

Anti-Diversion Strategy: Professional Skin Care & Beauty Brands

Situation Overview

Professional Skin Care Manufacturers distribute their products through a variety of channels and methodologies. Depending upon the company, these may include: specialty retailers such as salons and wellness centers; skin care professionals such as dermatologists, plastic surgeons and estheticians; multi-level marketing organizations; and, direct sales through infomercials, catalogs and websites.

Distribution of Professional Skin Care products was once dominated by medical care providers, followed by spas & salons. However, as mainstream marketers such as Olay, Lancôme, Neutrogena, Clinique, and Estée Lauder have entered the market, competition has increased and distribution expanded to traditional venues such as department stores, beauty supply stores and drugstores. In fact, this segment of the industry is now the second largest, with growth exceeding sixteen percent in 2004.

The advent of the internet and online sales presents another challenge to the industry. As product category choices and availability increase, manufacturers must match demand with supply or suffer losses in potential growth.

At the same time, in order to preserve the distribution channel, perceived value/price point, and brand cachet, Professional Skin Care brands cannot be distributed through the same venues available to mainstream marketers (e.g. drugstores, mass merchandisers and low-end department stores). As a result, manufacturers must pursue greater traction in the segments appropriate to the brand where mainstream marketers are now also competing.

Product diversion acts as a direct threat to brand value. While it may not be possible to eliminate all diverters, it is possible to disempower them by eliminating the primary reason for their existence. By meeting demand of a growing base of online shoppers, and by policing supply flow, manufacturers are able to curtail diversion. Global Diversion is increasingly becoming a threat to the value of brands in overseas markets.. Products are exported outside of the US and sold online around the globe at US prices that are often 20-30% lower than foreign prices. Of equal importance are the price-cutting practices that are occurring at US websites. Although the price spread is not as dramatic in the US as it is in foreign markets, small diverters will cut prices to secure sales. Large diverters are willing to discount, effectively creating "loss

leaders”, that attract customers to the myriad of other products they offer. Some merchandisers will even offer product that they, themselves, must purchase at retail, for the sake of boosting their apparent legitimacy to the marketplace.

Customer Defections attack profitability. Lack of inventory at a retail store often causes defection to another product, and for die-hard internet shoppers who know exactly what they want, lack of online commerce also causes defection. Shoppers at websites such as strawberrynet.com are offered many competing brands and ancillary products competing for a finite number of consumer dollars. A Harvard University study shows that by retaining just five percent of your customers, profits rise by no less than twenty-five percent.

The Challenge

For Professional Skin Care & Beauty Manufacturers, maintaining brand value is critical to the success of their business. Competition among manufacturers for the loyalty of their channel partners is fierce and depends upon the manufacturer’s full support of its partners. Diversion, and the brand devaluation it causes, disincentivizes channel partners. The challenge is developing a strategy and system that will combat diversion, reduce channel partner defection, and maintain brand value while the manufacturer sells across multiple channels.

The Solution

Combating Diversion requires several proactive and interactive measures to be taken concurrently.

1. Restricting worldwide internet sales to the brand website
2. Revising the distribution strategy to funnel all online sales to the brand website
3. Rewarding all legitimate channel partners for online sales made at the brand website that would otherwise have occurred offline or at partner websites
4. Educating the entire channel on how diversion, defection and brand degradation negatively effects the bottom line of all channel partners
5. Converting diverters to legitimate channel partners who play by the brand owner’s rules
6. Informing consumers that products acquired through unauthorized channels may not be authentic, may have been tampered with, may be old or incorrectly stored, etc. This can be achieved through a corporate campaign and/or in conjunction with other companies and/or through industry associations
7. Driving traffic to the brand website by flooding search engines, continually optimizing website pages, and purchasing search engine performance optimization for the first 20 positions in all major search engines.

Benefits of an Effective Channel Management Solution

Not all solution providers are alike. When looking at solution providers such as those below, the best of breed will deliver:

- The ability to sell online at the manufacturer website without competing with their channel partners
- Reduction in order processing cost and time. Some industries have saved up to 72% across the entire distribution chain.
- Increased order size as the result of ease of use and access. Some industries have experienced increases as high as 30%
- 24/7 ordering availability to all partners
- Increased order accuracy for all partners
- Direct consumer access that will enable the manufacturer to conduct product research and obtain valuable customer feedback
- Up-selling and cross-selling abilities for other products
- Absolute control of brand and customer experience at manufacturerbrand.com
- More time for channel partners to offer improved customer service and prospect for new customers.
- Channel Partner relations that are grown on a strong platform of trust where the rules of engagement are established and published

for everyone to see and understand.

- A credible demonstration of fairness to all channel partners
- Flexibility to implement or enhance the manufacturer's traditional business rules in an online environment.
- An equitable channel partner identification and selection process
- Reduction in handling, loss, theft, damage, insurance, and warehousing needs for channel partners

Solution Providers

The cornerstone to the strategy requires an expert Channel Management company with a software solution. The following companies provide various solutions, one or more of which may be suitable for your circumstances.

BeFree/Commission Junction

BFast® Technology

www.commissionjunction.com

805-730-8000

Commission Junction, is a leader in performance-based online marketing, delivering advanced solutions that facilitate strategic online relationships between advertisers and publishers, driving measurable results for each client. By publishing performance metrics on advertisers, publishers, and ads within its marketplace and leveraging its own expertise in online marketing through service, education and promotion, Commission Junction creates

an open marketplace of low risk and high reward for its clients.

ChannelWave/Click Commerce

www.channelwave.com

800-862-5596

ChannelWave understands the complexities of marketing, selling and servicing products and solutions through multiple, complex distribution and delivery channels. Our multi-channel CRM solutions include best-of-breed channel management, e-commerce and service automation applications and managed services that deliver the bottom line results you need most – more sales and higher margins.

Found/CRS Retail Systems

www.found.com

(845) 567-1234

CRS Retail Systems provides retail management software, hardware, and services to empower people in retail operations to drive sales, enhance customer service, and more profitably manage an integrated, multi-channel enterprise. CRS Retail Systems has the experience and vision to bring together best-of-breed Technology in the Service of People.

iMediation/Haht Commerce/Global eXchange Services

www.gxs.com

919.786.5200

The HAHT iChannel solution allows manufacturers to reach end buyers through

channel partners while still owning the brand and product content and maintaining insight into buyers' response to marketing and promotional efforts. This online marketing is managed in the context of a complete business cycle of managing the channel partnership, creating co-branded offers, observing customer response, and fine-tuning or personalizing subsequent impressions

Reshare® Corporation

www.reshare.com

866.908.0818

Reshare® is the leading Distribution Relationship Management™ (DRM) software and strategy company with the only patented DRM solution that enables manufacturers and brand owners to sell online directly to end users without circumventing their valuable channel partners. With over 20 years of online experience across a multitude of industries, Reshare offers software and strategies that resolve channel conflict, guarantee complete brand control and enhances relationships between all channel partners and end users. They are unique in that they focus exclusively on channel management.