Part I

Building Superior Retail Brands

CHAPTER 1

PRINCIPLES OF SUCCESSFUL BRAND MANAGEMENT: ART, SCIENCE, CRAFT

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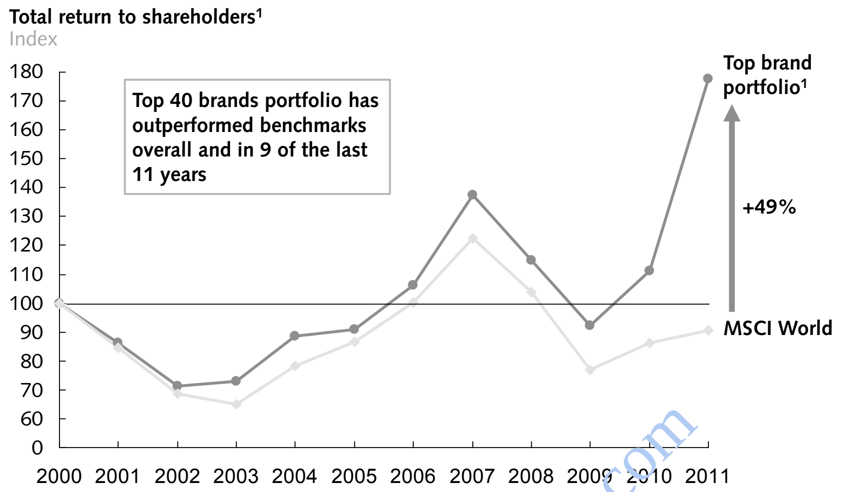
Every brand is a promise. And like any promise, brands attract and excite us; they capture our hearts and minds; they give us a glimpse of a better life. But most importantly, brands create tangible value. They are a retailer's most powerful connection to the outside world. Brands enable retailers to form deep and lasting attachments to customers and potential employees, and even investors, that translate into higher sales, stable profits, superior capabilities, and above-average stock market performance.

This chapter explores the three principal elements of superior brand management – art, science, and craft – and presents a wide range of case examples, illustrating how leading retailers bring these elements to bear on the management of their brands.

Branding is the secret weapon of retail marketing: it can create substantial value, but it is under-leveraged by most retailers.

Brands have many benefits, but above all, they create value. Brands help companies achieve price premiums, and they save costs due to their inherent appeal to customers. Companies with strong brands consistently outperform their peers in the stock market. According to a recent McKinsey analysis, brands with a top ranking in *BusinessWeek*'s annual "Best Global Brands" report have consistently outperformed traditional benchmarks like the MSCI World or the S&P 500 index over the past 10 years (Exhibit 1.1). Credit Suisse came to a similar conclusion in 2010, based on an analysis spanning a 12-year period: companies that invest at



1 Portfolio of the top 40 listed corporations, based on Interbrand's Best Global Brands report shares in local currency, equally weighted
SOURCE: Datastream; *BusinessWeek*/Interbrand

Exhibit 1.1 Strong brands outperform the market consistently.

least 2 percent of sales in their brand ("brand stocks") have consistently outperformed the S&P 500.

But to what extent do brands make a difference in retail? Research has shown that the impact of retail brands on consumer decision making is substantial; it is based on three key functions:

- *Image*: Retail brands help consumers express who they are, effectively making their choice of retail brands a lifestyle statement – think of IKEA.
- *Orientation*: Retail brands provide consumers with orientation. They make it easier to process information and help consumers save time – think of Amazon.
- *Risk reduction*: Retail brands reduce the perceived risks involved in making a purchase. They provide consumers with a "safe choice" – think of John Lewis.

Are leading retailers capturing the full value of these opportunities? You would think that at least some of them do. Surely, well-known global retail brands like H&M, IKEA, or Tesco must be among the world's most valuable brands? Not so: H&M, the top retail brand, does not make it into the top 20 of any brand ranking of note – and all other leading retailers are even further away from true branding excellence. (Source: Interbrand Brand Marketers Report.)

There is a simple reason for this situation. For decades, retailers have not made branding their priority. Until very recently, many retailers, especially those in Europe, have been focused on price, with leaflets promoting low prices being their most important marketing instrument. But retailers around the globe are gradually waking up to the challenge of professional brand building and management. For example, eBay, Sears, and 7-Eleven have received EFFIE awards in recognition of the effectiveness of their advertising.

It takes three elements to build and sustain a strong brand in retail: *art, science, and craft*

- The *art* is about endowing the brand with a relevant, credible, and unique value proposition that is up-to-date, consistent, and executed in a creative way.
- The *science* is about understanding and measuring relevant consumer needs, as well as the performance of the brand in the targeted customer segments.
- The *craft* is about managing the brand rigorously in all its individual aspects throughout the organization and across all customer touch points.

Of course, a brand can be strong without attaining perfection in all three areas. Inevitably, companies have different approaches to brand management, and their organizations have different strengths and weaknesses. Nonetheless, however well a company might master an individual element, we believe that this single element will be of little use to them if they do not achieve a minimum standard in the other two elements as well (Exhibit 1.2).

"Science"	"Art"	"Craft"
Measuring status and potential	▪ Rational and emotional benefit ▪ Consistency and up-to-dateness ▪ Creative implementation	▪ A place on the top management agenda ▪ Excellent implementation

Exhibit 1.2 Three elements of successful brand management.

The art is about balancing creativity with consistency *to endow a brand with an emotional appeal that builds on its heritage*

To succeed, retail brands must strike the right chord to make them appeal to consumers and generate demand. They need to engage consumers emotionally, yet their claims must also be credible and trustworthy. But with which brand elements should you start as a retailer? Should you focus on rational elements, like price or location, which give consumers concrete reasons to buy or at least to visit a store? Or should you prioritize emotional elements like honesty or modernity that speak to consumers' feelings?

In fact, strong brands always do both, although the balance between the two varies. There are hardly any strong products or services that are not at least as good as the competition in their rational elements, and they are usually better in one or two attributes. At the same time, real brand champions, like IKEA, H&M, Nespresso, or Apple, stand out because of their emotional appeal. Although the products they offer may not be superior in all cases to competitors' alternatives, it is the way they make consumers feel about themselves and their purchases that differentiates these brands from others.

But the importance of the art element should not be misread as a license to go crazy. Frequent changes to a brand's positioning, target group, or communication style will eventually destroy its value. In fact, consistency is an important element of artful brand propositions. In a survey among 300 marketing experts, consistency was identified as the most important aspect of branding by far, with more than one third of respondents naming it as number one in an open-ended question. (Source: 2007 Brand Marketers Report, Interbrand.)

Consistency is not to be confused with stagnation. Had it stayed true to its roots as a run-of-the-mill DIY retailer, Germany's Hornbach would never have become the premium brand it is today. In effect, consistency is about balancing relevant innovation and originality with a brand's heritage. A now-legendary example is that of how Roberto Menichetti and Christopher Bailey rejuvenated the Burberry brand over a ten-year period. In 1998, Menichetti famously laid bare the company's traditional tartan lining and started using it as a prominent pattern for apparel and accessories. By turning a hidden asset into a tangible brand differentiator, his approach was original and creative, yet fully in line with the brand's heritage.

Another key prerequisite for bringing a brand's emotional appeal to life is the creativity of its communication. Some brands achieve consistent competitive advantage by means of superior creativity in their communication; they have mastered the art of placing the bait exactly where the fish will bite. Strong brands are highly effective in the use of creative campaigns that distinguish them from the competition, strengthen their brand image, and leverage this image to generate sales.

As a joint study by McKinsey & Company and the Art Director's Club on "Creativity in Advertising" has shown, creativity can take many different forms. (See Chapter 16: "Excellence in Classical Media" for details of this study.) Successful creative advertising often contains a disturbing element – one that initially seems irritating, provocative, or funny, whether in pictures or in words. One example of this phenomenon is a campaign by German DIY retailer Hornbach. In one of their TVCs, we see a shopper pouring out his heart to a store employee over the death of a beloved pet: "I ran over my son's rabbit!" he says, before bursting into tears. The spot closes to Hornbach's brand claim: "If you trust us with your remodeling, you can trust us with everything."

There is more to strong brands than awareness: *the science is in measuring a brand's strengths and weaknesses across the entire purchase funnel*

Science is the second element of superior brand management. Most retail marketing managers and agencies still use brand awareness and advertising recall as the primary or even exclusive indicators of brand performance. While there is nothing wrong with these metrics in themselves, we believe they are insufficient to capture the specific strengths and weaknesses of a brand, let alone the root causes of its performance. In some cases, the focus on awareness and recall may even create the illusion of a healthy brand, when in fact the brand is in trouble. Retailers should expand their brand management toolbox and then use the extended toolkit comprehensively in their brand management decisions.

There are many hazards of the traditional approach. While a given brand may, for example, score highly on both awareness and advertising recall, its target audience may know next to nothing about the specific benefits provided by the brand. And how can you be sure the promoted benefits are even relevant to the target group? To distinguish a well-known brand from a really strong brand, you need a sense of whether consumers know what the brand stands for in terms of products or services, and whether they favor the brand over its competitors in their purchase considerations. In other words, strong brands perform well along the entire purchase funnel from awareness and consideration to purchase, repurchase, and loyalty. For details on the concept of the purchase funnel and its stages, please see Chapter 3: "A Guide to Excellence in Retail Brand Management."

This is not to say that all strong brands perform equally well at each and every stage of the purchase funnel; most brands reveal slight weaknesses at one stage or another. Whatever the case, the accurate measurement of a brand's relative strengths and weaknesses in the target group's purchase funnel is the starting point for fact-based brand management.

Rigorous retail brand managers look beneath the surface of awareness and advertising recall. They explore the strengths and weaknesses of their brands across all stages of the purchase funnel and each customer's life cycle. They take detailed measurements and constantly hone their measurement techniques.

The craft is about bringing the essence of the brand to life *at all touch points*

It is one thing to put the brand positioning on paper, but it is quite another to make it a real presence in consumers' lives: in TV commercials, print ads, leaflets, newsletters, store displays, loyalty programmes, and personal interactions. Retailers with strong brands go to great pains to ensure a superior and consistent consumer experience of the brand's proposition at all touch points. (See Exhibit 1.3 for an overview of in-store touch points.) For example, imagine "freshness" is one of the differentiating attributes in your brand positioning. While it may seem obvious what this means for touch point 5 ("products offered"), it is a lot less obvious how freshness could be brought to bear on the store's exterior or at the checkout.

In terms of holistic activation of the brand positioning at all touch points, many of us would agree that Apple sets the standard. The company does

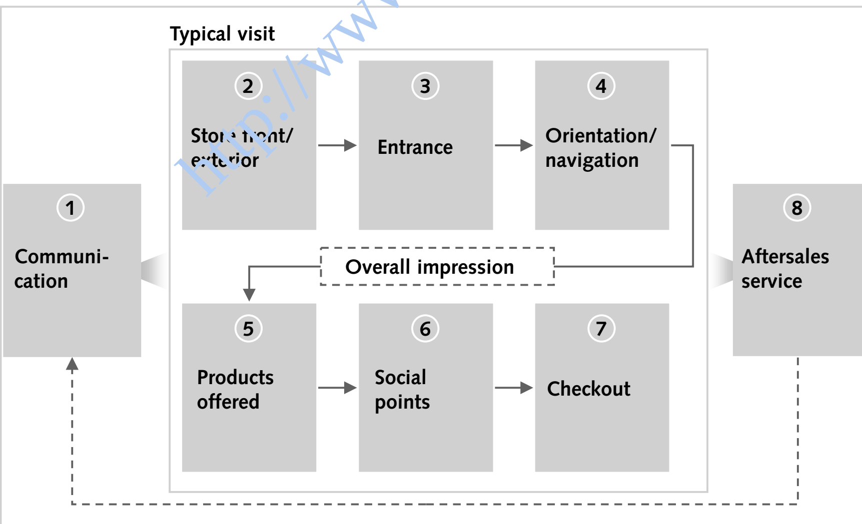


Exhibit 1.3 Overview of customer touch points in retail.

a fantastic job when it comes to translating their brand values of stylish design, creativity, and uniqueness into products like the iPod, the iPhone, or the iPad, as well as into a unique experience at its more than 300 Apple stores worldwide, many of which have won architectural awards.

Excellent execution is not necessarily limited to tangible touch points like store design. For Aldi, the discount retailer, price is key. Consumer perception of the company as a provider of good value for money has made the Aldi brand strong, and low prices are the source of Aldi's competitive advantage. Its private label products nevertheless provide A-brand quality. Right from the start, Aldi stressed that every article it sold was cheaper than the equivalent found elsewhere. Based on this premise, it has turned simplicity of execution into a guiding principle, from its no-frills stores to its narrow assortment of around 750 products. Logistics cost plays a major role when establishing a new outlet: the store must be accessible to articulated trucks, and the aisles must be wide enough to maneuver pallets. Aldi's stores are usually located either on side streets near high-traffic areas, or on the edge of town where there are good parking facilities and low rental costs. Its comparatively narrow assortment of goods ensures simplicity in buying and handling, and its scale gives it massive bargaining power in negotiations with suppliers. Aldi also keeps labor costs down by reducing management to an absolute minimum. For example, the company's central functions have a very low headcount.

Last, but not least, excellent craftsmanship in brand management also demands sufficient attention and leadership from top management. The CEO or other chief caretaker of a brand should live and breathe its positioning in order to be able to manage the day-to-day trade-offs between generating additional revenue and protecting the brand heritage. While it may be tempting, for example, to engage in a short-term price war with a brand's closest competitor, it could well damage the brand's reputation as a provider of reliable quality in the longer term.

Decisions such as these illustrate that brand management is a top management issue; it cannot safely be delegated to product managers, external agencies, or any other third party. The late Steve Jobs, for instance, made it a point to approve every new product design and every global advertising campaign personally, thus making sure the brand's value proposition is reflected in every aspect of Apple's business.

But craft is by no means the prerogative of established brands. For example, newcomer Zalando, a German online shoe retailer, has proven particularly crafty in the way it manages brand activation across touch points. To build brand awareness quickly, Zalando aired its first TV commercial less than one year after its launch in 2008. This was made possible through a "media for equity" deal with ProSieben, one of Germany's leading private television networks (compare the interview with Thomas Wagner of SevenOne Media in Chapter 16: "Excellence in Classical Media"). Tied in with banner ads and a customer magazine, the TV commercial received widespread attention and drove brand awareness to 85 percent in Germany (mid-2010). In 2011, Zalando received a GWA Effie award for its efficient marketing communication.

As illustrated by such examples, many retailers excel at one of the elements of superior brand management: the art, science, or craft. But only a select few master all three elements in equal measure.

We conclude this chapter by taking a close look at IKEA, Starbucks, and Asos, all of whom display excellent brand management in their respective sectors. In Chapter 3, we look at the specific success factors of retail brand management in more detail, based on McKinsey & Company's BrandMatics approach.

More than okay coffee

Case study: Starbucks

Protecting a brand's heritage is a top management job. When Howard Schultz, who had earlier stepped down as the CEO of Starbucks, decided he had seen enough of what he called "the commoditization of the Starbucks experience," he took decisive action. In a memo to the company's leadership group, he criticized a series of decisions which, though they might have seemed right on their own merits, diluted the Starbucks' brand when taken together. For example, the introduction of automatic coffee machines increased the speed of service and efficiency, but destroyed much of the romance and theatre afforded by the old machines. Moreover, the height of the new machines blocked the customer's line of sight, making eye contact with the barista nearly impossible. Similarly, while the introduction of flavour-locked packaging clearly improved the quality of the fresh-roasted bagged coffee, it also meant that the smell of coffee that had previously filled the premises was gone. Schultz considered the coffee aroma one of the brand's most powerful nonverbal signals. As a result of these changes, the stores lost their former soul, the warm feeling of a neighbourhood store, and instead began to seem like chain stores. To make things worse, the increasing number of merchandising articles, such as music CDs, took Starbucks even further away from its heritage as a coffee shop. "In fact, I am not sure people today even know we are roasting coffee. You certainly can't get the message from being in our stores," Schultz wrote.

Less than 12 months later, Schultz returned as CEO to help the company refocus on the original Starbucks experience. One of his first decisions was to stop selling hot breakfast sandwiches. These sandwiches accounted for revenues of around USD 500 million for the company, but they made the stores smell like cheese factories and the baristas feel as if they were working in a fast-food store. "The decision and the courage it takes to remove something when there's pressure on the business – like the sandwiches – is emblematic that we're going to build for the long term and get back to the roots and the core of our heritage, which is the leading roaster of specialty coffee in the world."

Starbucks then ordered all new espresso machines from Thermoplan, a relative newcomer in the sector long dominated by traditional Italian manufacturers. Thermoplan's USP was that the coffee is ground individually for each cup of espresso. What is more, the new machines are much lower than the earlier automated machines, restoring eye contact between the barista and the customer. Schultz says the new machines were meant to bring back some of the old charm: "Once again, it will be all about the coffee." James Alling, responsible for the company's overseas business as President of Starbucks International, sums up the company's ongoing brand management challenge as: "There's always going to be someone selling okay coffee at a low price. It's our job to make sure Starbucks is more than okay coffee." (Source: Roland Lindner, 'Die neue Bescheidenheit von Starbucks', 22 March 2008, No. 69, p.20; interview with James Alling, President of Starbucks International, 'Wir dachten, die Kunden kommen von selbst', *Frankfurter Allgemeine Zeitung*, 21 March 2008, www.faz.net/.)

Much has happened since the early days of the return of Howard Schultz. For one thing, many Starbucks outlets have added panini sandwiches to their menu again. But there is no denying that the focus on core competencies and brand heritage triggered by Schultz's memo played an important part in the company's ultimate recovery.

Best practice example

IKEA: combining art, science, and craft

IKEA, the largest furniture retailing chain in the world, is a fine example of how art, science, and craft work together to create and sustain a superior brand. As of 2011, IKEA had more than 280 stores in 26 countries, generating revenues of EUR 25.2 billion (Exhibit 1.4). Wherever you shop, IKEA stands for furniture and home accessories that combine function and design at affordable prices. We will look at each of the three elements in more detail to find out how IKEA does it.

The art: creative communication creates emotional appeal. Many of IKEA's campaigns have presented ingenious decoration or storage solutions achieved with the help of their products. But artful communication is not only about original messages. It can also be about clever media selection: for example, the company's recent store opening in Malmö, Sweden, was supported by intensive use of social media. They

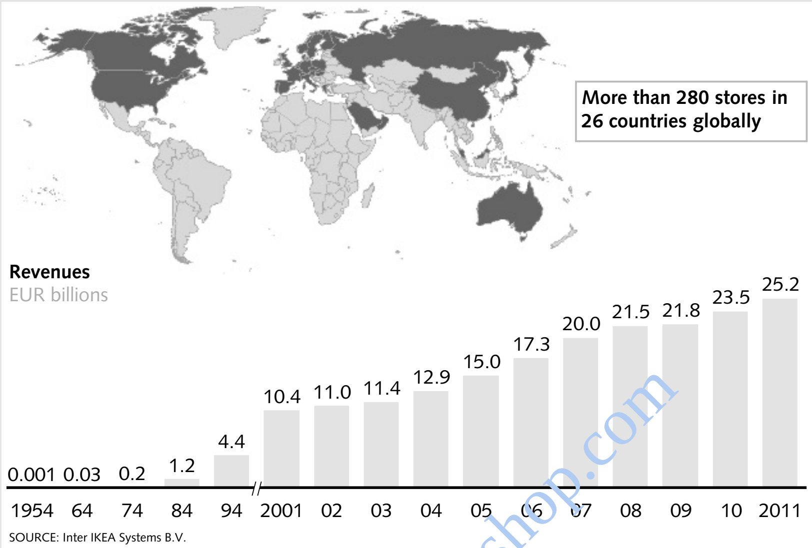


Exhibit 1.4 IKEA's path to a global brand.

created a Facebook profile for the store's manager and uploaded pictures of the store's showrooms. By tagging products featured in these pictures, Facebook members could enter a prize draw for these products. The campaign created enormous excitement: users kept asking for more pictures and shared them with thousands of people via newsfeeds and links. (Source: Most Contagious Report 2009; also see Chapter 17: "Digital Marketing Excellence" for further details.)

In Tokyo, the company built fourteen small "IKEA 4.5 museums." In an area the size of just four-and-a-half *tatami* mats (around 7.5 m^2, slightly smaller than the standard room size in Tokyo), IKEA showcased how to make the most of small rooms using its furniture. The campaign led to a new record in store visitors and was awarded a Cannes Golden Lion in 2007. (Source: Hajo Riesenbeck, Jesko Perrey, *Power Brands: Measuring, Making, and Managing Brand Success*, Wiley, 2008, p. 44.)

IKEA's most important tool for building relationships with its customers, apart from the stores themselves, is its catalog. Almost 200 million copies are printed worldwide, and more recently IKEA has introduced the unique concept of a personalized catalog. Customers have their photos taken at one of the stores, and a few days later they can pick up a copy of the catalog featuring pictures of themselves, rather than those of a professional model, in the catalog's living room illustrations. This not only brings customers back into their stores, but creates a deep personal connection with the brand. The personalized catalog is yet another example of how the company's communication conveys the impression that the brand has a lot more to offer than just affordably-priced pine furniture.

The science: systematic consumer research ensures fact-based brand management. IKEA engages in extensive market research to ensure the brand meets consumers' needs at key touch points, such as the product and store experiences. The retailer explores what it calls the "three moments of truth" in its research: the planning of the shopping trip, the core brand experience at one of the IKEA stores, and the product experience once back home. By using a wide range of observational techniques, the retailer aspires to generate insights that will enable it to develop inventive interior decoration solutions that solve customer's real-life problems, rather than merely providing them with items of furniture.

Consumer feedback management is another area in which IKEA adheres to strict and systematic standards to ensure that it is provided with continuous input on the quality of its products, stores and services. Shopper insights derived from transaction data and the "IKEA family" loyalty card are pooled and leveraged systematically. Partly as a result of the targeted offers it produces based on these insights, the retailer generates more than half of its total revenues through non-furniture sales, including small design items and snacks.

Even when their apartments are fully equipped, shoppers can be lured back for smaller, more decorative items, or for the sheer store experience. Says former CEO Anders Dahlvig: "We are trying to become like Disneyland."

The craft: a consistent global brand promise, carefully adapted to local needs. At IKEA, brand management is all about consistency. The store is largely standardized wherever it is located around the world. The same is true for the product line-up. Product developer Tomas Lundin says, "A product must do well in all countries to be successful." The catalog, however, can be adapted more easily and cost-effectively, presenting the company to the world as one that thinks globally and acts locally. Although the country editions of the catalog are all produced in Sweden, they reflect local peculiarities: television sets in the American edition are bigger than elsewhere, while the Chinese edition features kitchen supplies labeled in Chinese characters.

IKEA sums up its brand promise as: "Trends come and go, but combining a low price with good design and function never goes out of style."

Get the look

Case study: Asos

Launched in the UK in 2000, Asos operates a branded online shop that sells clothes as worn by celebrities in the media. This promise is embodied by the brand name itself: Asos is an acronym and stands for "As Seen on Screen." Its value proposition is three-fold:

- celebrity-driven styles;
- multi-brand assortment;
- strong social media presence.

Asos enables its 16-to-34-year-old, fashion-oriented target group to "get the look," i.e. to find the clothes and styles worn by their favorite celebrities. Offline competitors include Topshop, Zara, and H&M. The Asos offering comprises some 50,000 product lines from more than 800 fashion brands, including regular retail brands, such as G-Star and Polo Ralph Lauren, as well as designer brands, e.g. Karl Lagerfeld and Sonia Rykiel. About a thousand new products are added every week. In the UK, Asos is the no. 5 online fashion destination, with more than twice as many unique visitors as H&M (February 2012). The company's entire range is available both through the company's website and through Facebook, where visitors can browse the catalog and make purchases without ever leaving the social network.

The company's economic footprint is impressive, especially given its relatively recent launch and its pure play strategy. Asos generates almost half a billion UKP in annual revenue, up from just over 40 million five years ago. Fifty-seven percent of sales originate outside the UK. Currently at almost GBP 70, the average basket size has nearly doubled since 2006. In terms of Facebook "likes," Asos has not yet entered the league of Zara and H&M, both of which achieve well over 10 million "likes." But with its 1.6 million followers, Asos is impressively close on the heels of its most important local competitor, Topshop, which leads the pack in the UK at about 2.1 million (February 2012).

Asos is uniquely positioned as a fast-fashion, online-only brand for digital natives. Reflecting this position, the company has found its own way of striking the art-craft-science chord:

- It employs *art* in the way it manages its small but growing portfolio of e-tail brands. Asos, as the umbrella brand, has already spawned several spin-offs, including Asos Outlet ("off-price"), Asos Mobile ("fashion at your fingertips"), and Asos Marketplace ("recycle your wardrobe"). Other subsidiaries include Crooked Tongues, an e-shop dedicated to sneakers and sports apparel. Four years ago, Asos also launched its own branded range of products. Today, the company employs seven in-house designers and generates as much as 70 percent of womenswear sales through its own range.

- A lot of *craft* goes into the way Asos brings its value proposition to life at a wide range of touch points. While all distribution is strictly digital, the company's communication mix is far more comprehensive. Of course, Facebook, Twitter, Youtube, fashion blogs, and review sites are core elements for a pure player. But Asos also sponsored the Next Top Model franchise on Living TV, makes extensive use of outdoor advertising, and engages in event partnerships, such as the Capital FM Summertime Ball.
- Asos leverages *science* by adding new functionality to its website and mobile presence continuously. In 2010, the company integrated its entire catalog with Facebook and launched a transactional iPhone app. In 2011, Asos introduced Fashion Finder, a platform that enables shoppers to search for user-generated content and purchase products mentioned by other users. Asos says they also use Google Analytics and various types of cookies to improve and customize site navigation, shopping experience, and targeted campaigning.

The jury is still out on the sustainability of the company's single-channel strategy, especially since single-brand retailers, such as Topshop and Zara, and marketplaces, such as eBay and Amazon, are intensifying their efforts to gain or reclaim their shares of online retail. Nevertheless, Asos has managed to build a strong brand with dedicated followers and robust operations over a relatively short time span.

Key takeaways – Art, science, and craft

1. It takes three elements to build and sustain a strong brand in retail: art, science, and craft.
2. The art is about balancing creativity with consistency to endow a brand with an emotional appeal that builds on its heritage.
3. The science is about measuring a brand's strengths and weaknesses across the entire purchase funnel: there is more to strong brands than awareness.
4. The craft is about bringing the essence of the brand to life at all touch points.