Episode 32: The Digital Democratization of Retailing and More

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Keith Anderson: Hello, and welcome to another episode of the Profitero podcast. I'm Keith Anderson of Profitero's Strategy and Insights team. We've got a great episode today. I'm joined by Simon Rodrigue, formerly SVP of eCommerce for Wal-Mart Canada. Simon is a veteran of the industry. He also has executive experience at Home Depot and Sears Canada. More recently, he is the co-founder of InstantTeas.com, another play in the eCommerce space. We talk about the eCommerce landscape in Canada, what's driving it, what's holding it back; get into a little bit of the competing with Amazon discussion; talk about online grocery models like click and collect and full basket delivery, some of the opportunities and obstacles; and we even get into why small brands can win and win big online.

Really rich conversation with Simon as it always is, and I'm sure you'll enjoy it. Let's hear now from Simon Rodrigue.

Joining me now is Simon Rodrigue. Simon, thanks so much for setting aside some time today.

Simon Rodrigue: Thanks for having me, Keith.

Keith Anderson: Simon, I will have done a brief overview of your experience, but I think you can do it better than I can. You and I have known each other for a few years and met while you were leading eCommerce for Wal-Mart Canada. Why don't you tell our audience a little bit about your experience and what you're up to now?

Simon Rodrigue: Yeah, for sure. I've been in eCommerce now for well over 12 years. Had the privilege of leading, mainly in the Canadian marketplace, some very large brands: Home Depot Canada, Sears Canada, and most recently Wal-Mart Canada. In between that, I got to experience the travel industry, working for Travelocity. Currently, right now, I've got kind of an advisory consulting business, as I launched two online brands. Kind of living what I'm seeing in the marketplace right now, a little startup focused on the organic and healthcare industry in Canada. Then in a few weeks' time, watching an InstantTea business globally, which I think both are really exciting.

Keith Anderson: When you say that has to do with what you're seeing in the market, in the landscape, can you expand on that a little bit? What is it that you see that inspired you to get involved in those new businesses?

Simon Rodrigue: I think the interesting thing is that eCommerce has always been to play and play well, you've had to have scale. What scale has allowed you to do is afford a lot of these technologies and capabilities that are required to be able to deliver a customer experience that they expect. Customers are, rightfully, expecting a very high level of service. They get a very high level service in the physical world, and they expect to get that in the digital world. There's a lot of players out there delivering that. It's kind of over the last two years, what I've really been noticing is really two trends. One is the commoditization of technology. You're seeing a lot more providers coming out and being able to deliver incredible levels of capability, in completely different models that, as an executive at Wal-Mart, I was even having a hard time wrapping my head around. For example, how Shopify could bring what they bring to the market at the cost they do it at. It's not only Shopify. It's all of that ecosystem that exists out there, that you can build a really capable website.

Then I think that we've reached such a mass now, that there's enough customers online that you can build a successful business either focusing on a niche or an extended aisle or a community type of product. There's a market at the top, which are kind of the mass market players, the Amazon and the Wal-Marts of the world, but there's a very large market at what I would call the bottom of the pyramid that is all of these specialty type players that focus on something and deliver it quite well. I think ten years ago, that would have been almost impossible to do, but today someone with a great product and a great passion can leverage some of those advances out in the commoditization of technology, to bring that great experience to the customer. I mentioned this on a blog post in Linkedin a few months ago. It's kind of the democratization of eCommerce today, how anyone now has access to that technology and can deliver things to consumers.

Keith Anderson: I totally agree. I think it might be helpful just to drill in a bit with some precision on when we talk about how almost anybody can start something, what models you think have the most viability. We've seen, for years, certainly accelerating over the last two years, but I think even before that, on some of these open marketplaces. Certainly Amazon's, but not limited to Amazon's, especially outside of the US. Any independent seller could do retail arbitrage and sell somebody else's products. They could private label by importing and rebranding a product from China and sell it on a third party marketplace. I think the advantages were you had a massive built-in audience and you had the power of search on a platform like Amazon's marketplace. Then parallel, you've seen the direct to consumer phenomenon that essentially bypasses retailers altogether, at least initially, and is more about building a brand, usually with some vertical integration between producing the product and selling it. How do you think about those two models and their outlook? Are there others that you think are interesting to pay attention to?

Simon Rodrigue: I think what's interesting is if you look at that first model it's all really about selling on channels. You can acquire a product. That's what a lot of these businesses are doing, is they're going over to China and they're sourcing these products. They're either rebranding them or in a lot of cases they're not even rebranding them, and they're selling them on the marketplaces. I think the really interesting evolution we're seeing in that is that eCommerce is very quickly becoming a business of channels. The marketplace is just one channel that you can sell on. Keith, it really gets down to that point that you made. It's about being where the customers are. If the Amazon marketplace in North America is the dominant shopping location, but more and more commerce is moving into Facebook, into messenger, into Instagram, into Pinterest, into a lot of these social type platforms. It's really changing from the perspective of "I need to go to Simon's website or Keith's website to do that transaction."

The ownness is now really on how do we, as an online retailer, make sure that that product is where the customer is spending their digital time and make it as easy as possible to transact. I think that's scary because if you look at the amount of time and money that we spend on our websites, and I look back over my career and the millions, if not tens of millions, if not more than that, on building these websites. They're much less relevant to the customer today. What they want to do is they want to be able to transact where they are. Very well your website is one of the channels that customers are choosing to transact on, but you also need to make sure that you're choosing what other channels you play in and really drive that.

I think that's how that model is changing a bit, where before it was just about marketplaces and "where do I expose myself in the marketplaces in North America or on my own website," to extending to "how do I sell within channels?" I think the other model that's emerging is how small regional players can use and leverage the internet for scale. If you're a small specialty camera shop with maybe one, two, or three stores, but you've got that knowledge and capability, how do you bring that to a greater audience? That may start through you really creating a community and building content on that. You no longer need to have that national scale or global scale of physical footprints to be able to deliver on customers' needs. As customers become more and more comfortable buying complex categories online, I think you're going to see a lot of these smaller regional players. They're really, really good retailers in their own right, in their own area, are going to be able to take that to digital and then also leverage the channels and kind of really grow.

Then I think the final platform, it's really been interesting. I've been talking to quite a few mid-sized North American retailers over the last few months, especially ones that own a lot of their own private labels, they develop their own products. They're trying to figure out today: "What do I need to be in ten years' time? Am I retailer at my core? I run stores really well and I happen to have a digital channel to that, or am I really good at making product and I need to figure out what's the most profitable channel to sell that in?" I think that's really interesting. That's blurring even more those lines of who's a supplier and who's a retailer anymore. You're getting retailers starting to think about, "Do I need to think more like a supplier and figure out where I need to offer my products?"

I think that's going to be a really interesting trend over the next three to five years, where you see what I would call very traditional suppliers going direct to customer. Also retailers saying, "Maybe Amazon isn't as much of an enemy. Maybe some of these marketplaces aren't as much competition. As long as I develop a great product, I can then sell it to the customer and focus on keeping my brand strength through delivering great product at a great price, versus delivering product at a great price at my store."

Keith Anderson: I see exactly the same thing. You see some of the retailers with a heritage of either owning strong brands or private labels increasingly looking for other ways to distribute them. You definitely see big manufacturers and certainly new emerging brands going direct to consumer. I think part of what's been interesting and I'm going to play close attention to is trust levels between the incumbent big retailers and big suppliers. I think when a Unilever buys Dollar Shave Club or when a Procter & Gamble launches its own shave club, there become interesting questions that ten years ago almost seem to have been settled and now are sort of old wounds being reopened in some cases.

You also mentioned things are evolving and maturing differently among the biggest of the big and then midsize. One of the related topics that we get asked about all the time is what the state of eCommerce in Canada looks like and how it's similar to markets like the US or the UK and how it's different. Maybe you can share some of your views on where we are in Canada and what has driven retailers like Wal-Mart and Loblaw and Amazon to invest in eCommerce and online grocery and what is sort of different from some of those other markets.

Simon Rodrigue: I think overall the Canadian market is still very immature. It's still in its toddler phases versus the rest of the world. If you look at the very sophisticated eCommerce models that exist in the UK or in Europe or the rapid growth of eCommerce in the US, a lot of that is driven by the sheer costs of delivering eCommerce in Canada, both from a delivery perspective or a logistics, supply chain perspective, but also from a scale perspective. There's only I think 12 million households in Canada and not all of those are active eCommerce players. It becomes very expensive to deliver on that model.

That being said, there is phenomenal growth in the Canadian eCommerce space. Especially talking to a lot of the retailers over the last couple of weeks, just seeing how their holiday season went. All of them had record breaking years, phenomenal growth. I think what's really great about that is there still are a lot of retailers that haven't fully figured out how does digital play in their overall model. You have to remember that retailers are still opening stores today. It's definitely slowed down, but it's really only over the last couple of years that that burning platform of digital to provide growth had really existed.

What's really driving eCommerce in Canada is consumers. Consumers see the offerings that exist, especially south of the border, but see the offerings existing globally and are saying they want to buy online. This isn't a CEO sitting in a room saying, "I need to check the box off saying we have digital play." It truly is that customers are looking to transact online. A couple years ago a lot of that business would have been going to the US, but I think the added benefit the Canadian players have had is the exchange rate today is essentially at a point where it's not cost effective to buy from the United States anymore, from a direct from a consumer type perspective. I think you mix all of that, where you've got the systematic pressures that the exchange rate drives. You have the fact that a lot of people are accelerating investment in this area and that you've got customers more interested than they've ever been. You're seeing a lot of growth.

What you're also seeing though is a lot of not necessarily pullback but rationalization of investment, especially among the larger players in the space on how do we do eCommerce effectively? A Canadian retailer, whether they're mid-tier or large tier, can't afford to completely build their own platform. Especially in the old way, where you're physically building infrastructure and you're hosting it and driving it. It costs a lot of money, and you just don't see that return. Especially when you look at the economic model of eComm, that it's not going to drive the EBITDA that the stores do. How does that change your overall business model and business return? I think it's still really, really exciting times, and I think you're seeing a lot of growth.

You're seeing a lot of mid-tier players that have been slow to the market, are definitely started to explore and invest. That really kind of gives a good picture overall. I think in the grocery market, the market is developing much more like a traditional European market than I would say the UK. You're seeing pickup being the real driver, even though there definitely are strong players, existing players, that have been around a long time like Grocery Gateway, that do home delivery. They are definitely a very ultra-premium type offering. If you look at Loblaws and Wal-Mart and their roll-up of click and collect, I think you're starting to see customers - and it's interesting, when I visit stores - you're starting to see more customers doing it. You're seeing Loblaws, for example, is aggressively rolling this out across the country. You know that they're getting a foothold. You've got Savon foods out west that's doing quite well. I don't think that they get mentioned enough in the models, and I think they're doing quite, quite well.

I think the other really interesting thing that's existing in a lot of the areas in Canada is there still is a charge existing for pickup. If you look pretty much everywhere else in the world - Europe, the US, the UK - pickup is typically free. I think that's a good sign for the retailers. If they can stay on that path, it helps with the economic model. Margins are very, very tight in Canadian grocery. I think for it to flourish, it's going to have to be a profitable model. It can't just be something that customers want. I think that we'll continue to see that charge, will slow adoption a little bit, but I think in the long run it will ensure that there's an economic model.

Amazon has not been aggressive in pickup yet in Canada. I would assume we would see something, whether it be in Vancouver or Toronto, in the next 12 to 18 months. I don't know, Keith, if you've heard anything about that. They're continuing to grow in their dry grocery and food consumables online. Just talking to customers, you see they're taking a very large share from that perspective. Prime, just like in the US, is penetrating a high percentage of households and customers definitely love Amazon. I think as they continue to evolve that model, I think they will definitely be a strong player in that market.

Keith Anderson: Yeah, specifically what I've heard about Amazon, I've been asking many questions but I haven't heard anything that I can comment on. I think you said a couple things that were really important and interesting. One of which was it's certainly customer demand that tends to drive this, at least initially. I think the other point that I've observed in Canada and other markets is, in addition to consumer demand, competition tends to drive the market. When you see a player like Loblaw or Wal-Mart enter with a model and expand its availability, just by virtue of being available the public becomes aware of it. If they're aware, the odds they try it goes up. If they try it and they have a good experience, the odds that they'll keep at it go up. There's a compounding effect that happens when more retailers look over their shoulder and see, "Okay, who else is making this available?"

I think that dovetails really importantly with your other point around the economic model. In some of the markets where online grocery is most mature, and I think France is the market that I usually point to, the delivery model has not flourished. Not because it was tried and people didn't want it, but because there was the foresight not to make it available before there was a little more balanced approach between traditional fully self-service supermarkets and hypermarkets and then offering increasing convenience but not full convenience of "we'll do everything for you." I think your point around the convenience charge is right. It's a very slippery slope. Once you or once one of your competitors sets the expectation that you don't have to pay for it or you don't have to do any work, all of a sudden people discover that's what they want.

I think, to bring it back to Amazon briefly, that's been one of the impressive but frightening things about the way that Amazon competes. They tend to set that bar. They were the first to offer free two-day shipping. The whole prime membership model is premised on not free but pay us once upfront and we'll offset the per order cost of delivery throughout the year. What we make up in wallet share and volume we hope will offset that logistical expense. That's a very difficult thing for most traditional retailers to compete with symmetrically. In other words, to your point about EBITDA, under the definition of success and the economic model they're traditionally using they can't compete with that.

I think it's going to be interesting to see what Amazon does do. I don't have any predictions or statements, but in addition to consumers themselves defining what they want to do, I think sometimes retailers can influence customers' desires.

Simon Rodrigue: Yeah, absolutely. It's really interesting, when you talk about being first to market or leading in the expansion. It really kind of points to that concept of if you aren't the market leader, you have the opportunity in many cases when customers digitally reset. They go from a physical type, "I'm going to do my shopping here," whether that be grocery or electronics or books, to the digital world. They're resetting their shopping habits. There definitely is a brand affinity. If I was a Loblaw shopper or Wal-Mart shopper in the physical world, when I decide I want to try grocery pickup one of your visits are going to probably be to the brand that you typically shop in. If that brand is not there or if that brand is not delivering what the customer expects, it's very easy for someone to reset the customer's habits.

You read a lot of the white papers out there; it doesn't take a long time to reset a customer's behavior, to get comfortable with the site. They know how search works. They know how the checkout works. They know how the pickup works. It's only about four orders. I think it's one of the big advantages that Amazon has and their Prime program helps drive all of this. The fact of their size and their scale, they're capturing a lot of these customers when they digitally reset.

I think in the grocery space, especially for Canadian retailers, or in that pickup space, there still is an opportunity for you to get more than your fair share in the market. If you're trading at whatever you're trading at in the marketplace, there's an opportunity to do better than that. Especially when all of the retailers aren't in play. The trick is going to be doing that without economically destroying your balance sheet. Grocery pickup is probably one of the more expensive or the largest investments required, unless you look at some type of partnership when you go into business.

Keith Anderson: I was going to ask you your views on that, too, especially as it relates to the mid-tier. You made some interesting comments about the investment required to build and own your own platform. I think logistics are so complicated it seems very unlikely to me that your average mid-tier retailer is going to want to own their own delivery fleet. Where do you see models like Instacart or Google Shopping landing in Canada?

Simon Rodrigue: Just for full disclosure, I sit on the board of Urbery which is an Instagram-like startup based out of Toronto. What attracted me to them was that it is a very easy way, whether you're a retailer looking at offering delivery in the marketplace or even a supplier looking for an avenue to deal direct with the customer. The challenge you get into with - and I think this is probably one of the reasons why Instacart hasn't expanded into the marketplace, you don't see Google Shopping in Canada - it's scale. There's probably three or four, maybe five markets in Canada that you'd be able to use that type of model. I think it is a very interesting model that will continue to evolve, and I don't think we fully know. If you and I kind of predicted what it would look like in three years, we'd probably both be horribly wrong. I think it's going to continue to rapid development.

There's definitely risks. If you're looking at a model where someone else is doing the shopping in your store and delivering it to the customer, there are costs associated with that. You have to figure out is there enough of a separation between your retail brand and the third party that you can charge a different price and that doesn't impact you? I think in some cases it makes sense, some cases it doesn't. I think for CPG players or for suppliers, are there ways that ... Customers are creatures of habit. I think this is the most interesting thing that I saw in the grocery business. You're typically buying 35-45 items every week, every couple of weeks in your grocery shop. It's surprising how consistent many of those products are. If you have a type of ketchup, I guarantee anyone listening to this, it's the same type of ketchup you buy. You probably buy it every, depending on how much you use of it, it's the same size and you buy it every three weeks. You don't really need to go into a retailer to do that.

I think you're going to see models evolving around that, whether it's the supplier skipping the retailer altogether, and I think the pet food category is a great example. How do you get pet food directly to the customer? Through some of these whether they're third parties doing it or direct from the customer, or are retailers just going to look at automating that whole process? I hate using the buzz word "the internet of things" and your fridge is ordering, but I think that's the beauty of what Amazon has done with voice, is they're getting that much closer to the customer. That repeatability is even one level higher that subscriptions. You don't even have to think about subscribing if you're out of something. You can just say it and how does that interact.

I think that's a long way and kind of confusing way of saying that I think there are models in Canada that would make sense, whether Instacart or Urbery who's the Canadian player that I'm familiar with. That would make sense. I think how it's fully going to work is still being determined today. I also think it's a big opportunity for suppliers to potentially skip the retailer altogether. It's again another one of those what we started off today, a blurring of the lines of who owns that customer relationship and what's the best way to get goods to them.

Keith Anderson: Yeah. I totally agree. We keep talking about the power of the Prime membership program and these auto replenishment subscriptions or just the simplicity of saying what you want to reorder or what you want to order and having it arrive in a couple days. I think the commonality is commerce is definitely evolving beyond just a single transaction. We had, at least in the US, the membership club model became really big with both Costco and Sam's Club, but it was sort of confined to that membership club store format for decades. Then all of a sudden people realized, "Hey, what if we can lock people in to a different type of membership program or two a single SKU or to a whole ecosystem?" I think that's opening up a lot of doors.

Simon Rodrigue: Yeah. I think what's interesting is that you can look at the infrastructure of the market, you look at the big players - the union laborers, the P&Gs, the Kimberly Clarks - they have so much share of the consumer's cupboards today. I really think you're going to see a big push from them to how do we deliver that directly to the customer? A lot of their products are about habit. If you own that relationship or that engagement with the customer, it's so much easier to introduce innovation. I think we're going to see some rapid change in the next few years, or at least testing to understand. I know they've done testing in the past but how do they really get serious about this that if I'm already buying 10 or 15 products from them on a regular basis, how do I get that automatically delivered into my house? I think you hit it exactly.

I think what commerce is becoming, and if you really think about what's more valuable than money today, it's time. These products don't require any thought from the consumer. If I'm buying the ketchup or the Swiffer or household cleaners or even in the extreme, ice cream, I buy ice cream every two weeks and it's the same brand - the brands may change or it's the same but different flavors - how do I help the customer out? It gets down to trust, and I think this is where the large retailers and the large brands can fight off the million mass of individual sellers that are coming. If I trust you, we can have a relationship that you're looking at my consumption and getting me these products. Whoever can really figure that out and own that is going to be one of the real winners going into the future.

Keith Anderson: Totally agree. Well Simon, this has been really fascinating. I'm sure people are going to want to hear even more. If someone wanted to get in touch with you, what's the best way?

Simon Rodrigue: Probably on email. It's simonrodrigue@gmail.com. Or you can just google me or Linkedin me and find me. I love talking about this, so Keith, thanks for the time. Hopefully it was an enjoyable conversation for everyone.

Keith Anderson: Absolutely. Thanks again, Simon.

Simon Rodrigue: Thanks.