

***The Insightful Leader* Podcast Transcript**

Dialogues: Wayfair Has Seen a Spike in New Customers. Here's How It Plans to Keep Them.

Steve OBLAK: What we do know is we're seeing a pretty significant spike in first-time orders. So there are a lot of people who are taking a chance with online and our belief is many of them will probably find the experience is great and be happy with online going forward. I think all of e-commerce is going to experience that.

[musical interlude]

Jessica LOVE: Welcome to a special bonus episode of *The Insightful Leader* from the Kellogg School of Management. When we planned our podcast season, we didn't plan on a global pandemic and the tremendous economic and social disruption that would follow. So over the next few months, we will be periodically sharing some of the conversations that are occurring between Kellogg faculty and business leaders, looking ahead at what comes next for these leaders, their companies, and their industries.

For e-commerce, as with many other industries, the Covid-19 crisis has presented a number of challenges. But perhaps more so than other industries, it has also presented some big opportunities for growth, as brick-and-mortar competitors shuttered for months.

Steve Oblak is the Chief Merchandising Officer for Wayfair, the \$10 billion e-commerce company focused on home goods. Oblak oversees Wayfair's North American retail business. He spoke with Linda Darragh, the Executive Director of Kellogg's Innovation and Entrepreneurship Initiative as part of Tuesday Tech Talks, where Kellogg alumni in the tech sector speak to current students about their own experience, and what's happening in the tech sector.

In the conversation you're about to hear—which occurred back in April, when the pandemic was still very fresh—Darragh and Oblak discuss how Wayfair set itself up to succeed during the crisis, and what he sees happening in e-commerce in the medium- to long-term.

[musical interlude]

Linda DARRAGH: I have to start by asking you, how has Wayfair evolved, changed, adapted over the last several weeks in the face of COVID-19?

OBLAK: Yeah. We source a lot of our products from around the globe, so we source some of our products from China, some from Vietnam, Malaysia, all over the world, really. We started hearing from our contacts in Asia how bad this was probably late January, early February. And the narrative we heard was, "This is way worse than you're hearing about." And so we started, on the Wayfair side, more planning just because of the uncertainty. So we didn't quite know

what was going to happen, but we felt like it was going to be significantly more than maybe it was believed at the time. So we put our focus on, basically, the best plan we could put in place, which essentially was, secure inventory. So make sure any supply chain disruptions, we get ahead of it as quickly as we could. So we were a little bit more aggressive about pulling products into our warehouses. We started just really blitzing our suppliers across the board, the people that actually build the products that we sell, and just making sure we had intelligence on what they were seeing because they were closer to the country level. So we were just trying to stay as current as possible with our suppliers.

And that coincided with another, longer-range plan we had starting last summer, which was to just to run leaner operations. So long story short, we made, I think, some of the hard decisions already on getting prepared for a moment like this. So we were pretty efficient, running fairly lean, pulling inventory forward and then I think we just prepared ourselves. It was pretty obvious that we were going to be working from home for a long time. So we ran some simulations where we worked from home. We made sure that all the wiring worked so everybody could actually be productive in their homes.

DARRAGH: So when did you start this? I mean, when you say you figured people would be working from home, is that beginning of March? End of Feb ...

OBLAK: Yeah. We started preparing beginning of March. We ran a simulation, everybody worked from home. It worked. And at that point, we just basically put our workforce at home and then that moved kind of into phase two. Phase two is like, how do you keep Wayfair going? How do you basically make sure that if you buy something from us, how do we make sure you can get it? How do we get revenue? And so a lot of it was just trying to figure out all the different county and municipal and state lockdown decrees, how that impacted us. So that was a lot of just understanding the legal aspects of it.

So the second wave of it was keep our operations running, which is pretty much our warehouses and our trucks. And so make sure that we can move goods out of our warehouses. Make sure that our warehouse employees are safe. Make sure the people that are fulfilling our orders, delivering the items to our end consumer is safe. And that's not an easy thing because there's no playbook and we had to improvise really, really fast. And as you've kind of read about, a lot of the things that you would want in that moment in time weren't available. So getting masks, getting sanitizer, getting all those things that we couldn't snap our fingers. So we had to move and be pretty agile and make sure that our folks had the right protective gear.

And then we had to literally change overnight how we did business in our warehouses. So social distancing protocols, how people eat lunch, we had to really go and review all of that, come up with a plan, which we're still making better as we learn, but really but our workers' safety first. We changed their compensation. We had to solve for things like childcare. I mean, it goes on, and on, and on. And stuff that we hadn't thought about a month before became the most important priority of the company, putting our front-line employees in a safe spot.

And then the next wave of it was trying to educate our suppliers. Wayfair, we work with 15,000 different suppliers. Some are really sophisticated, some aren't. So a lot of them are really, really confused about what the rules were, for lack of a better word. So if California shut down non-

essential, were they supposed to shut down their warehouses? Et cetera. So we spent a lot of time doing outreach.

And then the phase we're in right now, which is we're trying to be more helpful. So the first thing was make sure our employees are safe and we can deliver goods. And now, we're starting to partner more broadly with FEMA New York, Massachusetts State Government. So where we can be helpful, we're supplying hospital beds, pillows, linens, and more of a humanitarian focus at this point.

DARRAGH: So your business has really changed quickly and you already had this intel from abroad that things were changing, but did that change where your suppliers were going to come from? I mean, now that you look at supplies and where they can come from, have you had to adapt, open up new supply chains, close—how are you looking at the global effect on this?

OBLAK: Yeah. We're actually lucky because we've diversified where we source products from. So obviously, a lot comes out of China, but a lot comes out of Vietnam, Malaysia, a lot comes out of Europe, Mexico, Canada. We still make a lot in the US. So thinking about how the tariffs impacted us, a year ago, the second wave of the tariffs came into effect, which was highly punitive to goods coming out of China. So I think there were already supply chain stressors on production out of China, and a lot of suppliers were trying to move goods out of China. So we were, from that perspective, pretty well diversified.

DARRAGH: So your suppliers, internally, has everyone kept going or are they being shut down because they're non-essential services?

OBLAK: Yeah. So if it's a warehouse and it's shipping goods, it's essential. If it's making the goods, it's not. And so that's really kind of hard at the speed the state governments are moving to figure out. So you would have a supplier of ours who makes beds-storing items in a warehouse in California. That person can just ship the orders. They can have employees in the warehouse. Now, if you have a supplier in Mississippi that's making the sofas and then shipping them, they're not allowed to make the sofas. That's manufacturing. That's the level we've gotten in with our suppliers. And if you don't know a lot about Wayfair, one of the key tenets of ours is suppliers are our family. They're our partners. And so we have really strong relationships with our top suppliers. It's incredibly collaborative. So we've been engaging them highly through this whole thing to help them understand how to navigate this.

DARRAGH: Your revenue, is it picking up just because people are at home, they're looking around, they're seeing that they want to buy things?

OBLAK: Yeah. I mean, I think the reality of where we are right now is a lot of the brick-and-mortar options aren't available to most of the country. So you have a little bit of an online penetration moving faster than you would expect. So in our category, the online penetration is about 15%, one five. So it's quite small, but when the brick-and-mortar opportunities are much diminished, a lot of shares moved online. And we're one of the bigger guys online, so we're certainly benefiting from that. And then there's an open question about how long that will last or not. It could just be a bounce effect.

The other thing that, if you just think about how you're probably spending your time, you're sitting in your home, you're looking around, and you're probably noticing things that you'd like to

have upgraded or fixed. And so we got a huge wave of office desks, a huge wave of filing cabinets, all the things you would guess, a huge wave of trampolines and swing sets. But that was wave one, which was, "Hey, I'm going to be here for a few weeks. I need to get these things if I'm going to be working from home or the kids are going to be outside," but that's kind of normalizing. And then what we're seeing now is the fact — it's kind of like wave two. We're going to be in our homes for maybe a little bit longer than we anticipate, which means a little bit longer to think about our spaces. And if you're like me, you're not spending money on gasoline and restaurants and travel and leisure and entertainment. So for the folks who are still working, there's disposable income that they didn't have before. And so I think some of it's migrating to the online categories.

DARRAGH: So is your target customer changing? Have you seen, because more people are home, they're getting used to understanding Wayfair and just the need for e-commerce for anything, are you seeing that your customer base is actually expanding?

OBLAK: Yeah, for sure. So our core demographic, it's weighted, but it's typically women, 35 to 65, is our core demo. That's sort of, if you think about where you are in your life at that point, that's where you're kind of settling down. You're in your space. You're sort of maybe in family mode, but you're starting to buy your longer-range furniture. You're making more of an investment at home. That's our core consumer. So we haven't had the market research back yet. What we do know is we're seeing a pretty significant spike in first-time orders and we're interpreting that to mean first time internet. So there are a lot of people who are taking a chance with online and our belief is many of them will probably find the experience is great and be happy with online going forward.

DARRAGH: So this is a whole channel shift, in many cases, for some new, larger customer base.

OBLAK: Yeah. I think all of e-commerce is going to experience that. With us, we watch a couple things. We watch net promoter score, which is a cheap and easy way to understand customer satisfaction. And we look at repeat rates and repeat spend. So how often do customers come back after they order a first time with us? And so we've been watching the first-time customers because it just might be like, hey, they just need something here and now and they won't be back. But we're seeing really strong loyalty trends so far from the newer customers. So that would suggest it's a little bit more structural.

DARRAGH: So if this is a structural change for you and other e-commerce, I mean, we can look at e-commerce going forward as being even larger than it has been before.

OBLAK: Yeah. I think there's a couple things at play here. One is, in a category like ours, which is the laggard, right? There's many categories that are almost all online. We're at 15%. So we're a laggard. I think people will be surprised at the experience and the convenience and the access to products. And I think they'll be really happy with that and not be willing to spend all this time driving around, brick-and-mortar with the kids, trying to figure out what sofa to buy for their house. Right?

I think the other thing, which is an unknown, is at what point are customers—and I put myself in the same bucket with three kids, my family and my wife. I don't know how quickly we're going to be excited to go into a brick-and-mortar experience when there's an online alternative, given

where we are right now and all the uncertainty. And that's an unknown I can't weigh in on, but I think it's going to be real and out there.

DARRAGH: You were so proactive when you heard that things were going bad and how you did so much within all aspects of your company to get ready for that change. Now, you're having a view into the future of how your company is going to change, the demand is going to grow, et cetera. So are you starting to look at scenarios on how to plan for the future?

OBLAK: Yeah. And it's really hard because where the rubber hits the road is—I had a meeting yesterday on inventory planning with our suppliers. And it's like, that's a nine-month lead time with, typically, they're building it and, nine months later, it's coming into our warehouses. And so, well, how do we even come up with forecasts for the fall? We don't know how big the category is going to be because that's going to be a function of how bad the economic shock is. And we don't know how big the online portion of it will be because that will be a question of how strongly brick-and-mortar comes back. You know, the question is, how do we understand demand patterns as we get through this?

[musical interlude]

DARRAGH: You've run a good cash position. Basically, Wayfair has been strong in revenues, et cetera. So you have the ability, in some ways, to innovate for the future. Do you feel you've got that ability to take some risks in the future?

OBLAK: Yeah, for sure. Our DNA has always been be very data-led and make high-ROI bets and learn very quickly if they were dumb, because you can't have a perfect batting average. So you're going to make some mistakes, but be data-led, make some ROI-driven bets and then double down where it's working out and get out where it's not.

And then there's this innovation around, wow, there's been a complete shock in all facets of society and, if you're going to be a winning organization, you're going to have to adapt to it. So I already talked about some of the things we're doing in supply chain. I think we only get better at that and we only focus more on our front-line worker safety, not less, given what we've learned here. But, the big innovation bets for us are kind of still the same. It's, we're building our own supply chain, end to end, so we control the destiny of the inventory because our category is really hard in supply chain. We're building our own brands with our own items. We're betting hugely on 3D and 3D-imaging technology and betting a lot on our technology platform so that, when you come to Wayfair, it's a really fast, great experience, everything works really well and our service proposition is good. Those are the big innovation bets and I'd throw in new geographies, as well, but that didn't really change, but I think how we go after it will, given everything that's happened.

DARRAGH: Very cool. So what do you see as, probably going forward, talking about how things will change, what are kind of the job functions that you believe are going to be most helpful?

OBLAK: Yeah. I just think e-commerce is a structural winner. We kind of already know that, anyway, by what Amazon's done. And just more and more of life's activity, I feel like I'm stating the obvious, is going to happen online. And so the deal with online is, obviously, the commerce part, which is the buying and selling of services and products, is what Wayfair does. And then there's the fact that you can measure everything online. So the analytics you derive from it, if

you think about data science, algorithms, machine learning. And then just technology, in general. You have to build the software. You have to build the platform technology to deliver the customer experiences you want.

DARRAGH: Given your new customer segment, the new COVID customer, how are you going to retain them in the long term? They've come. They're tried it out. How are you going to move them to retention?

OBLAK: Yeah, good question. It was a huge focus of ours before all this, which is, when we do get that first order, how do we set the conditions up where it's going to be a great experience where that person will want to come back? So you don't really change that. If I was going to oversimplify it: Whatever item they're looking for, make sure they find it as fast as possible. Make sure the price is good and make sure we can get it to them fast and on time.

And a lot of what we build, a lot of our technology and our processes are designed against that. So that's always the key focus for us and that doesn't stop in this new environment. And that's why we're really watching the post-order metrics, NPS and repeat patterns. It's just being very in tune with the fact that this is an unusual event. And so there's been a surge of new customers and we have to basically be in tune if they're somehow different from our prior new customer. So that's really the question, is are they behaving differently and, if they are behaving differently, how do we respond to that?

DARRAGH: Are your NPS scores different? Are you seeing ...

OBLAK: They're higher.

DARRAGH: Higher, yeah.

OBLAK: Yeah, but that's, I think, a function of the fact that they're just happy that someone can get them something right now. We're not trying to read too much into it. We're working and a lot of the economy isn't working right now, so we think that's a function, but the NPS scores are really high right now. We're watching that very closely. The repeat revenue, those trends are very, very strong.

DARRAGH: Okay. You had talked about just serving a lot of hospital beds, which is wonderful that you're helping getting some of this equipment out. You've been B2C play, but is there potential here for more B2B?

OBLAK: Yeah. Our B2B business is actually quite big because what we find is a lot of small, medium-sized businesses are shopping on Wayfair. And we have algorithms that identify business customers as they go through our funnel and then we port them over to a higher-tiered service model. So we actually have a very big B2B business.

DARRAGH: I guess, maybe my thing was, more institutional.

OBLAK: Yeah. We typically do that more on a one-off basis. I have a meeting tomorrow on our enterprise plan because it starts to get pretty blurry between middle market and large corporate. I think in a situation right now is, we have contacts at FEMA through other disaster relief efforts. So there's been hurricanes, tornadoes. And the irony is, what we're finding, is we want to be

helpful, it's just sometimes hard to find the right person to connect the dots with on the other side. So we were able to do that with New York City. It was obviously much easier in Boston, given our connection with the state and local government of Massachusetts. So we're continuing to do outreach and try to be helpful wherever we can.

DARRAGH: Super. This is a tough time for even internal teams. So any thoughts on your leadership style and how this has helped your teams adjust to this new situation?

OBLAK: I think the two things I'm trying to really drill down with my entire team is this is just a crazy time and everybody's feeling this. And to pretend like it's not, I don't think it's realistic. And it's stressful and it's scary and it's just better to be honest about that. And the reality is people are going to react to that and respond to it in different ways and that's fine.

One of the key things is just to say, "We've got to be really understanding that this is a unique situation and not everybody's always going to have their A game going." And then the second dynamic, which impacts more of my senior folks, but a lot of the people in my organization have kids and they don't have childcare and they're two working spouses. So there's just the reality of someone has to watch the kids. We just have to refactor how we think about a linear workday. The notion of the linear workday is not realistic right now. It's a nonlinear workday. And really trying to put a lot of trust into our people that they're going to make the best decisions they can with the capacity they have and we need communication up and down on what's conceivable, what's possible.

And like all things in life, it just comes down to a priority. So maybe you're only going to do the top two things on your list, not the top four. That's fine. Do the top two well and let's just map expectations about where you are. So that's really what my leadership team and I have really tried to broadcast out.

DARRAGH: What about communication? I mean, everyone's saying you have to be more communicative at this point of time, but that takes a lot of hours, as well. So do you have one-on-one meetings? Do you have group meetings? How are you just managing that communication?

OBLAK: Yeah. I think the thing for us is let's just keep business as usual and see if that doesn't work. So we've decided to keep our meetings in place. And maybe you're finding this, too. It's remarkable how quickly we've all moved to online as a format. And at Wayfair, we have lots of practice because we have a Berlin office that we work with quite a bit. So there's a lot of video with Berlin. We have field workers all over the US and Europe. We have a fairly flexible work-from-home policy. So we already had the muscles for this. And so I think what surprised me is how much we haven't adjusted our approach. We've kind of kept it typical.