IBM

REI scales new heights with second generation Web sites and IBM.

When the Internet first exploded, early adopters quickly established online stores, anxious to plant a flag in this emerging sales channel. Now, backed by the new capabilities of IBM's advanced technologies, Recreational Equipment Inc. (REI), headquartered in Seattle, WA, enters a new phase of e-business leadership with a rebuilt REI Online site (*www.rei.com*) and an innovative new site, REI Outlet (*www.rei-outlet.com*).

"The IBM solution has taken our e-business to a vastly different level....e-business represents the foundation of our future business growth, and we know IBM will always be there to provide the platform and services required to serve our customers even more effectively."

—*Matt Hyde*
REI Director of Online Sales

As the nation's largest consumer cooperative, REI is offering products and services tailored to the different segments and interests of its audience. REI Online provides more than 10,000 items to help consumers get the gear they need for outdoor recreation. The site — named by Fortune magazine as one of the top 25 corporate sites — also offers the opportunity to learn basic outdoor skills, interact with experts and even download customized topographic maps for hiking. And REI members can use the site to check their patronage refunds, update their mailing addresses and get exclusive "members-only" updates. The site even offers access to REI Adventures, an adventure travel company.

REI launched its original online store in September 1996 using commerce server technology from a well-known vendor. REI soon discovered that the software wasn't

Application	Electronic storefronts
Business Benefits	Over 350% sales growth; Web site one of top 5 REI stores in sales; online orders twice the size of traditional retail; 90% reduction in IT maintenance costs; decreased transaction processing costs; increased customer loyalty and satisfaction
Software	IBM® Net.Commerce PRO IBM DB2® UDB IBM eNetwork™ Firewall
Hardware	IBM RS/6000®
Services	IBM Global Services

IBM® **(e)** ™
an e-business solution ▶

REI partners with IBM to advance its e-business to the next generation.

Two of REI's more than 1.4 million members scale a mountainside with their REI gear.

powerful or flexible enough to support their needs — or their customers. So REI director of online sales Matt Hyde and REI's technology department found themselves rewriting and modifying the software to the point where REI was using a lot of homegrown code.

"As our online business grew, we found ourselves spending more and more time upgrading our capabilities and developing software to meet our technology needs, instead of focusing on what we do best — selling outdoor gear and clothing," says Hyde. "It was clear we needed an Internet merchant software package that was easy to integrate with our existing legacy systems, was scalable, offered regular upgrades and provided great customer support."

Finding the best bargain online

REI's first priority was to launch a second site to attract bargain hunters — REI Outlet (*www.rei-outlet.com*). This site offers bargains unavailable at any of the 51 REI stores in 21 states, through mail order or through the full-price, premium online store. By carrying manufacturer overstocks, seconds and product close-outs, REI Outlet can offer limited quantities at rock-bottom prices.

Hyde adds, "REI Outlet has been so successful that our greatest challenge has been getting enough inventory to meet demand."

The two REI sites are linked, and many visitors go from one site to the other. But having two sites, each with a different focus, allows REI to segment its audience better, tailor messages more effectively and provide an additional service to customers without diluting its premium image. It also allows REI to provide personalized service, including customized e-mail for special areas of interest or one-time bargains.

"The Internet offers a very compelling platform that provides distinct advantages to customers compared to retail and catalog alternatives," says Hyde. "Our next-generation online store leverages what we learned from our early experiences to deliver a compelling shopping experience that will boost sales growth in the U.S. and abroad."

Extending its reach to the Web

The success of REI Online led the company to extend its Internet strategy to its retail stores by putting Internet-enabled kiosks in smaller stores. Now retail shoppers have the opportunity to immediately purchase any REI item, whether it is carried in-store or not. The kiosks use network computing devices with the ability to access REI sites, which is enhanced by instore servers. This kiosk-based strategy was so successful that REI has since extended it to all stores.

REI also uses the Internet to bolster its already flourishing international mail order sales with product descriptions available in Japanese, French, Spanish and German. Although the percentage of international business from the Web site is increasing at about the same rate as orders from the U.S., the amount of traffic from Japan was much higher than from other countries. Because REI was able to capture this information along with product preferences and other customer-related information, it determined that expanding into the Japanese market made good business sense. As a result, REI is placing its first physical international store in Tokyo, now scheduled for opening in early 2000.

"It was clear we needed an Internet merchant software package that was easy to integrate with our existing legacy systems, was scalable, offered regular upgrades and provided great customer support."

—Matt Hyde

"One of the most encouraging pieces of our online story, and we're tracking this very carefully, is that we're reaching new audiences — more than just in the U.S.," says Hyde. "Now, outdoor people from all over the globe can access our Web site to learn about REI, examine our products and place orders. That's why the business has really picked up. And we're not constrained by paper and postage."

Hunting for the right solution

REI's multipronged Internet strategy depends on a technological backbone that provides both advanced e-business capabilities and strong links to legacy systems. REI evaluated other commerce servers and quickly realized that there was only one solution, and one vendor, that provided the functionality and flexibility it needed — Net.Commerce from IBM.

Systems integration services from IBM Global Services assisted REI in putting together a solution using IBM Net.Commerce PRO and DB2 Universal Database™ (UDB). Its solution is built upon REI's original investment in IBM eNetwork Firewall, with IBM RS/6000 servers. IBM Net.Commerce PRO provides the rich functionality that REI needs to continue its rapid growth, supporting advanced catalogs, tailored product searches, and soon, virtual sales assistance. "We thought we had made a good decision to go with Net.Commerce," notes Hyde, "but we didn't realize what a great decision that it really was until we started to develop the site."

According to Hyde, Net.Commerce is providing a powerful and flexible development platform for REI's e-business initiatives. The scalability of Net.Commerce, DB2 and the RS/6000 servers allow REI to accommodate rocketing growth while its flexibility enables REI to respond to changing customer and corporate requirements. The benefits are more than strategic, however. Maintenance requirements have been slashed 90 percent from about 40 hours per week to about four since, in Hyde's words, "We're not fighting daily technology battles."

But even the most advanced Web server is only half the e-business equation. Just as important are solid links to existing legacy systems and databases, including order processing, financial and logistics. The five IBM RS/6000 servers and IBM Net.Commerce facilitate these linkages between the Web and back-office systems, enabling orders from the Web to be processed as seamlessly as those from retail or mail-order operations.

Net.Commerce comes bundled with DB2 database for additional business value and assured integration. Because Net.Commerce builds dynamic Web pages from a database, it was critical that the database support advanced searching capability. "DB2's enhanced search capability is one of the cornerstones of the new site," says Hyde. Its advanced search feature allows customers to find products faster. Hyde states, "Customer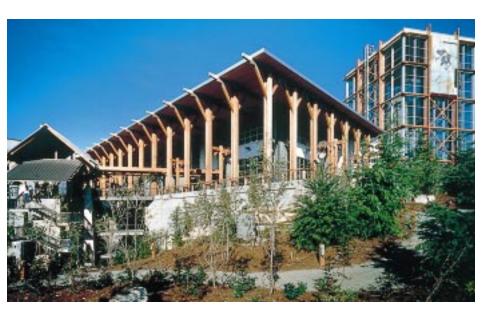 feedback from the REI Outlet site was so positive that we moved up the relaunch of REI Online on Net.Commerce in order to provide comparable functionality on that site as well."

Measuring success

Hyde credits the company's multichannel approach to serving customers as one of the

REI's flagship store in Seattle, Washington serves as a mecca for outdoor enthusiasts.

"We thought we had made a good decision to go with Net.Commerce, but we didn't realize what a great decision it really was until we started to develop the site."

—*Matt Hyde*

key reasons for REI's success. "We've recognized that we can't choose how our customers want to shop, but we can make it easier for them to access us and provide the same high-quality shopping experience however they interact with REI. For REI Online, this meant utilizing cross-divisional resources rather than following the trend of creating a stand-alone team to support e-commerce initiatives. We've found this approach has encouraged each retail group to play upon its strengths and become better. It's also created invaluable companywide support and 'ownership' for REI Online's success and, best of all, enhanced customer service."

In two years, REI Online has grown more than 350 percent from a strategic twinkle in top management's eyes to the sales equivalent of one of REI's top 5 retail storefronts. Plus, online orders are about double the size of the average retail purchase, while the costs of processing a transaction are much lower and there's no square footage to lease. BizRate, an online rating service, places REI Online among its top Web sites for customer service as well as customer loyalty. And continuing the tradition of success, REI Outlet is far exceeding expectations since it went online in late summer 1998.

Aiming for the future

REI is continuing to add features that enhance personalization. As part of its second-generation Internet strategy, REI is enhancing the "virtual service" capabilities of both its premium and its outlet site. With the upcoming implementation of Net.Commerce's Product Advisor, REI Online will provide even more flexibility for its customers to shop the way that makes sense for the individual, not a predetermined store layout. A virtual sales assistant will help those unfamiliar with the product space to find the right products easily, while product comparison pages will be built on the fly to assist customers in the selection process.

At REI Outlet, shoppers can register with Bargain Sleuth, an e-mail service that alerts them when a particular discounted product becomes available. And soon, shoppers will be able to balance price and availability in REI Outlet's new "Progressive Markdown" area, where prices on selected items will be routinely reduced until they sell out.

When REI established its first site, the Internet was a wild frontier populated by surfers and techno-enthusiasts. Now, it's an important sales channel for retailers, enhancing other marketing efforts and extending a global sales reach. With the help of IBM, REI has advanced into this next generation of e-business with sites that offer personalized shopping services and a solid infrastructure for continuing growth.

"The IBM solution has taken our e-business to a vastly different level, allowing us to spend more time growing our business and uncovering better deals for our customers," concludes Hyde. "But it's only a beginning. e-business represents the foundation of our future business growth, and we know IBM will always be there to provide the platform and services required to serve our customers even more effectively."