Finding the Right Metrics to Manage Multi-Channel Distribution

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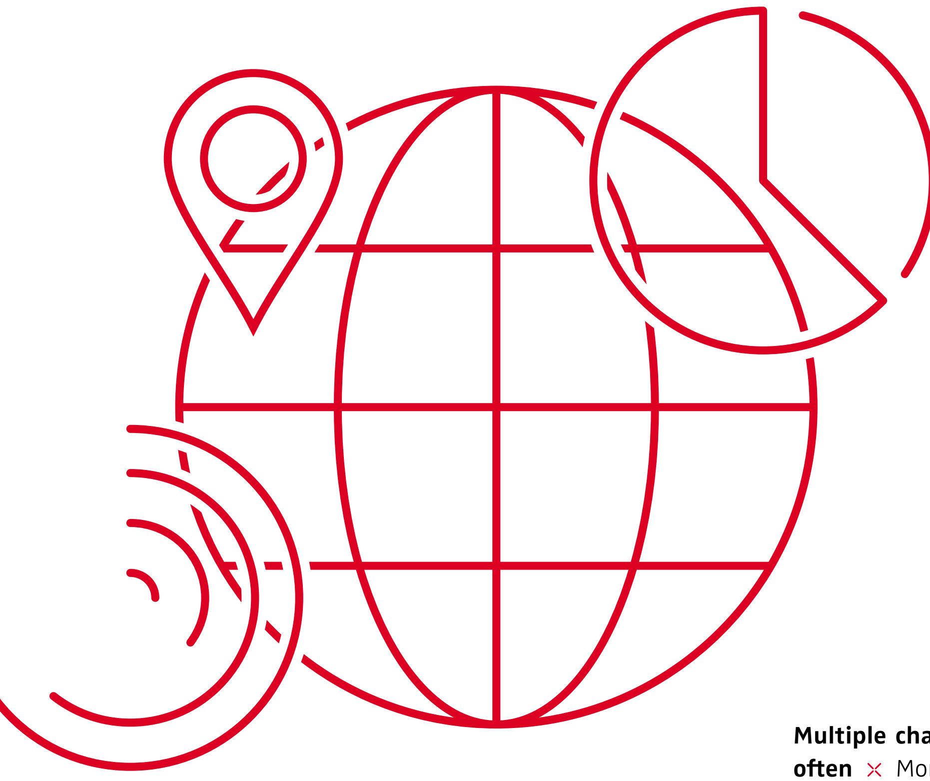
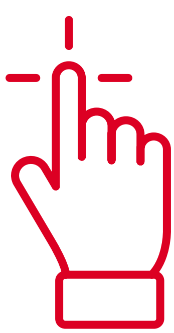
KEYWORDS

Multi-channel, Omni-channel, Distribution, Distribution Metrics, Channel Performance, Channel Conflict, Showrooming, Webrooming



Multiple channels require tracking more metrics more often × More suppliers now sell to and through multiple types of distribution channels, including traditional brick and mortar retailers, company-owned outlets and online sellers. These channels can serve different segments of consumers with different needs as well as the same consumers at different stages in their journey. That is the upside of multi-channel distribution. The downside is often channel conflict, increased chances of freeriding and loss of control over inventories, pricing and brand presentation.

Many metrics used to evaluate brick and mortar channels have equivalents online, but there are also some new metrics that marketers should monitor. Figure 1 highlights these metrics, which are all driven by the marketing activities of either the brand or a retailer. We explain the metrics and also illustrate their use with a "running" example from the athletic footwear category.



- **Consumer pull effects for brands** × These metrics monitor the strength of the brand. In addition to the familiar brand awareness and share of category requirements (the brand's percentage of brand buyers' total category purchases), consumers' willingness to search for

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FIGURE 1 > Key distribution metrics

Marketing inputs by brands and retailers

Brand and Retailer Strength

Consumer pull effects for brand
- Brand awareness = 75 %
- Average share of category requirements = 35 %
- Relative branded search volume = 65
- Monthly brand store traffic = 2.5 mill

Consumer pull effects for retailer*
- Retailer awareness = 90 %
- Monthly store traffic = 13.7 mill
- Average share of requirements = 10 %

Findability

Distribution breadth
- % PCV of stocking stores = 65 %
- % PCSV of stocking stores = 70 %
- Stocking stores above fold on SERP = 85 %

Distribution depth*
- Brand share of total distribution = 20 %
- Brand share of shelf/thumbnails = 15 %
- Brand listings above fold on category page = 30 %

Channel Cooperation and Success

How retailer performs for brand*

Compliance
- Average retail price, trade funding passthru, MAP adherence
- Stockout frequency

Cross-channel support
- Value add to brand sales elsewhere

Sales and profit
- Sales per week, sales growth
- Account profit
- LTV of retailer shoppers to brand

How brand performs for retailer*

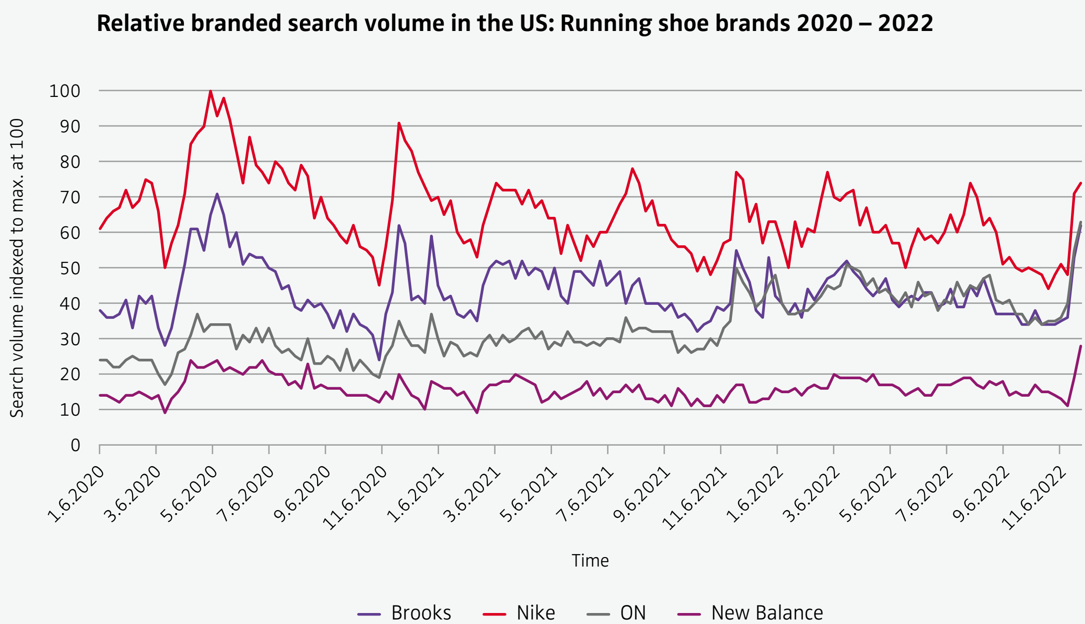
Compliance
- On-time delivery, MAP enforcement

Cross-channel support
- Reward for brand sales elsewhere

Sales and profit
- Sales per square ft
- GMROII, profit from brand
- LTV of brand buyers to retailer

* For individual retail accounts but can also be aggregated across retailers

FIGURE 2 > Consumer pull effects: Branded search



Source: Google Trends

Knowing the degree to which consumers are aware of and search for retailers first and brands second is valuable for deciding where and how much distribution is needed.

the brand is very relevant. It is an acid test of loyalty and much easier to measure online than offline. How much do consumers search specifically for your brand versus other brands in your category and how is the branded search volume trending? A chart as simple as the one in Figure 2 provides valuable insights. Among the four brands in the figure, Nike predictably leads, though it is trending down. Brooks, the number one brand in performance running, does well too and is flat. Both should pay attention to On, a brand that was introduced in the US less than a decade ago and is rising in consumer search. And while New Balance may have a significant market share, its low branded search doesn't bode well for consumer loyalty.

The more consumers seek out specific brands, the more likely they may be to visit the brand's direct-to-consumer (DTC) website and potentially buy there. Attracting enough traffic to a DTC website can be a challenge for many brands given consumers' desire for one-stop and comparison shopping. Like search, traffic to a website is easier to measure than traffic to physical stores.

» If you are not found in the places where consumers search, you won't get into their consideration sets. «

> **Consumer pull effects for retailers** × Brands both co-operate and compete with retailers. Knowing the degree to which consumers are aware of and search for retailers first and brands second is valuable for deciding where and how much distribution is needed. Retailer awareness and retailer store traffic help determine how essential a given retailer is to your distribution strategy. And, like the brand's share of category requirements, the retailer's share of requirements can tell you how loyal consumers are to the retailer. Generally, large retailers will have higher traffic than a brand's own DTC stores or website, as is the case for the hypothetical running shoe brand and retailer in Figure 1.

The role of findability online × Distribution breadth and depth refer to how easily a consumer can find a store that stocks the brand and find the brand within the store. Being findable online where and when consumers search for the category is just as crucial.

> **Distribution breadth** × Standard metrics indicate the share of product category sales (%PCV) accounted for by stores stocking a brand. One metric for online findability is %PCSV (product category search volume). It weights stocking stores by the percent of consumers who search for the category there. If you are not found in the places where consumers search, you won't get into their consid-

BOX 1

The problem of freeriding in multi-channel distribution

Freeriding is not a new problem in distribution, though it was given a new name: "showrooming." Retailers with large investments in brick and mortar decried it as savvy consumers looked in their stores and bought from their online competitors at a lower price. That continues to be the case, but, by some accounts, "webrooming" is just as prevalent because it is so easy to (re)search products online before buying. Retailers and DTC-only suppliers who own their online and offline channels must embrace this behavior if they want to provide the consumer with an omni-channel experience. Better to facilitate showrooming and webrooming within their own stores, websites and apps than to lose customers to competitors. Mobile technology has certainly made that easier.

For most suppliers who sell through independent retailers instead of, or in addition to, a DTC channel, delivering an omni-channel experience across channels is not feasible. Because freeriding generates channel conflict, they may try to reduce consumers' incentives for showrooming and webrooming by harmonizing products and retail prices across channels or by differentiating their product line across channels. But consumers still channel hop, if not for a given purchase, certainly across purchases. Suppliers need to understand where their target market searches and where, when and why it buys in order to decide where they should expand and whom they should reward.

Granular clickstream data, online-to-offline conversion tools and increasingly sophisticated attribution models guide the investments of marketers in different consumer touchpoints online. However, precise attribution of individual purchases may not be needed for the purposes of rewarding cross-channel support by showroomed or webroomed retailers. The workhorse may still be consumer surveys for determining how much support one channel member is providing to enable sales by another.

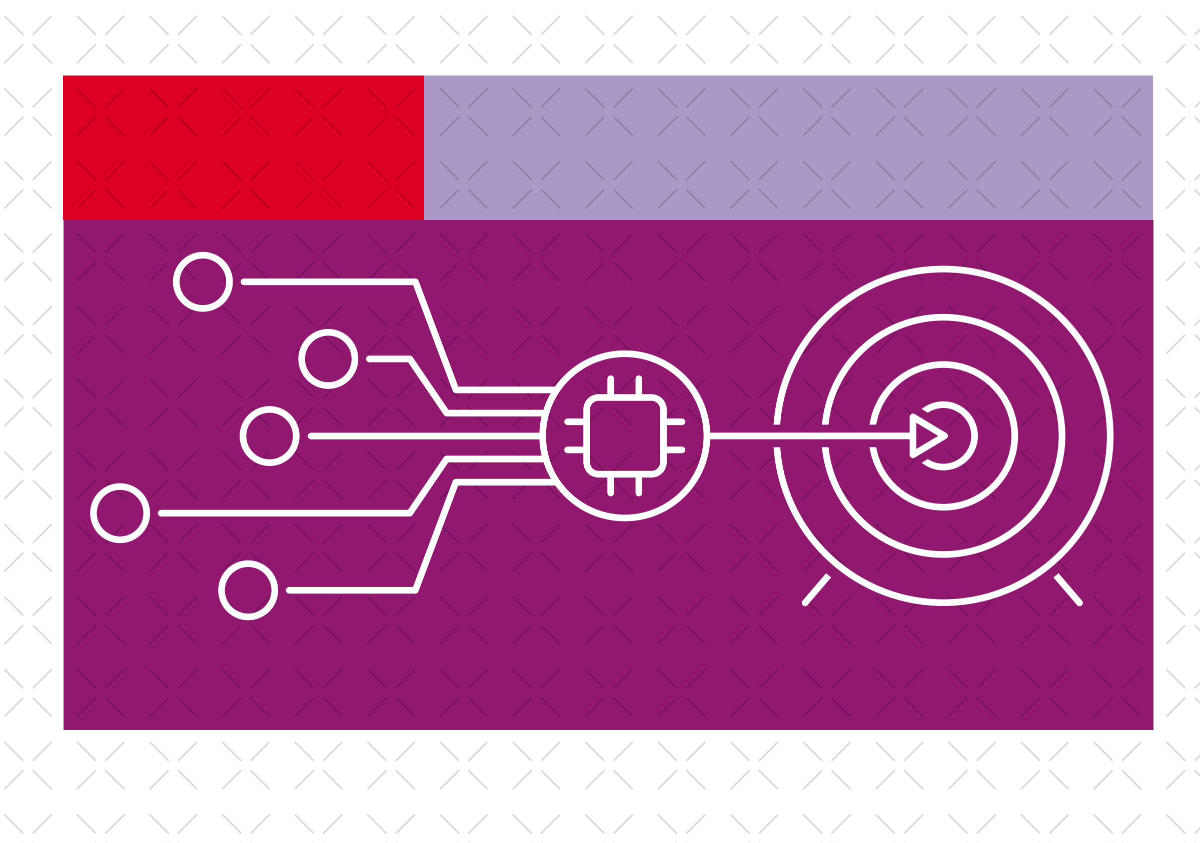
eration sets. No wonder many brands feel the pressure to be on Amazon – more consumers start their product searches there than on Google. Another metric is the prominence of stocking stores on the first search engine results page (SERP) when consumers search for the most relevant category and branded keywords.
The brand in Figure 1, for example, is about equally "findable" online as measured by both %PCV and %PCSV. Across the highest volume category keywords, the percentage of sites above the fold on the Google SERP that stock the brand is 85%. One might also measure findability by the percentage of keywords for which at least one stocking site shows up above the fold. For all these findability metrics, as well as the branded search and traffic metrics that came before, it is even better if they are measured for the brand's target market rather than all consumers. A performance running shoe brand like Brooks, for example, cares more about where most runners search and buy than where most running shoes are sold – a subtle but important distinction.

- **Distribution depth** × This refers to the findability and attractiveness of a brand within stocking retailers. Total distribution is a form of weighted distribution (like %PCV), but instead of merely counting outlets that stock at least one stock-keeping unit (SKU), the distribution of each SKU is computed and summed over all SKUs of the brand. Expressing total distribution as a share of the total distribution of all brands is a good indicator of the brand's share of physical and virtual shelf space, but likely not as accurate as directly measuring share of shelf and/or share of thumbnails in brick and mortar and online stores, respectively. Finally, just as the prominence of stocking sites on the SERP captures distribution breadth, prominence of the brand within a retailer's website when consumers search for the category is an important metric for distribution depth.

These new metrics of findability online blur the lines between advertising and distribution, especially as online players from Google to Amazon to Booking.com emphasize sponsored listings to consumers searching on their sites.

» *The metrics should reflect changes in both inputs and outputs, enabling the timely identification of problems and opportunities.* «

Metrics for channel cooperation and performance × Together, breadth and depth of distribution drive performance in the market, of both the upstream supplier and its downstream retailers. Each party has a fundamentally different perspective, focusing on its own performance. In a successful cooperation, however, neither distribution partner can afford to focus only on its own performance at the expense of the other – at least not for too long. The partnership must be profitable for both, so both perspectives require monitoring (see Figure 1). In addition to sales and profitability, intermediate metrics are needed to diagnose problems and manage the partnership. As the name suggests, compliance metrics capture how well each party complies with the other's policies. Cross-channel support metrics are increasingly important as agile consumers hop between channels in their various customer journeys, and it is not clear who will be rewarded with a sale in the end.



- **Compliance metrics** From the brand's perspective, how well retailers support distribution policies and the average retail price are important. If the price is too low, it eats into the retailer's margin and might hurt the brand's equity. If it is too high, brand competitiveness and sales might suffer. Is the retailer violating your minimum advertised price (MAP) policy and causing channel conflict? Are trade discounts being pocketed or passed through to consumers? Is the retailer keeping enough inventory on hand to satisfy consumer demand or are stockouts frustrating potential customers who wanted to buy but could not? But compliance is a two-way street and retailers have their own metrics. For example, in order to have sufficient stocks, retailers need accurate and timely order fulfillment and delivery. If there are MAP policies, they also want to see those enforced and action taken to minimize violations by other retailers. You can be sure that if you don't track these, your retailers will.

- **Cross-channel support metrics** Managing cross-channel support is challenging, especially in the face of potential freeriding by one channel on the efforts of another (see Box 1). What percentage of consumers who searched in one channel bought in another? At least online, such metrics are now available. But was that because of showrooming or webrooming or because the channel does not provide the desired service and purchase experience? That is where satisfaction metrics derived from consumer reviews and surveys are useful. Cross-channel support by retailers is far easier to maintain if the channel knows you are not only monitoring but also rewarding their efforts with special allowances, favored products and other marketing and logistical support.

- **Sales and profit metrics** Ultimately, a well-managed distribution strategy is reflected in sales and profit, both short- and long-term. Sales per square foot and gross margin return on inventory are especially important to retailers. They remain relevant even online, although the square footage is in distribution warehouses rather than the store. From the supplier's perspective, sales velocity per week is important. For both parties, profit is crucial but harder to measure than you might think. This is partly because different categories and brands have different strategic roles for a retailer, and suppliers provide trade support and rewards in many different forms to different retailers. The total lifetime value of a brand's buyers to a retailer and of the retailer's customers to the supplier are valuable metrics, even if they can only be approximated.

Getting distribution metrics right Obviously, a single metric or even a handful is insufficient to manage complex matters such as multi-channel distribution. The need for more metrics and more frequent monitoring probably contributed to the rise of "distribution dashboards." Ideally, they should be comprehensive yet simple enough to focus on what matters for the strategy and competitive situation. Not all metrics are equally important at all times. The metrics should reflect changes in both inputs and outputs, enabling the timely identification of problems and opportunities. Management should consider the entire collection of what they might measure to manage distribution and make a thoughtful and deliberate decision to focus on a few key metrics for a specific decision.

FURTHER READING

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