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## Podcast Episode #34 – How next-generation retail looks like, with Vibhu Norby of b8ta, USA

### RAW TRANSCRIPT OF INTERVIEW

**Balint:** I'm thrilled to have Vibhu Norby of b8ta on the podcast. Thanks for joining and welcome.

**Vibhu:** Thanks, it's a pleasure.

**Balint:** I feel lucky that I have nice podcast guests. One of them is Benjamin Ertl of Retailbound from Episode 20 who helped us connect. I've had some retail related startups on the show but still yours is quite different as you already have some significant traction, to my understanding, and you have a novel business idea, business model. So I can't wait to hear more from you.

**Vibhu:** Can't wait to tell you about it. Shall we start?

**Balint:** Yeah. Vibhu, the traditional retail business is dying, as I can see it, as brick-and-mortar stores are closing down, for example, J.C. Penney, Macy's, Sears or even RadioShack electronic store, so people often cite as one reason for this closing, for this trend, that more and more customers shop online and also that millennials want typically customized products, so not mass produced products. How do you see this trend and how do you think you can reverse this trend and go against this, at least with your store model?

**Vibhu:** Yeah. I think that's a good question. So why do you think that people are shopping online? I think that thesis has been that shopping online is more convenient, that you have better pricing, more selection. I do think those things can be true but are contrary and I guess thesis about why brick-and-mortar is hurting right now actually doesn't start with the customer, it starts with the brands. And from my time working at Nest's which made the Nestorian thermostat and certainly in the last two and a half years working with hundreds of hardware companies, I've actually found that the difficulties that brands have introducing their product inside of stores, both from getting in but more importantly selling through has actually really caused stores to be full of uninteresting and sort of boring product selection.

I think the reason that we sort of built this software platform and store combination at b8ta was we wanted to fix the business model of retail that sort of keep small star-



tups out but we also believe that the best brands will build the best customer experiences and maybe that will attract shoppers back into stores.

So I'm sure you have talked many, many times about the challenges of getting to stores but everything from the timing from our first call with a buyer to being deployed in a store might take two years to the ridiculous marginal structures that big-box retailers leverage out of small companies to the fact that like when you're small and nobody knows you, they put you in a box on the bottom shelf and they don't train their employees on your product, it just doesn't work.

And if you're a customer today and you come into a store and you don't see anything that you like and the products that you do see aren't displayed in a way that's compelling, why would you come back? And so, we think that we can reverse the trend by helping companies reach brick-and-mortar stores again and allowing them to build experiences that they want to build and maybe that will bring the customers back too.

**Balint:** It's great. I like the concept as you explained it. You touched on many different aspects and I would love to come back to these topics a bit later. However, now going back to the beginnings, the beginnings of your company, you alluded to it very short to your time when you were with Nest, and so we can better understand the evolution of the idea of your company, how did your experience at Nest specifically... How does it relate with this initiative, with b8ta, and how did the experience there prepare for you for this step? So, experience and the step and also the motivation beyond perhaps these that you described.

**Vibhu:** Sure. So, I've been a software engineer for a long time and I've always loved building things, creating things. Nest was the first time that I had a chance to work on a physical product though. And when I was there, I got a chance to learn about all the challenges of bringing a physical product to market and it's totally unlike building software. I mean, I think in the last couple of years it's gotten easier and certainly many, many hardware companies that I know think about themselves, as this is actually from Ben Einstein at Bolt, but they think of themselves as software companies wrapped in plastic. But the reality is that the real challenge of hardware lay on the marketing and distribution side. It's just fundamentally different from building an app and uploading the binary to the App Store or deploying website.

And the way I learned about this was... I was working on a project for one of the customer service teams and I was browsing Salesforce, the Salesforce instance that we had at the company, and I noticed that there is this sort of inbox of requests of people retailers e-mailing salesatnest.com asking to buy inventory from Nest to put into their retail stores. And all of them were unread. I mean literally hundreds of messages just sitting in Salesforce not being read with people asking to buy the product from us. And I was like, "Wow, that seems like a problem, like someone should be responding



to these people. They want to give us money.” And so I put together this product plan to sort of build a portal for retailers where they could onboard themselves, these are small retailers, people who have one, two, three shops but also some larger ones. But basically I had the idea of building a portal to onboard these retailers, let them buy inventory, let them train on the product and be able to carry Nest. And I presented the product plan to the retail team at the company, including the head of retail - Phil Raub, and they rejected it outright. They were like, “This is like... We're not going to sell our inventory to all these people.” I was like, “Why? Like you have like there's tens of millions of dollars just sitting here for free that all of us could have. Like, this sounds... This is amazing. What are you talking about?”

And he proceeded to tell me that it's not so simple retail the way that I understand it. Retail isn't about distribution. It's about awareness, about building the brand. And I was like, “OK, well tell me more.” He said, “Well, the thing is if you just put your product on the shelf, people actually don't buy it. Like that's not how people buy products. You have to introduce the product to them. You have to create an emotional attachment. And so, the challenge is never selling in, it's always selling through.” And that's why they spend so much time when building encaps, building these beautiful displays that have the product out a box that you could try it, you could turn the wheel, and they would never just put their product on a shelf somewhere, it just doesn't work.

And the data sort of proves that out, too. Because if you look at when people buy online, if you ask them the question, “How did you find out about this product?” so many people find out about the products through stores. And we specifically built a strategy around using stores to generate awareness. And I don't know, as an engineer it hadn't occurred to me, I just have this logical sort of brain, stores are distribution centers, you put the thing on the shelf, someone walks in and they pick it up and they leave. But that really changed my worldview. I started learning more and more about retail and trying to figure out like okay, well, what are the dynamics that drive industry, how does supply chain work, how does training in these stores work, how do these stores pick products?

And I just learned that the whole thing was just totally broken and it wasn't set up to match the view that we had as a brand. We had this view of using the store to generate awareness but the retailer only makes money when they sell you the product. And so, it just leads to this conflict of interest that never goes away between brands and retailers. And I thought that software could actually fix the issue here. Because the way that retailers and brands work together today is essentially through purchase orders. You have a retailer, buyer, retail buyer makes a decision about a product they want to bring in, they cut a purchase order, they send it over to the brand, the brand gets it made, and that just seemed wrong. It seemed like the brand should be re-



sponsible for selling the product and the retailer should be providing the services to the brands to help customers actually engage and learn more about it.

So I ended up leaving Nest with this idea of building a software platform that would sort of solve retail conflict. And I brought Phil. They had a retail from Nest with me and one of the customer service leads from Nest as well to start b8ta, essentially to change retail from a sort of distribution model to an experience model and build all the software in the business model and the data collection and everything that would be needed to make that transition.

**Balint:** Pretty interesting. So at the beginning, as you said it, you got rejected but in the end your colleagues got convinced. And if I got it right, they come with you, right?

**Vibhu:** Yeah. One of them came with us. Yeah. The guy that ran retail but I... He taught me everything I know about retail. I mean, I was so interested at that moment and I didn't know him actually, I literally just put the calendar, the invite on his calendar to see what would happen. And yeah, now we're here. Now we're cofounders and we're building this company together. It's great.

**Balint:** It's really interesting this journey that you went through. If I may summarize very, very briefly, so you were with Nest and you saw how actually the retail works, the supply chain and that it's not efficient because they were just selling it but actually according to you the retail should be educating their customers and they should create an experience. And this was not reflected, right? And then, you wanted to basically realize this, to implement it and this is how the idea was born.

**Vibhu:** Yeah. I mean that's... Hey, not every company is born of like one single moment. I would say like that was a big part of it and then also just as a customer as I got interested on the business side I kept going into more stores trying to figure out like what exists out there what options are there for brands and there was really nothing outside of Apple store and Best Buy that were interesting for hardware companies in particular.

But I also noticed that anyone who's like browsing the Internet today is constantly seeing all these amazing innovations that people are making. And just none of those things were in the stores. So I think it was like this combination of feeling this business problem and getting this interesting sort of perspective about how brands use retail and then also noticing that the best products were missing from the store that made me think that we had to replace the old model versus sort of trying to build something that just fixed it. And that's a unique way to build a company. I think a lot of people don't think about replacing, they think about how to build something that we can sell into somebody else and then use as a solution. We love the idea of changing



the whole system and the way it works and it's harder, it's a harder way to build a company but it's super rewarding.

**Balint:** Regarding your business model, which is new as you explained it, in retail business, how did you validate this idea and also like at what point, so was it before seed funding or after seed funding?

**Vibhu:** Yeah. So the first person I pitched was Phil at Nest. And so, I knew I had at least one major customer who this problem that we're solving resonate with. But before I officially started the company I went and talked to, I don't know, 50 or 60 companies who were building hardware products at all different stages of their life. And I asked them about, "Hey if we build these new types of stores that reported tons of interesting data about how customers experience your product in the store, if we put your product out of the box, let people demo it, if we staff it with experts and if we let you keep 100 percent of the sales but we charge you a subscription fee to be in there, would you participate?" And honestly, everyone said "yes," everyone was like, "Yeah, like I would. That sounds great."

What's funny is that out of those like 50 or 60 companies that I talked to early on probably five of them actually ended up signing up when we launched the store so when we actually started building the physical store we had to go on and find a bunch of new companies to bring in but the speed of the hardware universe today is pretty, pretty insane. You have many, many companies who never shipped their product, who have promised it to their customers, you have lots of other companies as well who do ship their product but they start focusing on Amazon and they just focus on their online sales and they're not ready for brick-and-mortar. But it was super important. You can't start something if you don't go and talk to at least 10 customers and ask them whether your solution makes sense. What I didn't do is get and I probably should have, I didn't ask them to pay and maybe that would have been a fix but in my case it worked out.

**Balint:** Basically, you pre-sold it but not completely, as you said it, because you didn't get this let's say a letter of intent signed at least.

**Vibhu:** Yeah.

**Balint:** Alright. So this is one mistake that we identified. Later on I would like to ask more about the mistakes because I think mistakes are like learning milestones, I call them, they are great because we can learn from them.

And regarding competition, I've heard about that a couple of companies that might be doing something similar like Bulletin from New York, they are in Soho, in Williamsburg, our neighborhoods, or Kolony and I actually visited one store in Hong Kong last



year Backerstores and I did even an interview with one of their founders, in Episode 13-14 and none of these have a conventional retail store. How do you differentiate yourself from competitors and do you think these examples are actually competitors who are competing for the same customer or they have a similar business model?

**Vibhu:** Yeah. So, in the U.S. at least there are three or four million retail stores. It's hard to build a business in retail that doesn't have competition. There's just there's so many places in the country to build, there's so many places in the world to build stores. I never worry about that. I do think that we have a lot of differentiation from traditional retail but also some of the newer entrants. We're entirely focused as a company on software and our stores are amazing but what really drives them is the fact that we really help brands and hardware companies understand how people shop in the store. And we have a fine understanding, expertise around how to help companies make changes and fixes to their store displays and to their merchandising approach and their price point.

We also spend a tremendous amount of effort on helping companies attribute and measure attribution that happens outside of the store itself. And that's a software problem. But, essentially, how do you answer the question what happens when someone sees my product in the store, it's the demo of my product in the store but doesn't buy it right now? We're really good at helping companies answer that question and I think we also have a stable here of experts in our company from hardware, from Apple, Samsung, Nest obviously, Nintendo, you name it, who just really understand our customer set and have a desire and interest in helping them scale massively. We're not looking to be incremental, we're not looking to open one or two stores. We really see ourselves as being the way that companies will go to market in the future, especially in hardware.

The other companies you mentioned, I mean, I don't know if they're selling consumer hardware today, I'm sure they will at some point. Again, for us like if our brands are successful and regardless whether they're with b8ta or with other stores, that's good for us. We want them to be successful, and period. So we're happy. We'd love to see more models like this. I think there's not enough, there's not enough companies thinking about physical source today and would welcome more.

**Balint:** You mentioned three, four million retail stores. That's a huge number. And your presence is less, of course, much less.

**Vibhu:** Yeah. Seven.

**Balint:** Which is great because you have a huge potential for growth because actually retail is still huge and is dominating the market versus e-commerce, which is still marginal.





At the beginning of the interview you mentioned that you have one part, one aspect of the business model is that a big portion of the profit goes back to the makers, to the company making the products. And I guess it's even hundred percent, to my understanding. Maybe you can correct me there.

**Vibhu:** No, you're right.

**Balint:** Yeah? Alright. That's excellent. And because this is what you wanted to change. You mentioned it that the margins and you mention the retailer are not favorable for the companies creating the products. But actually my main question is from one of the listeners who wanted to ask how does the profit go back to the maker - is it before or after selling the product?

**Vibhu:** Yes, so we don't purchase products from makers. The makers themselves control the inventory allocation in our store. So they're welcome to place as many units as they like wherever they would like. And most of our companies choose to keep inventory with us. We do have some companies who just want us to demo their product but in the case where we have inventory in the store we have a point of sale and when a customer is interested, we'll check the customer out and we'll send a check to the maker for the full retail purchase price. We even cover the credit card fees. We're super radical like that. It is actually cheaper to sell a product from our store than it is on your own store, for that reason.

**Balint:** That's nice. Nice, very nice. And the big-box retailers, there are a couple of them in the US, like Best Buy, they place the hardware products onto the shelves and it takes some time, it's a pain from the hardware startups' point of view that it can take six to eight months to get into the retail to basically land the product onto the shelves. And how long does it take for you this? Is it faster?

**Vibhu:** Yeah. Six to eight months is pretty good. Lots of times it takes longer. And also you have to time it right because they have these refresh periods where if you miss the, it might be October day, then you got to wait for the next year. And it's so hard to time when you're a small company, like when your product's ready to ship and when you have inventory available.

For us, we introduce products every month on the first day of the month. Typically, launching 10, 15, 20 brands a month. And the only requirement is that you sign up within two weeks of that day. So I would say two weeks is the sort of the minimum threshold. We have brought products to market in a couple of days. But that's not really... We want to make sure that companies get it right and have time to think about their merchandising and demo experience.



But, yeah, if I could, I would love to make it instant. I think the vision for us is that when you need space, the moment you're ready, you should be able procure that space and deploy your product to the physical world with a couple of clicks in 15 minutes. So I think that's where we're headed. It's tremendously difficult to actually do that in real life because products take time just in transit, for example, between our DC and our stores. But yeah, one day I would love to make it as quickly as like two, three days. That would be fantastic.

**Balint:** It's already a huge improvement compared to the six to eight months. Yeah, I like it. You really try to differentiate yourself from the big-box retailers, for sure.

**Vibhu:** Our viewpoint is just that stores should be like servers. In today's day new age when you're deploying your software to the cloud you don't really think about how many boxes you're going to have to buy. You just think about like the capacity of traffic and people that you're going to need to handle and the physical layer to that sort of takes care of itself. And that's how we think stores should be too. You should not have to think about the fact that the stores have this physical layer aspect to them, like you should be able to say, "Look, I want 10000 or 100000 customers this month. These are the types of customers who I want to attract. Put my product in front of those folks." And that's where we're headed. We're somewhat of the way there but I love that analogy just because it's where retail needs to go but also many aspects of our business are sort of taking some paradigms from the Internet and how the Internet works and bringing them into the store.

**Balint:** I'll be on the lookout for you guys, for sure. You referred to the analytics that it's one of your strengths that you're looking at things from a software point of view, actually throughout the whole interview. And what kind of analytics do you look at specifically? Can you mention a few that are interesting?

**Vibhu:** Sure. So let me walk you through the process of like what are the details that make your brand either work or not work inside of a store. Because we sort of try to measure each point of that journey. At a first level, when a customer walks into the store, they have to see your product, they have to be able to find your product, right? So the first thing we measure using cameras and machine vision is do people find your product? Do they generate an impression? The second thing I want to know is has a customer not only discovered, like found your product, but have they actually engaged with it? Have they seen it? Have they played with it? So we call this a discovery and again we're using cameras, machine vision cameras for this. The next thing is okay, we'll know that customers engaged with it but have they asked for a demo? Have they gone to that magic moment that actually sells the product? Again, for Nest, it's the wheel turn, if you're electric skateboard, it's a demo ride, for Oculus Rift sometimes they have this rock climbing game, maybe it's putting your hand on





the rock wall where you just really understand the product and get it. So are people converting from discovering your product and getting hands on to actually getting a robust demo? And the last part of course is sales.

And I would say if I'm a hardware company today, the number one thing I should be tracking and measuring is your demo-to-sale conversion rate. What percentage of people who try your product end up buying it? This will tell you a lot about whether or not you're going to be able to scale and whether your product is going to be successful. Some of the best companies of the world have ratios of two to one. Every two demos they give, one person buys. I think in the worst stand it's very bad if you have 100 people demo your product but one of them buys it, there's something wrong, you need to fix it.

We bring intelligence and data to all of these questions and quickly can help a company figure out what thing do they need to tweak, whether it's placement in a store, whether it's visual look and feel whether, it's the digital content, whether it's a demo experience, whether it's the price point. We help companies figure all that stuff out, and once they do they can take those learnings to other retailers. But of course, they can continue to sell with us and for many of our companies we're the best sales partner in the world so they have no good reason to leave.

**Balint:** Anyway it would be good for the companies to leave because there are not so many retailers like you so who can keep on generating these elements, right?

**Vibhu:** There are zero retailers like this actually right now.

**Balint:** Yeah. Cool. So impression, discovery, demo and sales, the four stepping points for the customer when the customer enters the store and ends up buying the product.

**Vibhu:** Yes.

**Balint:** Yeah. And during the interview you mentioned mistakes, one mistake that you made. Are there any notable mistakes that people could avoid when building a start-up?

**Vibhu:** Yeah. It's really important to plan for success and not plan for failure. There's a word for this, which is optimism. But I think it's really important to imagine what your success state will be and work backwards from that point and build a plan to sort of get you to that point that you need to be. It doesn't need to be really far in the future, it doesn't need to be, "Hey, we're going to build the next Apple." Maybe it's, "We need to get to 3 million revenue and we're like let's break it down, like how do we get to 3 million revenue?" Okay. Well, we have a thousand dollar product so we need to sell 3000 of these. Okay, well, how do we sell 3000? Well, today we're selling one unit



day on our website. So that's 10 percent of that. Maybe we got on Amazon and we're selling another unit today. That's 20 percent. We need to figure out something. We need to add a new distribution partner or maybe we need to optimize... We need to double our sales on this channel. How do we do that?

I think planning is really important. We made... Just an example of this, like I actually I had no idea our first store was going to be when we opened in Palo Alto. And we didn't plan for success. We sort of opened the store and the store became really successful right away. And for the first six months of operating that thing we didn't have a professional retail staff. My co-founders and I were sort of managing the store. Our engineers were on the showroom floor trying to sell products and none of us were very good at that. And we let a lot of the software slip. We had a couple of partners, like we had people who were not getting emails back from us because we were full time just managing the traffic in the store. That was a real shame.

And actually these kind of things have rippling effects over time because time is so important, time is the number one thing you need to be like thoughtful about when you're building a company and we're still like running ahead of ourselves a little bit because we didn't plan ahead of time in the first six months. I share the empathy of a listener who would say, "Keep iterating, keep building and success will sort of come to you over time." I've seen enough examples where that's trying to be lucky. And I think we should build companies with more intention.

And again, believing that you're going to be successful on planning to be successful the outcome from that failure is no worse than the outcome of not planning for success and actually failing, they're both the same thing. And so, you should always imagine that you're going to be successful and figure out what things you are going to need to put in place to get there.

**Balint:** Thanks for these nuggets of wisdom. Also, mentioning some other mistake that at the beginning you had some issues but not fatal issues because you're opening up some more stores, besides the Palo Alto. The next one is San Francisco, right?

**Vibhu:** Yeah. We've opened Palo Alto, Santa Monica, Seattle and we just opened in Austin, Texas. We also have three smart home showrooms inside of Lowe's Home Improvement. And I think today we have announced San Francisco, which is launching very soon. But stay tuned, we have a lot more coming in as well. A lot more.

**Balint:** Very cool. Yeah. Vibhu, there would be one last round of four questions that I would ask. It's called the ultrafast round. This means it would be great if I could get short answers.



**Vibhu:** Have I been talking too long?

**Balint:** No, no, no, it's fine. It's very good. I like these answers so far.

**Vibhu:** Oh, I got it. Let's do it. Let's do it.

**Balint:** These are about different topics, not really relating to your startup life. So the first question, if you could go back in time, like in the movie *Back to the Future*, what notes would you give yourself?

**Vibhu:** The note I would say, "Vibhu, you're going to meet an amazing woman and in two years and she'll become your wife, and you should take care of her, and she'll support you in anything you do as long as you take care of her."

**Balint:** Nice one. I hope your wife is listening to podcast sometimes.

**Vibhu:** Now she is definitely, I'm sending this to her right now.

**Balint:** The second. If you had to name a book, one book, which one had the biggest impact on your career?

**Vibhu:** I wouldn't be in technology if I hadn't read a book called *Blue Nowhere*. It's a book I picked up in an airport when I was a teenager and it's about a hacker, and I just fell in love with the idea of things, writing subversive code and writing creating subversive systems that sort of tore down existing infrastructure. And it was all because of that book.

**Balint:** *Blue Nowhere*. I will note it down. I will put it up into the show notes so listeners can check it out.

The third. I'm amazed by habits. What kind of a habit do you have that helps you to reach your goals and to be simply more content? Do you have some routine morning, evening routine or some other routine during the day?

**Vibhu:** That's something that I wish I had more habits. I typically wake up at the same time around 7:30 AM, eating breakfast is a must every day. I think for me most importantly is I try to have dinner at home every night, again with the family, and that keeps me centered. And then, I think trying to shut down the phone at some point in the evening is incredibly important. But I definitely what habits do you have? Maybe I can learn from this.

**Balint:** I wake up also at a similar time but I do meditation. I started it about I would say two... I should have started it much, much earlier. I started like two months ago but now I am really committed since two months and every day I do it, the minimum



is five minutes but up to 20 - 25 minutes. I wish I could do it longer. That's one thing that helps me be centered very much.

**Vibhu:** Oh, that's great.

**Balint:** I love that. And of course doing sports, but I wish I had that also a bit more habits because they give you structure.

**Vibhu:** Nothing is more important to me than just sleeping on time and waking up on time. I mean, I don't know, my whole week is shifted if I don't do that even one day.

**Balint:** The last question. In your work if you had to pick one or two critical cultural differences, which ones you wish you knew before and how did you resolve that issue?

**Vibhu:** Cultural differences from another company or from between me and somebody else?

**Balint:** What I mean is a... It's a global world. We have different cultures, different nationalities, different customs. And have you encountered something which was surprising to you or which was a difficulty?

**Vibhu:** Yeah, I'm going to answer this question in a different way. I think there are cultural differences... I mean the USA is such a large country. I think there are cultural differences just between the coastal areas and different states, different areas of the country. And I think the Valley, Silicon Valley, is sometimes a little myopic. We don't consider how other people live and that other people might have different opinions and we don't value those. And so, and I think one of the predominant cultural differences that I see is that we think that something like a buy button on Twitter is a good idea but we don't understand how people buy at all, if we think that's going to work. And it's so easy to fix that, just leave California and go to a store in Houston, Texas or go a store in Virginia and talk to people. That's kind of a different answer to your question. But I think in the last year even I've noticed it much more that we're just missing how the how the other half lives sometimes, and it's unfortunate.

**Balint:** Which is important when you want to move to stores, as you said it, Texas, Seattle and so on. Okay. All right. So I very much enjoyed this interview, Vibhu. It's really amazing to learn from you after the interview I've had with Benjamin Ertl and also I had an interview with Jacob Rothman who was talking about similar things, manufacturing, consumer goods in China and what kind of issues he sees with what millennials want or you might want to check out that interview. So I very much appreciate it. Thanks for your time. And what is the best way for the listeners to reach you - social media, email?



**Vibhu:** Yeah, my email is [vibhu@b8ta.com](mailto:vibhu@b8ta.com) (V-I-B-H-U, the number 8–T-A.com). Feel free to email me.

**Balint:** All right. I'll put it to the notes and again, thanks. Thanks very much. Talk to you.

**Vibhu:** Yeah, thanks for having me.