

HUDSON'S BAY COMPANY USES INTERNET-BASED SOLUTIONS TO TARGET ITS MARKETPLACE—ONE CUSTOMER AT A TIME

CUSTOMER VIEW

"We have aggressive growth plans over the next three to five years. We believe that technology and continuing to work with Cisco will enable us to achieve those goals. We will get closer to our customers and we will serve them better. Our goal is simple: we want to use technology to be a leading retailer in Canada."

—George Heller, president and CEO,
Hudson's Bay Company

Mass marketing is a thing of the past. Hudson's Bay has turned its focus toward treating each customer as an individual—understanding purchasing habits, anticipating needs, and ensuring that the products they want to buy are available when they need them. Through a massive transformation of its entire infrastructure, Hudson's Bay has enhanced customer service, reduced cost, and improved inventory turnover to truly become the retailer of the future.

BACKGROUND

Hudson's Bay Company (Hbc), established in 1670, is Canada's oldest corporation, largest department store retailer, and fifth largest employer with 70,000 associates and operations located in every province throughout Canada. The company operates under three banners—Zellers, Home Outfitters, and The Bay—providing Canadians with the widest selection of goods and services available through more than 500 retail stores. With US\$5.7 billion (CDN\$7.4 billion) sales and revenue reported in 2003, the company also operates Fields, a chain of 105 small value-priced general merchandise stores; Hbc Direct, a direct-to-consumer business; and Hbc.com, its online store.

CHALLENGE

In the past, Hbc operated its retail outlets under individual banners with disconnected business processes and a lack of customer centricity. "Our problem at the time was that it was all about us instead of all about the customer," says George Heller, president and CEO of Hudson's Bay Company. But in 1998, the company set about to change that. "Since then, we've been on a major transformation of the company," Heller says. "We began to look at what our customers need, what they are buying, and how we can best serve each customer."

The company viewed its three banners as individual businesses and operated that way. Each banner had its own profit and loss (P&L), its own information technology (IT) functions, different customer bases, independent customer programs and marketing programs, and a different position within the marketplace. "We had become uncompetitive with our use of technology throughout the 1980s and into the 90s," says Gary Davenport, vice president and CIO for Hbc. In 1998, the company launched a major transformation of its entire infrastructure driven by customer service issues at the front end, inventory management issues at the back end, and overall expense reduction. "We needed to get much more competitive than we were," Davenport says.

With that, Hbc formalized a strategy, called One Hbc, that would enable it to become a shopping solution for Canadians through the following initiatives:

- Leveraging the breadth of products and services offered throughout its retail channels.
- Aligning customer touch points, logistics, and retail enablement, creating a common front to the customer through credit cards, loyalty programs, and gift cards.
- Creating a seamless, cost effective back office that supports the distinct customer-focused retail formats.

SOLUTION

In 1999, Cisco met with Hbc senior executives to discuss the opportunities that could be realized through an Internet-enabled business model. At the request of Hbc, Cisco worked with them to develop a strategic roadmap that would enable them to achieve their goals, as well as to lay a foundation for future growth and scalability.

“We helped Hbc develop an Internet Business vision, identify opportunities with a level of detail on the cost and benefit, and build an implementation roadmap,” says Val Stoyanov, Managing Director with Cisco’s [Internet Business Solutions Group \(IBSG\)](#). Clearly excited about the prospects, Hbc brought in a broader ecosystem of technology companies to assist in the effort and began to implement the solutions.

Building Internet-based Solutions

The first initiative on the agenda was to build Hbc.net, the company’s internal employee portal, which included directories, applications for travel and expense management, [e-Learning](#), and Store Management Optimization. Next, they began integrating [supply chain management](#) tools that would give them a way to reduce and manage inventory costs. Finally, Hbc started consolidating data and standardizing customer information files to enable applications that would improve customer relationships.

Not only was Hbc able to almost immediately see a quantifiable reduction in operational expenses, they could now collect and use customer data that let them see where their customers were shopping, where they weren’t shopping, what they were buying, and what they were likely to buy. Analyzing and acting on this data through unique loyalty programs and other initiatives has measurably increased cross-banner shopping by more than 16 percent.

A Focus on Productivity and Revenue Growth

Next on the company’s agenda was to focus on sales productivity and revenue growth by further leveraging its technology investment to migrate its existing PBX-based phone systems to [IP communications](#) and to integrate a [wireless](#) solution that would help its store associates enhance customer touch points.

The first issue Hbc wanted to address was what they called retail enablement. “We primarily built our company by acquiring different organizations and organizing them by banner,” Davenport says. “Now, we’re looking for more efficiency and effectiveness, especially in the back room, and want to use technology to get the greatest level of productivity from our investment and from our associates.”

Once again Hbc called on Cisco along with alliance partners IBM, Microsoft, Oracle, and Symbol to work with them to help develop the right approach.

In the beginning of 2001, Cisco conducted a status check on where Hbc stood and where they had been struggling. “We identified a few [net-readiness](#) gaps and helped them refine their Internet business strategy,” Stoyanov says. “We shared with them functional and industry best practices in areas such as IT governance and supply-chain management, and demonstrated how Internet-based technologies enabled by a converged wired and wireless network break down the four walls of a bricks and mortar store and enable the entire value chain.”

Hbc Takes IP and Wireless Enterprise-wide

Seeing the benefits of end-to-end IP networking, Hbc decided to implement the technology throughout the organization. An [IP telephony](#) initiative in the IT area was begun first to enable them to gain first-hand experience, understand the technology, and become comfortable with it before migrating the rest of the organization. A new wireless network is currently being deployed in all Hbc stores.

The next step was to integrate wireless applications that would enable sales associates to use new methods of selling big ticket items as easily as off-the-shelf items. For example, kitchen and dining room furniture, refrigerators, and other large appliances take up huge amounts of floor space. By placing selected display items on the floor, associates could use a PDA or other hand held device to pull up images, descriptions, and other information—including additional models, colors, and features—on every one of the store’s other products. Then they could check prices, in-stock availability, and delivery schedules on an IP telephone right in front of the customer.

RESULTS

Hbc’s end-to-end Internet-enabled infrastructure has had immediate and positive impact, enabling the company to experience benefits ranging from reduced inventory costs and enhanced productivity to increased revenue and greater customer loyalty. Measurable results include the following:

- Inventory usage reduced by 10 percent or US\$124 million (CDN\$160 million) per year.
- In-stock percentage improved from 90 percent to 98 percent.
- Operating expenses reduced by US\$7.7 million (CDN\$10 million) in 2003 and potentially another US\$6.2 million (CDN\$8 million) in 2004.
- Cross-banner shopping (customers who now shop at more than one banner) increased by 16 percent.
- Consolidated view enabling a single customer profile for each customer across banners.
- Common database enabling value-added programs such as customer loyalty rewards, credit card programs, and registry programs targeted to individual consumers.
- Direct mail program costs reduced by up to 70 percent through use of e-mail.
- Increased revenue opportunities through targeted and timely communication.
- Enhanced productivity in the areas of scheduling, product placement, shelving, stocking, and information access.

“When you think about all the noise in the marketplace, we needed breakthrough communications that let us say the right thing at the right time,” says Rob Shields, vice president of CRM and co-chief privacy officer. “Technology allows us to do that through text messaging, e-mail, and pulling customers to our Website. We were actually able to pull about 4,000 new customers into one of our banners that we’d never had there before.”

NEXT STEPS

Although Hbc has come a long way since 1998, by no means are they ready to stop now. "It's an incredibly exciting time both for consumers and for business," Shields says. "These emerging technologies will not only help us drive revenue but, from the eyes of our customers, it's going to be a much more convenient marketplace. People will be able to access information realtime through their PDAs or cellphones, look at what we have, and comparison shop. It will put a lot of pressure on the business model to be sure we're competing effectively, but that's okay. At the end of the day, the customer is the one who will demand the goods, and it's up to us to make sure we can meet their needs and wants."

FOR MORE INFORMATION

For further information on Internet business solutions, visit:

<http://www.cisco.com/go/ibsg>

CISCO SYSTEMS



Corporate Headquarters

Cisco Systems, Inc.
170 West Tasman Drive
San Jose, CA 95134-1706
USA

www.cisco.com
Tel: 408 526-4000
800 553-NETS (6387)
Fax: 408 526-4100

European Headquarters

Cisco Systems International BV
Haarlerbergpark
Haarlerbergweg 13-19
1101 CH Amsterdam
The Netherlands

www-europe.cisco.com
Tel: 31 0 20 357 1000
Fax: 31 0 20 357 1100

Americas Headquarters

Cisco Systems, Inc.
170 West Tasman Drive
San Jose, CA 95134-1706
USA

www.cisco.com
Tel: 408 526-7660
Fax: 408 527-0883

Asia Pacific Headquarters

Cisco Systems, Inc.
168 Robinson Road
#28-01 Capital Tower
Singapore 068912

www.cisco.com
Tel: +65 6317 7777
Fax: +65 6317 7799

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