

Last year, online sales in the Netherlands grew by an impressive 24%. For 2009, analysts again expect growth to be more than 20%.

With online expenditure totalling €6 billion, internet is a channel no company should ignore. For producers, however, selling on the internet can be like rope walking – a delicate balance has to be found between direct online sales and sales through a retailer.

Consumer brands increasingly important online

Amongst websites that provide online shopping services, brands are becoming increasingly important, providing recognition and trust in a sea of online shops. Strong white label retailers such as HEMA and Hennes & Mauritz have successfully translated their brand values to the web, yet the strong consumer brands seem to be avoiding the possibilities of online sales. Is it that they are not aware of the importance of this new sales and distribution channel or is something amiss? The answer lies in channel conflict.

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Some consumer brands use target group differentiation by limiting sales to 'members only' or to a geographical area that is not covered by its major channel partners.

Finding the balance between producers and retailers online

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Consumers expect their favourite brands to sell online, but by selling directly to consumers producers fear they could conflict with their distributors and retailers. Obviously, the online outlet may lead to a loss of business for retailers. However, producers fear the retailers may retaliate by withdrawing shelf position in the stores. The situation is shaky yet major consumer brand Philips has taken the bull by the horns and announced in its quarterly results that it aims to significantly increase its direct online sales. In fact, it opened web shops in six countries but did so relatively quietly so as to avoid causing conflict with its retailers.

The Eurogroup Consulting Producer-2-Consumer model illustrated in figure 1 shows the four stages production companies may go through when developing online activities.

From sales support to conflict avoidance

In the first stage, the consumer brand website purely supports sales made through other channels such as retail stores. Products are displayed online so as to inspire, but for actual purchases, consumers are referred to a physical point of sale.

In the second stage, the brand sells its products online in a way in which retailers and distributors do not feel threatened. This may, for instance, be through price

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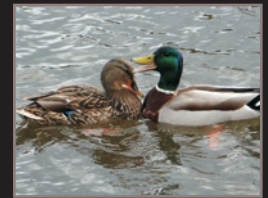
Cooperation between sales channels

The next step for the retailer and the producer is cooperation so as to create a comprehensive online offer for the consumer. For instance, a producer could enable its retailer to integrate its entire assortment into the retailer's website. This would also provide the producer with an online sales facility that could also be accessed in the retailer's physical store, with product delivery being either to the store or the consumer's home.

Involving the retailer in product ordering from the producer's website is another option. In this case, the producer could offer retailers a complete online sales platform in which they can open their own online shop. The retail stores could then function as a 'pick up point' for purchases made through the producer's website.

Compensating channel partners for direct online sales to consumers from their customer base is another means of cooperation. This necessitates the consumer providing specific information such as a postal code or an online discount code provided by the retailer, or requesting that the consumer selects a local service point when they make purchases online.

		4. Revolution	
		3. Co-operation	
2. Conflict avoidance			
1. Support			
<ul style="list-style-type: none"> • Website as a display window • Overview of products & services • Dealer addresses mentioned 	<ul style="list-style-type: none"> • Online sales, not interfering with retail channel via differentiation in: <ul style="list-style-type: none"> • Price • Assortment • Target group 	<ul style="list-style-type: none"> • Strong interaction between sales channels • Strong online support to retail channel (product catalogue, online store) • Loyalty programs with the retailer • Revenue sharing models 	<ul style="list-style-type: none"> • Full assortment online • Competitive online pricing • Strong off line inspiration and advice: brand centers, brand corners • Customer decides what to buy in what channel • Advanced cross channel loyalty program with the brand



Consumer brands could also enforce price harmonisation across all channels. For example, working exclusively with a concession model could prevent price differences arising between the channels as it is the manufacturer that determines the price.

Revolution

In the revolution stage, producers take power and sell directly without constraints, and resellers may be forced to explore a different business model. When strong brands 'go direct', this is the trend that should take off.

Imagine department stores that are 'houses of brands', functioning as a showroom with highly skilled personnel who are able to make relevant comparisons between products and brands. Very strong brands like Apple or Nike may be able to afford fully owned, exclusive, flagship stores throughout the country.

The actual purchase of a product will then be made using an online terminal in store or at home. Loyalty cards or special discount using a code number that refers to the sales person will stimulate consumers to purchase online, and the 'showroom' will be paid per square metre and per referral.

Determining the right stage for a consumer brand

In the next three years, strong brands are expected to leap forward to stage four. If it is the downstream

supply chain partners that have more power, then a consumer brand may only just be deciding to explore the cooperation model. The independence of a producer online is determined by its brand power.

In addition, going direct requires major changes in organisations that are not yet selling online. Consider the impact on distribution, door-to-door delivery, stock management, customer service calls and direct returns, order and price management, IT, and so on. The question for companies is whether they are able to realise such a new business model and how easily they can integrate with new, online channel partners. Organisation agility also determines how and when a company moves between stages.

Product market combinations are also determined by the pace of online sales development. Although consumers are buying an increasing variety of products online, some are more suitable for direct online sales than others. In addition, internet penetration still differs per geographical area and demographical group.

No matter how a producer navigates through and within the stages of producer-2-consumer selling, retailers and consumer brands will have to find a new balance to face the future. The growth of the online channel is too impressive to ignore. ■