

RTG Newsletter

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FROM THE PRINCIPAL'S OFFICE

While the retail industry anxiously awaits what will hopefully be a higher-sales holiday season, we are cautiously optimistic. Hopefully, we will see many of you at the NRF Annual Conference in January. (I think this will be my 38th...) In this newsletter, Bob Berger takes a folksy approach at the pro and con of selling luxury brands on the Internet. Have a wonderful holiday season!

Bob Amster - Principal, RTG

"To Site or not to Site..." - not by William Shakespeare

By Bob Berger

To site or not to site, that is the question for very high-end retailers. Should they use Web channels to sell their products? Here are a few bi-polar thoughts on the subject. We welcome your comments.

The brand must be protected

Whether clothing, jewelery or art, the brand must be protected. At the high end, this supports the WNOK (Web Not OK) position. Putting more product out there dilutes the exclusivity features of the brand. Companies such as Gucci, Zegna, and Chanel, for example - all of which have their own brick-and-mortar stores - have their own Web sites, but don't sell their products on the sites. Dior allows customers to order product, but only by dialing a toll-free number. Hermès appears to allow customers to register online and order directly from the Web in the US only.

Increased sales at higher margins

One could argue that, in these tight times, the additional sales generated by the web will provide additional sales and better than store net margins. This additional revenue can be used to preserve valued employees, pay the rent and increase the value of the enterprise, particularly if it is interested in merger or acquisition. This is an argument for WOK (Web OK).

Selling through other eCommerce channels or "What will people think?"

Salivation occurs at the thought of moving a few thousand Dior dresses through Sears but what will that do to the image that allows the designer to command very high retail prices for uniqueness as well as style and fabric quality. Dior on the Sears website... There's a thought! WNOK (Web not OK).

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Offerings to customers that don't live near, or frequent large retail cities.

That's a good idea. Sometimes you just need a \$2,500 handbag for a fund-raiser and it's not worth the trip from Omaha to Dallas. Using the brand owner's website to display selective product could be a plus. It ups sales and margins and is aimed at current loyalty customers. WOK. Noteworthy, some upscale brands, once they know you or you have been a customer in a store, will allow you to order via the Internet.

How urgent is this problem?

If the designer is in severe financial straits and drastic financial or managerial changes loom, as has happened to several fashion houses recently, the temporary opening of a website might be a good idea. This has the same effect as a pop-up store on the high end. When the crisis is over, the site's productivity and effect on the retail channel can be evaluated and closed or re-merchandised if necessary.

As sales increase at the web, what is the effect on exclusivity?

Does the opening of the site permanently affect the value of the brand? This is a serious question as the forces in play are those who argue for short-term gains for all the usual reasons vs. those who wish to maintain long-term distinctiveness. The circumstances of each company will determine the weighting, but this decision is much more important than it may seem at the time and requires careful consideration.

How should prices be set on the web?

Traditionally, web prices are lower than retail price as the customer perceives savings, which they expect to be passed along. This is particularly true when the products are commodities.

If you are going to buy a Nikon camera, for example, once you have identified several reputable web merchants, the only thing that matters is price. The item is now a commodity. In the high-end exclusive categories we are discussing, there are no alternative stores carrying the goods so the only competition is the merchant's channels themselves. This argues for maintaining store pricing and using the web for customer convenience. Sales of these high-end products usually require assistance by store staff who are better able to trade up, add on and offer special assistances such as tailoring which are absent from the web.

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That being said, in this environment, the designer should make the web support the store operation though identical pricing.

Accessibility and exposure cannot be as well controlled on the web as they can be through retail stores. One possibility is to create a special website with a password unlock which can only be gotten by contact with a retail store or through a headquarters customer service agent.

Whichever choice the high-ender makes will depend on how the company sees itself and how it wants its customers to view it. Is the brand's plan short-term or long-term? Are its owners, investors or shareholders comfortable with lower, slower growth? Is manufacturing capability available if sales rise 25%? Will store sales be cannibalized? Will the fashion leaders migrate to more exclusive brands and turn the retail arm into common dress shops? How long should a change be tested, et cetera, et cetera, et cetera?

All problems have solutions. The decision to open a site is much more difficult at the high end than it is for Target. What is needed in this rarefied stratum is a careful examination of the alternatives and their unintended consequences. Debate, decide, act and correct.

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WHAT'S NEW WITH US

Northwest Company

We just completed a very successful engagement with this large Canadian retailer to conduct an assessment of the state information systems for this retailer serving Northern and Western Canada, Alaska, the Pacific, and the Caribbean. We deployed a cadre of six seasoned veterans and addressed almost every function in the company.

eCommerce Web site

Robert Lawson is engaged at a 400-store retailer to help that company with the evaluation, selection and eventual implementation of eCommerce solution providers to replace existing systems.

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Interim CFO

Duane Wolter is engaged as acting CFO for a casual apparel retailer on the West Coast. Duane is often called upon to act in this capacity, to provide expertise in turnaround work, and developing streamlined accounting functions.

Highland Consumer Fund

We are conducting a project to identify alternatives for conducting customer Surveys for the retail portfolio companies of this fund of Highland Capital Partners.

City Sports

We are working with City Sports (Boston, MA) on a variety of issues surrounding CRM solutions and eventual implementation. City Sports is a 17-store chain, operating in five state plus D.C., specializing in urban locations selling sports and fitness clothing and equipment.

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