The Role of Brands in the Digital Economy

A Monograph

A successful brand has a Personality and a Conversation with consumers.

— *Steve Goldstein* —

A.T. KEARNEY

This monograph was developed in response to key areas of discussion that took place at the EDS/GMA "Future Forces" Roundtable, a forum for consumer industry CEOs cosponsored by A.T. Kearney, EDS, the Grocery Manufacturers of America and the Institute for the Future.

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Introduction

How will brands fare in the digital economy? You don't need a multibillion-dollar brand-equity portfolio to have a stake in the answer to this question. In today's consumer products industry, brands play a central organizing role. Branded products are a key part of the vocabulary that brand managers, retailers and manufacturers use to communicate with consumers and with each other. As the digital economy continues to unveil surprising innovations in customer communications, two divergent views have emerged regarding the future of brands and, consequently, those who are responsible for managing them:

1.*Brands are dead.* Physical product features and intangible emotional associations and services combine to determine the premium price consumers pay for branded products. In the digital economy, branded products' emotional appeal will decline as consumers use the Internet and online search tools to shop efficiently for products they prefer. Many established brands will yield to competitive pressures from lower-priced store brands and generic products, as well as new entrants that have up-to-date distribution structures and can take advantage of low-cost Internet marketing.

2.*Brands are alive and will grow stronger.* Consumers in the digital economy will have several reasons to value brands even more highly—including quality, safety and status. In a universe of complex, fragmented information and intense price and performance pressure, consumers will gladly pay premium prices for the value and dependability of branded products whose performance and price are aligned on the technology frontier.

The dilemma? Both views are probably right. We are all eyewitnesses as the digital economy transforms traditional mass-marketing into a vastly different, yet dynamic medium. Companies unwilling to accept these forces must expect to see their brand franchises decline. Companies able to think creatively about these new opportunities are destined to extend their current brand strength.

Brands represent the personality of a product or service. In the new brand landscape, consumers, retailers and manufacturers will interact with three major forces to create, shape and enjoy the personality of the brand. These are not forces that will develop "in the new millennium." Rather, they are already in play, and are shaping the future of the consumer products industry worldwide. Those brands that respond to these forces and are able to meet consumer expectations online will survive and thrive.

Force 1 — Growth of the digital economy: The impressive growth of the digital economy has largely been the result of the explosion of the Internet combined with a simultaneous increase in available bandwidth. Together, they have transformed the basic transaction infrastructure. The 1997 government and industry consensus on U.S. digital television standards resulted in the first digital TV sets for consumers in the United States, particularly high-definition television (HDTV). Nudging rather than hitting the U.S. market in 1998, digital TV enables a range of possibilities for new interactive services. Important forces shaping the digital economy over the next decade include non-PC consumer-electronics devices with Internet access and the blending or convergence of television and radio programming with print media and online communications.

Force 2 — Information-rich consumer: Combine rising consumer-education levels with rapidly growing Web access, and what do you get? A resourceful new group of information-rich consumers. They shop for products and services in ways that transcend such traditional boundaries as retailer geographic location and access to product comparisons.

Force 3 — Networked communities: Who wields the real power in the digital economy? No matter how rich they are in information, consumers acting alone have limited leverage when dealing with large multinational corporations. This is where the "networked community" enters the scene. In a networked community, consumers openly share detailed information about their preferences and purchase-pattern history in return for the purchasing power that the community provides and the agreement of the community organizer to protect their privacy. Consumers also establish connections with other community members who share their needs, aspirations and values.

There is no magic formula to create successful brands in the digital economy. There is only a future filled with new risks and opportunities, shaped by new forces. This paper's objective is to provide a framework for brand managers to think about these forces and to present a series of action ideas that respond to their anticipated impact *(see appendix on page 18)*.

SOURCES OF BRAND VALUE

Traditionally, a brand represents the core identity of a product, service or organization. Using a symbol, a name or both, a brand communicates to the marketplace what a product stands for, what its values are, and how it appeals to, and fulfills, a consumer need. Defining a brand means packaging the ideas it must convey, the personality it must project, and the promises and key messages it must send its ultimate user: the buyer.

A brand not only defines what a product is, but what it isn't. Brands set consumer expectations for quality and dependability. Two classic American brands exemplify this: Maxwell House coffee, whose motto is, "Good to the last drop" and John Deere agricultural and earthmoving equipment, whose battle cry is, "Nothing runs like a Deere." Such *functional benefits* comprise one of four primary sources of brand value.

A brand may also be thought of as an *experience* its maker shares with consumers — after consumers accept the brand's relative price. How consumers buy a brand and use it gradually determines its value to them.

Brands derive consumer value through *self-expression* and *emotional satisfaction*. Never underestimating people's need for self-expression, Nike built its brand success on a promise of high-quality athletic gear plus a "Just do it" attitude. Another name brand, Starbucks, came by its success as a coffee chain from another angle. In addition to high-quality products and pleasant ambiance, Starbucks is known for the emotional satisfaction of its outstanding service. These examples show clearly that brand expectations can go beyond vendor and manufacturer product claims. Expectations of ethical business practices, for example, have recently drawn world attention to working conditions and pay scales of workers (including young children) employed by suppliers to the garment industry.

Why is brand equity at risk?

Brand managers often think of the digital economy in terms of the wealth of demographic data and customer purchase-behavior information they can secure, the better to target promotions and marketing campaigns. Conversely, as more users gain access to increasingly sophisticated search and product-comparison tools we expect users themselves to revolutionize traditional modes of mass marketing.

Combining the digital economy with new tools and agents puts extraordinary pressure on product price because product functional benefits are more easily compared. Above all, the digital economy will spark an intense drive for market-efficient pricing and relative product value. The two "softer" aspects of brand value — self-expression and emotional satisfaction — cannot sustain brands that offer consumers no outstanding price and function reward. However, brands able to sustain and manage any ensuing changes, large or small, will find that their softer brand-value aspects add immeasurably to their *overall* value and help make them winners in the marketplace.

FORCE 1: GROWTH OF THE DIGITAL ECONOMY

The digital economy is building a strong base for future growth. Morgan Stanley Dean Witter used the growth in U.S. direct-marketing sales between 1980 and 1996 as a model for estimating growth in Internet retail sales. Using this approach, America's US$2 billion worth of online retail sales in 1997 is predicted to reach US$115 billion between 2002 and 2005.

Online purchases are still largely a U.S. phenomenon. In 1997, 85 percent of total global Internet retail sales were generated in the United States, according to IMRG (Interactive Media in Retail Group). Nevertheless, digital commerce continues to make its mark — with varying degrees of success — across Europe, Asia Pacific and (most recently) Latin America *(see sidebar on page 6)*. For example, research suggests that online usage will at least triple in most developed countries by the year 2001 *(see figure 1)*. Growing Internet use will continue to drive change across most industries, as more and more consumers go online.

"Net prophets" are where you find them

Market research firms sometimes play fast and loose with their Internet sales-growth predictions, ignoring the absurdity of forecasting to four significant digits, three years out. As a result, estimates vary wildly. Two companies that took their differences head-to-head on the Internet itself are Forrester Research and International Data Corporation (IDC). By the year 2000, Forrester says, online retail revenues will hit US$6.9 billion. However, Forrester observed only the supply side's top 50 commerce websites and not information, banking, investing or financial products in markets outside the United States. Working from another database entirely, IDC foresees that same year yielding online revenues of US$150 billion. Looking only at the demand side and also excluding financial services, IDC conducted a bottom-up survey of 40,000 subjects — consumers and businesses — in 16 countries, and stands by its belief that many transactions, such as business-to-business orders, occur outside of so-called commerce sites. In any event, the jury is still out.

Why have Internet sales grown so quickly, and why do they continue to grow at an exponential rate? We can gain one insight by viewing the Web as the most recent arrival in an accelerating wave of new technologies. For example, without the acceptance and growth of personal-computing technology in the 1980s, the rise of the Web as we know it today would have been impossible *(see figure 2)*.

The first generation of children to grow up with digital media are now in their 20s. These consumers see technology not as something foreign that will affect the future, but as familiar a feature of the consumer landscape as food. They view digital technology not as a set of strange new gadgets, but as user-friendly tools and toys. As a result, they adopt new technologies faster.

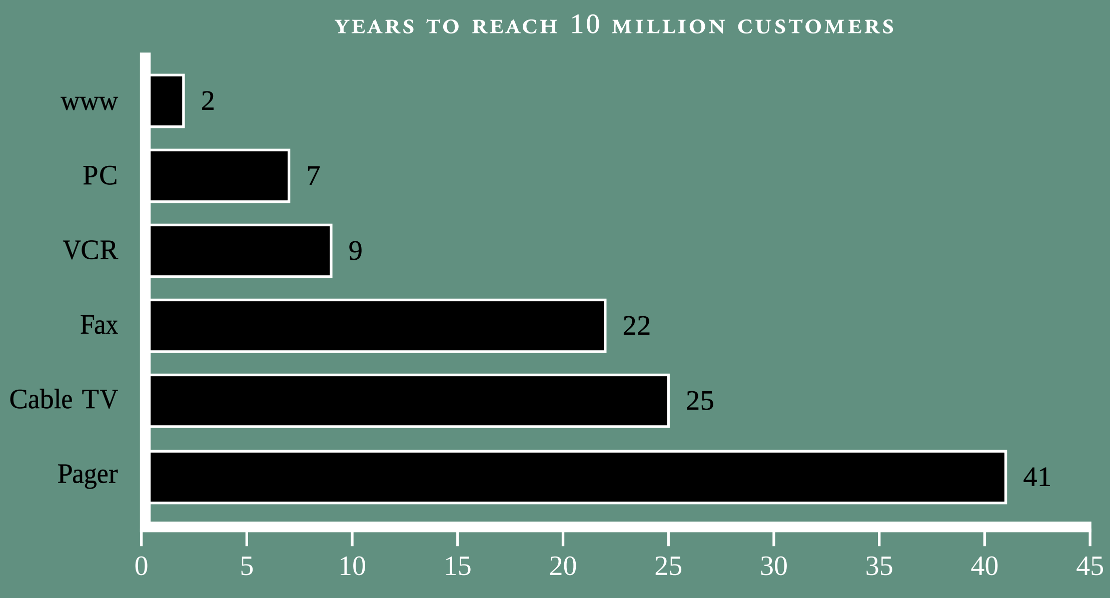
Fast adoption also occurs because physical and technical foundations for the digital economy are coming together *(see figure 3 on page 4)*. The next 10 years will see revolutionary changes in mass media *(see* The Future of Digital Television: An A.T. Kearney Monograph*)*. The same digital TV and DVD (Digital Versatile Disk) formats that deliver high-definition pictures can do much more. These devices will also help to address bandwidth barriers to digital commerce by providing an economic engine that drives high-capacity cable and telephone fiber lines into consumer homes.

Figure 1: Web-usage growth in other major markets (by percentage of online households)

	ONLINE HOUSEHOLDS (%)		
	1996	2000	Growth index (%)
United States	13.0	32.0	246
France	0.2	1.2	600
United Kingdom	0.7	4.3	614
Germany	2.0	6.9	345
Italy	0.2	1.0	500
Netherlands	0.2	1.1	550
Australia	0.5	2.0	400
Japan	2.6	7.1	273

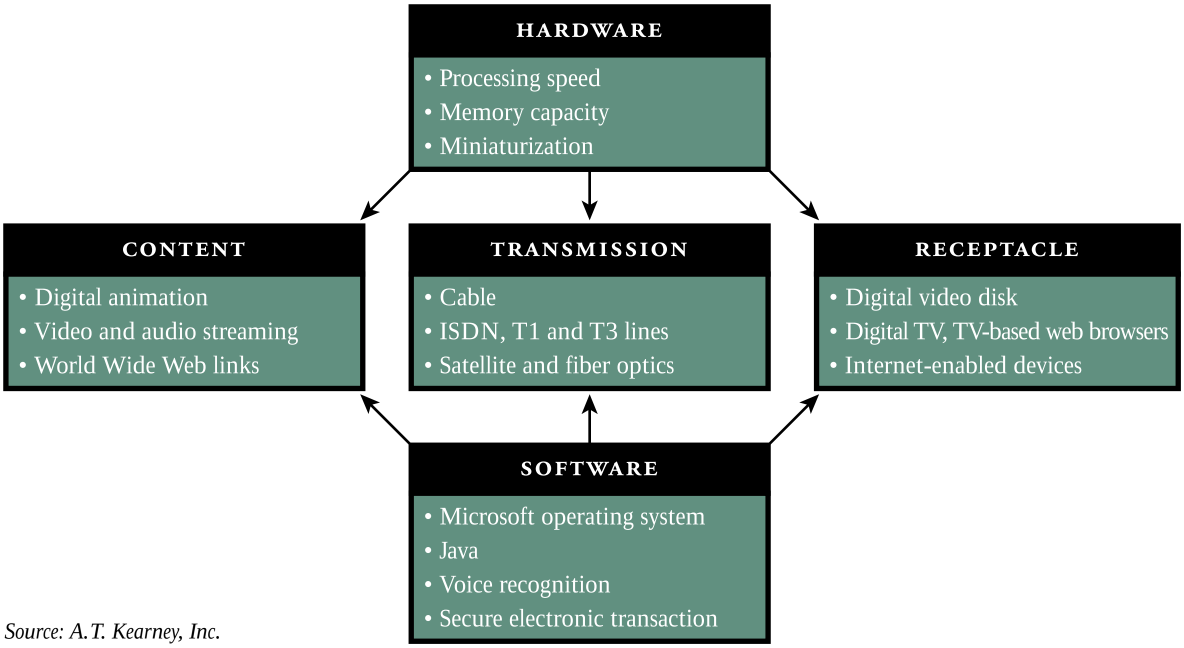
Source: Jupiter Communications

Figure 2: Accelerating rate of new technology acceptance



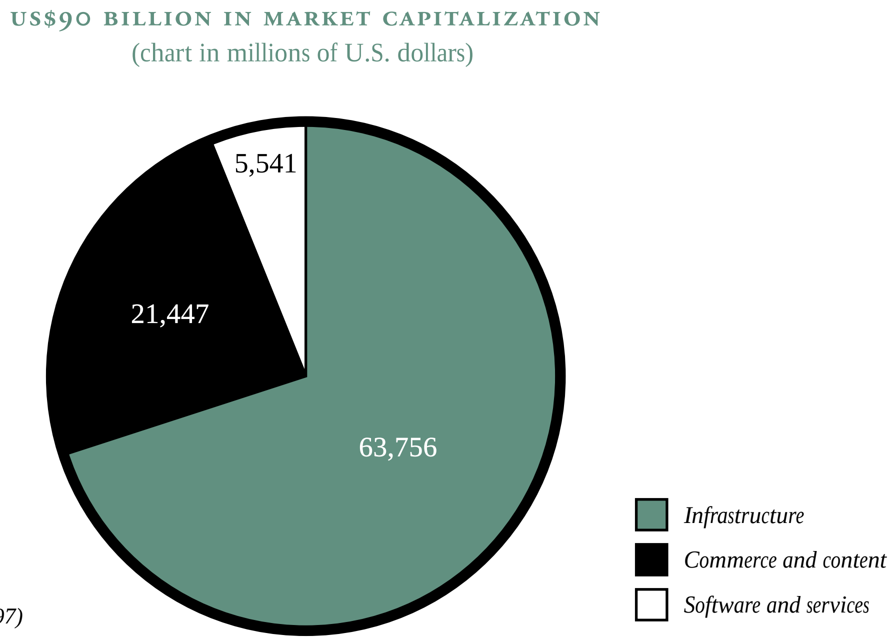
Source: The Economist, *1996*

Figure 3: The digital economy infrastructure — pieces coming together



Source: A.T. Kearney, Inc.

Figure 4: Market capitalization of public Internet companies



Sources: Bloomberg, Securities Data Corp., NASDAQ Stock Market, FactSet Data, and Morgan Stanley Research (prices on 5/16/97)

Another important technical foundation is the growth of non-PC devices such as cable TV set-top adapters that can access the Web. By 2002, the Gartner Group sees an 80 percent probability that more than 25 percent of all TVs sold worldwide will be Internet ready. TVs, VCRs, music CDs, telephones and personal computers that speak the same digital language open up new opportunities to deploy programming innovations over the Internet to homes and businesses.

As a result of such changes, the market capitalization of public Internet companies has gone from zero to US$90 billion in just three years. More than two-thirds of today's market value is in technology infrastructure *(see figure 4)*. As the market adds newer, better infrastructure, it becomes possible to deploy innovative "commerce and content" business models.

Along the way, concerns about the security of online purchases are increasingly groundless. Creation of the Secure Electronic Transaction (SET) standard for financial transaction security was a major digital-economy development during 1997. This standard enables merchants and card companies to prevent outsiders from misusing consumers' credit-card information in online transactions. Another welcome security development is a "smart" pen that authenticates signatures. Looking like an ordinary pen, it contains a processor and radio transmitter that make electronic signatures extremely difficult to forge.

Some retailers have more to be concerned about than consumers do. They may send or download online orders that buyers then deny receiving — and refuse to pay for. Internet, telemarketing, TV shopping and catalog sales rules all tend to skew against retailers.

Smart cards, although available for years, barely penetrated the U.S. market until 1997, when major vendors endorsed the Java Card standard. Consumer-electronics devices such as set-top boxes now include smart-card readers as a standard feature. (Think pay-per-view TV.) But using smart cards to support secure Internet commerce may prove to be a more important driving application than electronic cash. Smart cards can incorporate encrypted identification information that nips credit-card fraud in the bud.

Another alleged barrier to continued growth in the digital economy is really only a speed bump: adequate bandwidth to communicate graphics, audio and video quickly. Bandwidth is a constraint that depends on new technologies to take advantage of the infrastructure still being developed. However, some recent developments promise to smooth out this speed bump soon. Cable modems offer the prospect that 70 percent of American homes could have 10Mbps access by late 1999, if current plans hold. Astronomical bandwidth increase will make the current 56Kbps access speed environment obsolete, replacing or changing much of the existing infrastructure. Cable modems are expected to cost about US$300, with prices falling over time. Beyond modems, fiber optics promises 10Gbps data-transfer speeds within 10 years (current limit is about 100Mbps). But as bandwidth isues are being resolved, a bigger global issue is the per-minute approach to telecom charges. (British Telecom recently raised a few eyebrows when it offered Internet access at a penny a minute.) Executives whose three- to five-year plans reflect only today's situation will miss major opportunities to connect with consumers.

Focus on E-Commerce Outside North America

Companies in any country can have a global Internet presence, in theory. Yet businesses outside North America have not moved online as quickly — nor have their customers pursued the virtual-shopping experience as eagerly — as their U.S. and Canadian counterparts.

Europe: *Jupiter Communications reports that only 11 percent of users in Germany, 14 percent in the United Kingdom and 9 percent in France presently shop online. But these numbers are expected to grow by up to 40 percent by the year 2002. At that point, Germany is expected to lead in all online categories — from groceries and books, to music CDs and software—with an estimated US$1.8 billion in e-commerce business.*

Meanwhile, Le-Shop (www.le-shop.ch) — Europe's first Internet-only store — opened its virtual doors in April 1998. Thanks to its physical headquarters in Geneva and a unique partnership with the Swiss postal service, Le-Shop customers can expect next-day home-or-office delivery of packaged foods, beverages and toiletries. (Switzerland's largest supermarket chain, Migros, also takes orders online, but its shoppers must pick up their groceries in person.) Le-Shop is built on the demographic fact that the number of Swiss dual-career families has doubled in the past generation, yet grocery store hours have not been extended to keep pace. The demand for Le-Shop's services was so overwhelming that 800 users logged on within the first two hours of its opening and crashed its servers, sending the store offline for a month. But Le-Shop is thriving now and may soon add several global brands to its virtual shelves, as a draw for Geneva's busy expatriate community.

Asia Pacific: *The percentage of online households in Japan is more than twice that of Australia (and, incidentally, exceeds that of Germany, France and Italy combined). By 2001, the percentage of Japanese households online will grow nearly three times greater, while more heavily populated digital marketplaces such as China and Indonesia — lacking online users and suffering internal unrest, respectively — remain largely untapped.*

Nonetheless, online shopping has made inroads in Asia Pacific, as it has in Europe. An estimated half-million online Hong Kong residents can now order groceries on the Net from cyberstores such as Park 'N Shop, Wellcome Supermarkets, City Super and Jusco Stores. The latter two offer limited selections, but Park 'N Shop and Wellcome carry wide selections of goods online, including vegetables and dairy products. Park 'N Shop stocks about 4,000 items (with many well-known British, French and American brands), and Wellcome (www.wellcomehk.com) stocks more than 2,000, which is still larger than the selection at many small physical stores within the Hong Kong area. Wellcome Loyalty-Marketing Manager Rachel Lee Ching-han predicts that cybershopping "will become more and more popular because time is limited."

Latin America: *To some observers' surprise, a study released late in 1997 by Nazca S&S, the Latin American arm of Saatchi & Saatchi Worldwide, revealed that Internet use is growing faster in Latin America than anywhere else on the globe. Topping one surprise with another, the research showed that women dominated Internet use south of the equator.*

The study also found that Latin American Internet use rose close to 800 percent from 1995 through 1997, a rate virtually double that of average global Internet growth. Women in Latin America typically surf the Web eight hours a week, some 15 percent longer than their European counterparts.

FORCE 2: THE RISE OF THE INFORMATION-RICH CONSUMER

Information to support purchase decisions is instantly available to consumers on the Internet. More than 58 million adults use the Internet in the United States and Canada, and 54 percent of these users indicate they are likely to purchase products online. Half of these Internet users (about 30 million people) were online within the past 24 hours.

Consumers quick to adopt Internet technology can access tools and information once considered beyond their reach. Why ask: "How many of our customers surf the Web?" when you can ask: *"How does seamless access to the Web change the way consumers obtain prepurchase information?"* Converging entertainment and information resources are transforming traditional shopping habits, and information-rich consumers lead the way. The Institute for the Future believes that Internet users share three key traits, all highly prized by website vendors:

- They have an above-average education. Almost 50 percent of American adults have completed at least one year of college.
- They control a sizable discretionary income. Their household incomes average more than US$50,000 in constant 1995 dollars.
- They feel comfortable using information technology.

Consumers use information aggressively when they have it. For example, in 1994, the U.S. Department of Agriculture mandated new food labels to provide greater detail on dietary content and nutritional value. In 1997, 91 percent of a representative survey group of 2,215 Americans claimed they changed their food-buying habits during the previous two years, primarily by comparing prices and reading labels.

Now consumers can quickly and easily compare branded products with store-label products in the same category, including upscale, high-quality store brands such as the Canadian President's Choice products. In a recent Harris Poll, only 18 percent of information-rich consumers identified branded products as the "best value" when compared to generic products or a store brand. Using an online grocery service (such as Peapod in the United States, Le-Shop in Switzerland and Park 'N Shop in Hong Kong), consumers can instantly compare prices and nutrition side by side.[1] Packaging matters less online than it does in the traditional store environment, but — because consumers can make quick comparisons — the value equation of price and function matters significantly more.

How will access to information change the way consumers shop? Consider the changes occurring in the automotive industry. Edmunds' website provides consumers with the usual comparative ratings on vehicles, as well as online chat groups that allow potential buyers to participate in discussions about different products. The site also provides economic information such as dealer invoice or the price the dealer paid the manufacturer for the vehicle, individual options, applicable dealer and consumer rebates, and dealer-holdback percent (manufacturers hold 2 to 3 percent of the invoice amount in trust).

This website informs consumers about dealer economics and where to find the lowest

[1] *Unless otherwise specified, Web addresses follow the model of www.businessname.com.*

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price. For a second opinion, they can click on the *Consumer Reports* site and obtain similar information. To buy a car, they can click on Autobytel.com's website to get it at an already low price, or go to the brand's website and contact enough dealers to start a bidding contest. Given available information and access to sellers, the consumer is poised to conduct a "reverse auction" with dealers. As a result, traditional U.S. auto dealer business models are being transformed. New-car sales contribute relatively little profit to the dealers; they profit most from service and parts (where convenient location, skill and warranty matter) and used-car sales (where cars' varied histories and resulting conditions make online comparisons uncertain).

Marketers in the digital economy need new strategies to build and retain relationships with information-rich consumers. Online retailer Streamline, Inc., for example, offers a range of lower-priced substitute products and electronic coupons based on a consumer's personal online shopping history.

Customer-specific marketing in the digital economy takes advantage of data mining. Data "panned" from past sales helps brand managers focus new offers specifically to consumers whose trail of cash-register tapes reveals their personal preferences.

FORCE 3: NETWORKED COMMUNITIES

Online or networked communities have emerged as new gathering places for consumers with similar interests. These sites allow members to interact with one another, share information and access a wide range of services. The most important contribution of these communities may be the medium they provide members to communicate with each other. Members can type messages into online bulletin boards or chat rooms, then read other members' responses as they pour in. They may converse with a neighbor across the street or a kindred spirit living halfway around the world.

The Internet's power to connect people regardless of time or physical location forever changes the nature of transactions — and consumer and vendor interactions. Many brand managers discuss the imperative of reaching "markets of one" as the new marketing model. But such a model underestimates the impact of networked communities.

A key aspect of these groups is the way they orient themselves around a specific area of common interest such as parenting or investing. People formerly limited by their own personal networks are no longer constrained by time or physical location. Those with similar interests can now meet in virtual sites. Vendors finally have the potential to reach a specific category's most-dedicated customers, in one place, in a matter of minutes.

Another characteristic of a networked community is that its website includes both editorial content (determined by the site owner) and member-driven content. Members can access extensive resources related to the site's stated interest — and instantly share their experiences with each other. Site owners often encourage and support member content. Vendors gladly offer the most avid shoppers superior information about their areas of interest, better preparing them to compare and discuss experiences and products. As a result, branding includes building relationships with networked communities of users who share a common perspective and find that the brand reflects aspects of their own identity.

Networked communities continue to form. Understanding this trend and what its growth implies are critical to successful future brand-builders. Noteworthy examples of emerging networked communities that have, in effect, branded *themselves* include the Motley Fool, Parent Soup and @griculture Online — attracting investors, parents and farmers respectively.

The Motley Fool website offers discussion boards, where members compare information on stocks and trade forecasts on corporate performance. They also share editorial content and can access large quantities of financial information. A moderator introduces bulletin boards and other financial-interest resources in an interactive, knowledge-seeking forum, whose attendees learn through sharing information. Despite the fact that the site itself is free, it generates enough revenue from advertisers and products to underwrite this multidimensional, interactive community.

Organizers of networked communities can also create their own brands. The Parent Soup brand grew out of attachments community members developed with one another. Visitors to the Parent Soup website see it as a place to ask questions, and share anxieties and experiences with other parents. Parent Soup provides a full range of information and solutions. Personal attachments are strong, and the site promotes member-bonding.

The @griculture Online community (www.agriculture.com) targets farmers and other people with agricultural interests. In the past, farmers relied on neighboring farmers, local bankers, seed and fertilizer salespeople and local equipment dealers for advice. Today, they can access the latest technologies, equipment, methods and financing options online. @griculture Online members can learn about no-till farming techniques; compare equipment performance; and find the latest information on genetically enhanced seed performance, risk management and hedging techniques. Besides this wealth of information, the site offers interesting editorial content and a forum for participants to post editorial messages and share other information resources.

The membership bond is an underlying theme shared by these three sites and many other networked communities. People who participate in these sites feel a genuine sense of membership and ownership. As Internet access grows, and more network communities form, their inherent organizing principles make them a significant force for brand managers to understand — and apply to their own best advantage.

THREATS TO BUSINESS AS USUAL

The threat that these forces pose to brand equity is rooted in the fact that the consumer products industry is built on mass marketing. Every risk this section outlines may be explained away by applying conventional wisdom from inside a mass-marketing model. But tomorrow's brand landscape won't be shaped according to yesterday's mass-marketing rules. The digital economy threatens conventional brand-manager organizations. Already obsolete, mass marketing is taking a back seat to multi-level marketing and new methods of reaching consumers which are created every

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day. The premise that the brand itself is the primary source of value is also off the mark. Consumer perceptions of the brand — differentiation, relevance, esteem and knowledge — is the primary source of value. As the art of shaping consumer perceptions evolves, the emerging brand-power grid will put established brands at risk *(see figure 5)*.

Instead of selling well-defined brands to ill-defined sets of customers, digital marketing lets managers sell portfolios of branded products, services and experiences to well-defined sets of customers. Shaping the new brand landscape are the three forces just discussed: information-rich consumers, the digital economy and networked communities. They are part of an interactive system that fundamentally shifts consumer-communications patterns *(see figure 6)*.

Networked community power

As networked communities grow, they will develop buying strength and eventually be able to negotiate as a group to reduce premium prices paid for branded products. In the process, they will change the balance of power between consumers, distributors and manufacturers. Each supply chain member must prove its value. Retailers, once brand-manufacturer sales agents, will become consumer purchasing agents.

The growth of networked communities raises concerns that their organizers and other agents may come to "own" brand messages. Of course, agents don't own brands in a legal sense. But once networked-community organizers are linked to the benefits a brand message promises, objectivity is compromised, and they can exercise substantive control.

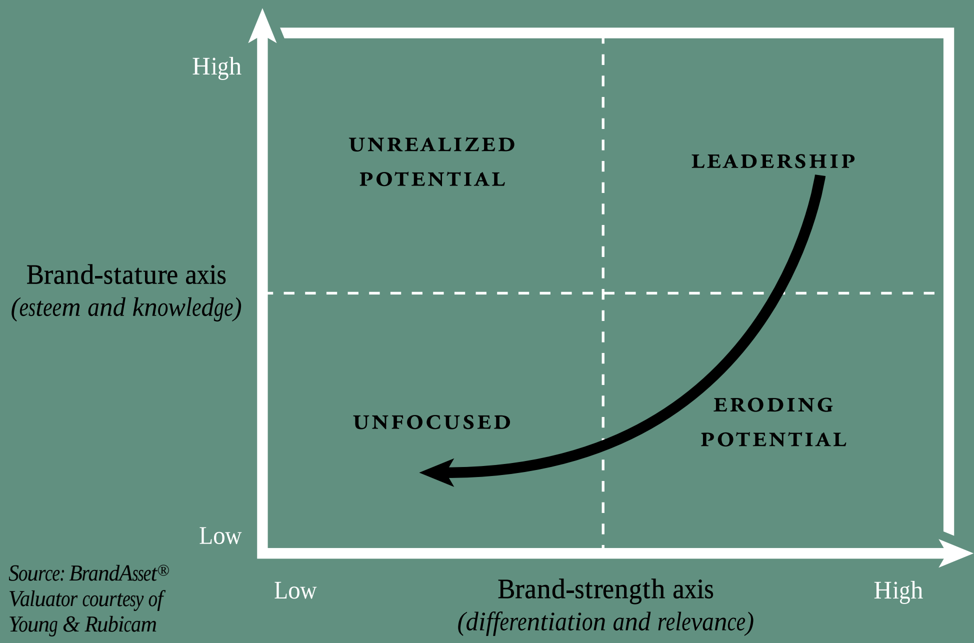
Losing control of the brand

Most consumer-brand managers control product communications and promotions through advertising, sales promotion and direct marketing. Traditionally, these media feature one-way communication and little interaction. The rise of networked communities has led to more high-impact information being communicated from consumers to manufacturers, and less from manufacturers to consumers. This noticeably alters brand management's strategic priorities.

Organizations that settle for traditional mass-marketing techniques to counter the dynamic interactions of networked communities may suffer information overload. They risk ending up with both an ill-defined customer base and a diluted brand image. As comparative shopping increases, it becomes increasingly important that pricing reflects each contribution along the value chain. For example, consumers who interact directly with a manufacturer's advertising messages to complete certain purchase transactions expect to benefit from any resulting savings in distribution costs.

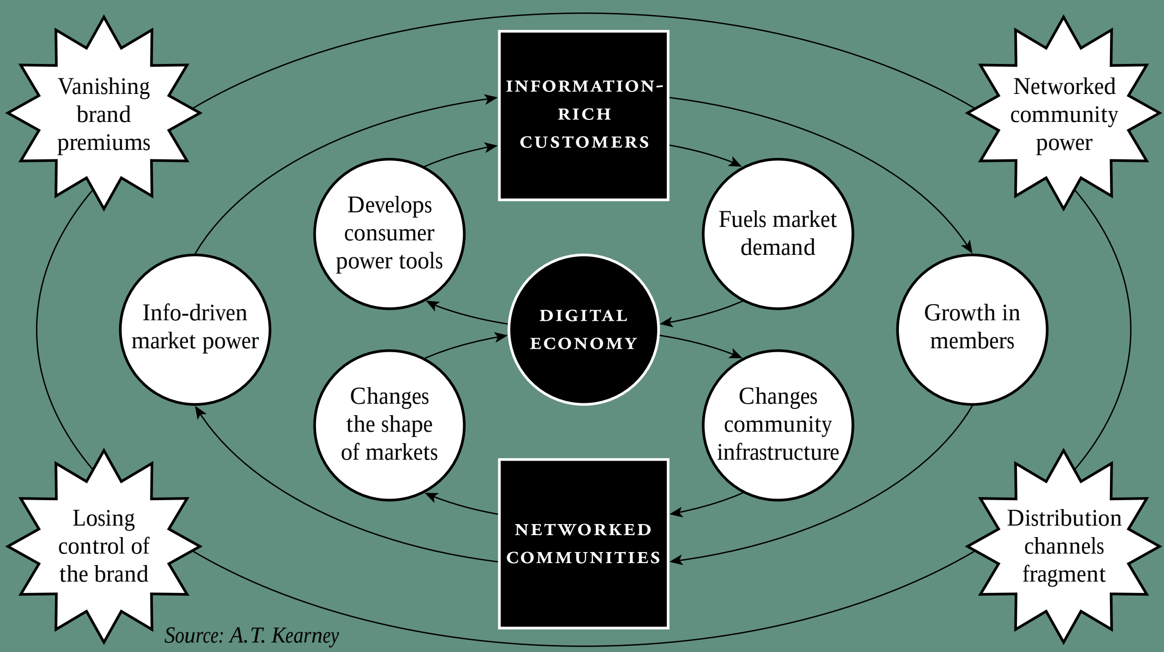
Networked communities accelerate and amplify communication between consumers. The familiar adage, "One dissatisfied customer tells 10 other people," is true. However, one dissatisfied customer in a networked community can tell 100,000 people, as Intel Corp. learned, much to its chagrin. In November 1994, a defect that Intel called "a minor bug" in millions of its flagship Pentium microprocessors grew into a public relations debacle. The defect caused computers to give wrong answers in certain complex division problems involving the chip's floating-point processor. The firm initially downplayed user concerns, pointing out that

Figure 5: The brand power grid



Source: BrandAsset® Valuator courtesy of Young & Rubicam

Figure 6: Risks on the digital economy brand landscape



Source: A.T. Kearney

the average person might see this problem once in every 27,000 years. This attitude did not sit well with researchers at California's Jet Propulsion Laboratory and at other scientific centers who immediately shared the defect — and the company's response — throughout the user community. Intel finally saw the light and agreed to exchange its defective Pentium chips at no charge to users.

As consumers communicate with each other, and networked communities' credibility increases, their sales impact increases correspondingly. Networked communities are likely to be heavy users of products in categories that drive long-term sales trends.

Fragmenting distribution channels

New competitors can use networked resources to outsource manufacturing and logistics, creating new online ventures with minimal capital investment. Consumers already shop for groceries from around the world: chocolates from Switzerland, Stilton cheese from the United Kingdom, coffee from Colombia, yams from Ghana and ramen noodles from Japan. A global logistical infrastructure like that of Federal Express can electronically combine individual consumer purchases from widespread networked communities, creating virtual economies of scale.

Future channels will depend less on geographic location and more on communities of common interest. Traditional consumer-products manufacturers organize by brand or category. This structure is changing to one based on channels such as food service and mass merchandising. The growth of networked communities requires manufacturers to align participating organizational units to reach the focused customers who comprise them.

As online purchases increase, slow-responding intermediaries — retailers, distributors and wholesalers — could lose their place in the supply chain, profoundly affecting the retail-brands landscape. An M/A/R/C Group study found that online shoppers are likely to be more loyal to their electronic supermarkets than their regular supermarket. Electronic shoppers are also especially desirable customers, spending over US$113 per visit. Findings from another study suggest that online purchases of household goods will jump from US$100 million in 1997 to US$85 billion in 2007.

In a recent interview, Streamline, Inc. founder Tim DeMello commented on the future of grocery stores: "If you look at . . . current Streamline consumer(s), we're getting 80 percent of their grocery dollars. The store still gives them some sensory experience of food, and I suppose that's of value. But if you take 80 percent of those consumer dollars away, what's left for the corner store?"

Jeff Bezos founded Amazon.com, the Internet bookstore, in July 1995. In its first 30 days of operation, the company shipped books to customers in 45 countries and all 50 of the United States. By the close of 1997, Amazon.com's revenues reached US$147.8 million. Now one of the biggest enterprises on the Internet, Amazon.com served 4.5 million customers in the first three quarters of 1998, earning US$153.7 million in revenues. However, it lost US$45.2 million in that same period. After three years, it has yet to turn a profit and has been badly hit by recent stock-market gyrations. With quarter-to-quarter revenue increases of 36

As current distribution channels fragment and change, the most serious risk that traditional retailers take is to let new entrants define the rules of the game.

percent, it is poised to grab a substantial share of America's US$17 billion retail book market. The Amazon.com advantage over traditional booksellers goes well beyond the fact that it sells books over the Internet. In 1996, Amazon.com inventory turns were 42 (and are currently more than 50) compared to 1996 Barnes & Noble turns of 2.1, according to Morgan Stanley.

In contrast, retailers have traditionally sworn by an ancient axiom, "The three most important factors in retail success are location, location and location." But this axiom no longer applies in the digital economy: Globalization has transformed *place* forever. As current distribution channels fragment and change, the most serious risk that traditional retailers take is to let new entrants define the rules of the game. Yet, this is exactly what seems to be happening. The fact is that successful players *like* the old rules — even when they no longer apply.

Vanishing brand premiums

Few consumers today will pay premium prices for branded products that lack superior value propositions. Online shopping allows rapid comparisons of price, ingredients and more. Sophisticated search tools let digital shoppers compare hundreds of product features at thousands of locations worldwide. Branded products' emotional appeal continues as part of the value equation — shoppers may compare and evaluate status and other intangible values a brand conveys, feature for feature, against competing products.

"Me too" brands are likely to suffer serious risk in the digital economy, when information-rich online shoppers have their way. Brands that fail to deliver a value proposition beyond top-of-mind brand recognition from their glory days can also expect to wither on the virtual vine. Consumers view brands as symbols that help them make high-value selections. Ready access to detailed data comparing product ingredients and performance forces each brand to communicate clearly the value it adds. This dynamic could even accelerate the growth of exceptional private-label and store brands.

Brand managers accustomed to success may consider the risk to their name brands negligible and ignore it, figuring "the world's shoppers will not desert branded products." Yet, not every consumer in the world must be a devout Internet shopper before these risks should be reconsidered: Once they affect a sizeable number of your customers, you'll take notice.

Conclusion

The growth of the digital economy, the rise of the information-rich consumer and the emergence of networked communities are reshaping the role of brands. No matter what heights of success consumer-products manufacturers and retailers enjoyed in the past, they must change with the times — or disappear.

Vendors still prize the four primary sources of consumer brand value: functional benefits, experience of use, self-expression and emotional satisfaction. These core benefits can build brand equity at home on a computer screen or in-store on a shelf. The timeless principles of customer-specific brand marketing still apply. However, they now apply more and more often in the digital economy. To build and sustain customer loyalty, every member of the supply chain must acknowledge certain forces: the economic power of networked communities, the dangers of losing brand control, the fragmentation and change of distribution channels, and the increased range of options open to consumers who refuse to pay premium prices for brands that have no superior value proposition.

Appendix: Action Ideas

Forces shaping the digital economy and "threats to business as usual" are real enough. But do they call for certain countermeasures? This appendix provides a series of action ideas designed to help brand managers target — and engage — information-rich consumers.

1. New role for the brand manager

Brand managers in the digital economy must master several new skills to compete in this fast-paced, information-rich environment.

Action ideas

- Evaluate and tailor messages that respond to the volume of consumer interactions emerging from networked communities, new media channels, scanners and other innovative information sources (such as improved customer-loyalty tracking).
- Develop innovative pricing schemes and online promotions that meet the needs of information-rich consumers and tap into networked communities' buying power.
- Access and contribute to networked community product-and-service forums through chat groups and bulletin boards.
- Create advertising campaigns that incorporate immediate ordering, flash promotions (available for limited periods of time only) and eye-catching website banners.
- Develop consumer information and services to enhance product functionality.

Today's consumer products brand manager depends on customer analysis and profiling tools, often structured as "management reports." Working with networked communities, these tools must be restructured as interactive real-time conversation-guidance systems. Tomorrow's brand manager will design virtual promotional programs as part of real-time interactions with consumers.

2. New integrated sales and service organizations

Sales force, marketing and logistics functions will intertwine. This transition will have major organizational implications.

Action ideas

- Develop and coordinate an alternative channel strategy to build online shopping.
- Measure share of online customers and share of networked community.
- Target alternative shopping companies such as Streamline, Peapod or Cybermeals as test laboratories for future innovation.
- Create innovative logistics applications to make delivery more efficient (such as designing products to fit standard Federal Express boxes).
- Incorporate consumer feedback and community discussions in overall sales strategy.
- Use call centers and online-ordering information to serve specific consumers and networked communities.
- Create a virtual cycle of identity by establishing processes to capture, interpret and respond rapidly to consumer input.
- Develop your own intranet — online or on paper — to engage employees as members of networked communities.

Howard Schultz, Chairman and CEO of Starbucks Coffee, notes: "We built the

Starbucks brand first with our people . . . Their knowledge and fervor created a buzz among customers and inspired them to come back. That's the secret of the power of the Starbucks brand: the personal attachment our partners feel and the connections they make with our customers."

Integrated customer dialogues help organizations systematically accumulate both the knowledge and the courage needed to reinvent a brand — or to invent an entire product category — as opportunities and new insights arise. Over time, customer dialogues erect formidable competitive barriers tied directly to the growing customer relationship and the customer learning loop.

3. Branding of products and services

Brands must be redesigned to meet consumer needs. Brands extend beyond traditional product characteristics to encompass lifestyle and service attributes.

Action ideas

- Develop brand differentiation and relevance around healthy lifestyles, exercise and a youthful orientation or outlook.
- Consider branding new product and service combinations. For example, Streamline, Inc. combines online home shopping and grocery delivery with dry-cleaning and videotapes — multiple services combined into one.
- Develop branded online forums by contributing advertising resources *and* employee time to facilitate conversations and become active citizens of networked communities.
- Create networked communities of loyal customers using your brand image as the center point that links them together.

Warehouse clubs thrive as a result of their highly efficient product-distribution methods. In a virtual warehouse club, physically bringing together merchandise is not the critical success factor. A recent Goldman Sachs study identified "powerful member relationships" as the real competitive advantage that warehouse clubs must leverage to succeed in a virtual warehouse-club environment.

The digital economy accelerates the discovery and branding of new market space. Why? Because inventing new market space can create enormous new wealth, and combining information-rich consumers with new digital-communications channels can quickly popularize new brands. Based on the novel idea that people need help to navigate and browse the Internet, Netscape Communications was formed in 1994 by Marc Andreessen of the National Center for Supercomputing Applications (NCSA). Affiliated with the University of Illinois at Urbana-Champaign, NCSA had created Mosaic, an early Web browser, placing it in the public domain. When he left NCSA Andreessen got the jump on Microsoft Corporation, offering Internet users free downloads of his browser (reborn as Netscape Navigator). The result: Netscape managed to seize and retain market leadership for the past three years, despite huge investments by its larger rival.

4. Advertising and media strategies

Traditional consumer-communications strategies use mass media designed to talk *at* consumers, which becomes a fundamentally flawed strategy in the digital economy. Digital advertising talks *with* individual consumers and responds in real time to networked communities' emerging needs.

Action ideas

• Promote targeted word-of-mouth advertising by responding to consumer queries through bulletin boards and chat groups.

• Target group loyalty-building efforts and networked-community endorsements.

• Combine advertising with online purchasing for immediate and targeted promotional opportunities designed around individual consumer profiles.

• Develop consumer profiles of most profitable demographic groups; use in customized media campaigns.

• Develop specific-media messages responsive to search engines and intelligent agents.

In a typical week, American adults spend almost as much time watching television as they do working (about 35 hours). Last January, cable TV giant TCI announced a new generation of TV set-top boxes that support both the Microsoft Windows operating system *and* the Sun Microsystems PersonalJava operating system. TCI's new standard programming platform blends the Internet with interactive television for the first time. This step alone will offer limitless potential for businesses to reach consumers.

5. New forms of promotion

Brand managers target promotions to immediately affect individual consumer purchases. Because Internet orders can be fulfilled at any location, geography is less important, except for tapping into the local culture.

Action ideas

• Develop targeted consumer promotions that reward individual users, based on their purchase loyalty.

• Create consumer promotions that target online shoppers of competitive products, based on their online shopping lists.

• Cross-promote your products with complementary products to help consumers create a "total package."

• Develop tailored promotions that reward users for buying as part of a networked community. Treat networked communities as potential high-volume buyers.

• Solicit consumer feedback and networked-community involvement in promotion design.

Tropicana and Peapod recently conducted a test designed to illustrate innovative opportunities to create promotions that weave brands together. Tropicana tested various online promotions pairing its juices with different breakfast foods. Immediate feedback loops provided by online shoppers allow manufacturers to vary ongoing promotions — as well as product-development priorities — in response to sophisticated consumer-signal patterns.

6. Digital packaging and pricing strategies

Price is a dominant factor for comparative analyses on the Web. Designing innovative pricing schemes helps encourage consumer sales.

Action ideas

• Continuously gather competitive-pricing information to offer customers more attractive deals.

• Provide bundled and unbundled pricing for all product and service options — such as with or without distribution, customer service, recipes or other offers.

• Tie digital technology to your niche. The Amazon.com brand, for example, could have blatantly tied its business to digital technology, as in "onlinebooks.com." Instead, it subtly tied digital technology to its business.

• Packaging on the Web is the intellectual property your brand names, trademarks and customer interfaces represent. Protecting your intellectual property rights (national and international) remains vitally important.

• Develop packaging and pricing strategies for attracting search engines to products (for example, some search engines organize search results by both content and the most recent information update).

Some websites employ neural-network software to observe consumer behavior (which links were clicked or what key words were searched) and vary promotional messages accordingly. For example, the Select Cast product created by Aptex Software develops "Affinity Profiles" for consumers as they interact with a website. Consumers can then match these profiles in real time with "Ad Profiles." This approach differs somewhat from virtual affinity groups like the Firefly Network that require customers to register and fill out an initial "Affinity Profile."

7. New customer-loyalty strategies

Consumers look for value and price. Constantly reinforce these elements to cement relationships.

Action ideas

• Address networked communities' stated interests to generate increased loyalty.

• Develop one-to-one approaches tailored to communities of interest.

• Be responsive to consumer feedback, and publish consumer comments and ideas.

• Generate community, member-based content and promote member-to-member interaction.

• Experiment with different digital-marketing business models and strategies. Develop new forms of brand promise to package consumer information creatively. For example, a brand that packages advice to help the mother of a picky three-year-old devise and deliver a balanced, nutritious diet will earn customer loyalty.

Some of today's best digital-marketing lessons are drawn from the experiences of personal-computer manufacturers. Apple Computer recently announced it would sell computers directly to customers via the Internet. Although this represents an innovative initiative for Apple, it is at least a decade behind the direct-selling opportunity curve. More than 10 years ago, Gateway and Dell Computer marketed computers directly to customers. (Initially, they sold only by telephone — then, two years ago, they went on the Internet as well.) Both IBM and Apple ranked their new direct-sales competitors by the consumer cost savings being claimed. Although Dell and Gateway offered consumers real savings, they also provided convenience, continuity and personalized advice and service that other computer retailers found hard to match.

Exploring the new opportunity spaces described herein is not free of risk. But you can minimize the cost by designing close-to-the-customer projects that return rapid feedback. *(Results from long-term experiments may be obsolete before they can be compiled.)* Investing in the appropriate computer software and hardware will help you make the most of every retail digital-marketing opportunity that networked communities provide. But your biggest investment may well be in committing the time your key people need to experiment — learning the role of brands and the role of brand management in the digital economy.

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