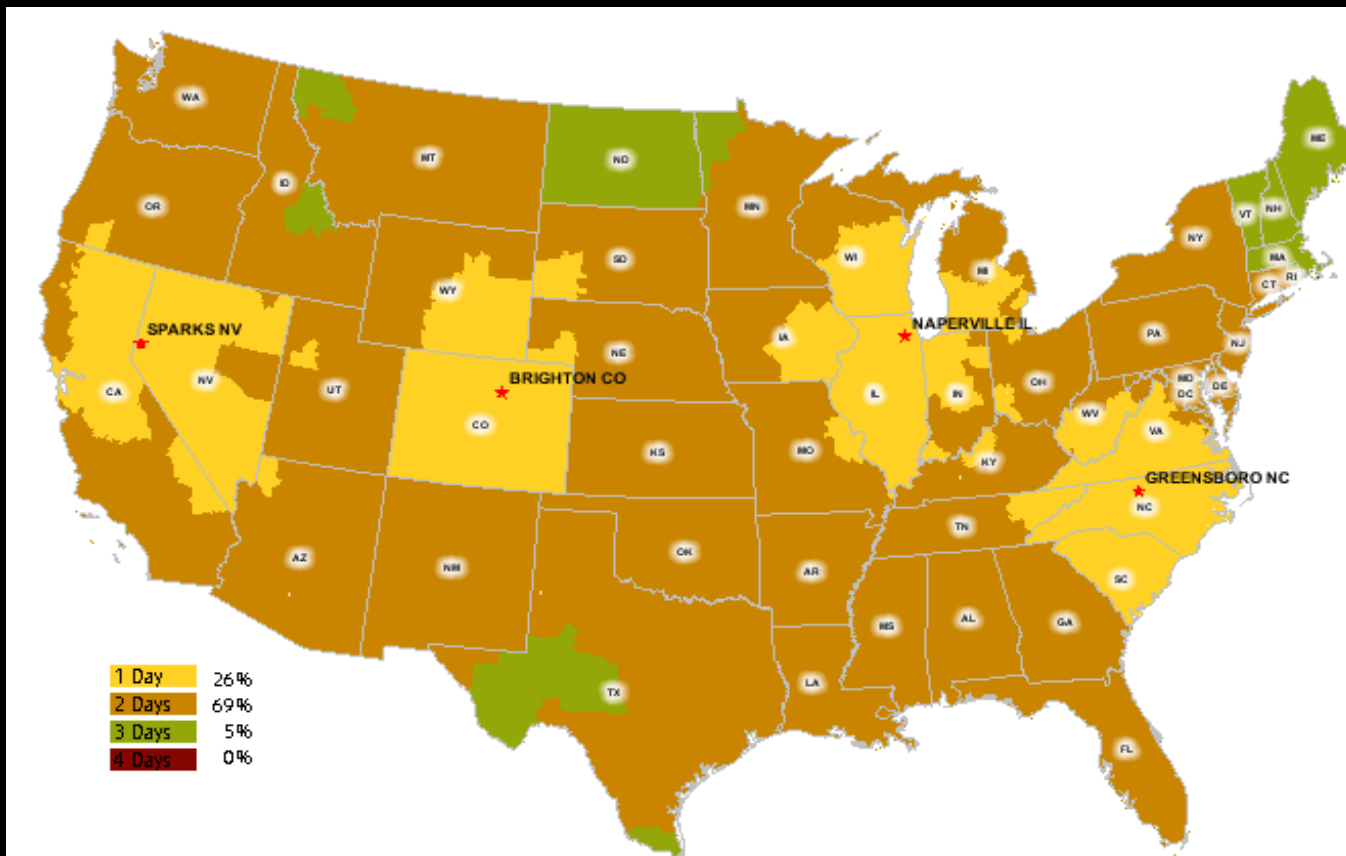


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Fulfillment By Sears – leveraging our DC network

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



Thank You

