

Getting web feet

Branded manufacturers are making big strides selling online. How will it affect stores?

By Paul Demery

By anyone's measure, Crocs Inc. is a consumer products industry phenomenon. Launched in 2002 with an unusual clog that quickly won the hearts of children and adults, it didn't take long for Crocs to emerge as a global brand. It already sells in 120 countries and is approaching \$1 billion in annual sales.

But as popular as the Crocs brand has become, few consumers are aware of the full scope of Crocs' product line, says Chris Ladd, vice president of global Internet and retail. "We certainly don't have a brand awareness issue, but the average consumer thinks we make fewer than 10 products," he says. "Yet we make over 200 styles of footwear." That includes kids' flip-flops and sandals adorned with cartoon characters and sports logos, canvas-topped loafers for men, and boots and heels for women—and, of course, the popular clog in all of its many bright colors.

Consumers aren't aware of all those items because most of them don't make it onto retail store shelves, Ladd says. "Department stores and sporting goods stores are selective in what they carry, and we usually never see more than ten types of Crocs merchandise together in an in-store selection."

It was largely to address this issue that Crocs two years ago hired Ladd, a marketing executive with e-commerce experience at major brands like Titleist, Footjoy and Reebok, and charged him with building out Crocs' direct-to-consumer e-commerce channel in the U.S. as well as in dozens of foreign markets.

"Our e-commerce channel allows us to fully merchandise our product line and control our brand presentation," Ladd says. "It's the most overpowering thing for reaching consumers, our largest flagship store."

Shrinking stores

Crocs is hardly alone among manufacturers investing more heavily in the web. They're responding to several trends in retailing, beyond the fact that more consumers are shopping online. The recession forced retail chains to close thousands of stores, and to focus more on smaller-format locations, leaving less shelf space to display the full range of manufacturers' products.

"The number of stores and the amount of shelf space are shrinking, so manufacturers are frustrated they can't get all their products in front of consumers," says Scot Wingo, CEO of ChannelAdvisor Corp., which helps retailers as well as manufacturers sell through online marketplaces.

Retailers also are promoting their own private-label brands that afford them higher margins, and giant discounters like Wal-Mart Stores Inc. are demanding ever-lower prices, squeezing the profits of consumer goods manufacturers.

It's not that many manufacturers are ready to abandon selling through retail stores—not when that channel still accounts for more than 90% of consumer purchases. "We still find that 9 out of 10 of our customers say that, if time and distance is not an issue, they would prefer to go into a store to try on our products before buying them," says Elton Graham, director of e-commerce for James Perse Enterprises Inc., a fashion apparel brand that sells through its own e-commerce site as well as through stores.

But makers of consumer goods are realizing they can garner additional sales online and gain useful information about consumer behavior they can pass on to retailers that sell their goods, stimulating sales online and off. And some manufacturers, such as Crocs and James Perse, are coming up with new web strategies that could lead to more and more of their sales coming online.

P&G stirs things up

The growing role of the web was underscored by the announcement in January that Procter & Gamble Co., one of the largest manufacturers of consumer packaged goods, would begin selling directly to consumers at PGeStore.com. "We need to be where consumers are, and they are on the Internet," says Glenn Williams, manager of U.S. marketing strategy and scale for Procter & Gamble, the maker of many household staples like Tide laundry detergent and Gillette razors. "More and more, consumers are turning to the Internet for routine shopping and to get what they can't find in a retail store."

While P&G made clear it mainly aimed to collect intelligence on online shopper behavior via the e-commerce site—not compete with retailers that sell its goods—it was significant because the consumer packaged goods, or CPG, industry has largely ignored direct web sales, even as manufacturers of technology products like Dell Inc. and Apple Inc. and apparel makers like Levi's have sold successfully online, notes Wingo.

Now with P&G's web store and Alice.com, a new retail e-marketplace exclusively for CPG manufacturers' products, the most conservative of consumer products industries in terms of e-commerce is making a major move online, giving even more credibility to e-commerce as a vital channel for all consumer manufacturers, Wingo says.

Other CPG manufacturers are already following suit.

"P&G announced their retail web site, and now everyone in the CPG industry wants a web store," says Brian Wiegand, co-founder and CEO of Alice.com. Alice, which launched in January, already channels sales for more than 150 consumer goods makers, with several new manufacturers added each week, Wiegand says. Alice also develops separate retail web sites for CPG manufacturers, with about 30 built so far, he adds.

Long tail of CPG

"Retailers' shelves have a limited amount of space for products, but Amazon.com has shown us that a web site can have thousands of products—and thousands of retailers—in a single e-commerce site," Wiegand says. "We think we can have the same for manufacturers, with a long online future for the long tail of CPG products."

Many CPG companies with hot products to sell, he adds, are finding an alternative home online. "There are thousands of CPG manufacturers not on Wal-Mart's shelves because they don't have the clout to be on a large retailer's shelves, but these include some really cool companies," he says. For example, Vaska Inc., a manufacturer of organic body lotions and shampoos, and Citra Solv LLC, a manufacturer of cleaning products made with citric fruit extracts, are selling on Alice.com but list few retail chains as retailer partners, he adds.

While many consumer products companies are investing more heavily in the web, however, their strategies and goals for engaging consumers online are not all alike.

While P&G created a stir when the PGeStore launched in January, for instance, the big manufacturer has no long-term plans to actually sell directly to consumers, Williams says. "We're not a retailer and have no intent to become a retailer," he says. That's no doubt a relief to the online retailers that, according to Williams, sell \$500 million of P&G products each year via the web.

Web crucial to growth

In fact, Procter & Gamble won't directly operate PGeStore.com, which is due to go live this spring. The e-commerce site is owned and operated by PFSWeb Inc. under a licensing agreement with P&G that grants the manufacturer direct access to the site's information on sales and customer shopping behavior, Williams says. PFSWeb, which will operate PGeStore on a software-as-a-service e-commerce platform from Demandware Inc., will own the P&G inventory sold on the site and handle all fulfillment and customer service, he adds.

Nonetheless, P&G sees the ability to engage consumers online—and have direct access to data about how they shop—as crucial to its growth, Williams says.

He says the e-commerce site will provide P&G with direct information about online shopper behavior that it can't

get from its existing online social media campaigns—including exposure on Facebook and Twitter for many of its major brands including Gillette and Pampers. While those efforts build brand awareness, Williams says, to really take advantage of the e-commerce channel P&G needs a better understanding of the way consumers shop online, he says.

P&G already is good at understanding how consumers shop in stores, he says, and now it needs to do the same online. “We have a saying at P&G, that when a customer is standing in front of our products on a store shelf, that’s the moment of truth—when she makes the choice between product A or B or C. We have an understanding of that moment of truth in physical stores, but we need to learn how shoppers handle their moment of truth when in front of a computer screen.”

“As the web continues to play an ever-increasing role in helping shoppers make those decisions, we want to have a leadership role in the online channel the same as we do in the brick-and-mortar channel,” he says. “In stores, we design product packs that we know sell on store shelves, but do those same packs work online? We’ll have to see.”

PGeStore.com, Williams says, will serve as the company’s online laboratory for testing how all of its brands and nearly all of its products sell on the web. It can then use that information, he says, to help retailers better sell P&G products directly online, or to present them on the web in a way that will lead to more sales in stores.

A company with \$80 billion in annual sales, however, P&G is not interested in developing its own direct-to-consumer e-commerce channel, Williams says. “We’re interested in enabling our online retailers to be better sellers of our products.”

Branding and sales

But other manufacturers are turning more attention to selling directly via the web, even if it leads to more competition with stores that sell their goods.

At James Perse, which sells through high-end retailers like Nordstrom and Bloomingdale’s in addition to hundreds of independent fashion boutiques as well as its own chain of 14 stores, the goal of its e-commerce strategy is to both build its brand and to sell, says Graham, the director of e-commerce.

“We see our web site first as a branding channel, and secondly for direct sales,” he says.

High-end apparel stores typically sell merchandise from several brands as well as their own private labels, and usually carry only a limited number of products from James Perse, Graham says. That means they cater to the more casual shopper of Perse apparel.

“Retailers do a good job of kitting our products together, but our core customer might be disappointed to see our merchandise in only three tops in two colors when visiting a retailer,” he says. “But on our retail web site, they can view dozens of tops in a whole color palette. For us, it’s all about communicating to that core customer and satisfying their expectations of having something to engage with.”

By engaging directly with consumers through its own e-commerce site, which it launched in 2008 on a licensed technology platform from Art Technology Group Inc., James Perse has learned how to better market to its best customers while also controlling the presentation and pricing of its brand, he adds.

The company has used the customer relationship management and personalization technology built into its e-commerce platform, for example, to increase sales among its best online customers. After identifying its most high-value customers—for example, those who spent \$1,000 on its web site in the prior quarter or new shoppers who have extensively researched its brand—James Perse has realized high conversion rates when reaching out to them with a personalized e-mail message or even a handwritten note suggesting products they might like along with a complementary offer like free shipping. “We have seen conversion rates of 30% in these scenarios,” he says.

Although James Perse has a policy of avoiding price discounts in order to protect its image as a high-end brand, it

has also used the e-commerce channel to offer special promotions, such as sharp discounts on end-of-season merchandise, only to a select group of customers who have spent a minimum amount in the prior month or quarter. "This doesn't create a channel conflict with retailers, and it allows our core customers to see the benefit of creating a relationship with us," Graham says.

Driving trends

He adds that James Perse chose the ATG platform for the flexibility and control it provided the brand in addressing changes in its market. As online retailers like Gilt Groupe Inc. and RetailConvergence.com LP's Rue La La launched trendy e-commerce sites in recent years offering invitation-only sales to its members, James Perse was up and running with its on invitation-only sales feature on its site in early 2008, Graham says.

Going forward, the brand will continue to seek ways to leverage the online channel, he adds. "One of the challenges we see in doing business online is how we can replicate the clienteling we do offline in stores, where we'll have a stylist setting appointments with customers and where store associates might have six outfits prepared when a customer arrives," Graham says. "We're looking into how we can do something similar online with our CRM and personalization systems."

While such endeavors will generate more direct sales online, he says, James Perse sees its overall e-commerce activity as a way to build more followers of its brand offline as well as online. "Our e-commerce sales are incremental growth but not at the expense of our traditional retailers," Graham says. "Selling online creates new customers that can cross to other retailing channels."

Web sales also produce data that manufacturers can use to make the case for more space in stores.

At Crocs, its success with the e-commerce channel is beginning to generate ways to get more of products into retail stores, Ladd says. The information it has already gained on how consumers shop across its product line—for example, how a woman who buys classic clogs for her kids may also purchase Crocs boots for herself and sandals for her husband—is proving valuable in efforts to get support from its retail partners as well as within Crocs to try something new.

But Crocs' strategy is not just about retailers selling more of its products in stores—the footwear maker also is embarking on a plan aimed at helping e-retailers sell more Crocs goods through their web sites.

"Phase Two of our e-commerce rollout is to create a drop-ship program with key retailer customers that allows them to merchandise our entire product line on their own web sites without having to take possession of the inventory in their distribution centers," Ladd says. "We'll accept their forwarded orders and ship to the consumer on their behalf."

Crocs' program illustrates that manufacturers are less willing to let retail chains decide which of their products consumers get to see—not when the Internet provides manufacturers with a way to reach consumers directly.

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