

Getting Real About Virtual Commerce

by Philip Evans and Thomas S. Wurster



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IN ITS FIRST GENERATION, electronic commerce has been a landgrab. Retail space on the Internet was claimed by whoever got there first with enough resources to create a credible business. It took speed, a willingness to experiment, and a lot of cyber-savvy. Companies that had performed brilliantly in traditional settings seemed totally lost. Indeed, there isn't a major e-retail category in which a bricks-and-mortar retailer has leading market share. Even Wal-Mart, that master of information technology, has so far proven hopelessly flat-footed on the Web.

Achieving profits during this landgrab – or even being on a trajectory toward profits – was deemed unnecessary by cheering investors. The stock market has voted a higher valuation for Amazon.com than for the entire traditional book retailing and pub-

A second generation of electronic commerce is emerging, one that will be shaped more by strategy than by experimentation. The battle for competitive advantage will be waged along three dimensions: reach, affiliation, and richness.

lishing industries combined, even though Amazon has yet to turn a profit. In private, some e-commerce entrepreneurs confess perplexity as to how they ever will make a profit. They have, of necessity, focused far more on growth. Strategy is subordinated to tactics, which are subordinated to experimentation. The Great White Hope is an acquirer: let somebody else solve the problem. Meanwhile, keep growing at 200% a year.

But that phase is ending: the obvious land has been grabbed, the traditional incumbents are getting serious, and the Internet stock bubble is losing some buoyancy. We are entering the second generation of electronic commerce. The key players – branded-goods suppliers, physical retailers, electronic retailers, and pure navigators – will shift their attention from claiming territory to defending

or capturing it. They will be forced to focus on competitive advantage and on strategies to achieve it. Virtual commerce has to get real.

Navigation as a Separate Business

In the familiar world of physical commerce, shoppers have it tough. If you want to buy a shirt, for instance, you have a million different choices and, to make comparisons among them, you have to hop in your car and drive to malls and downtown department stores. A broad search is time-consuming, difficult, and, inevitably, incomplete. Nobody does it. Instead, consumers rely on product suppliers and retailers to help them navigate among their

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choices. Those businesses, in turn, exploit the consumers' search costs to build competitive advantage. They create navigational tools—everything from branding and advertising to relationship building and merchan-

dising—to help consumers short-circuit the complexities of a comprehensive search and find products they're willing to buy. Sellers, in other words, exercise some control over the navigation function because it is comparatively difficult and expensive for the consumer to navigate this web of information unaided. Indeed, in most consumer businesses, far more profitability derives from influencing navigation—by means of a strong brand identity, say—than from manufacturing or distributing the physical product itself.

On the Internet, by contrast, millions of people exchange massive amounts of information directly, quickly, and for free. Consumers can search much more comprehensively and at negligible cost. Navigation and selection occur independently of physical warehousing and distribution. Physical shopkeepers, who used to exert enormous influence over consumer choice, no longer enjoy special ad-

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vantages. Product suppliers can sell directly to customers. Electronic retailers can focus on navigation and outsource fulfillment. And “pure” navigators, like the Yahoo! search engine and Quicken software, can organize information, helping people make sense of it without being party to the transaction at all.

The importance of this shift—wherein navigation can be a separate business, unbundled from production, marketing, and distribution—cannot be overemphasized. Navigation is the battlefield on which competitive advantage will be won or lost. At stake is much of the profit potential of most consumer-products suppliers and retailing businesses. For navigation is a business with enormous potential scope. The services navigators provide will correspond only coincidentally to any physically defined business or industry. Many people continue to view Amazon.com, for example, as an on-line bookseller, but its true business is navigation. It has rapidly broadened its offerings from books and CDs to movies to drugs to toys. Precisely because it is not clear what limits the domain for which Amazon is the preferred navigator, Amazon is worth more than the entire publishing industry put together.

Navigation has three dimensions. *Reach* is about access and connection. It means simply how many customers a business can access or how many products it can offer. *Affiliation* is about whose interests the business represents. *Richness* is the depth and detail of the information that the business gives the customer or collects about the customer. It is along these dimensions that the struggle for competitive advantage will take place. (See the sidebar “The Three Dimensions of Navigational Advantage.”) And different players start with very different advantages.

Competing on Reach

Before the advent of e-commerce, category killers and retail superstores competed brilliantly on reach by offering convenient locations and broad selection. But theirs is a format constrained by the economics of things. The largest physical Barnes & Noble bookstore in the United States still carries only 200,000 titles. Amazon.com offers 4.5 million volumes and is “located” on some 25 million computer screens. This orders-of-magnitude jump in reach is possible precisely because the navigation function (catalog) is separated from the physical function (inventory). The average music superstore carries 50,000 titles; EveryCD was so confident of its reach that it offered prizes to customers who found a title missing from its catalog. Career-

path.com links potential employers with job seekers in a classifieds market already more than 50 times larger than that of any physical newspaper. Unconstrained by physical limitations, reach explodes. That explosion extends beyond conventionally defined industry boundaries. If consumers value comprehensive search capabilities, then the smart navigator will span across the search domain that consumers prefer. The first navigator to do so will capture an advantage. This has barely happened so far—e-retailers still largely mimic physical antecedents—but it will. Dell sells more than computers. Amazon has rapidly moved beyond books.

For insurgents— for e-retailers in particular—this raises the terrifying prospect of unstable business boundaries. CDNow carved out a dominant, reach-based position in the CD sales category, only to lose it in just a few months to Amazon. CDs (we see after the fact) are not a domain within which consumers meaningfully define reach. The idea of “CD retailing” as a discrete business is a mental throwback to the world of physical retailing. The same may be true for toys, banking, groceries, and other categories. The erosion of category boundaries will continue, as electronic retailers encroach on one another’s territories and

The Three Dimensions of Navigational Advantage

Reach is about access and connection. It means, simply, how many customers a business can connect with and how many products it can offer to those customers. (Reach has come to mean “eyeballs” on the Web, but we’re broadening the definition here to include upstream reach to a variety of products and suppliers as well.) Reach is the most visible difference between electronic and physical businesses, and it has been the primary competitive differentiator for e-businesses thus far.

Richness is the depth and detail of information that the business can give the customer, as well as the depth and detail of information it collects about the customer. Electronic businesses haven’t yet learned to compete seriously on the richness dimension. (They’ve made far more progress on reach.) But richness holds enormous potential for building close relationships with customers in a future dominated by e-commerce.

Traditional businesses have always had to make a trade-off between richness and reach. Doing both—getting highly detailed, customized information to and from a massive audience—was prohibitively expensive. E-commerce businesses can exploit the dramatic displacement of the trade-off permitted by electronic connectivity and information standards. For very little money, an e-business can provide a wide base of customers (reach) with access to a broad range of products (also reach) and detailed, complete information about each product (richness). It can also collect huge amounts of information about each customer (richness again) and use it to sell more products and services.

The same technological forces that blow up the trade-off between richness and reach also open a third competitive dimension—*affiliation*, or whose interests the business represents. Until now, affiliation hasn’t been a serious competitive factor in physical commerce because, in general, no company ever devised a way to make money by taking the consumers’ side. However, it’s a natural progression for pure navigators to affiliate with customers; they aren’t selling anything except, possibly, information—and therein could lie a huge competitive advantage. E-retailers with navigational functions are also shifting their affiliation toward customers. Traditional manufacturers and retailers must find ways to fight, co-opt, or imitate their e-commerce competitors’ affiliation strategies.

probe the true boundaries of consumer search domains.

The explosion of reach on the Internet also raises an acute dilemma for product suppliers. At first blush, it looks like a godsend—a chance to break free from the stranglehold of the retailer and build direct relationships with the final consumer. But any attempt to do so is by definition a navigational vehicle offering the consumer limited product reach. This might be offset by other factors, but if product suppliers offer navigation to only their own offerings, they put themselves at an inherent disadvantage. Stuck in a mind-set that confuses navigation with marketing, they may forgo competing in the emerging navigation business.

For many supplier businesses, that is just fine: they do not wish to be in the navigation business, and they welcome an explosion of information channels by which consumers can find their products and services. Small wine makers, which frequently are constrained by limited distribution channels, welcome the success of Virtual Vineyards and view the prospects of intensified retailer competition with equanimity. Small publishers consider Amazon to be a blessing. But for many large suppliers, the navigation function (variously called sales,

marketing, advertising, branding, and promotion) is precisely where their differentiation and competitive advantage lay. To lose control of navigation would be to lose ownership of a primary source of competitive differentiation. But how can they keep it?

The knee-jerk reaction of product suppliers is to try to keep the new navigators from achieving critical mass. Consumer-product suppliers, after all, are the ultimate source of information on product features, price, and availability. If sellers don't let Yahoo! or Quicken parse their product lists and compare them with those of their competitors, then Yahoo! and Quicken will be confined to their current roles of glorified phone directory and checkbook.

There are two problems with that defensive strategy. The first is that technically it is difficult to stop a navigator from parsing information that's available electronically. If customers can go to the Web site, so can navigators. It doesn't have to be a personal visit: technologies enable a navigator to visit dozens of Web sites, query them, return the responses, and then sort the answers – all within a few seconds.

Obviously, the seller can stop this game, if only by refusing to op-

The Doomsday Scenario

It's possible to imagine circumstances under which the new navigational businesses, exploiting richness and reach, will capture all the value in an industry. First, navigation becomes a business in its own right. Pure navigators compete against one another. Since they are operating a network business, reaching buyers and sellers is critical to their competitive advantage. Struggling for reach, navigators push for market share. Over time, they merge and concentrate. In parallel, but driven by the same logic, the e-retailers like Amazon.com broaden their business definitions beyond physical industry categories.

As their reach extends, the affiliation loosens between navigators or e-retailers and their suppliers. The largest ones start bargaining on the consumer's behalf. Consumers enjoy their new leverage, and they reward it with their patronage. Affiliation becomes a further basis for competitive differentiation. A positive feedback loop develops. The navigators that perform best cross a threshold of critical mass. Consumers prefer them because they offer greater product reach, and manufacturers concede them advantageous terms because they offer greater consumer reach. Reach builds on itself. These navigators then march toward positions of monopoly in their respective domains. Physical retailers are demoted to the role of distributor. Product suppliers see their business commoditized, or at least forced to compete on product-specific characteristics such as cost, technology, and features. Much of the value potential of the business is drained. Amazon and Yahoo! rule. That is exactly what Wal-Mart did to parts of the apparel business.

It has already happened in electronic commerce. SABRE, originally conceived as a marketing arm for American Airlines, is now an independent navigation company that is valued at nearly twice as much as American Airlines. Priceline.com, an Internet auction site for deep-discount travel bookings, was valued in its April 1999 public offering at \$10 billion – higher than the values of United, Northwest, and Continental airlines combined. These navigators create more shareholder value than the suppliers to which they navigate. And by exploiting reach and by affiliating with the ticket purchaser, they make air travel even more of a commodity.

Farfetched for your business? Maybe. But it is a logic: a set of forces that shape the strategy calculations for everyone. If a supplier or retailer is to avoid these forces, it needs a countervailing strategy. If an electronic retailer or pure navigator wants to exploit these forces, it must understand how incumbents will try to forestall it.

erate a Web site. But therein lies the second and more fundamental issue: it is not obvious that it is in any single seller's interest to do so. A navigator is still a source of incremental business to a seller. Unless the selling business is highly concentrated, it is unlikely that the navigator's ability to achieve critical mass will depend on the availability of data from any one source. Therefore, while denying data to the navigators may be in the interest of all sellers *collectively*, it is not in the interest of any one seller *individually*. The banking industry collectively committed to common strategies to fend off the threat from new navigators such as Quicken and Microsoft Money. But one by one, individual banks found that they had more to gain from participating in the common information standard that these navigators were creating. The collective defense collapsed.

So if critical mass cannot ultimately be denied, then the old players have to match the reach of the new. Product suppliers that want to communicate with the consumer directly must do whatever it takes to achieve the reach that buyers value. That may mean entering into joint ventures with competitors to achieve critical mass.

It may mean navigating to other companies' products and services. Universal and BMG, two of the world's largest music companies, have done both, creating an electronic joint venture, GetMusic.com, that offers a full selection of albums drawn from their own as well as other companies' rosters. Solo efforts would be hopelessly outmatched by the reach of CDNow and Amazon. Whenever the domain of search extends beyond the supplier's own offering, the supplier will be disadvantaged, perhaps fatally. (See the sidebar "The Doomsday Scenario.") Therefore alliances are essential. Even with—especially with—competing suppliers.

Physical retailers may have to take a similar approach. Most treat their Web presence as a means of driving traffic to their physical locations: a store window dressed up in HTML. Treating electronic retailing as a serious business in its own right—indeed as both the greatest threat and opportunity that they face—forces them to act quite differently. They have to define their product mix as the e-retailers do, not as the physical constraints of their bricks-and-mortar stores forced them to. This may necessitate acquisitions and joint ventures. They need to fulfill

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orders in whatever way is most efficient for the electronic business—separating, if necessary, from their traditional warehousing infrastructure. They have to exploit synergies with the physical

retail business, but only where that helps the electronic business to compete. Above all, they have to think of e-commerce as a business in its own right and not compromise its success in an effort to protect the traditional physical model. They must *expect* the new business to cannibalize the old.

Of all the incumbent retailers, catalog companies are best positioned to make the shift. Their lines of business are already defined around brand identities and search domains that make intuitive sense to consumers. They revise their offerings continuously through sophisticated data-mining techniques. Their fulfillment systems are designed for remote delivery. It is not surprising that the pre-Internet retailers that have most successfully managed the transition to electronic commerce are Land's End and Victoria's Secret.

But other incumbents will find managing the transition to the Web much more difficult. Product suppliers and physical retailers still see the Internet

as an arena for marketing and promotion: a new channel for doing old things. If they persist in that view, they will handicap themselves against new competitors—whether e-retailers or pure navigators—that see e-commerce as a business in its own right and pursue reach single-mindedly.

Competing on Affiliation

E-commerce businesses are already tilting their affiliation away from suppliers toward the consumer—Net-savvy consumers are forcing them to. Book publishers, for example, have long paid physical booksellers to promote books by giving them special placement in the store. But when Amazon did the electronic equivalent—letting publishers pay for superior Web page placement—consumer indignation at the conflict of interest and the betrayal of trust forced it to publish such arrangements on Amazon's home page. Affiliation is shifting, in ways that even the electronic retailers cannot control.

This change in affiliation is partially a manifestation of Internet culture and the greater transparency under which everyone operates. But it is also a consequence of the blowup of the trade-off between richness and reach. When a sales agent sells only one product line (such as life insurance), he will push that as aggressively as he can: he has little choice but to serve as an agent for the product supplier. Give that salesperson the whole universe of alternative products to offer, and he is much more likely to present them neutrally. Go further and equip the consumer with all the information she needs to compare sales agents, and the odds are that the salesperson will try harder to please the consumer than he will to please any single product supplier.

Microsoft CarPoint provides car buyers with the data and software to compare alternative models along 80 objective specifications. Physical dealers never offer that kind of information. Nor (quite rationally) do the car makers on their proprietary Web sites. Microsoft can do this because Internet technology enables such rich information to be assembled from wide-reaching sources at negligible cost. Microsoft chooses to do this because it thereby establishes an advantage against its competitors in the navigation business.

Microsoft needn't be paid by the consumer for this tilt in affiliation to occur. Its income can still come from advertising, hyperlinks, and the sale of associated products or services. But if the consumer *is* willing to pay, that only strengthens the argument. Conventional wisdom says that the consumer will never pay for navigation, but that may prove incorrect. (It was once widely believed that consumers would

never pay for television programs, but they now pay regularly for cable, satellite, pay-per-view, and rented videos, because they deem the quality worth the price.) The paucity of paid navigation today may reflect the willingness of companies to give it away more than the unwillingness of consumers to pay. Paid navigators, serving the most sophisticated consumers in their largest and most complex purchases, are quite likely to emerge. Where they do, the tilt in affiliation will be intensified.

The pure navigator is poised to exploit the affiliation dimension. Lipper and Motley Fool are in a

dealers still exist) may be purely a matter of price and availability, and a consumer-affiliated navigator could handle that job easily. Within one purchase, there may be different steps where consumer affiliation has varying importance.

The player in the worst position to exploit affiliation is the product supplier because by definition the supplier has an interest in the transaction that is different from the consumer's. In many businesses this does not matter: with sports cars and high fashion, customers welcome blatantly nonobjective product hype as part of the consumption experience.

But when consumer affiliation matters (and the pure navigators have every reason to propagate the idea that it always matters), the product supplier has a problem.

One response is to exploit the way that navigational businesses evolve beyond product categories. Offer a navigation service that solves consumer problems instead of merely pushing products. Add in objective data and decision-support software about content unrelated to your own business. Provide objective information about products and services in the consumer's search domain that you do *not* sell. Perhaps provide comprehensive but not necessarily comparable data on your own products and those of direct competitors, but slightly bias the presentation through the ordering and emphasis of alternatives. American Airlines did all this long ago with SABRE. Dell is currently embedding its extraordinarily successful Internet sales presence within a much



Now that all the obvious space on the Internet has been staked, the key e-commerce players—branded-goods suppliers, physical retailers, electronic retailers, and pure navigators—are battling for competitive advantage.

better position for navigating to mutual fund investments than Fidelity precisely because they are *not* in the business of selling funds. Pure navigators can serve as “meta-navigators,” using technologies that compare multiple electronic retailers.

Consumer-affiliated navigators are most useful when the selection criteria are simple and well defined. When the choice requires qualitative weightings of nonstandard factors, pure navigators may be at a disadvantage to suppliers because they lack the necessary product-information richness. Consumers are unlikely to delegate the task of selecting a new car to a human or electronic agent because it is too complex and subjective a task. However, after they have selected a model, their choice of dealer (if

broader configuration and retailing service. By so doing, it matches the reach of current computer retailers, provides comprehensive and genuinely unbiased navigation to the products it does not make, and preserves the option to promote its own products. The overall navigational proposition favors consumer affiliation, yet seller affiliation is preserved where it matters to Dell. It is the best defense in computer retailing against the threat of a cyber-Wal-Mart—be it Amazon, Microsoft, or for that matter, Wal-Mart itself.

Dell's strategy illustrates another way affiliation tilts toward the consumer, without the consumer paying for the privilege. To preserve a subtly biased presentation of its computers, Dell might offer a

rigorously comprehensive and objective guide to peripherals. Wonderful for Dell if it works, but cold comfort to the manufacturers of peripherals, whose wares are now subjected to rigorous evaluation. The obvious response would be for the manufacturers of a group of (noncompeting) peripherals to get together and offer a flattering representation of their own products attached to a rigorously comprehensive and objective guide to computers. If the two navigators then split the browsing and buying populations for computer-related products equally, the result would be that half the electronic sales volume for computers and for peripherals would be driven by unbiased navigators—more than half, as consumers learn to cherry-pick. Acting to preserve their own business from commoditization, sellers happily commoditize one another's.

Of course, the fundamental reason this happens in the virtual world but not in the physical one is that the consumer's preferred search domain does not correspond to any physical industry. Therefore supplier industries have the greatest difficulty keeping control of navigation. Precisely because they lose control of reach, they can also lose control of affiliation.

Competing on Richness

When competing on reach and affiliation, traditional players have to struggle to keep abreast of electronic retailers and pure navigators. But they have natural advantages when it comes to richness. Traditional retailers can exploit their detailed information about customers. Suppliers can use extensive product information to their advantage. Doing so will most certainly involve revisiting how they think about branding.

Rich Customer Information. Retailers have always been well positioned to collect and use information about their customers, but the Internet greatly enhances their ability to do so. 1-800-FLOWERS, for example, now uses the Internet as its primary communications channel with customers because it lets the company offer many more customized services at a minimal incremental cost. The company maintains a customer information file with anniversary and birthday information, as well as a record of gifts sent to specific recipients. It can thus alert customers when a birthday or anniversary is approaching and suggest presents. These gifts are no longer just flowers; the business has evolved beyond its physical origins into an electronic concierge service.

The Web offers an unparalleled opportunity for this kind of cheap and infinitely discriminating

customization of offers, products, and advertisements. Data-mining techniques can be applied to browsing behavior as well as to purchasing history and demographics. And the data are largely unexploited: until recently, Excite! collected 40 gigabytes of customer data *each day* and did nothing with it; Amazon has been affectionately nicknamed "Spamazon" by recipients of its undifferentiated bulk e-mails. All that will change as technologies developed by Firefly, Match-Logic, Aptex, and others trace patterns in the terabytes.

Some e-retailers are already becoming sophisticated. CDNow, for example, solicits information about which recording artists its customers like the most. The company relates that information to the individual's actual music purchases and then applies a statistical matching technology, created by Net Perceptions, to identify a universe of people with similar tastes. It can then recommend music that the larger group has purchased. Reach is largely irrelevant, and the motivation is obviously to sell recordings, but many customers love the service and have become loyal to CDNow as a result. Rich consumer information becomes a basis for building relationships.

The great advantage of the physical retailers is the rich data that they collect from *other* sources. Web-derived information, even when thoroughly mined, is actually a surprisingly thin database compared with those developed by grocery stores and credit card companies. However, by putting the two kinds of information together and using the Web as a means of customizing on the fly, businesses have the potential to build powerful relationships and strong competitive advantage.

Two factors limit strategies based on rich consumer information. The first is privacy constraints, which require that consumers be informed of, and agree to, any exchanges of data. Increasingly, this is simply a condition of doing good business. The second factor is consumers' option to search and organize information for themselves. Consumers using Quicken, for example, can customize their own statement of net worth: they do not need to give all their financial data (still less all their assets) to a financial institution. More insidiously, if the customer data file has real value, the consumer could collect the same information as the navigator and sell it.

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These two factors do limit the power of rich customer information but, within those limits, electronic and physical retailers have an effective weapon. No single player is likely to have the ideal database, and digital information can be bought and sold, so alliances and markets for swapping information will probably begin to form. The originators and primary aggregators of such information, whether they are grocery stores, portals, credit agencies, or the consumers themselves, will extract most of the value.

Rich Product Information. It's generally difficult for manufacturers to use rich customer information competitively because retailers are more directly connected to customers. But manufacturers have distinct advantages when it comes to rich product information.

In the music industry, for example, most of the major companies – Universal, Sony, BMG, Warner – are developing information-rich performer biographies, recording history, chat rooms, and discographies. They are using them in a number of ways: as stand-alone Web sites, as information feeds to electronic retailers, and as enhanced CDs sold directly to the consumer. Part of their aim is to cross sell from their catalog of products. Part is to build a cult following for the performer.

From Your Perspective

If You Are a Pure Navigator...

- Never take your business definition for granted. You must compete with other navigators on richness and reach within a search domain whose boundaries are constantly moving.
- Recognize that close affiliation with consumers is a major competitive advantage for you. It is part of your Web identity. Cultivate it. Do not compromise consumer interests for your own short-term gain. Never do anything you would not want all your users to know, because within a few days, they will.
- Build richness fast. When the incumbent suppliers get serious, that is where they will attack.

If You Are an Electronic Retailer...

- Define your business in terms of a coherent consumer search domain, not an irrelevant physical category.
- Be very skeptical of exclusives with product suppliers. The sacrifice of reach and consumer affiliation is likely to cost you more in competitive advantage than the gain in margin is worth.
- Beware of category killer physical retailers: they often have better consumer information and better logistics. Their only handicap is an inability to think differently. That could change.

If You Are an Incumbent Product Manufacturer...

- Adding richness – especially product-specific richness – is the most powerful way for you to compete. Concentrate on enhancing brand as experience.
- Mentally deconstruct your own business. Look at its informational components as businesses in their own right. Develop independent strategies for them. Create an organization that takes those strategies seriously.
- Reach for you is a two-edged sword: it might enable you to escape the stranglehold of your retailers, but it simultaneously exposes you to new navigators whose potential reach is far greater than yours.
- Look seriously at alliances to address the affiliation and reach problems: a group of suppliers may be able to create a navigator that is more comprehensive and credible than any of its members.

If You Are an Incumbent Category Killer Retailer...

- You have been beating department stores and general merchandisers in the reach game through overwhelming selection and mastery of logistics. But that is all economics of physical things. The new reach game is about information. If you play it seriously, it will force you to redefine your business.
- You are going to be attacked, so do it to yourself before somebody does it to you. And understand the multiplicative effects that even slight revenue erosion can have on the profitability of a high-fixed-cost physical business. You will need to make those fixed costs variable.
- You ought to win in the new world of e-commerce. You start with reach, a high measure of consumer affiliation, physical distribution, rich consumer data, options for multichannel marketing, brands, and many of the right merchandising skills. You just have to be willing to compete against yourself.
- Know that your operating managers, if left to themselves, will never make the necessary changes. The threat to their core business is simply too great. Create a separate entity and give its managers the authority to exploit the assets of the traditional business. Synergy must be a one-way street, from the old business to the new.

Part is to give to the electronic retailing industry the marketing capabilities that might otherwise be available only to Tower Records or to Amazon, and thereby to discourage retailer concentration and the attendant shift in bargaining power.

When this kind of material is presented as a stand-alone Web site, it suffers limitations of reach: consumers cannot find it easily and the product range is narrow. It also has limitations in affiliation: corporate Web sites are generally not a credible source for picks and pans or for the funky, anti-establishment rumor mill that endows performers' lives with mythic significance. But as a low-cost way to build a channel of communication that circumvents the retailers, the strategy has powerful potential.

Rich product-information strategies work well for manufacturers in some circumstances, not so well in others. If the product is continually evolving, as cell phones and software are, the product supplier has state-of-the-art information that retailers and navigators can't match. These strategies are also effective when innovation is more cosmetic than real but consumers like the "sizzle." Products like stereo components, cars, even kitchen knives, boast features that people want to believe in. The impressive, if inscrutable, technical claims presented in stereo literature or, potentially, on Web sites—*"Uni-Q Technology with its exceptional capacity to unify co-planar and co-axial directivity factors in the critical crossover region"*—may not withstand the objective scrutiny of engineering bench tests. But many an audiophile would rather read and believe such material (and brag about it to friends) than confront a cold review in *Consumer Reports* suggesting that those \$3,000 loudspeakers sound no better than a \$300 pair available at Circuit City.

Rich product information is thus a powerful but uncertain weapon for the product supplier. Wherever consumers welcome evangelism, enthusiasm, and a strong connotative context, rich product-information strategies can be effective. Nokia's 8800 phone. The next insanely cool product from Apple. But when detachment, objectivity, and comprehensiveness matter more, that approach may prove counterproductive. Hot news and breathless excitement about mortgages or groceries will impress nobody. And, as with the automotive example, a single purchase may have some components (the virtual reality demo) where rich information successfully trumps reach and affiliation, and others (price, availability) where it proves totally irrelevant.

Brands. Manufacturers use branding all the time, of course, to communicate rich, product-specific information to their consumers. But there are two

different types of brands, and we believe that one is far better suited to e-commerce than the other.

Some companies attempt to convey facts or beliefs about product attributes through branding. Sony, for example, persuades consumers to believe that it will deliver superior technology, high manufacturing quality, and miniaturization at a modest but warranted price premium. Each of these things is a *belief* about Sony products—perhaps true, perhaps not.

Other marketers use branding to communicate an experience: feelings, associations, and memories. "Coca-Cola" cannot be paraphrased as a set of propositions *about* the drink. The brand is the taste, the curvy bottle, the logo, and the set of emotional and visual connotations that the drink carries by merit of a century of advertising.

Rich information channels have very different effects on brand-as-belief and on brand-as-experience. To the extent that a brand is a matter of belief, the brand message is fundamentally a *navigator* message. Buy a Sony and you get better technology that weighs less and has higher manufacturing quality. Because an objective navigator could provide those messages, the brand-as-belief competes with the navigator. If a credible navigator repeatedly demonstrated that specific Sony products did not, in fact, have better technology, weigh less, and so forth, that would undermine the brand. Indeed, even if the navigator validated Sony's claims, if people came to respect Sony products *because* of the navigator's endorsement, then the brand would become redundant. Thus to the extent that the product is amenable to independent navigation, brand-as-belief is vulnerable also.

Brand-as-experience is a different story. Barbie is not a brand defined by Mattel's statements about it or by its product specifications. Barbie is a fantasy world for young girls and a collectible for adults. Mattel devotes enormous resources to creating and preserving the consistency with which that fantasy world is presented. Barbie-as-experience will be magnified by richer channels of communication. When Mattel can reach young girls in a broadband, interactive, customized environment (as will be commonplace in a few years), it can enrich the Barbie fantasy world with dress up, storytelling, and conversations. This enhances the brand, but it also

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AS BELIEF.

enhances the product and the experience of owning it. Indeed the brand, the product, and the experience are really one and the same.

Today, category killer retailers such as Toys R Us stand between toy manufacturers and consumers. Mattel's ability to deliver the Barbie experience is constrained not just by the static nature of merchandising displays but also by shelf space limitations and the retailer's unwillingness to favor one toy company over another. Direct presentation of the Barbie experience will enable the company to circumvent the retailer and create a brand-as-experience far more compelling than that in the physical store. Power shifts back to the product supplier.


An electronic retailer such as eToys or Toysrus.com might respond on reach by creating an interactive fantasy world featuring characters that are drawn from multiple vendors. Such a world may be closer, in fact, to the way a girl actually plays with her toys. They might respond on affiliation by allying with educational broadcasters to create a more "uplifting" site, calculated to win parental approval. If mixing up dolls or adding doses of political correctness is how young girls want to imagine the experience, those would be smart strategies. But we suspect not. Really strong brands-as-experience transcend tinkering.

Where brands are already defined in terms of experience rather than belief, the evolving medium will strengthen them. Brands that have elements of both (as most do) must play up their experiential aspects. Rich, product-centered information, supporting a brand defined as experience, is the product supplier's counter to the superior reach and affiliation of retailers and navigators.

The Incumbent's Dilemma

The logic of reach, affiliation, and richness poses a profound organizational dilemma for incumbent product suppliers and retailers. They have to recog-

nize that their value chain is being deconstructed. Aspects of navigation are no longer functions; they are becoming businesses. And if incumbents choose to compete in any of those emerging businesses, they must do so by building reach, affiliation, and richness and redefining strategy and scope as the business evolves beyond its physically defined origins. They can do all this only if they mentally break down the current business into its components, understand the evolution of new business models from the outside-in, and free their new-business managers from any obligation to prop up the old. Indeed, the new businesses will quite properly compete against the old, buy from or ally with traditional competitors, and take risks that may prove to be costly errors. Every aspect of organization, incentive, and operating style will change.

This is an enormous challenge to an established organization. Its competencies, procedures, and power structures stand in the way. The only answer, many incumbents have found, is to separate the new venture as much as possible from the established organization, perhaps even to spin it out. If the aim is to compete on reach or affiliation, that is probably the only answer. But we have argued that richness is the incumbent's greatest strength. How can an incumbent achieve the autonomy, motivation, and freshness of an Internet start-up and simultaneously exploit its uniquely rich customer- and product-centered information? That may require a far more threatening corporate transformation – the kind of reinvention that Schwab undertook when it halved its brokerage fees, committed to navigation as its business definition, and started selling its competitors' products. But Schwab – like Ford, like Sony – has a history of reinventing itself. For many incumbents, their first attempt to reinvent themselves may also be their last. 

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