Building
retail brands

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Establishing and communicating a brand may be harder for multibrand retailers than for their single-brand counterparts, but brand building is essential for both.

Facing a marketplace overflowing with stores, most retailers have spent the past several years tirelessly searching for new ways to grow. In the case of runaway successes such as the apparel manufacturers Nike and Calvin Klein, the secret appears to be strong, well-leveraged brands, which, McKinsey research shows, add five points on average to shareholder returns. Do retailers have the same access to brand magic? Vertically integrated ones certainly do. Companies, such as Gap and Victoria's Secret, that

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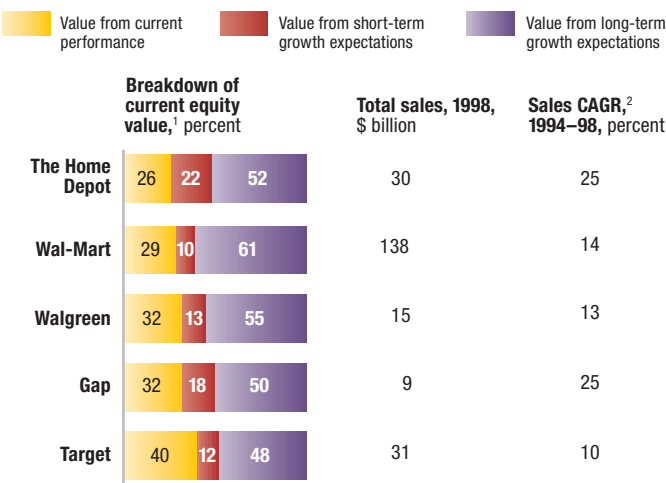
BRAND

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design, manufacture, and market their own products have very substantial long-term growth expectations embedded in their share price, reflecting, in part, the expectations created by their brand strength (Exhibit 1).

EXHIBIT 1

Great expectations: Strong brands influence share prices

■ Value from current performance ■ Value from short-term growth expectations ■ Value from long-term growth expectations

	Breakdown of current equity value,[1] percent			Total sales, 1998, $ billion	Sales CAGR,[2] 1994–98, percent
The Home Depot	26	22	52	30	25
Wal-Mart	29	10	61	138	14
Walgreen	32	13	55	15	13
Gap	32	18	50	9	25
Target	40	12	48	31	10

[1] As of January 31, 2000; assumes US inflation rate of 2.7%.
[2] Compound annual growth rate.
Source: FCG Marketing branding survey, 1998; analyst reports; McKinsey analysis

Some retail brands have been built from the ground up virtually overnight. One vertically integrated single-brand retailer—Old Navy, Gap's retro-hip discount concept, offering a proprietary line of value-priced family apparel—sprang onto the scene in 1994. Five years of phenomenal growth later, Old Navy had sales of $2.6 billion and could claim to be the first retail chain to have reached $1 billion in sales within 48 months of its launch. There seems to be no end in sight: Old Navy plans to add upward of 140 stores to its base of more than 420 this year and then to expand overseas.

But the picture is quite different for retailers—category killers, department stores, discounters, and the like—that sell a range of other companies' brands. Although some multibrand retailers have managed to command a national brand identity (in Sears's case, one founded on reliability), many suffer from a lack of brand distinctiveness independent of the brands they carry. In fact, many multibrand retailers have lavished more thought and care on those brands than on their own banner.

But the multibrand retailers, like their single-brand counterparts, can and must create a brand personality with which consumers want to identify and rethink the underlying business system that is needed to deliver it. According to our analysis of retailers in a number of formats, consumers actually make more frequent visits, check out larger-than-average shopping baskets, or pay price premiums at the stores of brands they perceive as strong (Exhibit 2).[1]

[1] See David C. Court, Mark G. Leiter, and Mark A. Loch, "Brand leverage," *The McKinsey Quarterly*, 1999 Number 2, pp. 100–10.

A powerful personality

The building of a brand starts with a precise definition of the target customer group and its needs and expectations and proceeds to a realistic assessment of how well the brand currently meets them. Next, the retailer must decide which of the benefits it can offer will give the brand a distinctive position in the marketplace. Then the retailer's marketing and advertising efforts must fashion an image around the brand that is not only consistent with these benefits but also credibly promises that they will bring excitement and satisfaction.

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For example, the single-brand clothing retailer Abercrombie & Fitch has developed a powerful personality that is fun-loving, independent, and sexually uninhibited—a winning formula with teenagers and college students. To remain familiar with teen tastes and to spark ideas for new merchandise, A&F sends about 30 staffers to college campuses each month to chat with students about what they play, wear, listen to, and read. This kind of research led to A&F's recent success with wind pants. (These resemble track-and-field pants but are generally made of nylon.) The stores themselves, featuring comfortable armchairs, are designed to be gathering places. They are staffed by high-energy "brand reps" recruited from local campuses and dressed in A&F clothes. Selling skills are not required; the job is to look good wearing the company's brand and to have fun inside the store. In some sense, the merchandise is supposed to sell itself.
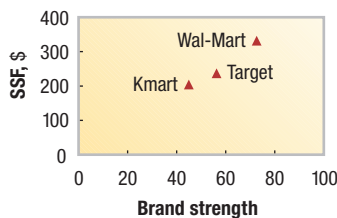
A&F's main promotional tool has been its controversial "magalog"—a quarterly
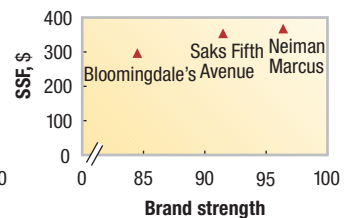
EXHIBIT **2**

Strong brands drive performance

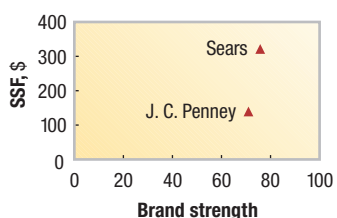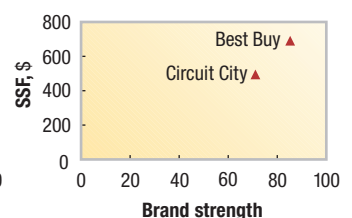Correlation between brand strength[1] and annual sales per square foot (SSF)

[1] Index of quality, distinctiveness, and consistency.
Source: FCG Marketing branding survey, 1998; analyst reports; McKinsey analysis

magazine-catalog crammed with product information, sexual imagery, and provocative articles (such as "Condoms in ample supply" and "Drinking 101"). Large blowups of enticing photographs from the magalog appear in store displays. This potent combination of aggressive merchandising, imagery, and promotion gave A&F's stock a handsome price premium. It also allowed the company

> A&F's chief **promotional tool** is a "magalog" with provocative articles, like "Condoms in ample supply"

to clock double-digit annual growth in comparable-store sales in the late 1990s. But lackluster comparable-store performance in the fourth quarter of 1999 suggests that A&F will have to work still harder to keep essentially fickle customers loyal as Delia's, Gap, Old Navy, and the like vie for their attention.

Another single-brand retailer with personality is Victoria's Secret, whose well-known fashion models suffuse its underclothes with beauty and sensuality. The salonlike feel of the stores and the very large representations of popular models displayed in them project this personality throughout the customer experience.

The multibrand challenge

Evoking such powerful associations is much more difficult for multibrand retailers, which don't shape and control every aspect of the merchandise they sell or every instance of its exposure to the public. Traditionally, multicategory retailers haven't aspired to attain the indelible personalities of their vertical competitors but have instead sought to distinguish themselves along functional dimensions, such as price, convenience, and service.

But a new breed of multicategory retailer combining functional benefits with the emotional and relationship benefits that give a brand a true personality in the eyes of consumers has now emerged. Two on-line grocers, Webvan and Streamline.com, are among the many multibrand retailers seeking to build brands around the emotional benefits—a life free of humdrum tasks like grocery shopping—that functional benefits such as convenience, assortment, and rapid customer service can provide. Webvan offers deliveries within 30 minutes as well as such specialty products as flowers, high-quality prepared meals, cigars, and an extensive assortment of fine wines. The emotional appeal of the two services is reflected in Streamline's motto: "Life just became a whole lot simpler."

Kohl's, another successful multibrand retailer, racked up compound annual growth of 22 percent in sales and 30 percent in net profits between 1992 and 1998 by starting with a clear defini-
tion of its target market. Focusing on customers for middle-market apparel, the chain has carved out a distinct position between discounters and department stores. Parquet floors, recessed lighting, and elegant fixtures create a department store feel, and the merchandise on display consists of well-known national apparel brands generally offered at promotional prices. Kohl's has also tried to simplify the shopping experience by locating its stores outside of crowded regional shopping malls and by expediting the checkout process. The chain's advertising tag line—"That's more like it"—helps make Kohl's patrons feel like savvy shoppers.

EXHIBIT **3**

Wal-Mart's personality characteristics

Percent who "strongly agree" or "somewhat agree"

Friendly	93
Trustworthy	88
Respected	86
Caring	80
Fun	67
Exciting	53
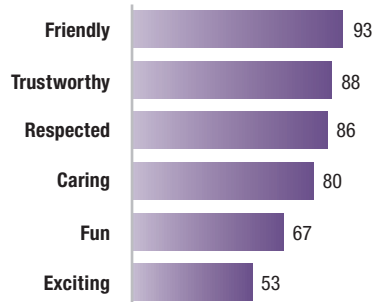
Source: FCG Marketing branding survey, 1998; McKinsey analysis

Translating brand-building aspirations into reality calls for management attention across the entire business system. Few management teams are more focused on this issue than Wal-Mart's. The retailer's store greeters and folksy style portray the chain as a friendly and trusted partner in a complex world (Exhibit 3). Wal-Mart honors the promises it makes—the lowest everyday price—by stocking national brands at low prices in a down-home service environment. To ensure that the goods offered at these prices are actually available in the stores, the company has developed Retail Link, an information system that informs both suppliers and store managers of each product's inventory level, order status, and location in the distribution system. The electronic sharing of data permits buyers and store managers to plan precisely how to meet demand in each store. Every Saturday morning, the company's senior management takes part in a teleconference that focuses on the rapid correction of lapses in supply-chain product deliveries. Wal-Mart also assures a high level of service by offering performance-based incentives to employees at virtually every level.

Target, the home-furnishings and apparel retailer, has also crafted a clear brand personality, but one occupying upscale
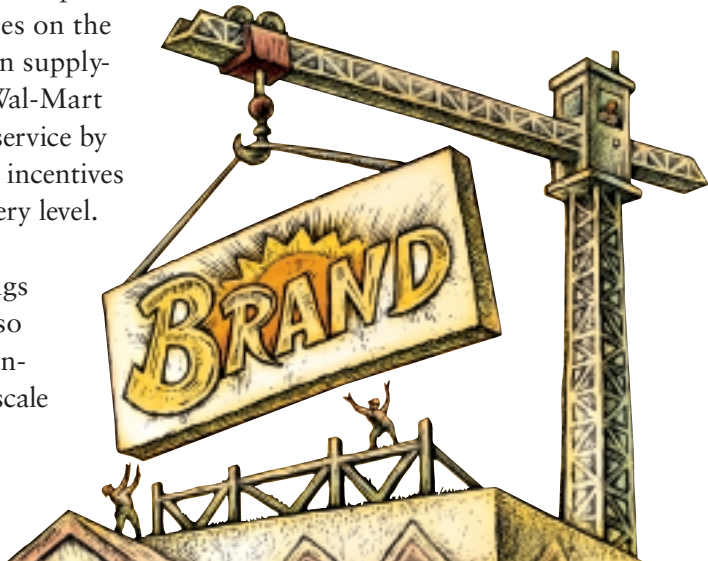
territory by mass-merchandise standards. The chain aims to project a trend-setting personality to families that, though younger and more educated, fashion-aware, and affluent than those shopping at Wal-Mart, are still value conscious. Target's customers have come to expect well-designed branded and nonbranded merchandise that can't be found in other discount stores—for instance, kitchenware designed by the architect Michael Graves, Stiffel lamps, and Mikasa tableware. The chain's awareness of contemporary fashion springs from a trend-focused apparel team that gets much of its inspiration from Europe. In a sign that consumers understand the brand's image, some Target shoppers wryly pronounce the chain's name with French fashion flair: "tar-ZHAY."

In a sign that shoppers understand **Target's brand image,** *some wryly pronounce the chain's name with French flair: "tar-ZHAY"*

Once retailers have devised the value proposition and personality of a brand, they must give it visibility. Target created its "bull's-eye" ad campaign purely to build a brand image. The conspicuous absence of products in these ads broke all conventions of retail advertising; consumers instead encountered a vivid dancing logo that associated the brand with a stylish contemporary lifestyle. Such advertising, which places the brand and the promise of the store ahead of its merchandise, is likely to become more common in the industry.

Another important step in the brand-building process is assuring a brand's proximity to consumers. For the sake of customers' convenience, the office supply competitors Staples and Office Depot, for example, have begun putting smaller stores in more locations, expanding the definition of the brand by giving the consumer access to a killer assortment of goods through whatever format or channel best suits a given transaction. The culmination of this trend, of course, is electronic commerce over the World Wide Web. Big-box retailers in particular increasingly face the challenges of multichannel management and the need to provide a consistent brand statement across each channel. The ultimate mix of channels remains to be seen.

It is impossible to imagine a retailer surviving and flourishing in the years to come without creating a genuinely robust brand. Establishing and communicating it is more difficult for multibrand retailers than for their single-brand

counterparts, but brand building is essential for both. Senior managers must make building the brand an integral part of how they think about the business, whether they are deciding what their target segments will be or how to speak to customers. Multibrand retailers must take back from their vendors full responsibility for managing their banner brand. Only then can they build and maintain all of the value-creation potential of the names on their doors. *M*Q