4.7 CASE STUDY

Dick's Sporting Goods:
Taking Control of Its E-commerce Operations

Founded in 1948 by Dick Stack in Binghamton, New York, Dick's Sporting Goods has grown from a small local business selling fishing and camping supplies into a Fortune 500 business with stores throughout the United States. After Stack's retirement in 1984, his son Edward bought the business with his siblings and took over as president. Edward spearheaded the company's growth from a handful of local stores into a sporting goods powerhouse. The company sells athletic apparel, outerwear, sportswear, a variety of shoes, fitness equipment, and outdoor equipment. Now headquartered in Pennsylvania, Dick's also runs two smaller franchises: its Field & Stream outdoor goods division, and Golf Galaxy for golfing supplies. Dick's prides itself on combining small-business customer service with big-box retailer selection and values, and routinely outperforms competitors in customer service metrics such as phone and e-mail response time and delivery speed.

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Unlike some of its competitors, Dick's was quick to embrace the online channel and has maintained very strong e-commerce sales relative to its competitors in the sporting goods industry. Industry surveys in 2015 showed that Dick's increased its e-commerce revenue by 40 percent since 2010, whereas its competitors' e-commerce revenues have increased by roughly 20 percent over that span. For most of that period, Dick's relied on external vendors for its IT and e-commerce needs. The company's primary e-commerce vendor was eBay and its eBay Enterprise suite of e-commerce services. EBay handled Dick's back-end fulfillment processes and most aspects of their e-commerce presence for approximately 10 successful years. In 2014, Dick's reached 70th on Internet Retailer's Top 500 list, and the company's 2015 yearly revenue grew 19 percent to $748 million, up from $638 million in 2014. E-commerce represented 10% of total sales for the year.

However, Dick's overall revenues slumped in 2014, and continued to lag in 2015 thanks to unseasonably warm weather in the winter. Analysts were also skeptical of Dick's significant financial commitment to large physical stores in an era dominated by online shopping. Dick's had grown to a size where its agreement with eBay was costing the company significant revenue. eBay collected a fixed commission on all items Dick's sold online, no matter how big, despite the fact that expensive items cost no more for eBay to process than cheaper ones. As Dick's e-commerce sales continued to grow, its deal with eBay was costing it more and more money.

Many bigger businesses have begun migrating their e-commerce operations away from external vendors and back within the control of the company to avoid these types of expenses. Also, it can be difficult to customize pre-made software and services from external vendors. However, once in-house, companies can more easily differentiate their web presences from competitors and adjust their software and services to best suit their capabilities. Companies that reclaim their e-commerce operations also maintain easier access to their proprietary customer data. Examples of companies following this path include Target, which left Amazon Web Services to build its own e-commerce platform, and Toys 'R' Us, who had also used eBay Enterprise, like Dick's.

Facing pressure to slow down physical growth and reduce the high cost of maintaining physical real estate, and sensing the trend towards e-commerce at the expense of in-store sales, Dick's made the difficult decision to follow suit and formulate a plan to take over its own e-commerce operations by the year 2017. The company's rapidly increasing online sales gave Dick's both the incentive and the budget to undertake the transition. Edward Stack explained that the money the company was going to recoup from no longer paying transaction commissions to eBay would pay for the temporary increase in expenditure required to build and maintain an e-commerce infrastructure. Stack estimated that the company stood to immediately save between $20 and $25 million per year, and with a total expenditure relating to the switch of about $80 million, the move would pay for itself within four years.

Having total control of its e-commerce operations will allow Dick's to provide better support for unique omnichannel features, such as shipping online orders from physical Dick's stores. To that end, Dick's has also made plans to convert its stores into distribution centers as well as traditional retail showrooms. This will increase efficiency and improve delivery times, turning its perceived weakness of excessive bricks-and-mortar infrastructure into a strength. Approximately 80% of Dicks' e-commerce orders are shipped within the geographical area of a physical store. Dick's foresees its stores functioning not only as traditional retail showcases, but also as miniature distribution centers. In addition, customers can order online and pickup orders at local stores. Customizing its infrastructure and website capabilities to capitalize on this unusual arrangement was one of the reasons it wanted to reclaim operation of its e-commerce platform.

The process has three steps. In 2014, Dick's completed development of its e-commerce platform and began integrating its existing systems. In 2015, Dick's began moving two of its lesser brands, Field & Stream and Golf Galaxy, onto the platform, and continued development work on the e-commerce platform. In 2016 and 2017, the company plans to re-launch its flagship Dick's Sporting Goods site on the platform. Dick's has launched its smaller sites one at a time to ensure that there are no major issues with any aspects of the platform. Both went live without incident in 2015.

Dick's selected IBM Websphere Commerce Suite for its e-commerce technology stack because of its emphasis on omnichannel shopping and fulfillment capability. Core components of the stack also include Apache ServiceMix service-oriented architecture, Manhattan Associates Order Management System for supply chain management, JDA Software Group software for merchandising, allocation, and replenishment, Oracle PeopleSoft for human resource management, IBM hardware, and Cisco networking technology. Manhattan Associates runs Dick's four Pittsburgh distribution centers, and JDA Software Group data is directed into a data warehouse that allows Dick's to access real-time information from any area of their business.

Specific features of the new e-commerce platform that Dick's has prioritized include the ability to buy online and pick up items at a store, the ability to ship from or to a store, and its associate ordering system. The platform also features the ability to break down and test different pricing and marketing approaches by region, an improved search function, and better analytics capabilities. Dick's has found that e-commerce sales double in regions where it opens new stores, and that multichannel customers spend three times as much as single-channel customers. That's why Dick's has focused so much on integrating physical and virtual sales and omnichannel features. Bringing all of its e-commerce infrastructure in house also allows the company better control over development cycles and speeds up its testing and implementation time frames.

The process wasn't without risk. Installing a completely new e-commerce platform is no easy task. It involves integrating legacy systems and new systems without losing access to information, hiring a slew of new employees to manage the system, and avoiding implementation delays, cost overruns, outages, and other delays. Shifting much of its focus to the lower-margin online channel with extremely experienced competitors like Amazon lurking is also a challenge. Other competitors of Dick's have struggled to adapt to the omnichannel challenge. For example, Sports Authority finalized plans to close all of its remaining stores after it went bankrupt and could not find a buyer in 2016. Many retailers have found that their e-commerce growth has not been sufficient to offset their struggling bricks-and-mortar segment of their businesses.

SOURCES: "Why Dick's Sporting Goods Decided to Play Its Own Game in E-commerce," by Larry Dignan, Techrepublic.com, April 21, 2016; "Dick's Sporting Goods Touts Omnichannel Success and New Store Growth," by Mike Troy, Chainstoreage.com, March 8, 2016; "E-commerce Wins Q4 for Dick's Sporting Goods," by Don Davis, Internetretailer.com, March 8, 2016; "Dick's Sporting Goods Posts Nearly 18% Growth in Q3 Web Sales," Don Davis, by Internetretailer.com, November 18, 2015; "Dick's Sporting Goods Opens a New Online Store," by Matt Lindner, Internetretailer.com, November 12, 2015; "Dick's Sporting Goods Could Get a Boost From E-Commerce," by Chris Laudani, Thestreet.com, September 30, 2015; "Dick's Sporting Goods Scores a 24.4% Gain in Q2 E-commerce Sales," by Don Davis, Internetretailer.com, August 18,

However, in 2016, Dick's has continued its strong e-commerce growth, which it believes will allow it to avoid a similar fate. Dick's hopes to increase its e-commerce revenue to $1.2 billion by 2017, or approximately double what it was before ending its arrangement with eBay. Dick's also hopes to continue building physical stores. At the end of 2015, Dick's had 644 stores in 47 states, as well as 73 Golf Galaxy stores and 19 Field & Stream stores. However, the company believes that if its physical stores continue to drive online sales, it can reach as many as 1,100 stores in the United States. In 2016, Dick's opened approximately 40 new stores and relocated several more. The company hopes that its revamped e-commerce platform and emphasis on omnichannel retailing will continue to drive both physical and online growth.

2015; "Toys 'R' Us Makes a Big E-commerce Play," by Don Davis, Internetretailer.com, July 9, 2015; "Dick's Sporting Goods Aims to Control Its E-commerce Destiny," by Larry Dignan, Zdnet.com, May 21, 2015; "Dick's Sporting Goods Plans to Double E-commerce Revenue by 2017," by Matt Lindner, Internetretailer.com, April 15, 2015; "A Slam-Dunk Year Online for Dick's Sporting Goods," by Don Davis, Internetretailer.com, March 3, 2015.

Case Study Questions

1. Why did Dick's decide to leave eBay and take over its own e-commerce operations?
2. What is Dick's omnichannel strategy?
3. What are the three steps in Dick's migration to its new website?
4. What are the primary benefits of Dick's new system?

4.8 REVIEW

KEY CONCEPTS

- **Understand the questions you must ask and answer, and the steps you should take, in developing an e-commerce presence.**

- Questions you must ask and answer when developing an e-commerce presence include:
  - What is your vision and how do you hope to accomplish it?
  - What is your business and revenue model?
  - Who and where is the target audience?
  - What are the characteristics of the marketplace?
  - Where is the content coming from?
  - Conduct a SWOT analysis.
  - Develop an e-commerce presence map.
  - Develop a timeline.
  - Develop a detailed budget.

- **Explain the process that should be followed in building an e-commerce presence.**

- Factors you must consider when building an e-commerce site include hardware, software, telecommunications capacity, website and mobile platform design, human resources, and organizational capabilities.
- The systems development life cycle (a methodology for understanding the business objectives of a system and designing an appropriate solution) for building an e-commerce website involves five major steps:
  - Identify the specific business objectives for the site, and then develop a list of system functionalities and information requirements.