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The Keys to Winning Retailer-Brand Partnerships in the Digital Era

Traditional joint advertising programs are lagging behind consumer buying behavior and marketers’ needs — here’s how they need to change.

The revolution in mobile technology and e-commerce has put more information and more power into consumers’ hands, creating both opportunity and challenge for retailers and brands. The opportunity is to tap the wealth of data created along consumers’ digital path to purchase and gain insights into their desires and needs. The challenge? Taking full advantage of data will likely require disrupting old ways of doing business.

One aspect of the traditional relationship between brands and retailers that is particularly ripe for disruption is cooperative, or co-op, advertising, a nearly 100-year-old system in which brands support local retailers by funding a portion of their advertising. As consumers have gone digital, co-op funds are still largely spent on offline channels — and much of the money available for co-op advertising remains unspent. Furthermore, very few brand–retailer relationships are characterized by the information sharing that could advance everyone’s interests in the always-on, omnichannel economy.

Bringing co-op advertising programs into the digital era is a “phenomenal opportunity,” according to Rebecca Lieb, an analyst and founding partner at Kaleido Insights. Annual spend for co-op advertising is now estimated at $50 billion in the United States and $520 billion worldwide, and the digital portion of that “could very quickly exceed $5 billion to $10 billion per year,” she says.

Today, brand manufacturers typically fund participating retailers’ advertising at a rate equaling 3% of a retailer’s sales. That can add up to between 30% and 50% of what retailers spend on advertising costs — and contributions ranging from 75% to 100% aren’t uncommon, according to a report authored by Lieb.
And while the numbers are large, much of the money goes unspent. In fact, 45% of retailers surveyed in 2017 reported that they did not use all the co-op funds available to them, according to BrandMuscle, which works with brands and their co-op partners to deliver integrated marketing programs. That survey also found a disconnect between the increasingly digital tactics that local retailers are using, and brands’ priorities when allocating co-op funds (see Figure 1).

“Co-op marketing is a broken process with time-consuming fulfillment methods and a focus on traditional offline advertising channels,” says Ben Carcio, CEO and cofounder of Promoboxx, which provides a marketing platform for local retailers. Today’s consumers are digital, he adds, but co-op advertising wasn’t built for today’s always-on digital world.

What’s Holding Co-op Back?

To understand how brands and retailers might move toward making more effective use of co-op advertising funds in a digital context, it helps to understand the status quo — which has historically been a powerful force in this segment. In previous generations, co-op programs were similarly slow to transition to new media channels, such as broadcast TV and then cable, Lieb says.

One underlying issue may be that many retailers lack the digital marketing infrastructure to easily track expenditures and report back to brand manufacturers. The co-op sector has been accustomed to using physical samples of print ads or broadcasters’ ad reports to submit as proof of advertising for their co-op reimbursement. While digital ads are more “provable” in many ways, many local advertisers have not been as savvy with digital platforms, industry watchers say.

Retailers — especially small and medium-size companies — are most likely not sharing data with brands because they are overwhelmed by what’s available and are not sophisticated digital marketers, according to Gordon Borrell, CEO of advertising research company Borrell Associates. When his company surveyed brands about the factors limiting participation in co-op programs broadly, the top issue was

Figure 1: The Retailer-Brand Disconnect on Digital

Source: BrandMuscle
Three of the top 4 marketing tactics used by local retailers are digital — but brands allocate the largest percentage of their co-op funds — 20% — to traditional direct mail.
that retail partners don't understand digital marketing (see Figure 2). While that research was conducted several years ago, Borrell believes that perception of retailers is still valid — “although they are definitely learning,” he adds.

Retailers may also lack the technology that can help them provide the data.

“Digital campaigns tend to be smaller and more labor intensive. And even when retailers are able to move cooperative spend to digital, the standard ad tech stack does not report out at the brand (SKU) level,” says Dave Goulden, senior vice president of product strategy and retail partnerships at OneMarket Shopper Exchange, a retail technology network retailers use to unify and automate their co-marketing programs.

Figure 2: Obstacles to Participation in Co-op

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners don’t understand digital marketing</td>
<td>50%</td>
</tr>
<tr>
<td>Partners don’t know about our co-op programs</td>
<td>35%</td>
</tr>
<tr>
<td>Partners don’t see co-op programs as valuable</td>
<td>35%</td>
</tr>
<tr>
<td>Partners don’t follow branding guidelines</td>
<td>25%</td>
</tr>
<tr>
<td>Partners need too much support</td>
<td>23%</td>
</tr>
<tr>
<td>Managing distribution of funds is too time intensive</td>
<td>19%</td>
</tr>
<tr>
<td>Vendor marketing efforts fail</td>
<td>12%</td>
</tr>
<tr>
<td>Partners don’t have websites</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: Borrell Associates and Netsertive

“Data is king, and even [at Procter & Gamble], the biggest advertiser in the world, you would think we could muscle our way in. We were getting minimal data,” says Jeffreys, now founder and CEO of Mobile Agent Now. He acknowledges that many retailers are not digitally native and are challenged by the demand to grow online while not diverting resources from their traditional business. “This is not their heritage,” he says. “They’re not about online data and data analytics, so it’s a huge shift.”

Lisa Sokolov has worked both for brand manufacturers and retailers and seen the relationship from both sides. As senior director of buying for Current/Elliott and Equipment, she works with apparel lines that are carried by retailers such as Bloomingdale’s, Saks Fifth Avenue, Neiman Marcus, Bergdorf Goodman, Barneys, and Intermix, among others. Sokolov was also a buyer at Saks Fifth Avenue and Bergdorf Goodman.

“The Key to Digital Co-op: Data Sharing

At the heart of brand manufacturers’ concerns as they seek to ramp up digital spend is how to partner effectively with retailers on data sharing. That was certainly the experience of Mark Jeffreys when he was marketing director for Gillette e-commerce and direct-to-consumer (DTC) sales.

“Retailers such as major department stores are accustomed to a significant amount of leverage over brands: They name the co-op funds that they expect to receive and use them as they see fit,” Sokolov says. For example, an upscale store chain may name a price of $15,000 for a digital marketing
INDUSTRY SNAPSHOT

Partnering on Data Works Like a Charm for Alex and Ani

When companies understand the importance of data science and leverage their key retail partnerships, businesses can grow — and break records in the process. Alex and Ani, a charm and bangle bracelet company, did just that, catapulting sales to $400 million in 2016 from just $5 million in 2010.

The company grew faster than any other in the history of multichannel retail, holding the record for compound annual growth rate over both a three- and five-year period, says Ryan Bonifacino, who was chief marketing officer and senior vice president for digital during the jewelry company’s meteoric rise and is now CMO at Tomorrow Sleep.

Bonifacino attributes that growth to the company’s focus on data and online business, and stresses the importance of understanding data science, data management, and advanced analytics such as algorithmic scoring of customers and segmentation. “At a fundamental level, it is critical for any modern CMO to have resources to inform him or her of their marketing investments in co-op, joint marketing, or market development funds,” he says.

“You can’t really talk about omnichannel unless you see a single point of view of the customers, including behavioral data plus known data, personally identifiable information, and real-time inventory data. Once you have those things, you can enable all sorts of magic to happen,” Bonifacino says.

Retail partners are one component of the multichannel strategy that built the company and includes brick-and-mortar stores and direct-to-consumer e-commerce as well as wholesale relationships. Alex and Ani worked closely with one of its biggest retail partners to share and overlay the data each company was collecting.

“We both had incredible teams in terms of data science and analysts. We weren’t just having a buy-sell relationship about data sharing. We each had the skill set to understand what strategic objectives were associated with data sharing,” Bonifacino explains.

“We synced our data together on a monthly basis to understand customers and how many customers purchased in our two direct channels: our stores and our websites,” he adds. “How many of those customers ended up purchasing on that retailer’s [web] site? If they had a loyalty program, we could then connect the dot-com to the in-person experience and the in-store experience.”

“The data enabled Alex and Ani to see the lifetime value of a brand-new customer and more effectively track the customer journey to make sounder marketing investments,” Bonifacino says.
campaign and a brand supplying the funds might ask what the campaign will entail but be given very limited metrics from, say, a social media ad or an email.

“There is very little transparency, and you get very little in return. I can speak from when I was a buyer asking for the co-op dollars for the department stores,” Sokolov says. “It’s really a profit-generating center.”

Charlie Cole, chief digital officer at luggage manufacturer Tumi Inc., which sells via both retailers and a DTC business, believes data sharing in co-op advertising is an untapped opportunity for brands and retailers that would allow all parties to make more money. But he’s found that to be a difficult vision to realize.

“I think, ‘This is the year I’m going to make co-op work with my wholesale partners in a digital way and everyone’s going to be happy.’ And I just fall flat on my face,” Cole says.

Digital-Minded Brands Push for Change

Cole is not alone in his efforts. Discussions about demanding more data and transparency are starting to happen internally at brands, says Tierney Wilson, managing director at January Digital, a digital marketing agency and in-house consultancy that represents brand manufacturers such as Nars Cosmetics, Diane von Furstenberg, Kendra Scott, and Oscar de la Renta. “Some savvy brands, because of the general decline across the industry in retail sales coming from wholesale partners, have been able to say to retailers, ‘Hey, we’re paying attention. We just spent the same amount of co-op dollars, and yet your total sales for the season were down year over year.’”

Channel executives at a global office equipment, supply, and services company are starting to have similar conversations. “It becomes a push and pull,” says a vice president responsible for demand generation. “For the past couple of years, we’ve been talking to partners about what we are giving them and what we expect back.” The increasing importance of performance metrics across the company’s business, including in marketing, is driving the requirement that partners provide data — and it’s expected in digital, she says.

“We need to be able to look at actual returns and dial investment up or down accordingly. It would be more of an incentive to invest more in them,” the executive says. “If we got more data, it would strengthen the partnership. It would also mean they would get more funds.”

“Brands are getting smarter with how they are using their co-op dollars,” adds Wilson. “They have become more educated across the entire organization. If a brand has a direct-to-consumer portion of their business, they have visibility into so many marketing metrics within this channel. They expect to be able to see the same metrics with their co-op marketing spend.”

At online retailer eBags.com, good brand relationships are paying off with things like the ability to carry exclusive products, which in turn pleases customers. The company has made significant investments in reporting, personalization, and expanded marketing and co-op programs to align with its brand partners’ goals.
INDUSTRY SNAPSHOT

Making a Case for Change

Charlie Cole, chief digital officer at Tumi Inc., is a vocal proponent of change in the digital advertising and co-op space. Because he drives the lion’s share of revenue for the high-end luggage maker through direct-to-consumer channels, he understands what kind of data a retailer can expect to generate from sales. He also understands the impact of data-driven decisions on a company’s bottom line.

Cole asserts that the United States is lagging behind other markets, particularly Asia, where sharing data and metrics are part of the business culture. “The level of transparency we get from U.S. [retailers] is zero percent,” he says.

That makes it challenging to evaluate the effectiveness of co-op spending with retailers in the same way he evaluates his own digital marketing efforts.

“As a retailer, you have a responsibility to your company to make sure that you’re holding yourself accountable to a certain standard, and you want your partners to do the same thing,” Cole says.

The lack of transparency from retailers in co-op relationships is the reason why Cole has been refusing to participate in co-op programs — and he believes that his position is representative of other brand marketers as well. “I think I say out loud what a lot of people believe to be true. My frustrations are fairly ubiquitous in our industry,” he says.

“It all becomes an exercise in marginal costs of where are you going to spend that next dollar. And if you can’t hold that next dollar accountable, I’m going to walk.”

Cole hopes to see retailers in the United States begin to move away from the status quo, but he understands their inertia.

“Honestly, I have been really frustrated by the lack of multibrand retailers getting ahead of this trend,” he says. “There is an impetus to maintain the status quo. But ultimately, someone is going to do it, and then they’re going to be the one that wins. Everyone else is going to say, ‘Oh, I didn’t see that coming,’ which is just shocking to me.”
One apparel and accessories brand is shifting how it spends funds for cosponsored marketing efforts based on its retail partners’ transparency about results, so it can understand the effectiveness of marketing spend as well as what works best for that retailer or e-commerce channel. “Help us understand what drives velocity on your site and what control do we have,” said a senior digital marketing executive at the brand. In addition to shifting spend to online marketplaces, he’s favoring retail partners that are more forward-thinking, he says — those that ask, “How do we work with your marketing team? How do we work with your SEO team?”

**What Digital Co-op Looks Like When It’s Working**

Brands that have higher expectations of their retail partners when it comes to digital ad spending also understand that they can bring more to the relationship than funds.

“Everyone is looking to do things more innovatively and collaboratively, so if you come to the retailer with an interesting idea, people are responsive,” says Sokolov.

A strong brand-retail relationship requires the effort to understand each other’s objectives and brainstorm how to work better together, says Chris Seahorn, senior vice president of marketing and merchandising for eBags.com. The e-commerce business has seen positive results from customers and brands by adding enhanced product detail and brand pages to its site.

Meanwhile, New Balance has moved from traditional support for co-op advertising to creating campaigns on behalf of its retailers, according to James Carney, run specialty channel manager at New Balance. For a campaign to drive local consumers to their independent retailers through targeted paid advertising, it created a special promotion for one of its best-selling specialty-store-only sneakers. Among the results of the campaign were a 43% increase in social media page engagement, 24% of retailers reporting new customers buying the product in their stores after seeing a digital promotion, 19% of retailers reporting an increase in traffic to their websites, and 14% of retailers reporting customers asking about the campaign in their stores.

Retail dealers that have dug into the data to identify opportunities and trends and then customized their message targeting — and that are also very transparent with New Balance — stand out as strong partners, Carney says.

Tumi’s Cole has also found at least one partner that can meet his need for transparency. A large, non-U.S. e-commerce marketplace has been very forthcoming with data, he says. “They tell you, ‘You spent this much money, you got this many product views, and this many people bought because of it.’ And for that reason, we are far more willing to experiment and give them more money.”

For online retailer eBags.com, transparency and partnership have allowed it to grow its business. Seahorn sees good brand relationships paying off with things like the ability to carry exclusive products, which in turn pleases customers.

The company has made significant investments in reporting, personalization, and expanded marketing and co-op programs to align with its brand partners’ goals. “The brands that understand how to use data effectively and invest in programs that drive incremental demands are the ones that are seeing the fastest sales growth on eBags.com,” says Seahorn.

“All of our brands have always had access to their own sales dashboards, but we now provide detail on customer ratings related to their brand-specific product,” he adds. “We offer three tiers of co-op investments where specific metrics around customer reach and engagement are also provided. In turn, this helps brands understand the impact of their co-op spend and how, together, we can make smarter investments to drive awareness and demand.”
Which Metrics Matter?

For retailers that are seeking to play in the emerging digital co-op space, developing an understanding of data and metrics is key — but not always straightforward. Brand manufacturers may ask for a variety of metrics from their retailers, and these can differ depending on the products they sell and their objectives.

“Are you trying to drive in-store traffic? Are you trying to drive sales? Are you trying to drive loyalty?” asks Lieb. Consumer packaged goods brands are looking for transparency and accountability, and may have different needs than a high-end luxury brand, she says.

Important online metrics that allow an organization to measure effectiveness of advertising and marketing spend may include site visit statistics such as number of visitors and time on site, percentage of people converting on the site, and insights from product and category sales on the site, say industry watchers.

“Before the internet, P&G would sell toothpaste to a Walmart. You would know when that was sold to them, but you would never know when it was sold from the shelf,” says Jeffreys. Now, Jeffreys wants to know when a certain SKU was sold to a certain customer, so he can retarget them via media or email at an appropriate time in the future.

Brands that have a DTC model are able to get that data, placing them at a competitive advantage, he says. Those who work with retailers and cannot find effective ways to partner are left in the dark.

Ramping up their understanding of data and analytics, and then tapping brands’ unspent digital co-op dollars, can be a significant opportunity for retailers. The ability to get metrics and actionable data allows brands and retailers to experiment with their marketing dollars and ultimately grow everyone’s business. The savvy retailers and brand manufacturers that come together in effective partnerships will reap the biggest rewards.

Says New Balance’s Carney, “At the end of the day, we’re ultimately trying to elevate both of our brands and provide a great experience for their customers and ours.”
About the Research

This report is based on interviews conducted by MIT SMR Connections from April to June, 2018, with practitioners, consultants, and vendors working in retail and brand marketing. We gratefully acknowledge their help and participation.

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Lisa Sokolov, senior director of buying, Current/Elliott and Equipment
Tierney Wilson, managing director, January Digital
**SPONSOR’S VIEWPOINT**

**Building Stronger Customer Relationships Through Brand-Retail Partnership**

“Who’s your favorite retailer?” Given the countless options available at shoppers’ fingertips, the chances of getting a firm answer is anyone's guess. For starters, 48% of today's shoppers say they're open to buying from new retailers during the holiday season.¹

But retailers are not the only ones facing this challenge. Now, only 1 in 10 smartphone users are sure of a specific brand they plan to buy when they start to look for information online.²

This means every customer is up for grabs, all the time. How can retailers and brands be the one to grab them — in all the different ways and places they shop? How can they scale their individual digital marketing programs across all of their partners?

A great place for retailers to start is by building even stronger relationships with brand manufacturer partners. In the recent past, a healthy retail ecosystem meant brands created demand with offline marketing like radio, TV, and print, and retailers captured that demand with in-store displays, mailers, and more. But in a digital-first world, that delineation no longer holds true. To seamlessly engage with consumers through marketing (via digital and offline), retailers and brands must partner closely on their branding, sales, and upsell strategies in real time.

MIT SMR Connections research shows that brands are ready to increase co-op digital marketing investment with their retail partners; they know it’s where they need to be to meet their consumers. However, their budgets have been limited by a lack of visibility into how their digital investment influences shoppers.

This is where Google can help. We’ve been building ad solutions to enable retailers to easily partner with their brands — driving better returns on their digital marketing investment, highlighting omnichannel performance metrics, and bringing traditional offline co-op partnerships, online at scale. And with Google Cloud, retailers can bring together this ads data with other first party data from their brands to develop a more complete picture of the customer journey.

Retailers who deliver these better, measurable partnership options will do more than add value to their strategic relationships. They’ll win incremental funding from brand manufacturers for digital co-op campaigns and gain customized, actionable, data-driven insights that will drive stronger web traffic and sales. That’s a classic win-win for the retailer and the brand.

— Sarah Travis, director of Google’s retail sector, and Julie Eddleman, managing director of Google’s Global Client and Agency Solutions

¹. Google/Ipsos, Omnichannel Holiday Study, November 2018 – January 2019, US, n=5,543 online Americans 18+ who shopped in the past two days.

**Sarah Travis** is director of Google’s retail sector, leading the team that partners with the country’s largest retailers to help them build more effective marketing strategies. Prior to Google, Sarah held various consulting and marketing positions within the healthcare industry.

**Julie Eddleman** is managing director of Google’s Global Client and Agency Solutions, the one-stop digital shop for marketers and agencies. She leads a team spread around the world that oversees deep relationships globally with some of the largest brands in the world.