guidance

Shop.Org 2012 Keynote: Jerry Storch, Chairman and CEO, Toys"R"Us, Inc.
"Episode Three: The Stores Strike Back"

Tuesday, September 11, 8:30a - 9:45a

Bio:
Jerry Storch joined Toys"R"Us, Inc. in 2006 as Chairman and Chief Executive Officer. In this capacity, he is responsible for leveraging the strength of the Toys"R"Us brand and positioning the global franchise for growth over the long term. Under his leadership, the company has embraced a "Playing to Win" culture and a commitment to growing its position as THE toy and baby products authority.

Mr. Storch has successfully led efforts to integrate the company's toy and baby businesses, an initiative that has included the creation, development and execution of the Side-by-Side store concept, which combines Toys"R"Us and Babies"R"Us under one roof. He has also driven the rapid growth of the company's e-commerce business on a global basis and, in 2009, added to the company's portfolio of online brands with the acquisitions of eToys.com, KBToys.com and Toys.com. That same year, he led the company in obtaining the exclusive right to own and operate the legendary FAO Schwarz brand and its website, FAO.com. Additionally, Mr. Storch has championed the company's omnichannel strategy, creating a seamless shopping experience for customers wherever, whenever and however they wish to shop.

Keynote Highlights:

- Worked at Target as Vice Chair
- Am father of 5
- Why did I join Toys"R"Us? It's just a brand that makes everyone smile

- Title of Keynote: Episode III The Stores Strike Back

- Episode I - Stores Ascendant
  - Everyone went to stores

- Episode II - The Rise of SD Internet
  - In 1990's, the Internet took hold

- Episode III - The Stores Strike Back
  - Retailing is a story that is not over
  - Narrative
    - The Internet is killing big box retailing
    - Store chains need to shrink massively and rapidly
    - Customers prefer online shopping to stores
    - The future belongs to Internet-only companies
  - Reality Check
    - The internet is one of the most transformational, revolutionary forces of our lifetime.
    - The vast majority of stores are EBITDA and cash flow positive; Stores make money
      - The overwhelming majority of sales still occur in physical stores.
    - The Internet is definitely growing much more rapidly, but much of this growth is also coming from the linked Internet arms of retailers,
      - "The Internet is transformational yet not transcendent."
      - It changes everything but it is not everything, merchandising is still core skill in retailing.

        - Massive store closures would be a self-fulfilling prophesy: you close them, they go away
        - “Customers prefer online shopping to stores”
            - Some customers do shop primarily on-line. But, most customers love to shop in stores, and it is a major national pastime.
            - Some categories and purchase occasions work well with the Internet, others are more store-friendly.
            - Logistics also tell a different story
                - Stores are the most efficient delivery vehicle for many products and purchase occasions.
            - The Internet is heavily used by almost everyone for product and retailer research
                - Most of this occurs on retailer websites.

- "Retailer X is struggling amid competition from online retailers able to offer lower prices." (Best Buy).
    - Where does the able come from?
    - Look at cost of doing business:
        - Product Cost + Supply Chain Cost (moving products) + Retailer Profit = Customer Price

- Supply Chain Cost
    - Classic Retail: Distribution Center/Cross Dock (pallet comes in and goes to store, lot less) + Freight to Store
    - Direct to Home: 1.5x - 2.0x Higher   (more expensive, pick to order)
        - It is a lot more expensive.
    - Freight to Home: (3.0x more expensive) tiny packages go on a Fed-Ex and UPS truck.
        - Outbound freight costs 30x higher.
    - Are you able to charge less for a direct to home model?
        - Product cost is the same, supply chain cost is 3x higher than store
    - What about:
        - Free Shipping? No such thing
        - Lifetime value of customer - acquisition cost of customers.
            - Maybe, but when price is lower, they line up and forget about their commitment
        - Overhead cost of having stores?
        - Other revenue streams? Lose on merchandise and make money elsewhere - dangerous way of doing business

- Future is for everyone, Internet is for everyone - Not just Internet-only companies, but retailers too.

- "Anything that can be digitized, will be, and the Internet will be the dominant mode of distribution."
    - i.e.: Amazon's electronic book, Apple's music, CD, DVD, video games - all will go digital

- "For physical products, the Internet (direct to home) will not dominate sales until they invent the transporter."
    - i.e.: Star Trek

- Reality Check
    - The future belongs to brands that build the best consumer-facing network, incorporating stores, Internet, mobile, social and local components.
    - The winners will be those who offer the best products and services across all channels.
    - Retailers have many valuable assets to compete in the evolving world.
    - "We grew 40% on Internet last year."

- Stores Matter
    - Locality and Physicality: Critical nexus of customers networks; closest to home and work
    - Immediacy: Get it today
    - Efficiency: Lowest cost channel, free shipping always, dual service inventory pools (store same as online)
    - Services: Lean, get ideas, try out, see, touch and feel
    - Impulse: Fulfilling unknown needs (walk down aisles and see toy)
    - Fun, Entertainment: For Kids and parents
    - Social: Meet people, interact, attend events

- Omnichannel
    - Model of future
    - Order from (home, your store, mobile)
    - Fulfilled by (direct-to-consumer, your store, vendor)
    - Where received (home, elsewhere, your store, different store)
    - 80+ ways to order/fulfill

- Prediction:
    - Internet Only Retailers: (Amazon) will add stores and other physicality (lockers)
    - Sales tax will eventually drive Amazon to be a retailer

- What's Next?
    - Why is (Social/Local/Mobile) like teenage sex:
        - Because everyone thinks everyone is doing it
        - Some who aren't doing it claim that they are
        - Those who really are doing it, aren't doing it well
    - The potential for frustration and disappointment is high

Summary:

- Toys"R"Us is gaining market share in toys, year after year.
    - Model is economically superior and better for customer.
    - This is just starting, no relationship to past, world will change.