

ROBIN'S BRIEFS

"EVERYTHING FOR NOTHING"

This is an advertising headline from the **General Motors Corporation** hawking their 0% financing in a full-page ad in *The New York Times*. Insanity reigns! Like fingernails across a chalkboard, this banner literally screeched off the page at me, almost causing me whiplash as I snapped my attention into the message. My first reaction was that this 0% thing is "old hat," and I was about to relegate the headline to one of my "Quotes To Remember." But, as it literally shouted off the page, I suddenly got it. GM was seeking their moment in madness. And once again I couldn't get past the "D" word (for deflation), which I've been beating to death for the last eight years and as recently as the last *ROBIN REPORTS*.

Do you remember those sayings, "you get what you pay for," or "no free lunch"? Well, this GM ad commitment, along with the other carmakers matching the ante, will ultimately confirm those

sayings, although with a new twist. Try "nothing for nothing," which is another adage, and that is exactly what "Everything For Nothing" turns into, and begins to look a lot like the edge of a deflationary cycle:

DEMAND SIDE

THE "EVERYTHING FOR NOTHING" DEAL: Compulsively consumptive John Doe races to the dealer's lot, not to miss the "freebie" deal, as do several other million Doe-alikes around the country. The Doe group may fortunately still have jobs (but maybe not), but they have no savings to speak of, severely reduced investment portfolios (if any), and fairly sizeable debts. However, their homes have increased an inflation-adjusted 27% since 1997 (the sharpest five-year increase since 1945). So, with eyes a-popping for those new autos (to add to the two they already have in

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POINT/COUNTERPOINT

KMART: MASTERS OF PERCEPTION OR DECEPTION?

"Kmart, The Stuff of Life" and all that goes with it, is way too little and way too late. **Peter Arnell** is one creative genius in my opinion. Unfortunately, his magic will be wasted along with the millions of dollars Kmart has invested in their "store of the future," from fixturing and flooring to bags and brands

In a wink, consumer perception will become deception when the perceived value created by Arnell turns out to be an "empty suit." It is equivalent to the proverbial band-aid applied to cancer.

Also, keep in mind, all of the investing in all of this "stuff of life" is being done with "op" money, that's other people's money, to put it politely. More truthfully, it's "vulture's" dollars to fatten the kill, along with dollars from the "greater fools," who seem to comprise an endless pool, even after the great bubble burst. A \$2 billion bankruptcy loan, for which the court recently approved more lenient terms, is incredible. On what basis that decision was made is beyond comprehension, as their business continues to deteriorate. This, of course, raises the

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ROBIN'S BRIEFS

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QUOTES TO REMEMBER

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.

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The shot (yet to be) heard 'round the world.*



EVERYTHING FOR NOTHING

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their driveways), they refinance their property (many ratcheting their mortgages upward) for lower interest rates, and they use the savings to buy a “free” car (that is the perception many of the Does have).

And remember, there are more cars and trucks than the world needs, to the tune of 6 million excess units a year. So, what a selection for the Doe group!

THE “EVERYTHING’S A DEAL” DEAL: The party doesn’t end with autos. Compulsion turns into obsession as consumers wallow in stuff that’s beginning to look like “free lunch.” About 30% of the categories measured by the Consumer Price Index experienced falling prices in June from a year earlier. While the overall index still rose by 1%, it was the smallest year-over-year gain since 1965. Apparel fell 2.7%, PC prices tumbled 28.9%, TVs 10.3%, and a whole raft of other categories including airlines, furniture, appliances, lodging, toys, computer software, audio equipment, and many others. Lastly, **Will Shearin**, an economist with **Daimler-Chrysler** said, “We’re planning for 1% deflation in cars til the cows come home.”

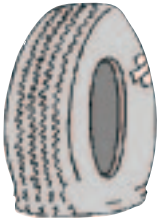
And remember, there is more and more of all of that stuff, including the makers of it, than the world needs. And, if it isn’t being made cheaper, it’s certainly being sold cheaper. So, what a selection for the Doe group!

SUPPLY SIDE

BUBBLES, BUBBLES EVERYWHERE: “The stock market bubble of the late 90’s...was far more than (a typical) asset bubble. The bubble expanded high enough, and for long enough, to have infected the behavior of consumers and businesses alike. The equity bubble helped to create other bubbles – most

notably in the housing market and in consumer spending,” stated **Stephen Roach**, Chief Economist for **Morgan Stanley**. In fact, he further states, “The ever-expanding property bubble has become central to the culture of excess that is now driving the U.S. economy.”

THE “EVERYTHING FOR NOTHING” FOR NOTHING MELTDOWN: The Doe group did fall for those deals. Then they had three vehicles. They also gorged themselves on all those other “free lunches.” Much of the excessive bubble leftovers went quickly and cheaply.

“We’re planning for 1% deflation in cars til the cows come home.”  -Will Shearin, Daimler-Chrysler

Then the Doe group slowly discovers their investment portfolio hasn’t budged (some declined further), some got laid off, their savings (what savings?) are a goose egg, and their debt is increasing. “Oh well,” says John Doe, “my property and house are still worth a small fortune, so I can continue to spend, just maybe not as much.”

HURRAH! FOR THE “MIRACLE OF PRODUCTIVITY”: It’s like Alan “Green-span-san” (see accompanying “Quotes To Remember”) rode in on his white horse with that one-liner. Well, that “miracle” is more of a mess, and, in my opinion, will end up as one of the best “good news, bad news” examples of this century.

WHEN “EVERYTHING FOR NOTHING” TURNS INTO NOTHING FOR NOTHING: The “good news” of the “miracle of productivity” is that industries’ ability to increase productivity has made our overall economy highly efficient, able to spew out more and more stuff for less.

The really “bad news” is that the cost savings, which “Green-span-san” and many economists believed would show up as increased profits on the bottom line, are actually getting passed on to the consumer in the form of lower and lower prices.

Are we blind? With too much stuff in the world, and too many competitors (and more every day), and the reluctance of our questionable “quasi-and-tampered-with” free market system to liquidate its failures, thus more stuff dumped into the bulging markets, the only way a business can compete and grow is to make more stuff and lower its prices even further to steal market share – hoping all along that the Doe group will keep consuming. Oh, and yes, let’s not forget that tsunami of low-cost stuff building up and just beginning to roll out of China.

As the Goldman Sachs analyst said of the auto glut and fight for share, “Those guys in Detroit don’t let demand get in the way of their sales forecasts.”

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Well, what a great quote from the Goldman guy. He, and all like him, who play a big role in and perpetuate the aggregate corporate frenzy to eke out those quarterly numbers. And what happens when they don't make their quarterly numbers? Certainly the stock price suffers, which in turn reduces the compensation of top management. So it behooves them to make those numbers, whatever it takes, including the corruption we are still slogging through.

Indeed, between the years 1997 and 2000, while productivity surged (as "Greenspan-san" kept reminding us), profits actually fell. And, because of the corruption, who can believe the numbers anyway?

So, increasing productivity simply becomes a euphemism for a downward spiraling price war simply to keep businesses afloat (and only if the consumer continues to buy).

- **Will the consumer continue to spend if the housing bubble bursts, or if their own personal debt bubble bursts?**
- **Will they get spooked by a war, an oil-price spike, another terror attack, or more white-collar crime?**
- **At what point do they reach a total bloat-level of too many cars, clothes, and computers?**
- **At what point do they simply wait on the sidelines for the next lower price?**
- **And, with all of this in mind, why should corporate America spend one penny for capital investments, the final signal of a recovery?**

OH, AND BY THE WAY...
WE ARE NOT JAPAN!

However, **Paul Krugman** is not convinced. As he pointed out in a recent editorial in *The New York Times*, the checklist of reasons for our not succumbing to a Japanese-style stagnation is very shaky:

- 1) The Fed has plenty of room to cut interest rates for any eventuality.
Really?
- 2) The U.S. long-term budget position is very strong, so there's plenty of room for fiscal stimulus in the unlikely event interest rate cuts aren't enough.
Really?
- 3) We don't have to worry about an Asian-style loss of confidence in our business sector because we have excellent corporate governance.
Really?
- 4) We may have had a stock bubble, but we don't have a real estate bubble.
Really?

And here's what the September 28th issue of *The Economist* had to say about deflationary dangers and the world's central bankers' roles in managing it:

"Central bankers are popularly portrayed like ships' captains carefully steering their economies. In reality, they often don't know where they are, let alone where they are heading; their maps and compasses are unreliable and their steering is wonky. Worst of all, their recent policy dilemmas are the equivalent of not knowing whether the earth is round or flat. Today's central bankers learned their trade in a world where the main

danger was inflation. But, in recent years, the biggest hazards have instead been asset-price bubbles and now, perhaps, deflation. They still do not grasp that this recession was quite different from all previous post-war cycles. It followed the bursting of the biggest financial bubble in American history. Share prices have seen their biggest fall since the Great Depression."

IN THE MEANTIME...

Let's keep dumping more money into the carcass of Kmart so they can dump more cheap goods into the market. Let's prop up the major airlines. Let's really formalize Chapter 11 as a growth strategy. Let's really put some teeth into protecting our steel industry. Let's continue to subsidize our farmers so they can dump more oranges into the ocean. Let's, let's, let's drive ourselves right into a deflationary quagmire.

Perhaps the cycle of the "free-market" system as we created it, and have now tampered with it, is reaching some natural end point. At the very least, capitalism and free and open markets are being seriously challenged today. The system depends on continuously increasing demand, profit incentive for entrepreneurial creation, elimination of excess and inefficiency, and last but not least, trust. Are one and all of those cornerstones still in place? If not, we had better figure out how to return them so we can once again run free. 🙏

KMART

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larger issue of how bankruptcy protection, once a positive healing mechanism for truly distraught businesses, has become a proactive competitive strategy to pardon businesses for failure to create meaningful value and to manage for growth.

Worse, in Kmart's case, it also seems to have provided a vehicle for lining the pockets of several of those at the helm, as shareholders, creditors, and employees bleed to death.

We are drowning in a sea of stuff. Furthermore, given the enormity of Kmart, as they dump their goods on the market at deflated prices ("protected"), it has to lower all ships. Does our deflated and over-saturated industry need more?

We should not pardon these companies. Over half of Chapter 11 restructurings fail anyway, according to **Edith Hotchkiss**, a researcher at **Boston College**. In fact, sixteen of the twenty-six major retailers filing for bankruptcy since 2000 are now out of business.

Even if Kmart does emerge, where will they find a real position in life? Are they going to be low cost and compete with Wal*Mart? They tried that. Are they going to pursue a more costly differentiated strategy and take on Target? Well, as I pointed out in this issue's article: Distribution Part II, Kmart's **Martha Stewart** experience cannot mirror the Target success. For that synergy to work, Kmart needed to add equal value to Martha Stewart, and they simply have no value to add. So, what is the plan and where is it?

Face it. **Wal*Mart** and **Target** are real brands. Kmart is not, and in my opinion, never has been. Brands are not made or maintained by a pretty façade, magical images, or by trying to live off of the energy of strong brands within their store. Most important, brands must consistently



deliver the value they promise, both perceived and real. So, the magic performed by Mr. Arnell will go up in smoke, without a strategic positioning that also includes superior operational and supply chain management and a financial structure that fits and provides for their new positioning. At the end of the day, they might dazzle the consumer back into the store and momentarily excite them with a pretty face. However, if the shirt they are looking for is not there, or if it doesn't meet their styling or pricing expectations, they will once again leave the store, and that will be the end of it.

The world doesn't need Kmart anymore. They do not stand for anything. There are too many equal or better shopping experiences and real retail brands to choose from. And, as proof that consumers are opting for those other stores, which are actually retail brands, Kmart's sales continue to drop. So, while the consumer might allow time for a real brand to right itself after a stumble, I don't believe they will exercise patience for this correction of just one more of many stumbles.

Most of all, the consumer will not be fooled. To them, the "Stuff of Life" turns into deception and therefore the "Stuff of Death" for Kmart.

ON THE OTHER HAND...

REENGINEERED STORE AND SUPPLY CHAIN

Kmart is banking on the roll out of what CEO **James Adamson** describes as a "fantastic" new store prototype. It will adopt many of the successful characteristics of his alma mater, Target. Wider, easier to shop aisles, good lighting, clearer sight lines, and new layout and design features are a few of the changes mentioned. And, while there is speculation on the lack of adequate funds to invest in such a roll-out, Adamson

is implementing enormous cost-cutting measures, closing hundreds of stores, laying off hundreds of employees, eliminating low priority projects, reengineering work processes, and consolidating workloads.

He is also attacking one of Kmart's perennial problems: supply chain logistics. They are working on better tracking the performance and take out of products and categories, and by store. They hope to be able to develop greater efficiency and effectiveness through tailoring merchandise mix by door and assuring shelves are always stocked.

BOXER PARADES, MARTHA CHARADES, AND SALSA CON THALIA

On the merchandise and marketing side, Kmart is trying to get some traction on several fronts.

The inimitable "brandmeister," **Nick Graham**, as brilliant creator of the Joe Boxer brand, had people shot out of cannons in Detroit and a bagpipe parade in New York. These signature Joe Boxer publicity stunts, and the expansion of the Boxer brand across several product categories, supported with a highly effective and pervasive advertising campaign, have achieved well above planned sales levels.

Peter Arnell is working on a Holiday surprise with Martha Stewart's Everyday Line. Hopefully she will not be one of the ghosts of Christmas past.

Finally, and significantly, Kmart is seizing opportunity from their multicultural urban consumer segment, which comprises almost 40% of their sales. They are launching an exclusive line of branded apparel named **Thalia**, for the sexy Mexican-born pop star, as well as a lifestyle and entertainment publication targeting Hispanics called **LaVida**.

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KMART

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Is Kmart coming late to the salsa party while the “freight train” called Wal*Mart has been locally merchandising for years and continues to expand into urban markets?

Finally, with reference to the above-mentioned one-way relationship with Martha Stewart adding value to Kmart, and getting little back, how can more of Martha Stewart, or the addition of Joe

Boxer, Thalia, or any other brand for that matter, cure Kmart's disease?

It's the chicken and egg disease. Kmart has to somehow rebirth itself as a real brand in the eyes of the consumer. Does the egg come first, ready to hatch a clear, sustainable, and differentiated value proposition, planned and supported by superior supply chain execution,

credible brands and value, including the entire shopping, buying, and consuming experience? Or are these brands just chickens in a nondescript coop, waiting to lay a lot of big fat eggs?

Again I fear, time, money, and consumers' unlimited options are not on Kmart's side. 🕯

OPPORTUNITIES

BOOMERS

THE BEGINNING AND THE END

SEIZE THEM IN THE MIDDLE

“In the beginning, Boomers created heaven and earth...,” to their liking, and because they could. This divine creation occurred during the sixties, literally defined by Woodstock, where heaven on earth simply meant sex, drugs, rock n' roll, and the flag of their rebellion, blue jeans.

Indeed, “Forever in Blue Jeans,” by **Neil Diamond**, was a portent of the beginning of the end of the “suit” and the evolution to more casual lifestyles.

Perhaps the “Genesis Generation” would be a better moniker than Boomers. The segment is so enormous they can start anything they want, and likewise finish it off. And this 800 pound gorilla controls the biggest pot of spending dollars over the next ten years. So, it would seem that any business after a share of their disposable income would make it job number one to figure out what turns them on. Particularly now, while they are somewhere in the middle between where they started and before they enter their dotage, it would be a big mistake not to prioritize this opportunity.

According to the **STS Market Research AccuPanel** for the full year 2001, the 35 to 60 year old female segment spent more in total on apparel, and per capita, than the com-

bined younger segments (\$37.2 billion vs. \$29.8 in total, and \$746 per person vs. \$711). Male Boomers are currently under-spending the younger segments (\$23 billion vs. \$24.8 in total, and \$481 per person vs. \$592).

However, these current numbers merely indicate the enormous untapped potential of both genders. Boomers account for about 30% of the population, with those over 50 owning three-quarters of all financial assets and accounting for half of all discretionary spending power, making their disposable income and net worth higher than any other age group. Over two-thirds own their own homes, three-quarters of which are unencumbered by a mortgage. Among all \$100,000 plus wage earners, 60% are Boomers and they pay 25% more for apparel. You may argue the numbers, and there are many more measures, but, **HELLO!** is anybody home?

Furthermore, in this over-stored industry, there are just 0.7 square feet per capita of specialty store space targeting Boomers



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BOOMERS

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vs. 3.6 square feet per capita targeting teens, according to **NPDFashionworld**. I never thought the words would cross my lips but this would suggest a big opportunity for additional specialty store space devoted to Boomers.

So, wealthier and healthier and with more free time, they are inclined toward self-indulgence, consuming, and exploring. This tells us their primary interests will be in travel, leisure, and entertainment, as well as outdoor physical activities to maintain their health.

For example, **Harley Davidson** sure hasn't forsaken those once "easy riders." Today their average customer is 52 years old. The bad news: how much longer do those faux "Hell's Angels" have before they ride into the sunset? On the other hand, **Gerber** baby foods thought they had a boomer winner by launching "Senior Citizen" pureed foods. Well, that was dead on arrival.

Those two stories tell us a lot about this group and provide very clear signals about the types of products and services they are seeking, and how, or how not to market to them.

The paradox of aging is in its denial. Most Boomers like to think they're still in their 30's. And, since a large segment of them feel great, they will aspire backward in age. Perception trumps reality for them. "Gramps and grams" featured in a pureed food ad aimed at them was offensive. Paradoxically, they also resent advertising featuring waif-like twenty-somethings for products and styles that also appeal to their group. **Lauren Hutton** would be just about right. Over 50, but vibrant, energetic, and young looking, she provides a realistic fantasy that is not a total stretch for Boomers to identify with.

Also, while their priorities are more experientially directed than materially directed, they still need to wear clothes. Actually,

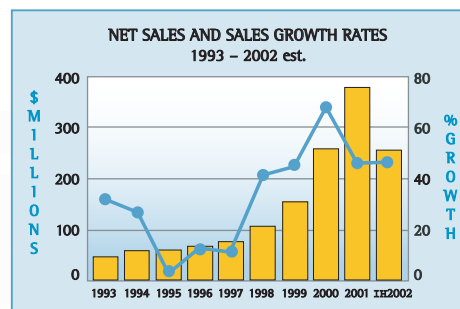
opportunity resides in new wardrobe creation for those lifestyle shifts.

And, if you are a retailer, it is redundant to point out that a night at the opera or a fly-fishing trip easily wins over shopping. If a retailer is lucky enough to nab the opera buff looking for a new frock, they must make the experience easy, fast, and painless, with impeccable service and for a credible price. To pull them in, you must tell them you have exactly what they are looking for. Upon arrival, it must be easy for Boomers to park, walk in, see it, pay for it, and walk out in under five minutes (does that sound like **Kohl's**?). Or make it a pleasant enough experience to begin a relationship. If a retailer can satisfy both needs, then they may begin to tap into other service opportunities like a travel service to schedule their fly-fishing trip. 🦜

CHICO'S: A HARMONIC CONVERGENCE HIPPIE ARTISTE, COED, AND A PARROT

The Chico's FAS story, although overdone, deserves repeating because it continues to spiral upward, unabated, and is still the premier example of a retail brand that has indeed created a state of oneness with its female boomer constituency. The entire litany about how they continue to raise their own bar, achieving growth rates that defy anemic industry conditions and at a level applauded by Wall Street, is like a well-worn textbook, worth studying once again for instruction on success.

"In the beginning..." (about thirty years ago), **Marvin** and **Helene Gralnick**, co-founders and current chiefs of **Chico's**, created their own idea of heaven on



Source: The Apparel Strategist

earth. A storybook boomer beginning, Marvin, hippie artisan in Mexico, meets Helene, coed on holiday. They marry in boomer heaven, soon move to Sanibel Island, Florida, and open a Mexican artifacts shop named after their friend's

parrot, Chico, which was the genesis for Chico's FAS (for Folk Art Specialties). The harmonic convergence of Marvin and Helene and Boomers as consumers had begun.

From 1983 to 1993, they built a solid and growing business and decided to retire. Shortly thereafter, however, they realized the business was beginning to falter, largely due to experimentation with trendier styles, which did not connect well with the core boomer constituency. Not wanting to witness the demise of their heavenly creation, they came out of

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retirement in 1994, and the rest is history, as they say, their meteoric growth leading them to the top of Forbes list of America's 200 Best Small Companies last year.

CHICO'S VIRTUOUS CYCLE

By 1997, they had clearly honed their vision and its connection with the Boomers. Executing a strategy that I call a "virtuous cycle," Chico's places their consumer dead in the center of their entire business universe. And everything they do, every activity, their total value chain responds to that consumer. The consumer triggers the beginning of the chain, restarts it, and is the continual and satisfied recipient of all those activities that have been "clicking on all cylinders" for the last ten years.

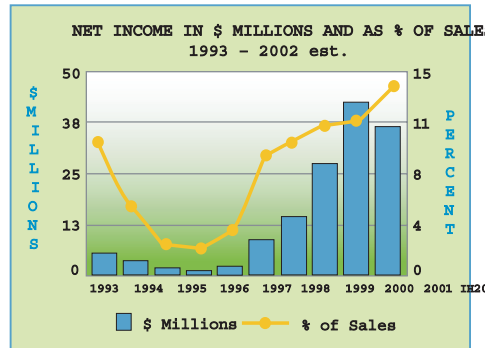
There are three major phases in this "virtuous cycle."

- **Defining The Consumer: Where They Are And What They Want**

Clearly defined as the mid to upper-middle income 35 to 60 year old woman, most of whom have kids, careers, and not much free time, Chico's, like Kohl's, continually seeks out where these women live and expands its store locations accordingly. Accessibility, convenience, and ease of shopping are as important to these consumers as the products and experience. As indicated below, they achieve both accessible and ubiquitous distribution of their value.

What this consumer wants is largely a reflection of the Gralnicks actually being Boomers and living with and among them. Stylish, mature, and fun-loving women, who want contemporary looks but with a comfortable, easy-to-wear, forgiving fit, would be an apt description of this consumer and what they want.

The total value proposition, outlined below, delivers satisfaction to these consumers with everything from product to the entire shopping, buying, and consuming experience. And finally, the seamless connection they have with their consumers, including their interaction



Source: The Apparel Strategist

in-store, the catalogue and website, provides ongoing direction for the continuous re-creation and innovation of their total value offering.

“It used to be important to be big, now it's important to be fast. The big guys can't change, but we can – reinvent and improve. We've seen no letup in growth and volume.”

–Marvin Gralnick

- **Define/Create The Total Value: Product, Service, Experience**

Product: Relaxed, casual and chic apparel and accessories, characterized by bright colors, bold prints, and easy-care fabrics. Most important, the products are exclusive, original designs inspired by cultures from around the world. Accessories are designed or purchased to provide easy coordination and enhancement of the apparel. To provide continuity of wardrobe, all new items and lines are designed to complement the consumer's existing wardrobe.

Also due to the Gralnicks deep understanding of their consumer, they fundamentally innovated their own unique sizing system. Starting with 0 for small through 3 for large, the sizing is definitely boomer friendly, tending to ease the reality of maturing waistlines.

Additionally, Chico's continual dialogue with its customers provides a constant stream of new and innovative products.

Service: With over half of Chico's sales associates having been past customers, and with 98 hours of formalized training, their personal customer service has real teeth. Called MAPS, for Most Amazing Personal Service, the associates are constantly interacting with the customer. In fact, they have cleverly not placed mirrors in dressing rooms in favor of one big communal mirror, where sales associates can strike up a dialogue by flattering them, suggesting additional layers, items, and accessories.

Experience: Chico's Passport loyalty program provides customers who have spent over \$500 a permanent 5% discount, advance sales notices, and free shipping.

The combination of the associates' understanding of these Boomers, the unique and forgiving sizing, and the warm and friendly atmosphere, provides a special, almost pampered experience.

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CHICO'S

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• Deliver: Ubiquitous, Continuous Distribution

Their Passport database of over 2 million names allows Chico's to track sales patterns, trends, and communications with customers. Additionally, their catalogue and website round out their ubiquitous distribution and provides new target market expansion opportunities. With over 300 stores in 40 states, they are adding 65 units this year, up from 61 opened last year.

Finally, superior management of their supply chain, one that is totally driven by the consumer, delivers new items weekly, sometimes daily, with the entire mix changing within four weeks.

As Marvin Gralnick said, "It used to be important to be big, now it's important to be fast. The big guys can't change, but we can — reinvent and improve. We've seen no letup in growth and volume."

ISSUE: PAZO AND THE GROWTH MONSTER

Yes indeed, small and fleet of foot can win. However, it all depends on how you define winning. Chico's relentless and explosive growth while maintaining its speed and agility for reinvention is surely a winner. Yet a monster lurks somewhere along this trail which has a somewhat more challenging definition of winning.

The monster, cloaked in Wall Street and investors' attire, has a very short and selective memory. It chooses to define the rate of initial and explosive growth as the ongoing definition for winning. Well aware of this challenging scenario, the Gralnicks are launching another retail brand called **Pazo**, aimed at a younger, 25 – 35 year old consumer, to keep one step ahead of the monster, so to speak.

At issue, of course, are big questions the Gralnicks may or should be asking themselves, such as:

- Are they at risk of extending the brand too quickly into other segments, losing control and stumbling?
- As storybook Boomers, well focused and connected with their current consumers, are the Gralnicks, with Pazo, entering uncharted and dangerous territory that's highly competitive and demanding of a different skill base?
- Given the fact that their store base is still fairly small compared to the 500-plus store counts for many other successful chains, there is still a lot of room to grow the Chico's business, both geographically and demographically. Why not continue to employ their superior advantage on a playing field where they have defined the standard for winning? 🏆

STRATEGIC ISSUES & ANSWERS

DISTRIBUTION PART II:

CHANNEL-BLIND CONSUMERS STORM THE GATES

The epic transformation of the retail landscape, which began in the September issue of *ROBIN REPORTS*, rages on. The libertarians are winning. Democracy will prevail. Falling away are the barriers of mass and class. The Rolls Royce in Neiman's parking lot in the morning finds its way to "Tarjay" in the afternoon.

Value does not mean cheap. "On Sale" all the time loses. Lower costs and honest pricing wins. Style, quality, design, and brands are not elitist nor are they solely limited to those serving the elite. Indeed, while consumers may have democratized the retail landscape as a

result of being channel-blind, they expect nothing less than the best for the lowest possible (believable) price. Metaphorically, the "emperor's new clothes" can be had by one and all.

And, finally, as was discussed in September's *ROBIN REPORTS*, these polygamous, elitist consumers also demand that, whatever they are dreaming for, be in front of their face at the nano-second they want it. Essentially, they are (because they can) forcing all value providers (wholesalers, retailers, direct marketers) to become ubiquitous distributors.

THE ISSUE

So, the key issue, as raised in the September Report: *In this consumer-driven, over-competed and over-supplied environment, how does a business gain sustainable competitive advantage and, therefore, long-term growth?*

Following are some answers and potential strategies, along with examples of competitors employing winning strategies, and finally, how tomorrow's channel-blind consumers will fundamentally change the retail landscape.

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ANSWERS...

• EXCELLENCE THROUGHOUT JUST TO ACHIEVE PARITY

Driven by the relentless, demanding consumer, winning businesses have been forced to employ a mix of two opposing value propositions once considered impossible: a low cost, high volume strategy, and a high cost, highly differentiated strategy. Simply, a balance of these two strategies is imperative to deliver both better and newer for less, just to reach the “playoffs.” Furthermore, the successful execution of these strategies requires businesses to excel in every function throughout their value chains. Put another way, to provide the consumer with more, newer, better, cheaper, quicker, easier, and more often, businesses must consistently excel in the following:

1. *A clear and consistent delivery of the value proposition* promised the consumer. Example: Wal*Mart’s *Everyday Low Prices*.
2. *All winners will be dominant destination brands*, including retail stores (today, many retailers are not brands and will be tomorrow’s losers). In those cases where the dominant retail brand sells other dominant brands within the store, a synergy of converging values will be created. Example: Target as store brand and Michael Graves as brand in the store.
3. *Superior dominant brands, or what I call Brandscendental brands*, are those whose name on the door is the same as the brand in the store, the specialty chains such as **Talbots, Ann Taylor, A&F, Aveda, Bath & Body Works**, and many others. I will revisit this subject.

4. *All winners, whether they be “mass” or “class,” retailers or wholesalers, will excel in supply chain management*, driving high levels of efficient productivity, resulting in optimally low costs, potentially providing legitimately lower prices for consumers, therefore providing superior value within their particular sector.

5. *Excellence in sourcing, logistics, distribution, marketing and a continual process of innovation, is the minimal level* at which businesses must perform just to achieve parity with competitors.

“Parity prevails and ultimately fails.”

So, among all these powerful competitors, all performing within an equal range of excellence, who will win the final consumer’s vote?

ADVANTAGE: THE UBIQUITOUS DISTRIBUTOR

Given the fact of an over-competed playing field with numerous excellent contenders all vying for the same consumer, all serving up equally excellent selections, then the one who gets in front of the consumer’s face first, and more often, wins. This defines ubiquitous distribution, essentially being everywhere and every time the consumer wants one’s offering.

It’s Physical and It’s Strategic

Physically, it requires a superbly managed supply chain driven by leading edge technology, and preferably vertically integrated (for better control), that can provide efficient speed and laser-

like placement and replenishment. It also requires distribution through all vehicles available: the Internet, catalogues and stores.

Ubiquitous distribution will also drive behemoth companies to adopt “demassification” strategies, breaking themselves into smaller pieces to serve smaller communities or neighborhoods, such as **Wal*Mart’s** neighborhood stores. Simultaneously they will expand their “super” stores into areas that can support them. Conversely, small competitors that are “fleet of foot” will quickly seek and find their consumers wherever they may be.

Strategically, superior ubiquitous distribution also means identifying and distributing one’s value to new potential consumers.

In both cases where the final point of distribution, the retail, catalogue or web-site selling space, is not owned or controlled by the value originator, it is imperative that this segment of the supply chain be mutually value additive. **In other words, the “retail” brand and the brand housed in that final place of presentation must be equally powerful to create a synergy. Otherwise, superiority and advantage are not achieved for either. Parity prevails and ultimately fails.**

At the end of the day, excellence in all things but superiority in distribution will define the “Super Bowl” winners. In fact, how the winners execute distribution, and all of the dynamics, will result in the fundamental transformation of the retail landscape as we know it today.

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DISTRIBUTION PART II

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INNOVATIVE DISTRIBUTION TRUMPS PRODUCT INNOVATION

When New Is Not Enough

At the risk of being redundant, it is important to dispel a commonly held belief among many industry leaders that innovation is the last and largest remaining weapon to break out of the pack. However, their reference to innovation is most often applied to product innovation. And, indeed, as I just stated, continual product innovation would be just one activity across the entire spectrum of activities throughout the supply chain, all of which must be executed on a level of excellence just to compete.

However, how many new acid washes, fragrance juices, or new designs can one create? Worse, in most industries, whatever is new today is cloned tomorrow by multitudes of competitors in an over-congested marketplace all chasing the same consumer.

Zara, the Spanish-based specialty apparel chain, has mastered the art and science of innovating and delivering new apparel lines on a twice-weekly basis, all triggered by instantaneous customer feedback. You can't get much better than that. Yet product innovation alone doesn't provide enough competitive advantage, nor is it sustainable over a long enough period to gain significant new business.

For example, according to **Camille McDonald**, President and CEO of **Parfums Givenchy**, the race to innovate in the fragrance business has reached such a frenzied pace that there are 20 to 50 new launches each year, comprising over 30% of the category within department stores. Intended to replace the heavy promotional activity and provide competitive advantage, it has created a "vicious circle" according to McDonald. As quoted in WWD's special Beauty CEO Summit issue, McDonald said, "[The new launches] have

the total focus of the retailer real estate. It is also the only leverage I have with them. If I don't have a launch to talk about for the season, it doesn't matter how much business I have with them otherwise. In order to pay for all these launches, we steal investment from core brands, the core brands go down, and there's more volume lost. And adding insult to injury, only 7 to 9% of all the launches are still in the top 20, three years later. That adds to even more volume loss. We spent on newness, but the newness didn't last. We stole it from the old brands, which then declined. So we've got a double whammy: a volume loss adding to the initial volume loss the newness was meant to replace."

On the other hand, innovative distribution strategies designed to achieve the ubiquitous distribution of one's value (product or service) to target consumers does have the potential to provide sustainable competitive advantage, simply because distribution strategies are not so easily cloned.

Actually, Zara could not execute their superior process of product innovation and delivery without their superior and innovative distribution strategies. Zara has a consumer demand driven, technologically advanced, and vertically integrated supply chain that is unmatched.

So, product innovation alone can quickly descend to parity, yet, combined with innovative distribution, it can provide competitive omnipotence.

MULTI-BRANDCHISING®: A "BAR RAISING" DISTRIBUTION STRATEGY

I created the term "Multi-Brandchising" to define an innovative distribution strategy that is raising the bar for gaining competitive advantage. In short, "Multi-Brandchising" expands the distribution of

the entire value proposition of a business as opposed to simply the extension of one's brands or products.

(Refer to diagram on p.11)

Externally, "Multi-Brandchising" creates a growth synergy by merging equally dominant brand franchises, with completely different value propositions. The different value propositions create the synergy.

Internally, it creates a growth synergy by identifying and employing superior internal value chain capabilities that have not previously been tapped into.

The synergy created by the "brandchised" combination of additional value, either externally or internally, achieves growth on two levels:

- **Incremental growth among current consumer segments**
- **Fundamental growth in new consumer segments**

Unlike licensing, brand extension, market, product, brand and channel expansion, which simply attach one's value to another, "Multi-Brandchising" is the merging of equal but opposite strengths to achieve a synergy.

A great example is **Target's** external "Brandchising" of **Michael Graves**, **Mossimo**, **Philippe Starck**, **Todd Oldham** and others. Target is a dominant, go-to brand, as are the designer brands within their stores. Mutually powerful, Target and each of those brands add equal value to each other for incremental new growth with their current consumers. Yet, because of their different value propositions (Target as low-cost distributor and Michael Graves as up-market designer), they are each adding fundamentally new value to the relationship,

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DISTRIBUTION PART II
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thus creating a great synergy which ultimately provides fundamental new growth from new consumer segments.

For example, the Neiman Marcus consumer, while shopping for essentials at Target, spots Michael Graves across the aisle and buys one of his products along with her Target essentials. Thus she is a new customer for both Target and Michael Graves. Likewise, a Dollar General customer aspiring upward goes to Target for Michael Graves and also buys her essentials while there. She too becomes a new customer for both Target and Michael Graves.

It is important to understand that it is the “Brandchising” of two different value propositions that creates the new growth. For example, while Target and Hanes are equally dominant brands adding value and growth to each other, their value propositions are similar, thereby limiting the growth to their existing customer bases.

So, Target gets labeled “Tarjay with cache,” with “Michael Graves for the masses.” Both have used an innovative distribution strategy (“Brandchising”) to expand the distribution of their equally dominant but different value propositions, and both are achieving new growth from new consumer segments.

It’s also a great example of mass/class convergence, the “democratization” of distribution. Target is also “Brandchising” with **Amazon.com** to open a new distribution channel.

Martha Stewart and **Kmart’s** attempt at “Brandchising” is an example of a flawed execution. Most significantly, the value

adding was not equally exchanged. It was mostly one way, from Martha Stewart to Kmart. And herein lies a lesson when pursuing an external “Brandchising” strategy:

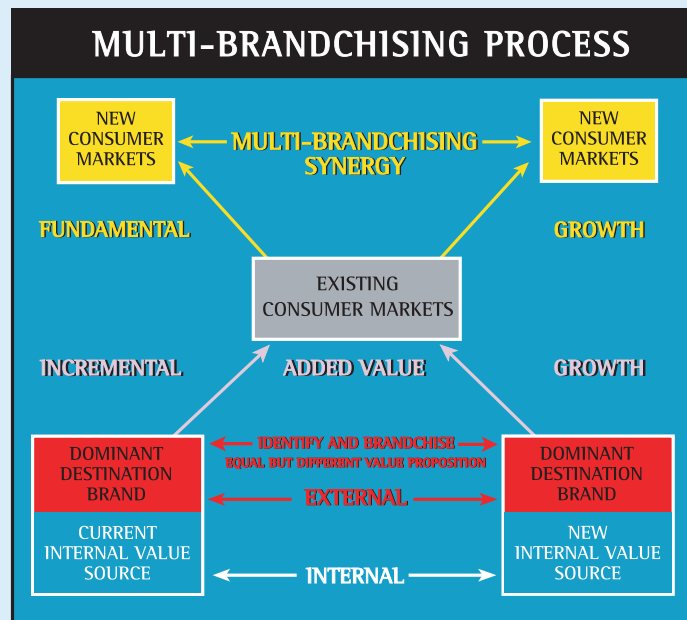
1. First of all, in my opinion, Kmart was never a dominant, destination brand, because,
2. Their fuzzy value proposition never provided superior value to the consumer on any level, and therefore,
3. It can be argued that Kmart added no value to the Martha Stewart brand, certainly not enough to create a synergy with the value they received from the Martha Stewart brand.

to distribute anything. Their successful external “Brandchising” experience with the designer brand George in their European **ASDA** stores is being replicated in the U.S. They are also internally “Brandchising,” by aggressively organizing a 100-member product development team, scouting the world for trends that they will then execute through Wal*Mart’s highly efficient and technologically integrated supply chain process, from design to production, suppliers, and factories.

Perhaps stretching the limits of their distribution machine, they are also considering using parking lot space to sell automobiles. Why not? They are already pumping gas.

Wal*Mart is also internally “Brandchising” with innovations to their value proposition, creating growth synergies by pursuing physical ubiquity. They are “massifying” with their Supercenters and simultaneously “demassifying” by rolling out smaller neighborhood Wal*Marts.

Attention Kmart! A “blue light special.” If urban neighborhood expansion is your turnaround strategy, look out for the freight train! 🚂



So, the lesson for success lies in “Brandchising” with brands that match the level of added value contributed by your brand.

Wal*Mart, “uber-distributor” to the world and considered the ultimate distribution machine, is pursuing “Multi-Brandchising.” Their value proposition of being the lowest cost distributor, literally allows them

To be continued in our next issue...

- “Brandchisers” 7-Eleven, Avon, Coach, Kohl’s, Tiffany, and more
- “Brandscendentalists” A&F, Aveda, B&BW, Victoria’s Secret, Zara, and more
- *A look at the future of retailing, who stays, who goes*

