LIPPINCOTT

A Discussion: Branding in the World of E-commerce

Building Brand Equity Through Many "Moments of Truth"

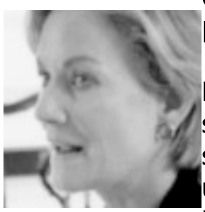
Moderated by Myron Kandel, Financial Editor and Anchor, CNN.
October 25, 2000

A Lippincott Forum: Insights on the rapidly changing e-business world from a diverse group of "change masters." Discussion topics relate to the importance of "the brand" in the swiftly evolving e-commerce world—and its relevance in the foreseeable future.

QUESTION 1

Myron Kandel, Financial Editor and Anchor, CNN—

On Wall Street, the bubble may have burst for most Internet companies, the sound of closing doors and job cutbacks may be resounding on the Web, but the e-commerce world is alive and growing, as you well know. The question is: who will flourish in the fast-growing environment and how will businesses, both old and new, adapt to the daunting challenges? The role of branding in this whole world urgently needs to be addressed and that's why we're here today. All of you came to this from different directions. What were your expectations when you entered the world of e-commerce of what not only your own operations would be, but that of the world?

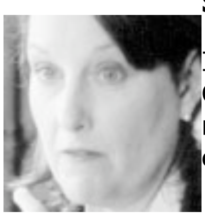


Carolyn Hansard, Director, eCommerce Fixed Income Securities, Merrill Lynch—

Merrill Lynch has a great brand. So there was fear that the Internet would start encroaching upon the presence that we already had. Certainly the salespeople felt some anxiety about that. But I think we've learned how to use the medium. It's allowed us to leverage our human capital and allowed us to take a good brand and distribute it even better.

David Morrison, Vice Chairman, Oliver Wyman; Director, Mercer Digital—

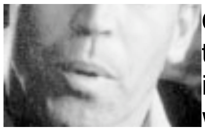
I think we've seen one of two things. First, manufacturing companies never expected that they were going to get on the Net and start doing transactions or e-commerce in its classic sense. They just thought that the Net was great connectivity to their partners in the supply chain. Other incumbents that weren't manufacturing companies—companies selling things to consumers in other businesses—were absolutely scared to death.



Suzanne Hogan, Senior Partner, Lippincott—

I don't think that people really had any specific expectations at first. Certainly, at Lippincott, we had looked at the Internet as a way to extend the relationship with our existing customers. I don't think we really had any expectations as to where that would head us.

David Rutter, President, Bridge eMarkets; Executive Vice President, Bridge Information Systems—



On Wall Street, I think that initially we looked at the Internet as a great way to get information to our customers. Then we realized the amount of information that is available and the role that we play as intermediaries. We were worried about "Where's our value proposition?" Then it very quickly moved to fear and how do we defend?

QUESTION 2

Myron Kandel (CNN)—What were the big surprises, both positive and negative. What comes to mind as lessons we could learn from the past?

Suzanne Hogan (Lippincott)—One big surprise is that we've all really become dependent on the Internet. I don't think that any of us really expected it to go that far—the amount of information that you can get, how quickly you can start to analyze information, provide solutions to a client, reach your customers and build relationships with them. All of which is closely related to brand.

Richard Oliver, Professor, Owen Graduate School of Management, Vanderbilt University—

New technology has really changed how we deal with customers and how we approach the whole business cycle. Those are the big surprises to me—how quickly it has matured and what it's done to the structure of organizations and markets.

QUESTION 3

Myron Kandel (CNN)—Let's go to the overall subject, and that's branding. What's the role of branding in this new world that we're discussing?

Carolyn Hansard (Merrill Lynch)—At Merrill, we're very proud of our brand; it's been years and years in the building. We see E-commerce as a way to reinforce the brand. We have a lot of guiding principles—client service has always been one of them; another is integrity—and those aren't changing. We're trying to use this medium to take our brand and extend it.

David Morrison (Oliver Wyman)—At Oliver Wyman, we've published a couple of pieces under the title The E-venge of the Incumbents. Incumbents have to be hybrid to succeed in the future. Merrill's got that strength. Those who are starting out in the digital domain will eventually have to start building bricks-and-mortar or be acquired by a brick-and-mortar player.

Ken Roberts, Chairman and Chief Executive Officer, Lippincott—

I think that one of the fundamental advantages for the incumbent is a strong brand. The difficulty for the players who are only on the Internet is that they have to create their brand from scratch. As a result, more money has been thrown into advertising over the past two years than I thought was humanly possible. But companies have recognized that brand means more than just advertising, that brand is more than just awareness, that there's a promise to be fulfilled and that there are expectations to be met.

Timothy Andrews, President and Chief Executive Officer, IndustryClick—

We have 76 magazines in the B2B space and 100-plus magazines in the consumer space. We have some of the leading brands, very well respected titles in the industries that they represent. We can laugh, but there are 20,000 people who read "Refrigerated Transport" every month who think that it's the greatest thing in the world. How do we take that content, and how do we stretch that brand to be more meaningful, especially around the globe, which is what the Web allows you to do?

QUESTION 4

Myron Kandel (CNN)—Let me raise another issue. If you're reading a magazine—flipping the pages—you see one ad and you see another ad, but not necessarily another ad competing with the initial one. On the Internet, you're always just a click away from a competing product or service. Has that changed things?

David Morrison (Oliver Wyman)—Look at the market research. The vast majority of users visit no more than eight to ten sites a month. But there is not a huge volume of actual price comparison. As we go to the next generation of the Web, there will be more mass marketing. And it will be simpler. We'll see big brands that have more of a mall type capability rather than a specialty store type capability.

QUESTION 5

Myron Kandel (CNN)—Does that make brands more important?

Richard Oliver (Owen School)—There isn't one simple answer to the question. When I go look for the cheapest camera, for example, I'm going to look at a lot of sites and find the cheapest camera. But if I'm going to buy stocks, it's totally different. I'm going to go to Merrill Lynch because I have a brand preference. The complexity of shopping and using the Net is every bit as complex as the shopping that we do in the real world. When price shopping, I'm not going to go look at a lot of sites. I'm going to use a software agent to do that for me. We're going to need to discuss the role of computer-to-computer interaction in terms of branding.

David Rutter (Bridge eMarkets)—Also, [consider] the impact of wireless. As the software engines develop that can do price comparisons, I can really see someone going to Sears to buy a camera and clicking on his Palm Pilot and turning around to the salesperson and saying, "Look, I can get this for 50 bucks cheaper at my house tomorrow!"

Timothy Andrews (IndustryClick)—But also, as far as these transactions are concerned, it's a lot more than just buying the camera. It's about what kind of service you get afterwards. So a lot of times people will fundamentally want to stay with the kind of retailer or supplier who will give them that service afterwards.

QUESTION 6

Myron Kandel (CNN)—What about B2B? Companies are now joining with some of their competitors on purchasing and other operational issues. Is this a major event? And how does branding fit in there?

Carolyn Hansard (Merrill Lynch)—I'll address that, since that's one thing I've been intimately involved in. We found that our vendors, and to some extent our clients, are becoming our competitors. Our competitors are becoming our partners. When you start joining your competitors the way you compete does change. We built a strong brand, but we now have partners who can leverage the brand that we've built. So we continually have to look at ways to differentiate ourselves. We have found that clients will go elsewhere to do very commoditized transactions. But when they require a high level of service they still come to us.

QUESTION 7

Myron Kandel (CNN)—I saw a figure recently that estimated that by the year 2004 the total market for B2C will be $400 billion, while B2B could be as high as four trillion.

David Morrison (Oliver Wyman)—Yes, that's right. B2B will be, by far, the most significant aspect of the Internet, by factors of ten or 20 over the world of B2C. There has been a lot of the hype created around the dot-com exchanges—VerticalNet, e-Chemicals, Chemmatch, e-Steel. About 95 percent have nothing more than a value proposition of matching of buyers and sellers, cheap transaction costs and price. These will probably fail. But large incumbent companies like Ford are not going to let their value migrate to these dot-com exchanges. What they need to do now is integrate their entire logistics chains to get the right component transported to the right plant, at the right quality, at the right date. That creates value.

Richard Oliver (Owen School)—I think branding is going to be very important with these B2Bs. One of the things that's going to happen is that the products are going to be traded at commodity levels. The trick is to brand the service component around the commodity. Industrial buyers are people too. They make decisions just as we do in consumer markets. Yes, they're going to look at the actual price of the commodity, but they're also going to consume a whole lot of other things around it—integration with supply chain management, for example. The brand will play a bigger role in all those collateral services. Smart players can "upsell" and get more money, because they're not going to make much on their product.

Ken Roberts (Lippincott)—I think the same concept applies when you're looking at the financial community. The stock analyst is also a person and brand will influence the valuations they place on securities. There are many examples of companies with identical fundamentals, but one of them is getting a higher valuation placed on it because of brand. Brand does play a role. Historically, one of the functions of brand has been to summarize very complex decision factors in a way that people can deal with them.

Richard Oliver (Owen School)—Absolutely, the whole idea of brand is that it reduces the cost of acquiring goods and services. It just shortens the decision cycle. And on the Internet, it shortens that cycle too.

QUESTION 8

Myron Kandel (CNN)—Is there a significant difference between B2B and B2C?

Carolyn Hansard (Merrill Lynch)—The B2B pitch is one of profitability, right? E-commerce is either about revenue creation or cost reduction. And the B2B is an easier sell because it's about reducing costs.

Ken Roberts (Lippincott)—A basic issue here is that it's real tough to come up with a new product and have it succeed in the consumer marketplace, or in the business marketplace. It's not that often you find real successes.

David Morrison (Oliver Wyman)—Twelve percent of the Internet IPOs are basically 90 percent of the value out there. Sixty-two percent of them are trading below their IPO price. They are wondering whether they're ever going to get second round financing? And they spent a lot of their money immediately going to print and TV advertising to try to create awareness. The point Ken made earlier. And they sort of blew their entire cash on their balance sheet trying to create awareness.

Myron Kandel (CNN)—But awareness can translate in a brand, right? And what they were trying to do was establish a brand. I'd like to hear some comments about the efficacy or the failure of that strategy.

Ken Roberts (Lippincott)—I think they were right in one sense. It's tough to have a brand if no one's ever heard of you. So there is sort of an underlying premise that if you're going to have a brand, people have to know you exist. I never sensed there was a whole lot of thinking that went much beyond that. What was the value proposition? We had advertising that was designed to build awareness. That's not really brand.

Richard Oliver (Owen School)—To me brands are sort of like kids. You know, the skills you need to conceive are different than the skills you need to nurture. The big brands that have succeeded, the ones that have really done well, were built or conceived on public relations. And were nurtured with advertising. I think the brands that made a mistake have tried to conceive with advertising. I read about Amazon 100 times before I ever saw an ad. In fact, I can't even think of an ad that I've ever seen from Amazon.

QUESTION 9

Myron Kandel (CNN)—I'd like to close with a very important question. Is it possible to measure the impact of brand on the bottom line in the Internet world?

Ken Roberts (Lippincott)—Very definitely, brand fundamentally is about changing behavior. And it is certainly possible to measure change in behavior. You can measure brand value, you can determine a dollar value for the brand, and you can measure the change in that dollar value over time.

Carolyn Hansard (Merrill Lynch)—No, I don't believe you can measure the value of a brand. Brand is priceless.

Richard Oliver (Owen School)—I guess the quick answer is to take Coca Cola, add up all of the costs of their physical assets and deduct it from their market cap and that's the value of the brand. But that's a little simplistic. Businesses manage five equities. They manage financial equity—not just their stock price—but whether people lend them money, and how much. They manage employee equity. They manage customer equity. They manage public equity—something that Ford and Firestone are working on as we speak. And they manage brand equity. If you represent those equities with circles, brand is right in the center and intersects with every one of them. Every one of those equities can be measured. And brand is critical to the success of all of them.

David Rutter (Bridge eMarkets)—The only thing I would add is that brand takes a long time to build. And the Internet is a great tool to leverage it. But because everything moves more quickly on the Internet, a brand can lose value a lot faster in this environment as well.

Ken Roberts (Lippincott)—And I'll just add that if we accept the argument that it's the incumbent who has the greatest opportunity, it's also the incumbent who takes the greatest risk.