J.C. WILLIAMS GROUP

THINKING Retail

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PROJECT YOURSELF INTO THE FUTURE: Taking a Brand to Multi-Channel

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Introduction

The move from where your Brand has been, where you are now, and where you want to go in the future starts with a clear understanding of your Brand Identity. If your Brand is not well defined and understood both internally and externally, you cannot extend it.

Without Brand Identity, you cannot move forward into the world of retail, you cannot project that identity successfully into multi-channel marketing and selling. To set up and tie together that complicated network of Internet, catalog, direct marketing, in-store kiosks, new bricks and mortar formats, or mobile commerce, cell phones, and PDAs, you need to know exactly who you are and project that clearly.

Brand, product, customer, or channel expansion is about finding a need and filling it better than the competition. It's about building brand extensions that help people lead a better life. It's doing more than simply adding a new URL or coming up with new mastheads, icons, or graphics. But the time has also passed when exuberant, indiscriminate expansion seemed all that was necessary. Today's market requires an intelligent, research-driven, strategic approach. It's time to think deep with facts, insights, and creativity.

Those who have made that transition are companies such as Tesco, Williams-Sonoma, Charles Schwab, Ikea, Disney, and Harley Davidson. They've all moved from a firm understanding of their Brand Identity to a successful multi-channel strategy.

Multi-Channelling

No great brand needs to be tied to or dependent on any one product, service, or channel; no one way of marketing or selling is needed to build the tangible and intangible worth of the enterprise.

Ralph Lauren is a portfolio of brands linked together in an organising structure called Brand Architecture. These brands are brought to market through a multi-channel strategy of stores, catalogs, Internet, in-store kiosks, direct mail, shops within stores, and on and on. They are marketed through a myriad of lifestyle magazine ads, TV, radio, publicity, and special events. And it's all supported by the powerful force of word of mouth.

Tesco the great UK food concept has gone from an 11% share of the food / grocery category to over 16% in eight years. Profits have risen by over 70% to over 100 million pounds. The multi-channel strategy that delivered these impressive results includes superstores, metro / city stores, hypermarkets; 24 hours of shopping service; students and mothers cards; targeted lifestyle magazines; and Tesco.com with Internet sales the largest in the world for online groceries.

There is no one way to build the multi-channel assets of brand. In August 2000, amazon.com and Toys 'R' Us announced a 10-year partnership to leverage each other's strengths into a new multi-channel powerhouse; Rite Aid and Drugstore.com have formed an offline / online partnership with real Brand leverage and symmetry; and Gateway has opened 200 retail stores to compliment its online business.

Other possible Brand extensions include licensing or franchising. Disney is the king of this approach. Harley Davidson makes more sales and profits from its logo wear and places than it does from its motorcycles. (See sidebar.)

Nonetheless, two basic models seem to offer the most success in accelerating the approach of multi-channel distribution: the Inside-Out model, and the Outside-In. The first pairs internal entrepreneurs within the company with top management as sponsors. The inside team then uses outside expertise and merchandise / service partners to explore new directions. The Outside-In model uses senior management as scouts to look for talent. These managers then build relationships with a group of independents and act as co-ordinators, channelling the outside expertise into the company.

"HARLEY-DAVIDSON MULTI-CHANNEL PORTFOLIO"

It starts with motorcycles in a wide variety of types from cruising models to sleek low-slung racers. Then it moves on into:

- Clothing and accessories;
- Harley-Davidson cafés in New York and Las Vegas;
- HOG – the Harley Owner Group and Rider's Edge official riding school;
- Its 8-acre park just for owners to ride in;
- American Rider magazine;
- Annual posse ride;
- New Harley Food Truck;
- Over 600 dealers;
- Product and brand off shoots, like American Iron Horse Motorcycles; and
- Its own Harley Website.

Envisioning Your Brand

You need to be able to clearly picture your brand and answer exactly what you see it giving your existing or prospective customers. How will you ensure the added value is both needed and wanted? How do you ensure you can deliver it with substance and style?

As you think about these important questions, also ponder some of the multi-channel pitfalls, like the fact that some core customers won't like change, that some of your employees won't like it either, that there could be turf battles at all levels of your company, and that conflict will likely arise. Be prepared for this to happen and figure out some strategies for dealing with it. Yet, always keep in mind that you can only prosper if you grow, and that means keeping up with your customers. The more your Brand can offer a multi-sensory experience, the stronger the relationship with customers. The unique benefits of multi-channel are centerd on its ability to appeal to all of the senses. The total experience of on- and off-line is greater than the individual sum of its parts.

The seamless merging of all aspects of your multi-channel vision has the great potential of having a customer experience your brand through more transactions and more frequently than single channel customers.

Richard Branson's vision for Virgin Group includes a global Internet site that brings all of its products and services – from cola to clothing, from cosmetics to wedding and financial services. It's not about just selling its own products:

THE CUSTOMER: THE DRIVING FORCE OF MULTI-CHANNEL

Changing Gears

- Less than 25% of North Americans are living in homes made up of a mother, father, and children.
- The rest of North America and increasingly around the world consists of single parent homes, non-traditional families, two income households, singles in the X, Y, and D generations, and the elderly.
- Customers' needs change during the day, night, and weekend: they are parents, workers, sports fans, caregivers, gardeners, and bird watchers; they work in offices or plants or at home; their shopping needs depend on their roles, moods, state of mind, and priorities; they are very ethnic diverse.
- The one thing they are not is one thing!

He wants to become an e-commerce portal like amazon.com. He will recommend the best product regardless of whose it is. He is not worried about www.virgin.com cannibalising his own brands. Instead, he's gutsy enough to offer what he thinks is the best.

Martha Stewart is another genius of multi-channelling. Since the publication of her 1982 book on entertaining, the Martha Stewart Brand has developed some two dozen additional books on etiquette and entertaining. The Martha Stewart Living magazine has a monthly circulation of over 2.5 million; her column "Ask Martha" is syndicated to more than 200 newspapers. Her TV show is on daily on over 200 TV stations and her radio feature "Ask Martha" runs on over 135 stations. Her Website records several thousand visits per week. Her "everyday" line of merchandise at Kmart is in well over $700 million in sales and was now moved on to Sears for greater support and growth. Her direct group is poised for catalog, e-commerce, and retail growth.

Liz Claiborne is another example of a Brand with a clear multi-channel vision. Claiborne has a clear target of baby boomers in a variety of Brand extensions: Liz Claiborne, Liz Wear, and Elizabeth, each with very defined customer segments. Plus she offers a seamless integration of services: if a customer finds a shirt in her local store, right style, but not right size, she can then go online, order the item she wants, have it delivered, and return it to the store if she doesn't like it!

Multi-channelling Tips

Start with trust – the trust your core customers have in your Brand. Only by leveraging what's real about your company, the relationship of trust you've established, can you bring your customers along in the multi-channelling trip. And keep it simple. Provide clear and complete information on the new channels. This will only increase that initial trust.

Once you put these basic guidelines in place, you are in a position to present to your customers and prospective customers an offer they can't refuse. Their natural inclination to resist change can be overcome by making a compelling and irresistible offer that entices customers to try out the new channel. The proof-point is in the doing!

Southwest Airlines is a great example of consistency of the Brand experience. Approximately 14% of people who visit their Web site purchase a ticket — twice the industry average. Why? Because it takes less than 10 clicks to complete a transaction. Fast, easy, good value. Just what the customer wants; just what Southwest's Brand identity is all about.

Be Consistent

The myriad ways to access products these days are overwhelming enough as it is. Don't confuse customers any more by giving them a confused brand vision. Keep it simple, yes, but also consistent.

This means the total Brand experience — from the customer entering the market to shopping, buying, and end use of the product — must be consistent in both substance and style. From the off-line interaction with the store windows, point of sale displays, staff contact, and selling to the online influences like search engines, Website content, and navigation tools to email, and transaction tools — plus the many "after sales" elements consistent to all channels such credit, post sale information, warranties, service detailing, and new product sales offers.

Consistency is about attention to detail. Email, for example, has the potential of being your most effective and cost-efficient relationship building tool. Or it can be your worst enemy. The indiscriminate use of junk mail or "spam" can do a great deal of harm. But email used to communicate information that people want, need and value can result in significant "click through" rates. Less than 10% of all email is professionally prepared, yet new software exists to enhance messages with personal data, security checks, visuals, and graphic devices. Customer information requests can be added to exponentially by online video, virtual walk through product / service tours, video conferencing, and online real time discussion. The availability of low cost, high-resolution screen displays has made possible the development of more advanced interface between the customer and your Website, as well as Brand experience enhancers and sensory systems to interact with sight, hearing, and touch.

Gucci and Marks & Spencer are in a joint venture with Internet specialists that will allow customers to "try on" clothes and sample make-up on screen. Shoppers will be able to create 3D models of themselves and scan in details of their facial features. They will be able to look at how clothes look on them from a variety of angles and use any standard Web browser to do so. Georgio Armani SDA has embraced a multi-product / multi-channel / multi-segment strategy with total consistency, control, and dedication to the "Armani way." Sales have risen in 2001 dramatically to over $1.12 billion US, and earnings totalled $246 million with net margins of 12% almost doubled core competitor LVHM. The net worth of the Armani Brand is $1.7 billion.

In 1999, after a series of false starts, the Williams-Sonoma e-commerce was launched and led by a new Vice President and a new team dedicated to building "Williams-Sonoma.com." In just 22 days, the Website brought in $1 million and another $2 million in the next 15 days. Between November and Christmas, it ran at an 8% conversion rate from traffic to transaction and over 30% of its customers were new. Over 40% were multi-channel buyers who had shopped in the store and their catalog, and now were shopping on the Internet. Their secret? Brand consistency, start small and build, dedicated teams for change, and change built on trust and customer relationships.

Contrast these success stories with "always under new management" Burger King. Seven new CEOs in 11 years. It now sells less food than it did five years ago and that's while its competitors are growing five times its rate. Five different themes over a 10-year period.

"We do it like you do."

"Sometimes you've got to break the rules."

"Your way; right way."

"Get your burger's worth."

"Got the urge."

With that kind of flip-flopping, it's no wonder customers have lost the urge!

The Pros

As you build a better understanding of various financial aspects of present and future scenarios, you can also take the opportunity to re-examine other implications of growth: culture change, human and physical space needs, technology, and logistics.

This means a research-driven and strategical approach to a multi-channel review. You need to look

NUMBERS THAT MATTER

- The numbers of homes with computers in the USA reached 56.6% in 2001
- The number of online users is over 50%
- 39% of Internet users have made a purchase
- 36% of all households use Internet to find information
- Total sales of e-commerce in USA was 36.2 billion in 2001

at your short and longer goals and evaluate your product and channel options, both the financial and non-financial Brand assets and future wealth of the Brand.

One of the added benefits of the multi-channel is the perspective it brings to your Brand culture. It's an opportunity to add multi-dimensional points of view to your ways of working and "diversity," which is stimulating to those who work for your company.

In the multi-channel world there is no one way to win: it's the brilliance of being both high tech and high touch, of being great at service and price. Charles Schwab, President, and CEO David Polluck in his book Clicks and Mortar talks about their culture as "change junkies" prepared to do whatever it takes to service the customer better! Wal-Mart, the world's largest company, is a model of brand leverage. Six years ago it sold no food, it is now American's biggest grocery retailer. It's same store sales growth is five times industry average. International division accounts for 17% of sales and 11% of profits and will grow to one-third of profits in five years. Total sales are $216 billion with market cap of over $252 billion.

WHY MARKETERS RESIST THE MULTI-CHANNEL STRATEGY

1. Unaware of the strength of their current brand relationship and Brand Identity.
2. Fear of negative impact on current business, in particular costs and profits.
3. Lack of willingness to invest current profits into future accelerated growth.
4. Lack of leadership and support from boards, senior management, and stakeholders.
5. Fear of being too far to pass in front in front of customer.
6. Internal management and staff issues re leadership and turf responsibilities.
7. Lack of resources, people, technology, and infrastructure.
8. Fear of the unknown.

The Cons

Multi-channel expansion: to do or not to do?

It's a question worth asking, because it is not for everyone. The costs of developing a multi-channel strategy may be too high for some companies. And, if it's done poorly, the potential brand damage from inconsistency of experiences, visual, and verbal messages can be devastating. The internal turf wars and possible misinterpretation of the strategy by different functions and outside resources are all potential pitfalls.

American Express in 1988 had a few brands and limited distribution and a 27% share of market. Today it has 15 brands and a wide distribution network and an 18% share. AT&T moved from a monopoly to a mess. Levi Strauss decided to stop selling on the Web and is working with major retailers to sell on their sites. Kodak, Sears, Holiday Inn, and their brand extension into a new channel with Holiday Express are all examples of problems.

From 1989 to 1999 the Gap Inc.'s annual return to shareholders was an average of 38%, better than Coke and Disney in this period, with sales of over $13 billion (US). Their portfolio of brands and channels expanded to include Gap, Gap Kids, Baby Gap, Gap Scent, Gap Body, and gap.com, along with aggressive expansion of Banana Republic and Old Navy. Their strategy was based on a belief it is better to cannibalise your own business than let your competitors do it. In the year 2000, they hit the wall and the jury is still out on their longer term success.

GM and their Oldsmobile brand went from over a million Olds sold in 1986 to less than 265,000 cars sold in year 2000. In spite of spending over $4 billion on product extension, increased advertising, and distribution, too little too late! The brand will be phased out and disappear.

A 2002 AC Neilson study USA indicated that 7% of retail shopping took place on the Internet and over the next five years, Internet shopping will grow to 20%. Currently less than 1% of US households order groceries online, although the practice is projected to reach to from 10 to 15% by 2007. By 2002 / 2003, 30% of all US adults will own Web enabled cell phones; 10% of the world's population will be wired for e-commerce by 2007. What companies do with this is up to them.

In the end is it worth it?

There's a lot to consider before deciding if multi-channelling is for you. There are the costs, not to mention the internal and external disruption to your company. But there are also the benefits to keep in mind and ultimately, how well you think you can manage the disruption to attain the benefits will determine your decision.

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BENEFITS

Multi-channelling maximises the relationship you have with present customers by adding value and that will keep many old customers with you and will affect your profits. The top 10 multi-channel brands identified by Interbrands have 5% higher margins and 7% higher profits on average compared with second and third place competitors. It's also a way to significantly cut down on out of stock in the most requested items. Borders Book's Internet site has over 700,000 titles from its warehouse location. As well, costs can actually come down over the long term with call centre help lines online and moving away from live customer service reps. There's also the lower costs of goods sold: global sports is a consortium of off-line sporting goods retailers who have joined together to form an online sales and fulfilment company. Both selection and buying power has increased significantly and cost of goods has reduced dramatically. And, finally, you'll find that the end result of promotions delivers more. This is not only because the Internet marketing is cheaper. In fact, the average Internet company will outspend multi-channel companies by 6 to 1. The reason? The cost of acquiring customers on the Internet exceeds $100, while doing so as a multi-channel company is about $29.

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