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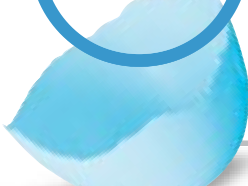

Happy Holidays!

in this issue

Robin Lewis has his own communications and consulting business which specializes in analyzing, interpreting, forecasting and identifying strategic growth opportunities for major corporations in the retail and related consumer products industries. In addition to *ROBIN REPORTS*, he frequently delivers business strategy and industry forecasting speeches to a wide range of industry trade organizations, company board and annual meetings, and company management and sales meetings. He also develops and writes speeches for senior executives.

in the next issue

> Is "SEARS-Land" Ending?

STRATEGIC ISSUES & ANSWERS

LEVI'S

THE GREAT AMERICAN MELTDOWN OR RETURN TO AN AMERICAN GREAT?

Levi Strauss & Company took **Phil Marineau** out of Pepsi, but I see they haven't taken the Pepsi out of Mr. Marineau. That may be a good thing, as he prepares the Levi's brand for its entry into Wal*Mart. On the other hand, it may be a very bad thing. Marineau, CEO and brilliant strategist of brand Pepsi prior to his current role as CEO of L.S. & Co., obviously believes he is about to reverse their roughly $3 billion meltdown (from about $7 billion in 1995) by launching a strategy that would work just fine in the "cola wars." Order a four-dollar Pepsi at a Ritz luncheon or pay a buck at the gas station. No problem. It's the "real thing" wherever one drinks it. (Please forgive me Phil. Since you left Pepsi, I totally forgot their slogan.) Indeed, consumers will pay three extra dollars for the pleasure of sipping Pepsi at the Ritz and think nothing less of the brand as they guzzle it next to a gas pump for a buck. And, yes, sometimes it might be the same consumer buying Pepsi in both places, or two different consumers, or either of them might be an expatriated Coke user. And, yes, perhaps all of them were lured to and are now brand loyalists through superior and segmented marketing strategies. Or maybe the colas have become commodities, warring over distribution rights to steal growth.

Indeed, Mr. Marineau recently declared his similar vision for the Levi's brand in an interview with the *Wall Street Journal*: "This is the most democratic brand in the world. It speaks to everyone. It's not just for 'aficionados'." Really? Or is he just putting a positive spin on the necessity of his entry into Wal*Mart?

A long time ago Levi's defined democracy. During the "Boomers" revolution of the sixties, Boomers wore that freedom flag made of denim with a Levi's patch. And they planted it as their symbol of democracy at Woodstock, history's one big Super-Bowl commercial for blue jeans. Democratic? So much so that Levi's became the generic name for jeans. **Neil Diamond** could have retitled his song "Forever In Levi's."

But Phil, snap out of it! You are not in Kansas anymore (no offense Lee). Worse, you're also not in the Emerald City. This is the world of 'fashionistas' at one extreme and 'schmata' wearers at another. It's a world of pristine presentation in a few emporiums and stack 'em high and let 'em fly out of warehouses. And, of course, there is a big part of the world in between. And, yes, it's pretty "democratic", out there, with folks randomly flying, buying and wearing across the landscape.

However, whatever similarities there may be to the land of the colas, big questions swirl around those big patches on jeans, which are not drunk but worn. Are they badges of personal distinction, of one's social status, of one's style or taste level? Do the identities of these badges change according to where and for what price they are bought? Or, are these badges now superfluous, with style and price the primary purchase determinants? Do these badges signal democracy or are they name-tags for commodities? At the end of Levi's day, all of these questions, and more, will have affected consumer behavior towards the brand. And the biggest questions, which all other questions feed into, are:

continued on p.2

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LEVI'S
continued from p.1

- **Will Mr. Marineau and team's strategy rebuild and reposition the Levi's brand and return it to its democratic roots where it can be available to and desired by all consumers, wherever and for whatever price they find acceptable for the brand?**

- **Or will the strategy turn out to be a tactic that won them big chunks of business from Wal*Mart in the short-term, but long-term diminished the brand and reduced the business to competing solely in the value segments?**

- **Is Levi's, like the colas, a generic name and universal symbol as the premier five-pocket basic jeans (like Pepsi and Coke for cola), the standard for all five-pocket jeans competitors? Is that position secure for the brand across all consumer segments, or must it be recaptured in various segments?**

ISSUE # 1: DIFFERENTIATION AND THE "PATCH"

Key to the brand strategy is product and marketing differentiation by consumer and distribution segments. However, they are maintaining commonality across all channels with their most important asset, the Levi's brand. Wherever they shop, consumers will see a 'patch' that very clearly identifies the Levi's brand, regardless of the fonts used or the addition of "Signature." In the eyes and minds of the consumer, Levi's brand can now be bought in Wal*Mart, JC Penney (and all like it), Macy's (and all like it), as well as Barney's.

So, will consumers clearly understand and accept the differentiation and segmented price/value relationships as distinct to each distribution tier? And will they understand, accept, indeed allow, the Levi's name to be patched on their jeans in all channels without penalizing the brand's image? Or did L.S. & Co. just downgrade the most valuable thing they own, inviting consumers to take their image of brand Levi's down to the value tiers and all of brand Levi's business with it?

To this point, **Rob Gregory**, former CEO of Lee Jeans and President of VF Corporation during the 1980's and now a partner in the Aurora Capital Group, a private equity firm, believes that, indeed, Levi's success rests on their execution of product styling and brand positioning. "It's all about product, product, product and positioning the brand, with channels of distribution a distant third," he stated. He does not see the consumer penalizing the brand for its move to Wal*Mart and does not believe the mid-tier will throw them out.

A big part of the success of their strategy, therefore, will be measured on how much of their business they maintain, indeed begin to grow, in the mid and upper tiers. This will also be a measure of how well they succeeded in creating a democratic image and persona of brand Levi's, desired by all consumer segments.

ISSUE #2: ARE JEANS CONSUMERS AND LEVI'S READY FOR DEMOCRACY?

Mr. Marineau's declaration regarding Levi's as the 'democratic' jean assumes that consumers are ready for a democracy. If you have been reading the distribution articles in these *Robin Reports*, you know that I firmly believe in the ultimate democratization of distribution as well as brands, and that the consumer is leading that revolution. However, it is more of an evolution than a revolution. So, while theoretically and strategically I agree with Phil Marineau, in reality I believe his timing is bad.

Key to the bad timing is the weakened state of the brand. With a blurred identity among most segments and likely no identity or connection with the Gen Y segment, the focus and competitive energy required for their move down-tier will detract from the imperative necessity to rebuild Levi's current position. Therefore, their core business will further erode. And, while I don't believe their retail partners will 'kick them out', they will certainly look to replace the brand if they spot a precipitous drop in sales. Further, the brand's competitors certainly see opportunity to capture an even greater share of Levi's business.

A different perspective on the current strength of the brand comes from **Art Spar**, CEO of STS Market Research, specializing in studying and tracking consumer behavior. He cites the fact that even after five years of declining revenue and a diminished brand position, Levi's still has the number one position in brand share among all jeans consumers, ages 13 plus, with a 22% unit share in the men's category and 8% in women's.

He also adds, "They also seem to have arrested their share erosion of the past few years, particularly in their core mid-tier channel," pointing to a gain in share from 40% to 42% over the past year. Spar also believes they may finally be getting "in front" of trends which he believes will help them connect with the all-important Gen Y segment. He cites their low-rise success among the junior segment, and sees some spark for the brand among Hispanics. Overriding these early signals of a potential turnaround, Spar believes that, "Strategically,

> **"Strategically, they will succeed primarily because of their new and superior brand management team."**
>
> -Art Spar,
> CEO of STS Marketing Research

continued on p.3

LEVI'S
continued from p.2

they will succeed primarily because of their new and superior brand management team." On the other hand, **Marc Gobe**, President, CEO and Executive Creative Director of Desgrippes Gobe, a brand consulting agency, claims, "The Levi's brand has been struggling with fashion relevancy ever since they failed to connect with the Gen Y segment," which are ironically, the kids of Levi's Boomer loyalists. Gobe continued, "They woke up one day and everywhere they turned, all they saw was competition, and they failed to make a stand and establish themselves as a differentiated brand." He quipped, "He (Marineau) should be inspired by Coca-Cola. Like Levi's they have a powerful emotional history; however, they have been able to connect with different generations."

So, even as brand Levi's, great American icon and cradle of the original democratic jean, launches another revolution to reclaim that position, I believe they are doing so in a weakened condition. Therefore, they are seriously risking a big segment of business, one they should have rebuilt prior to their move into mass.

ISSUE #3: WAL*MART: TACTICAL DESPERATION OR STRATEGIC INSPIRATION?

Almost everybody in the business I've talked to agrees that Marineau has little choice other than to do business with Wal*Mart. Obviously, Levi's meltdown added a sense of urgency to the decision, perhaps even a bit of desperation. In fact, many believe their enormous debt obligation alone allowed them no options.

From a strategic perspective, four important factors fueled the meltdown over the past twenty years, most of which preceded Mr. Marineau's watch, yet also offer compelling reasons to seek volume:

> **"The Levi's brand has been struggling with fashion relevancy ever since they failed to connect with the Gen Y segment."**
>
> **–Marc Gobe, President/CEO and Executive Creative Director of Desgrippes Gobe**

1. The migration of mid-tier consumers seeking value in mass.

2. The migration of mid-tier consumers to an explosive choice of specialty chain brands, including the Gap. Included in this shrinkage is the continuing demise of the independent specialty store sector, in which Levi's once had a sizeable business.

3. Levi's disconnect with the youth segments, specifically failing to connect with Gen Y. The beginning edge of the disconnect was their failure to respond to the designer jean explosion in the early 80's, legitimizing jeans as fashion and spurring increased female usage, which Lee jeans quickly preempted to become the number one selling women's brand.

4. Levi's share loss in their core mid-tier channels to the mega-lifestyle and designer brands, including Ralph Lauren, Tommy Hilfiger, Nautica, Calvin Klein, etc., to strong traditional brands such as Lee, and to the growing number of private brands.

Some estimate that half of their jeans volume loss in the U.S. was due to retail migration factors 1 and 2, and therefore largely out of their control. And, since this migration is continuing for all apparel (except out of Kohl's), that business is irretrievable. Moreover, it would be nearly impossible for Levi's to recover the other half of their losses: market share lost to the now firmly entrenched competition that own the Gen Y segment (including a segment of the specialty chains), and those competitors who simply won over portions of Levi's share in the department and chain stores (including the stores' own private jeans brands).

Talk about a vise! It looks a lot to me like a hugely intensified, if not over-competed jeans environment, with too many brands fighting for a shrinking share of market (mid-tier). And all of this while the Levi's brand is in a weakened state.

And where is that migrating group going? Well, in addition to the specialty chain sector, close to 70% of the U.S. population shops in the mass channel where 35% of all jeans are sold (with a continuing migration from the upper tiers), according to STS Market Research, and with better than 50% or about 57 million units sold at Wal*Mart alone.

Now, one might argue some of the finer points of all the above. However, as these factors weighed in at the end of the day for Mr. Marineau and team, they had to view opening Wal*Mart as a tactical "no-brainer", at least for taking back big chunks of volume. Put another way, Wal*Mart would not have accepted them if they did not see gorilla-sized portions of new business.

However, will Levi's tactical yellow brick road to volume turn into a strategic black hole for the brand?

continued on p.4

LEVI'S
continued from p.3

Major issues that loom large for L.S. & Co. are:

1. Is a cost structure and supply chain system in place to profitably execute and meet the relentless delivery, service and cost-cutting demands of Wal*Mart?

2. As they focus on successfully executing for Wal*Mart, will they lose focus on rebuilding their upper-tier segments and therefore continue to lose share and brand strength in those channels?

3. Will they cannibalize their own mid-tier business as well as accelerate the down-market migration of the entire jeans category?

4. As a side issue (albeit strategically huge), does L.S. & Co's. selling their Levi's brand to Wal*Mart set a precedent for future pressure from Wal*Mart to sell them their Dockers brand?

Regarding the necessity for a superior supply chain, it is my understanding, confirmed by many who do business with L.S. & Co., that under Phil Marineau's leadership their supply chain has vastly improved. They are operating with greater efficiency and flexibility, responding to a demand flow system, reducing cycle times as well as costs, a major part of which will be realized through out-sourcing their production.

On the second question, **Peter Bonaparth**, CEO of the Jones Apparel Co., was quoted at Fairchild's recent CEO Summit in early November; "Levi's move into Wal*Mart will put their mid-tier distribution in jeopardy, affording opportunity for our Gloria Vanderbilt, LEI and Polo Jeans brands. History has shown that it is very challenging to maintain a very large business in Wal*Mart with any kind of brand equity and have it not affect your mid-tier and upper-tier business."

"Levi's move into Wal*Mart will put their mid-tier distribution in jeopardy, affording opportunity for our Gloria Vanderbilt, LEI and Polo Jeans brands. History has shown that it is very challenging to maintain a very large business in Wal*Mart with any kind of brand equity and have it not affect your mid-tier and upper-tier business."

-Peter Bonaparth,
CEO of the Jones Apparel Co.

Marc Gobe said of Marineau's decision to sell to Wal*Mart, "The strategy admits to Wal*Mart and volume as his only option remaining to grow his business. Long-term it will seriously hurt brand Levi's, similar to what happened to the Calvin Klein brand." He spoke of Levi's risk at becoming a commodity, "They (consumers) are going to start buying Levi's in Wal*Mart, and end up buying jeans."

The issue regarding cannibalization and migration is addressed in the following section.

The issue regarding Levi's move, as a precedent for Docker's future, can only be speculated on and is beyond the scope of this article. I merely wanted to draw attention to the possibility that, if not already an issue, it could certainly become one.

So, did the move to Wal*Mart grow out of a tactical necessity or is this tactic just a piece of Marineau and team's well-crafted grand strategy, with Marineau's belief that Levi's "is the most democratic brand in the world" at its core? As **Ira Livingston**, Sr. V.P., Consumer Marketing of Cotton Inc., aptly questioned, "Will hindsight view this as an act of inspiration or desperation?" referring, of course, to the possibility as mentioned above, that their inspired strategy may, in the end, turn out to be a desperate tactic that achieved a quick volume hit but reduced their long-term universe.

Therefore, as revenues start to pour in from Wal*Mart, which is a certainty, tracking where those sales are coming from will begin to tell them if Levi's will end up being the democratic brand, as declared by Marineau, or solely a mass brand, as declared by the consumer.

ISSUE #4: CANNIBALIZATION AND MIGRATION

The most desirable sales increases for Levi's will come from new consumers: Wal*Mart shoppers who are new jeans buyers; customers stolen away from Wal*Mart's other major jeans brands, Rustler, Wrangler, Lee Riders, and Faded Glory; and new jeans buyers who are "cross-shopping" from other channels.

However, the data keepers at L.S. & Co. are well advised to wave the red flag at the first sign of cannibalization. There is a fine line between Levi's sharing their Wal*Mart, Levi Strauss Signature jeans with their own upper-tier Levi's customers and outright stealing big numbers of them away, thus growing their mass business by cannibalizing their mid-tier business. While Levi's research tells them that only 10% of consumers buy apparel in both mass and department store tiers, I would challenge that research on two points. First, though, I define department store tiers as traditional department stores like Macy's, Sears, Penney's, and to some degree, Kohl's. I do

continued on p.5

LEVI'S
continued from p.4

not include up-market specialty stores like Barney's, Neiman's, Saks, or Bergdorf's, in my challenge. My two points:

- Even if the finding of 10% cross-purchasing is valid, we can only speculate on the respondents' future behavior as they face the choice of buying the same mid-tier brand, with a few minor product and patch branding differences, for a lower price. Admittedly, the out-the-door price differential between the mid and lower tiers will be relatively narrow, in a range of about $5 – $10.

- The 70% of the U.S. population shopping in the mass channel (45-50% in Wal*Mart alone, according to STS Market Research) will now, for the first time, be presented with a Levi's brand. Certainly, a great many of those Wal*Mart shoppers are mid-tier and department store Levi's jeans buyers. How many, if any, will convert from mid-tier to buying Levi Strauss jeans because of price or stop buying either of the Levi's different "patches" because of the perceived stigma of the mass positioning?

And what happens if at the end of the day brand Levi's has been cannibalized and migrated into competing solely in the mass channel, albeit the largest jeans universe? Not a pretty picture. They might find themselves going from red tab to "black and blue" as they confront Godzilla, VF Corp. sitting across the aisle. VF owns a 42% share of all jeans sold at Wal*Mart, jumping to 68% in the men's category and 25% in the women's.

VF's Wrangler Division has been running a well-oiled jeans machine for Wal*Mart from day one, about twenty years ago. They have honed a consumer-demand driven, and technologically integrated, continuous loop supply chain that has no equal, except for perhaps the Zara apparel specialty chain based in Spain. In the low-cost, high-velocity environment of Wal*Mart, the efficiency and effectiveness of their supply chain provides them with enormous advantages. Lastly, on the point of brand strength, identity and image, and its consistent connection with the consumer, brand Wrangler has never faltered. In fact, they stole cowboys and rodeos away from Levi's a long time ago. So, Mr. Marineau and team are advised to proceed with a full sensory alert.

The flip side danger for VF will be in Wal*Mart's positioning of the Levi's brand and how it will ultimately be perceived and bought by the consumer. Opening at the highest price point, Levi's brand is positioned as the "Cadillac" of the jeans brands. From Wal*Mart's perspective, they are adding a high-end distinctive brand, gaining another value segment to their business, as well as additional margin. Therefore, they will likely focus on maintaining that strength. So, VF can be certain that a good portion of their current business is under threat from those Wal*Mart customers that will view Levi's as trading up.

This, of course, raises a larger issue for VF. Even if their Lee brand steals share of Levi's weakend business in the mid-tier, will it be enough to offset the potential share loss of their mass brands to Levi's?

ISSUE # 5: IS THE MELTDOWN PAST OR IS IT PROLOGUE?

Are Phil Marineau and team on the 'Yellow Brick Road' or on the edge of a 'black hole'?

As stated, I passionately believe in the democratization of distribution and brands, which also includes brands (see all of my Reports on this subject, or ask for them). Therefore, as I mentioned, I believe Mr. Marineau's strategic positioning for the brand is theoretically correct. However, for a brand to succeed in all channels and segments, its identity and promise to the consumer has to be crystal clear and proven through consistent delivery of that promise over time. That is why Pepsi is acceptable at both the Ritz and next to the gas pump. They built and have maintained a strong identity and appeal across all consumer segments.

Levi's brand did all of the above for 100 years, through the decade of the 70's, and one Boomer, none other than Ralph Lauren, has the brand so connected to his soul that he reportedly eschews his own brand for Levi's. However, one Boomer, indeed the entire Boomer segment, does not make a democratic brand.

The Levi's brand as icon, as standard, as generic for five-pocket basic jeans, indeed, as the "jean for all generations," began to lose contact with many of those generations and genders in the 70's.

While Levi's may have built its brand on the backsides of Boomers (mainly males), and still cannot be pried off their backsides, they failed to connect their identity and appeal (as the five-pocket basic jean standard) with the up-coming Gen Y and women's segments (who went to niche faux designer and fashion brands, specialty chain brands, and ironically to the Lee brand which pre-empted the five-pocket basic standard for women). Furthermore, as mentioned before, Wrangler stole their western business, now owning the cowboys and their rodeos as well. In my opinion, L.S. & Co. was asleep at the switch when the competitive assault began, forgetting the fact that they owned the generic standard for the five-pocket basic jean for EVERYBODY (i.e., the demo-

continued on p.6

LEVI'S
continued from p.5

cratic jean), and failed to aggressively pursue and own THAT business among all segments. Furthermore, they diverted their attention, wandering off to pursue a strategic delusion that they could slap their patch on anything: sportswear, sports jackets, and I can't remember what else. Ralph Lauren attached his name to and preempted the world of elegance and sophistication. Therefore, he can position almost any product and consumer segment in his world, which he has successfully done. Well over a hundred years ago, L.S.& Co. attached their Levi's name to a pair of basic jeans, and that is where it is, and will always be, in the minds of consumers around the world.

Like Kleenex or Coca-Cola or Pepsi in their respective worlds, Levi's name likely pops up first when a consumer is asked their preference in jeans. Put another way, if a consumer were asked to describe brand Levi's, they would likely say a basic five-pocket jean. On the other hand, and strategically critical, it does not assure purchase (obviated by Levi's volume loss).

Evidence of this and the beginning signs of the brand's erosion might date back to a consumer survey conducted by Clothes Magazine in the mid-70's. The survey was among college students. They found that 80% responded that their last pair of jeans purchased were Levi's (unaided recall). When the same respondents were shown a list of competitive jeans brands that they actually did purchase (aided recall), the percentage purchasing Levi's dropped to 50%.

This should have been a very clear message for the Levi's brand management team at the time. It said that while their brand was still 'numero uno' in top-of-mind awareness with the young consumer, the brand was not delivering the product they wanted.

And in my opinion, the real strong current message to Mr. Marineau and team is that they should have repositioned and rebuilt the Levi's brand as the leader and standard for basic jeans across all consumer segments, and particularly with the Gen Y segment, BEFORE they moved into Wal*Mart. However, they did not. So, the good news and the bad news about opening Wal*Mart:

- *The good news:* Selling to Wal*Mart and competing with a value proposition that offers the patch at a price, and yes, as the Cadillac of Wal*Mart, is a no-brainer, and will result in a big volume surge, for a while. However,

- *The bad news:* The move, over time (with millions of Levi Strauss patches walking around), will shape the consumers' belief that the Levi's brand is now a mass basic jean brand. I believe this will make it forever impossible to regain any status as an up-market brand. And, as the migration from the mid-tiers continues (from JC Penney and Sears first, and then eventually from the traditional department stores), I do not believe their shrinkage in that sector will be offset by their gains in mass. Lastly, and painfully, they will have to be at the top of their marketing and supply chain game to eke out a profit in the mass channel. While Wal*Mart's incredible logistics and distribution superiority will initially facilitate a smooth delivery system with their new partner, I am just as certain that Wal*Mart's cost reduction bar (I should say vise) will be lowered and squeezed on L.S. & Co. as often and as hard as it is on all their other vendors. And to that point, the jury will be out for some time on Levi's ability to successfully, and profitably, compete in that arena. And, oh yes, somewhere down the road, Wal*Mart will find another Cadillac.

(NOTE: While there is potential to establish a decent business with the high-end specialty stores utilizing the Levi's Vintage and other labels, the total business in that tier will be infinitesimal. It certainly won't offset the billions lost.)

My final comment regarding strategy is that L.S. & Co. had their very own successful example in Dockers, as instruction for expanding their jeans penetration beyond Levi's basic jeans franchise. In pursuit of those niches outside the brand's core strengths, launching or acquiring other jeans brands would have, and still could, create tremendous synergies. Certainly they have the clout and marketing power to forge new, or to regain lost business in all jeans segments. Speaking of which, where were they, and VF for that matter, when the Lucky Brand surfaced for acquisition?

As I said at the beginning of the article, this is not the cola wars. Generic does not equal democratic in this industry. It equals a basic five-pocket jean. And when bought, in quantities, and kept (not drunk and forgotten about), and worn over and over again, with a great big patch on the backside, it does mean something to its owner, and it does say something to everybody they know.

Most of the jeans sold by L.S. & Co. will soon be patched with the Levi Strauss name and sold through the mass channel. Perhaps it was inevitable for the great American brand that was so great it became a generic. Perhaps not. Perhaps there is still time for L.S. & Co. to realize there are limitations to its Levi's brand being a generic, and if so, then there may yet be time to proceed with a strategic rationale that forges a new brand for a new consumer. Times change, and so must large corporations.

OPPORTUNITIES

UBIQUITOUS "BRANDCHISERS" THAT WIN

SUPERIOR DISTRIBUTION FOCUS: PART III

"Multi-Brandchising" is a bar-raising superior distribution strategy, and as defined over the past three issues of my Reports, is employed either externally or internally. **Target**'s external Brandchising of designer brands levers the synergy created by their two opposite value propositions to win new consumers. And, **Wal*Mart** as premier internal Brandchiser, taps into heretofore untapped areas of their "nuclear" supply chain to lever huge chunks of new consumer growth. Essentially, they created the word distribution, and they just keep on expanding its use. Now the largest food purveyor, they are also selling automobiles. Why not? They are pumping gas.

Other internal "Brandchisers":

Earlier mention was made of **Andrea Jung**'s declaration, as CEO of **Avon Products,** that "wherever women go, we will be." That speaks volumes about her commitment to being a ubiquitous brand and tapping into her superior supply chain capabilities to make it happen. Founded on door-to-door selling, they will soon be ringing the additional bells of teenagers, with teens doing the ringing. They have their own stores, kiosks, and an on-line business. They have also externally "Brandchised" with **JC Penney**. Can Apparel be far down the road? Why not?

Kohl's owns the words convenience and ease, and achieves physical ubiquity by internally Brandchising every single location across the street from where their consumer lives. They put a Kohl's in every neighborhood where's there's a 37-year-old working mom making $35,000 a year, with 2.5 kids, a golden retriever, and an SUV. They learn precisely where that working mom lives, and knowing she doesn't have time to shop, they place a broad range of reasonably priced national brands right across the street from her, with lots of parking space and an easily laid out store so she can get in and out quickly. Their business is growing at about 40% a year. As their CEO said, "We intercept that mom on her way to the mall." Read: they steal that consumer away from every retailer in the mall.

Coach handbags reengineered their supply chain to take costs out and reinvested those savings in internally Brandchising through product expansion. They innovated an explosion of new styles that transformed them from a stodgy leather goods company with a few basic products to a hip fashion brand. And, in doing so, they Brandchised completely new consumer segments. Coach expanded their business from competing in the narrow middle to capturing share on all levels.

"BRANDSCENDENTALISM": THE ULTIMATE "SMART BOMB"

Brandscendentalism is a term I created to define those brands that transcend all other brand forms. Indeed, Brandscendentalists transcend even the best of Brandchisers and might be called super distributors. Simply, they own, control and manage the distribution of their total value proposition (brand) from inception through to consumption. They are vertically integrated. They connect their value directly with their consumer. This superior distribution model ultimately creates a Brandscendental state of oneness with its consumers.

With Maxwell House you open the can and make a good cup of coffee. With Starbucks you step into a dream. When the consumer hears the Maxwell House name, they think of that can. When they hear Starbucks, they think of a whole experience to wrap themselves in.

And, yes, Starbucks would also be defined as a lifestyle brand. However, that is simply the first component of a Brandscendental brand. They transcend lifestyle brands because they totally own and control the most important final link in the value chain, where all of the value is being added. They own and control the distribution:

- They own and control the process by which they can get their value in front of the consumers face, first and more often, and...
- They own the final segment of distribution, where the value is finally presented to the consumer. Therefore, they control and can more effectively make the lifestyle experience happen

So, owning and controlling the distribution is the second component of a Brandscendental brand. The first component promises the consumer a total three-dimensional lifestyle experience: a cup of coffee in an environment that

continued on p.8

BRANDCHISERS
continued from p.7

holds all the experiences one expects from that environment, which is Starbucks. This living connection with the brand obviously beats the one-dimensional experience of drinking a cup of Maxwell House coffee.

And, of course, to make the lifestyle experience happen for the consumer, ownership of the final point of distribution, the presentation, is imperative.

There are many examples of Brandscendental brands in the apparel and beauty industries: **H&M**, **Aveda**, **A&F**, **American Eagle**, **Ann Taylor**, **B&BW**, **Talbots**, **Victoria's Secret**, **Zara**, **Lucky**, and many more.

To be continued in the January issue...

- *The evolution of brands from product to lifestyle to Brandscendental brands, and why*
- *The key competitive advantages of the Brandscendental brands labeled "SLAM"*
- *A quantitative measure of their faster growth and greater share gains than product and lifestyle brands*
- *Examples of Brandscendental brands and what they are doing to create a state of 'oneness' with their consumers*
- *Once a brand is established as a Brandscendental brand, how it can also be a Brandchised brand. When is it okay, and when not?*
- *Major lifestyle and designer brands that are pursuing a Brandscendental strategy, and why*
- *Brandscendentalism meets the channel-blind consumer, forever transforming the retail landscape. Who stays, who goes?*

NOTE: IF YOU MISSED PARTS I & II OF THE DISTRIBUTION ARTICLE IN THE SEPTEMBER AND OCTOBER ISSUES, PLEASE LET US KNOW AND WE WILL E-MAIL THEM TO YOU.

ROBIN'S BRIEFS

QUOTES TO REMEMBER

HAPPY HOLIDAYS MEETS THE DEFLATION GRINCH

"I will never, ever pay full price for anything."
-says Caryn Koch, New Jersey Christmas shopper.

BEWARE WHAT YOU DREAM FOR

Robert Hanson, president of Levi's U.S. brand said, **"I want the jeans that we create today to be in the Smithsonian in 50 years. That's our challenge inside this company: to have an impact on American culture."**

"I would say his challenge is to have an impact on his company's 'tanking' business. Otherwise, the Smithsonian might be the only place his jeans will be hanging, and sooner than he wants." *-Anonymous*

A MARTHA STEWART RECIPE? NOT!

"The production of mustard gas is not like the production of marmalade. There must be documentation, records of what was produced." *-Hans Blix, chief United Nations inspector told reporters about his efforts to find weapons documentation*

Wishing You A Dream

A DREAM AWAITS YOU
HIDING UNDER THE TREE
HOPING YOU'LL FIND IT
SO JOYOUS YOU WILL BE

ELEGANTLY WRAPPED
WITH A PRETTY RED BOW
AND ON IT A STICKER
THAT WILL CLEARLY SHOW

IT WASN'T MARKED DOWN
AND WILL NEVER BE
MADE SPECIALLY FOR YOU
IT'S YOUR DREAM YOU SEE

THE DREAM IS A LESSON
FOR ALL WHO CAN SEE
THAT THINGS OF GREAT VALUE
WILL NEVER BE FREE

- by ROBIN LEWIS for you

HAPPY HOLIDAYS TO ALL, AND TO ALL A GOOD NIGHT!