

Q1/05 Knowledge Report: Diversion Devalues Brand Equity

Brand is the relationship between people and products – the culmination of thoughts, essences, feelings and beliefs each of us has towards a given product or service. It is a summary of what a customer expects of a product, over and above the product or service itself. Brand is arguably the single most important asset a company has. In many instances, product brands are significantly more powerful than retail brands. Because consumers think of product brands with far greater frequency than they think of the retailers that sell the products, the only intuitive place for them to shop is "brandname.com."

Product Diversion is the deliberate distribution of product into a market, segment or geographical area other than is intended by the brand owner. Anyone in the distribution channel can cause diversion: retailers, distributors, manufacturer representatives and manufacturers themselves.

Counterfeiting is the duplication of a branded product by someone other than the brand owner. It can involve unauthorized overages in production, defective goods distribution, or complete product re-engineering/production.

The internet has radically changed how consumers gain knowledge and access to products and services. While this has benefited the economy, it has also promulgated a perfect environment for the sale of diverted and counterfeit goods.

Imagine a pair of Calvin Klein jeans that retails for \$48 in a Department Store but sells for \$23.95 at Costco. Not only is the Calvin Klein brand devalued, but the Department Store brand suffers as well; their customers will question the value of other products and whether or not the store offers fair value. As Bloomingdale's Chairman, Michael Gould put it, "I'm concerned wherever there's an erosion of a brand. Once an upscale brand goes into mass-discount distribution, it's over."

The internet presents an even more insidious problem for manufacturers, distributors and retailers. What is a \$20 bottle of Aveda shampoo worth if it can be purchased online at "beauty&drugs.com" for \$7? Seven Dollars! Even if it is sold online for the same price as in a salon or spa, the cache and branded experience are lost.

Furthermore, when purchasing from such websites, can one be assured the product is authentic and untampered? With knockoffs on the rise, manufacturers must focus attention on assuring that consumers get authentic product – especially in the case of items such as shampoo, vitamins, safety equipment, food and pharmaceuticals.

In response to the laws of supply and demand, customers who are unable to procure products through the legitimate source of "brandname.com", resort to searching the internet for alternative sources and buy diverted or counterfeit goods.



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Callaway Golf's repair facility has seen countless counterfeit clubs made of welded steel instead of forged titanium. Who cares? The defrauded customer who bought the clubs online, "saved" \$1000, spent \$2000, and ultimately lost it all. Who else? The underpaid seasonal golf pro who spends all his time educating customers, only to lose his business to an internet scam. Last but not least – Callaway, whose would-be customer associates the brand name with a bad product and a bad experience.

Finally, in order to reduce defections, a manufacturer's branded website must be the only online source from which customers can buy branded products. By sending a potential customer away from "brandname.com" to another website or another channel, the manufacturer risks losing its customer to a competing brand on another website or at a retail store.

How do we solve these problems? The internet is here to stay – there's simply no denying it. The laws of supply and demand are indelible – people will buy online from the most intuitive source whether manufacturers, distributors or retailers like it or not.

The solution is a tenet of best practices in customer service and marketing – deliver the customer what they want, how they want it, when and where they want it. Do it in the simplest and most intuitive way. At the same time, protect your brand value, and control the customer experience. Achieve all this by offering your products online exclusively at

"yourbrandname.com". Then, through profit sharing, reward your channel partners for their overall role in your distribution as relationship builders, customer service providers, product recommenders, etc.

Become part of the collective that supports this premise before we see the demise of brands and the economic decline that will result. Fight diverters and diversion tactics at every level of distribution with the knowledge that you are saving your brand. Recent studies from Forrester Research show that multi-channel consumers spend up to 30% more than consumers in general, so it behooves any profit-minded brand owner to pursue this strategy.

There are several exceptional channel consultants, strategists and technology providers that offer channel management solutions or software. Educate yourself to make an informed decision.

Reshare® is the leading Distribution Relationship Management™ (DRM) software and strategy company with the only patented channel management solution that enables manufacturers and brand owners to sell online directly to end users without circumventing valuable channel partners. With over 20 years of online experience across a multitude of industries, our software and strategies resolve channel conflict, guarantee complete brand control and enhance relationships between all channel partners and end users while increasing revenue, market share and profitability.

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