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If you make and sell for retail the current economic climate might make you feel like a polar bear hunting on thin ice. With the market in meltdown, how do brandowners survive the:

New Retail Ecology

In 2012 total UK retail sales were over £311 billion but the number of retail outlets fell by 573, "a record drop" according to the British Retail Consortium's Director General, Helen Dickinson. In the first quarter of 2013 well publicised retailers hitting the wall included HMV, Jessops and Blockbusters, joining the famous casualties of 2012 (Comet, Clintons, JJB Sports).

The good news story of 2012 was on-line retail with a record 17.8% increase to £29 billion. Shoppers are using smartphones and tablets to buy from ever improving websites and 'click-and-collect' services. Peter Fitzgerald, Retail Director for Google announced that "online retail really came of age this Christmas. It's playing an increasingly significant role at every stage of the customer journey."

The UK has the highest proportion of online sales in the world, making it the crucible of global retail. According to UK accountant Deloitte's 2012 report "The Store of the Future" British retailers may have to reduce their property portfolios by 30-40% in the next five years in order to remain viable. Even Tesco boss Phil Clarke has suggested that the UK's leading retailer has no plans to open another Extra store saying "Do you need to build large hypermarkets in the UK when the internet is taking so much growth in electrical, in clothing, in general merchandise?"

<u>The big squeeze</u>

Apart from those retailers who have gone under because their core product has been made redundant (HMV, Blockbuster, Borders), the main reason retailers are suffering is that they are being squeezed. They are being squeezed by established market leading brandowners who can demand a premium because their brand owns the category (Apple, Coca Cola, Bosch, Samsung), and they are being squeezed by on-line retailers with lower fixed costs who offer equivalent products, more conveniently at lower prices with aggressive on-line marketing.

In order to guarantee their own survival, brandowners must exploit the pressure on retailers using three simple approaches.

1) Sell direct

Given the availability and variety of tried and tested on-line shop software, there's no reason for a brandowner not to sell direct. This can be done easily and quickly via third parties who will often discount the cost of setting up a shop in exchange for a share of the income. Selling directly should not be thought of as a revenue generating exercise, more of a data-gathering consumer-interaction resource. Gather real and

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direct brand feedback from committed loyal customers, create special offers to reward loyalty, use it to test pricing and, vitally, to gather useful information about what new target customers want. In addition, the brandowner can sell products where the brand has authority that could ultimately develop into a licensed range.

Some brands resist selling on-line because they worry about upsetting their dealer network. This is an ostrich approach when you consider the proliferation of on-line retail. Today, if you go to www.weberbbq.co.uk to buy a Weber Barbecue you can read everything you need to know about their product range except how much it is. If you actually want to buy something you have to enter your postcode to find the nearest store stocking your selected outdoor cooking device. Meanwhile if I just Google 'Weber BBQ', there are umpteen websites that will be delighted to sell me the product on-line. As a fan, I would probably have paid a premium to buy direct from Weber and they could have signed me up as a brand representative for life, selling me a wide range of new accessories - including their licensed Weber BBQ seasonings - every summer. It might upset the dealer network a little, but they'll benefit from more sales in-store when my love for the brand turns my friends into customers.

Samsung does a little better, referring customers interested in their washing machines to an appropriate on-line store and probably earning a referral fee when a sale goes through. Again, however, they don't capture the sale or the sales data until I register with them having bought the product. I appreciate the retail model is complicated and Samsung can't afford to upset retailers by selling a new model before the retailer has cleared their stock of the old model, but with retailers like Comet going out of business, is this really a sustainable approach?

With only 4% of grocery shopping moving on-line, food brands are still heavily dependent on the multiple retailers and are unlikely to shift a significant volume through a direct sales channel. Even they should be conscious, however, of the opportunity to sell their full range on-line, perhaps bulking up their products into a gifting range featuring innovative, special-edition licensed products in order to generate talkability through their social media channels.

With the increase in retail space available to let, we can expect brands to create their own branded retail channel – like Apple - or build pop-up showrooms where they can sell directly and monitor consumer feedback to new product features.

2) Adopt the hardware/software model

As someone who works in the field of brand licensing, one of the questions I am most often asked is: 'why should I (usually the buyer) pay a premium for your brand to be on a product I could probably source myself?'

Part of the reason, is that a brand communicates an exclusive instant need state and credibility. For example, if I sell RAC (a UK automobile recovery service) pressure washers, I'm selling you something to clean your car with as well as the patio.

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Similarly an RAC torch is obviously an emergency torch you should have in your car in case of a breakdown. This instant association is almost subliminal and, if you believe in the brand, creates a powerful reason to buy.

Arguably, a brandowner's most important job, therefore, is to increase belief in the brand's meaning. If, like Weber, your brand means superb barbecuing results, why not, like Weber, offer up a range of fantastic and innovative seasonings and marinade mixes to enhance the barbecuing experience? Licensing your brand into software or hardware increases a brand's meaning and relevance, ensuring that retailers are prepared to pay that all important brand premium.

In today's upgradeable world, consumers expect hardware to come with a continual flow of new software. This isn't a model that's exclusive to technology brands like Apple, Nespresso has followed suit, selling fashionable and attractive coffee machines that rely on their coffee capsules as software. Search Google for pasta recipes and you'll find a paid for link to one of 540 recipes using Philadelphia cheese as the core ingredient. For brandowner Kraft, the cheese is the hardware and the recipe is the software that they're happy to pay you to click on.

If you only make hardware or software, then you might be able to use licensing to develop complementary products that add meaning to your brand, communicating through new retail channels, reaching new consumers and preventing your competitors from doing the same thing.

3) Know your customer

In the history of human society there has never been a better time to be a behavioural economist. The size of the statistical data set is growing exponentially. Do you know your customers likes and dislikes, where they are, how old they are, and what makes them buy? Retailers do.

US retailer Target gives all of its customers a Guest ID number. Whether it's an on-line interaction like opening an email, or an in-store purchase, everything is stored against the Guest ID which also contains customers' demographic and geographic information.

Andrew Pole (who has a Masters in statistics and economics) works in Target's Guest Marketing Analytics Department and was tasked with developing a model that would help identify newly pregnant consumers. He identified 25 products that, when analysed together, allowed him to assign each shopper a 'pregnancy prediction' score.

About a year after the score was introduced, a man marched into his local Target in Minneapolis complaining to the store manager that his teenage daughter had been receiving coupons for baby products. "Were they trying to encourage her to get

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pregnant?" A few days later the angry man called to apologise after discovering his daughter was, in fact, due to give birth in August.

Almost every US retail chain, has a 'predictive analytics' department whose job is to change consumer habits. Eric Siegel, chairman of a conference called Predictive Analytics World explained: "We're living through a golden age of behavioural research. It's amazing how much we can figure out about how people think now." Brandowners need to start thinking about their consumer data. What can you learn from your on-line and off-line interactions with consumers that will help retailers change consumer habits. All brand interactions (on-line, off-line, in-store) should be consolidated to create a picture of how your consumer behaves. This then needs to be translated into assumptions that can be continually refined when tested with new products and new marketing.

At the time of writing, Philadelphia cream cheese has 522,000 likes but they are worthless unless they find out what turns 'like' into 'buy' and why.

Conclusion

According to Ian Geddes, UK Head of Retail at Deloitte, "The digital revolution in retail is at a tipping point with consumers expecting to shop through any channel and receive consistent service." Sales are not shrinking in the new retail ecology, they are migrating onto the most efficient channel. In fact, the multi-channel consumer (someone who uses more than one channel such as store, online, catalogue or contact centre, prior to making a purchase) spends 82% more per transaction than a customer who only shops in store.

As John Lewis's sales figures attest though, many consumers still prefer talking to an expert salesman with a good variety of stock and, for inexperienced consumers, big department stores and showrooms are important gatekeepers to your brand and need to be kept onside with exclusives and special promotions. However, more mature consumers who become brand loyal should be converted into brand representatives and sold to directly.

The challenge for brandowners is to ensure brand meaning and loyalty persists throughout the turbulence of the changing retail model. This means, developing multiple channels, including licensed products and direct on-line sales, whilst consolidating data from all consumer interactions so that they can be integrated into the predictive models of the remaining multi-channel retailers.

For more about how Golden Goose can steer your licensing programme through the new retail ecology, please contact: Adam@goldengoose.uk.com