

An Online Shopping Club, Beyond the Rack Enterprises Inc. Provides Customers with Convenient Access to Authentic Designer Merchandise at Discounted Prices and Gives Brands the Opportunity to Dispose of Excess Inventory

**Consumer Services / Retail
Private Shopping Club**

**Beyond the Rack Enterprises Inc.
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**Yona Shtern
CEO**

BIO:

Yona Shtern is the co-founder of Beyond the Rack Inc. and has been its Chief Executive Officer since September 2008. Prior to this, Mr. Shtern served as Chief Marketing Officer at Ice.com from July 2007 to September 2008, Chief Executive Officer of Gosh Marketing from April 2002 to June 2007 and Chief Marketing Officer at My Virtual Model from 2002 to 2003. He was employed as Vice President of Marketing at Fido from 1999 to

2002, Vice President Direct and Database Marketing at Saks Fifth Avenue from 1997 to 1999 and Director, Direct Marketing at Avon Products from 1989 to 1997. He is a frequent speaker at international marketing and technology forums and has received numerous awards for his advertising, product launch, and marketing strategies. He holds a BA in English Literature from McGill University and lives in Montreal with his wife and five children.

About

Beyond the Rack Enterprises:

Beyond the Rack is a private shopping club for women and men who want designer brand apparel and accessories at prices up to 80% off retail. We obtain authentic designer merchandise and provide it exclusively to our members through limited-time events. Each event starts at a specific time and typically lasts only 48 hours. After each event ends the merchandise is no longer available. Members are notified by email in advance of each upcoming event according to their preferences.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine**

CEOCFO: Mr. Shtern, what is the concept for Beyond the Rack Enterprises?

Mr. Shtern: Beyond the Rack is an online shopping club or an ecommerce company. Effectively, we are a marketplace where we offer brands the opportunity to dispose of their excess inventory in a manner where they can maximize their return

on their inventory investment. For consumers, it provides them convenient access to merchandise at a significant discount. It is kind of like bringing a sample sale into the consumer's home.

CEOCFO: What is the competitive landscape?

Mr. Shtern: There are a number of different competitors in the online space, and there are some extremely well established competitors in the brick and mortar retail space. The notable ones in the traditional retail space might be T.J. Maxx, Ross Stores, or Burlington Coat Factory. In the online space, the interesting thing is that the vast majority of the competitors, particularly in North America, have decided to focus on the luxury goods part of the marketplace. In the part of the market where we operate, which is the mid-market, there is not all that much direct competition although as I mentioned, there are other players that are leveraging a similar business model albeit aimed at a more affluent or luxury consumer.

CEOCFO: How do consumers find Beyond the Rack?

Mr. Shtern: We have managed to attract close to ten million consumer members, and it is split fairly evenly between Canada and the United States. We find that the primary channel is through other members. Word of mouth and viral networking is a very important tool for us. We try to provide many social or viral tools to our members so that they can invite their friends to become members. It seems that the most efficient way to

find good quality members is to allow our members to become brand advocates.

CEOCFO: Are you selective about the merchandise that you advertise?

Mr. Shtern: In our vernacular, that is called curating and merchandising. We certainly do and we have discovered that the more tailored an assortment can be to an individual customer's taste, the more responsive the customer will be. We do it in two ways. First, the merchants will look for patterns and will try to curate the assortment based on previous patterns of success. If we have been successful with a specific category or brand or price point, they will tailor the assortment accordingly. In addition to that, we have developed some internal algorithms that learn about individual customer's specific profiles. We will tailor our daily e-mails or our merchandising calendar specifically to an individual customer based on a variety of different factors, including what they have looked at before, what they may have added to their cart previously, or what they have bought previously. Personalization is a major factor.

CEOCFO: Do you have to actually buy the merchandise or is your system similar to a consignment model?

Mr. Shtern: The latter, although there are some notable exceptions. About 80% of the product that we sell I would consider consignment because we purchase the goods from our brand partners after the consumers have committed to buying those goods. From that perspective, it is a non-inventory model. The non-inventory model is rather efficient and it is effective in making working capital, because we are buying the goods after we have received the order. There are some notable exceptions like certain branded products that require pre-buys or certain categories of merchandise where we have had considerable amounts of previous success. If it is a large brand and there may be limited stock available in the marketplace, we

might on those occasions step in and make a purchase. That is the exception rather than the rule. A vast majority of our business and working relationships with brands are of the consignment nature. It actually works to everyone's advantage because it means we get a better price. We do not take on inventory that we ultimately need to liquidate. It protects the brand's pricing and pricing structure. It also allows us by and large to show a broader assortment of the brand's product, and the brand can allow the consumer to decide what should move rather than have an intermediary make a snap judgment.

CEOCFO: Do you look for a particular mix at any given time between the fashion, home décor, and beauty or is it what is available?

Mr. Shtern: There is a seasonal component to it as there would be in any other retail. You will see certain

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- Yona Shtern

categories perform better at certain times of the year. A good example might be swimwear, which will sell better in the early spring or summer than it will in the fall. Jewelry is also probably going to sell much better at Christmas time. We are certainly attuned to those types of things. The nice thing about the home business is that it is more of an evergreen product and that certainly lends itself to being exposed with greater frequency than other categories.

CEOCFO: Where do you see the trends? Is it what part of the country they are in or is it more age groups that make a difference?

Mr. Shtern: When we look at our customers, they seem to fall in two broad products and this is consistent in both geographies of Canada and the United States. We seem to do exceedingly well with women, but we deal with two major buckets of women; Aged 25-30 or 35 who might be either unmarried, newly married, or

professionals that have quite a bit of disposable income to spend on themselves. This would also be the demographic that might be going out quite a bit and likes to travel. The second bucket is their mothers. We kind of mix the entire group in the middle, so we are working for the kids. We do well with younger and we do well with older. The people raising families are not necessarily our greatest fans. The funny thing is that if you believe the averages you would pick somebody who is 35, which is not our customer at all. You have to look at clustering your data and not the averages. Somebody once said, “My average body temperature is perfect, but my head is on fire and my feet are frozen.”

CEOCFO: Do you do the fulfillment on the merchandise?

Mr. Shtern: Yes, we do it all ourselves. When we built the company, we came to the conclusion that longer-term we would have to be an integrated service provider either to ourselves or other people. The only way that we could scale this business effectively is if we did everything ourselves, including the customer service, technology, marketing, event production, and fulfillment. We have an 180,000 square foot facility in Montreal that handles the east coast of the US and Canada and we have an 80,000 square foot facility in Las Vegas that handles the west coast of the US and the western part of Canada.

CEOCFO: What is the key to having it run all smoothly?

Mr. Shtern: Our company has grown significantly over the last four years and one of the things we have learned is ensuring that your logistics and operations scale alongside your demand. The biggest truth I could tell you that we have discovered and that was our going-in assumption is that this is a loyalty business. 80% of our revenue comes from repeat customers, so if we are not attuned to their needs and consistently meeting their satisfaction threshold, we are not going to be successful. The cost of ac-

quiring a new member or customer as evidenced by the failure of Ecommerce 1.0 is expensive. You cannot keep paying somebody else for your daily traffic. You need to build a sustainable, predictable flow of repeat orders from the same people. You could do it by holding their feet to the fire with a contract as they do in the wireless or cable business or you could do it the way we do by achieving customer satisfaction levels on every transaction and ensuring that they come back every time. The number one thing that customers are looking for outside of price value (which is established from the website, the quality of the merchandise, and the product offer) is a successful experience post transaction. Did the product arrive in a timely manner? Did it look the way they expected it to? If they need to return it on the odd chance that it does not fit, how does that happen? What was the returns process like? Is there adequate after sales service and access to customer service? That is where the lion's share of the investment in the organization comes and that is where you make it or break it with consumers. Getting trialed is not all that challenging but the big challenge is holding on to your most loyal customers and holding a sustainable base. Scaling operations and logistics has been both our biggest challenge and our biggest focus.

CEOCFO: How do you ensure good customer service?

Mr. Shtern: You have to listen to your customers. If you are just reading spreadsheets, so much is going to get lost in translation. All of our executives personally spend time in the call center on a regular basis. We probably receive 300-400 customer transactional surveys per day. I read every single one every day. There is no other way to stay in touch. If this was a traditional retailer it would be a conversation on the floor, a cash wrap, or being in the customer service area. There is no other way to stay in tune with your consumer.

CEOCFO: What have you discovered that you might not have realized without paying such attention?

Mr. Shtern: Major trend lines- what people are delighted by and what people are consistently frustrated by. Whenever you can perceive a trend and it does not take very long to perceive a trend- what we will typically do is try to translate that trend into a measureable KPI that the organization can focus on. For example, if returns processing is taking too long and we get too many "where is my order"s from people living in the same geographical area, we start asking what is wrong with our logistics going into that certain region or that postal code. Why are all of these glasses arriving broken? It was a great job selling them and photographing them, but perhaps the vendor did not pack

them properly or we did not pack them properly. With those types of things you can often identify major trends before they show up on the sales line and then you find yourself looking for the needle in the haystack.

CEOCFO: How is business these days?

Mr. Shtern: It is good. We are up about 30% year over year so we are delighted and we think that we have not seen the best days yet. We are very bullish on the market opportunity.

CEOCFO: Why should people in the business and investment community pay attention to Beyond the Rack Enterprises?

Mr. Shtern: I think that we are leveraging a market opportunity that did not exist before. If we look at our primary trading market, which is Canada, it represents the lion's share of our revenue. After Amazon and eBay, we are the largest direct to consumer company servicing this market. I think that if you look at the emergence of ecommerce in other developed markets, particularly the United States, there is a lot of growth and there is a lot of opportunity that presents itself to the market leader. In the United States, that would be Amazon. We have similar aspirations in the Canadian marketplace and we think that we can build the dominant ecommerce platform in this country.



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