

RetailNext CEO Alexei Agratchev on using data to drive in-store sales

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Alexei Agratchev was working on a video security system to help casinos catch criminals, as part of an internal startup at Cisco Systems, when an idea popped into his head.

He wanted to apply the same concept - extracting data from technology such as video cameras - to help retailers better serve their customers and drive sales in stores.

"If you look at Amazon, Macy's.com or any e-commerce site, they have so much data and they use analytics to constantly improve the way they run their websites," he said. "Then you walk through the front door of Nordstrom or Victoria's Secret and nobody has any idea what happens."

In 2007, after spending more than seven years at Cisco, Agratchev left the company to co-found RetailNext, a San Jose tech firm that collects, analyzes and packages data about shoppers, including the time they spend at a store and whether they're a new or returning customer. The company, which has about 190 employees, recently announced \$125 million in funding and some of their biggest clients include Bloomingdale's, Brookstone, American Apparel and Pepsico.

Agratchev, 38, sat down with the San Jose Mercury News to chat about how the firm has been using data to drive in-store sales, startup life and spending holidays as a teenager with former Disney CEO Michael Eisner. This interview has been edited for clarity and length.

Q: Describe the idea behind RetailNext. How does it work?

A: The idea was to take the kind of analytics you see for e-commerce and bring it to brick-and-mortar stores. Our whole goal is to use the best technologies available, and as new ones evolve, to help retailers measure and improve their in-store experience. Our general thesis from the very beginning was that physical retail is not going to disappear. You're not going to buy everything online because there's an experience inside a retail store that you can never replicate online and people like it for different reasons. Sometimes for convenience or because they just want help and a social experience. But if you're a physical store today you cannot compete just on product availability and price. If you're only differentiator is you have better selection at a better price, chances are someone can do it better online. So you have to compete based on your experience. If you compete based on your experience, you need tools to help measure that.

Q: Where does the data come from?

A: Through video today, we can tell certainly how many people walk into the store. We automatically can tell you what percentage are male, female and the approximate age. We can tell where people go. A hundred people walked past a particular display with particular merchandise. Out of those hundred, 20 stopped, on average for 15 seconds, and then we correlate it to the purchases for that merchandise. Through other technology like getting aggregate data through people's cell phones you can tell if they're repeat visitors. You can tell if the same phone has been in the store before so you can tell how many people were new or repeat visitors and how much time people spend in the store.

Q: Nowadays, people expect that information is being gathered about you everywhere you go and every time you turn on your phone or even when you walk into a store. But there's also been a lot of privacy

concerns that have come up. How has your company responded to those concerns?

A: For a while, almost all the data we collected was completely aggregated and anonymous. There was no way to tie it to a customer and it was really like an automated customer satisfaction survey. Then there are people who are opting in. If you walk into a store and you open your phone and it gives you information based on everything it knows about you that's relevant and helpful, people are more willing to share more data about themselves. To me, in-store analytics is not about tracking people, it's about helping retailers respond to customers.

Q: You came to the United States from Russia when you were a teenager after receiving a scholarship to attend Middlesex, a boarding school in Massachusetts. Former Disney CEO Michael Eisner then stepped up to become your legal guardian. Did you learn anything from him?

A: I had no other relatives in the country so I needed a legal guardian. Michael Eisner was on a three-day business trip to Russia and my dad was an interpreter there and he volunteered to be my legal guardian so I spent my Thanksgivings with him and got to know their family well. I was very impressed by how curious he was. I was a 15-year-old kid and we would go on a walk and he would ask me a ton of questions about what it was like growing up in Russia and under the Soviet Union. I have a very fond and grateful memory of him helping me out during those years. But that period when I was away from home in boarding school, all in all, was a huge learning experience.

Q: Do you remember who your first customer was?

A: Getting your first customer is one of the hardest things, especially in a place like retail where they're generally not early adopters, not risk takers and everybody is asking you for references. The CIO at the time

of American Apparel asked who else was using it, and we said you are going to be our very first customer, but that means we literally can't afford to let you down. If we let you down, the company pretty much folds so we're going to do everything possible to make you successful. We were doing our initial sales in 2008 and 2009 when most retailers were closing stores, missing numbers and cutting budgets. To me, it made us a much better company because you can't go to somebody and say we have this cool technology do you want to try it? You had literally had to convince them that this is going to be existential for you. If you don't put it in, you're in trouble and here's why you can't afford not to do it.

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Alexei Agratchev

Birthdate: Sept. 9, 1977

Birthplace: Moscow, Russia

Position: CEO and co-founder, RetailNext

Previous Jobs: Consultant, Accenture; General Manager, Cisco Systems Emerging Technologies Group

Education: Bachelor's in international relations from Claremont McKenna College

Family: Wife Mary, children Pavel and Stella

Residence: Saratoga, Calif.

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5 Facts about Alexei Agratchev

1. His father acted as translator for a Ronald Reagan and Mikhail Gorbachev summit meeting.
2. He was kicked out of first grade in Russia and forced to transfer schools due to his early anti-communist tendencies.
3. He tended bar for four years during college, bettering his storytelling abilities each and every year.
4. His first job was making and selling pizzas while as a high school student in Massachusetts.
5. He adheres to a regular fitness schedule both at home and on his frequent business trips.

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