CREATING REVENUE STREAMS WHEN BRAND MATTERS LESS

By Aaron Kibbey and Marc Passalacqua

A strong, recognizable brand name was once worth its weight in revenue. However, shifts in consumer buying behavior and competitive landscapes have diminished the impact of brand perception on some organizations' bottom line.

Private label sales are reaching record levels, suggesting that consumers are more concerned with cost, value and customer experience. From 2015 to 2018, branded products saw 0 percent dollar growth compared to over 4 percent for private label goods. At the same time, various industries are experiencing an exponential rise in new, digital-first competitors. New technology, flexible supply chains and unprecedented access to data has sparked the success of direct-to-consumer retail brands such as Casper and Dollar Shave Club. Service sectors aren't immune, with companies such as Metromile, Chime and others offering alternatives to traditional insurance and banking.

In an oversaturated playing field with dozens of "microbrands" emerging across sectors, organizations need to reevaluate their competitive advantage. To position their businesses for future growth, leaders must prepare for new risks, a new wave of consolidation and (for those in the position to do so) new opportunities for investment and innovation.

Who's at Risk

The impacts of changing consumer habits and digital innovation will continue to span industries and company sizes. Identifying which organizations are most vulnerable requires a closer look at what they provide, how they distribute and where they spend. These include organizations with:

- **Easily substituted products and services.** Businesses that don't capitalize on a competency or differentiator, such as perceived value in the market, customer service or execution, face a higher risk of being supplanted by existing and future competition. Though this zone of commoditization encompasses many retail and consumer packaged goods (CPG) brands, it extends to services as well. Hotels, property and casualty insurance providers, and even education institutions are challenged by alternative providers offering convenience and better cost structures.
- **Products and services that are available elsewhere.** As consumers acclimate to a world of one-click ordering, mobile commerce and free in-store returns, organizations that distribute via multiple channels have a distinct advantage. Almost anything is a few screens or clicks away online – which poses a threat to businesses that limit where they sell. This is playing out in multiple sectors, as mall-based chains lose market share to digital-first companies including Everlane and StitchFix, and more diners swap full-service restaurants in favor of online ordering.

- **Burdensome expenses that prevent investments in innovation.** A key difference between businesses that overcome disruption and those that succumb to it is how they allocate resources. Organizations that invest in personnel and technology to innovate their offerings or business models are set up to not only maintain a competitive advantage, but to thrive. For many leadership teams, however, that ability to invest is constrained by legacy line items including underperforming physical locations and outdated infrastructure.

Growing Revenue in a Crowded Market

There are ample options for organizations seeking to reclaim and retain consumers in today's noisy landscape. Determining which approach will be most effective depends on the current financial health of the business.

Financially stable organizations should:

- **Invest in an elevated consumer experience and customer service.** Future-focused leaders have a responsibility to understand their consumers' distinct, evolving needs and design an engagement strategy around them. Buyers' shrinking preoccupation with labels has been matched by a growing emphasis on how easy it is to interact with a company, and how convenient, personalized or captivating the experience is. Walmart, for example, plans to enhance their brick-and-mortar footprint by transforming underused store-adjacent space into "town centers" with additional food, retail and amusement tenants. In healthcare, organizations from Kaiser Permanente to BayCare are integrating digital solutions (from apps and connected offices to video appointments) across their organizations to deliver care when and where consumers prefer.

- **Use digital to create direct, two-way relationships with consumers and enhance loyalty.** Technology is increasingly a conduit for engaging consumers in between and after purchasing. Direct-to-consumer genetic testing firm 23andMe lets customers opt-in to a proprietary social platform for connecting with people who share their DNA—an approach that keeps consumers in the company's ecosystem long after receiving their test results. Guitar manufacturer Fender deployed a similar strategy, launching its paid Fender Play tutorial app as a vehicle for both audience engagement and revenue.

Organizations saddled with excess amounts of debt have less flexibility to fund new platforms or service initiatives, but they can still take strategic steps to compete:

- **Seek out the right partner.** If an organization lacks the financial resources or human capital to innovate from within, leadership should evaluate options to align with a firm or organization that can. Companies looking to become acquisition targets can benefit from the uptick in cross-sector mergers and acquisitions (the value of which was 21 percent above the 10-year average in 2017), a new normal that expands the pool of potential partnerships.

- **Restructure debt to enable reinvestment.** When the corporate balance sheet is not set up to support a transformation, it's time to recapitalize or raise equity. Leaders who evaluate and address financial structures proactively can free up necessary funding and avoid more extreme measures.

Organizations today face a significant, but not impossible challenge: to cut through a noisy landscape with a value proposition that addresses consumers' ever-changing expectations. Brands that rely on legacy alone will get lost in the shuffle unless they're backed by a differentiated experience and long-term vision. By transforming a company's substance, not simply style, leaders can hone an enduring competitive edge.

Key Takeaways

To command market share as consumer behavior fluctuates, organizations must:

Think differently.

Recognize the new values that drive consumers' buying decisions and identify how your organization aligns or falls short.

Plan differently.

Assess your core offerings, distribution strategy and expenses to uncover potential risks that may obstruct consumer engagement and loyalty.

Act differently.

Build out ways to strengthen direct consumer relationships, even if that means partnering with other organizations or investors to do so.

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