Building **digital** brands

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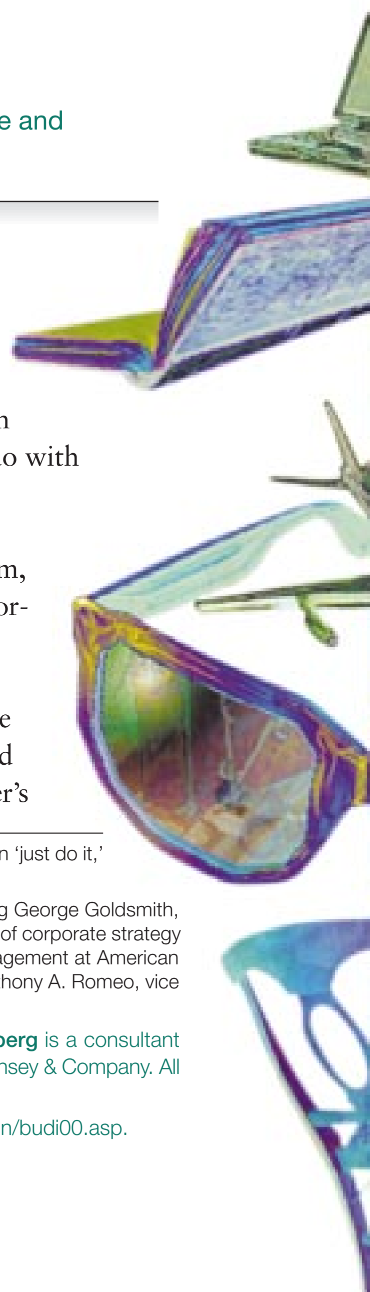
On the World Wide Web, the brand is the experience and the experience is the brand.



In one industry after another, aggressive Internet upstarts are putting established brands at risk, creating very strong brand recognition and enjoying explosive visitor growth (Exhibit 1, on the next spread). The reason may have less to do with the established brands themselves than with their managers.

Marketers know what a brand is in the physical world: the sum, in the consumer's mind, of the personality, presence, and performance of a given product or service.[1] These "3 Ps" are also essential on the World Wide Web. In addition, digital brand builders must manage the consumer's on-line experience of the product, from first encounter through purchase to delivery and beyond. Digital brand builders should care about the consumer's

[1] David C. Court, Anthony Freeling, Mark G. Leiter, and Andrew J. Parsons, "If Nike can 'just do it,' why can't we?" *The McKinsey Quarterly*, 1997 Number 3, pp. 24–34.

The authors thank all those who helped research, write, and edit this article, including George Goldsmith, chief executive officer of The Tomorrow Lab; Hans Hawrysz, executive vice president of corporate strategy at CMGI; John Hayes, executive vice president of global advertising and brand management at American Express; Lisa M. Hutchinson, director of marketing at Saturn Corporation; and Dr. Anthony A. Romeo, vice president, strategy, at Unilever North American Foods.

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This article can be found on our Web site at www.mckinseyquarterly.com/electron/budi00.asp.

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on-line experiences for the simple reason that all of them—good, bad, or indifferent—influence consumer perceptions of a product's brand. To put it differently, on the Web, the experience *is* the brand.

EXHIBIT **1**

Consumers are turning to digital brands

	Brand recognition,[1] millions of US adults	**Unique visitors,**[2] millions per month	**One-year growth in unique visitors,**[3] percent
Amazon.com	118	14.8	68
Priceline.com	110	2.6	202
eBay	91	10.5	141
E*trade	86	1.9	145
Dell Computer	Not available	2.1	25

[1]As of August 1999.
[2]As of November 1999.
[3]November 1998 to November 1999.
Source: Opinion Research Corporation International; Media Metrix; McKinsey analysis

Consider an example. If a consumer buys lipstick from a retailer in the physical world and has an unpleasant in-store experience, she is more likely to blame the retailer than the manufacturer. But if the consumer purchases that same product from Procter & Gamble's Reflect.com Web site, her wrath is more likely to be directed at P&G. Thus the on-line marketer's objective shifts from creating brands—at least as defined in the off-line world—to creating Internet businesses that can deliver complete, and completely satisfying, experiences.

Yet many marketers, particularly those whose experience is limited to the off-line world, lack a coherent framework and concrete methods for achieving the broader objectives of on-line brand building. These marketers need an approach for aligning the promises they make to consumers, the Web design necessary to deliver those promises on-line, and the economic model required to turn a profit. These three elements—the promise, the design, and the economic model—together form the inseparable components of a successful Internet business, or what might be called a digital brand.

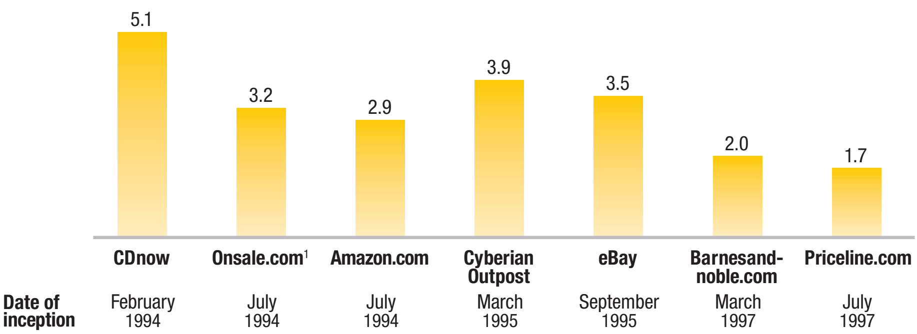
Just another channel?

One reason marketers lack the ingredients to fashion successful on-line brands is a tendency to underestimate the opportunity itself. Too many incumbent companies continue to view the Internet as just another distribution channel—one that exists to sell or generate leads for off-line products—not as a new medium with its own capabilities and requirements. At best, the traditional view leads decision makers to under-estimate the opportunity for building dominant digital brands in literally thousands of categories across the globe, from mutual funds to frozen foods, from cars to vitamins (Exhibit 2). In many categories, new digital brands, including the Web

EXHIBIT 2

Brand-building opportunities

Number of years to reach $100 million per year in sales



[1]Since merged with Egghead.com.
Source: Securities and Exchange Commission filings; McKinsey analysis

extensions of physical-world brands, will supplant the "landed" (physical world–only) brands that have dominated the marketplace until now. The Internet, in other words, is throwing these categories up for grabs.

The value propositions of products and services offered in the physical world are essentially limited "point solutions" that meet only part of a consumer need or want.[2] A credit card, for example, allows customers to pay for goods and services, and this is a point solution for a need that occurs in a broader context, such as shopping or traveling. Point solutions are primarily defined in terms of functional benefits, such as the assortment in a bookstore or the rates and terms of a credit card. Today's consumers also care about process and relationship benefits—for example, helpful hints from bookstore clerks and special deals from credit card issuers. But a company's ability to deliver process or relationship benefits is often limited by the myriad practical and economic constraints of the physical world.

Many of these constraints are removed by the Web, so companies that want to build winning digital brands must dramatically expand the benefits they offer their customers. Companies are using the Web, for instance, to improve the purchase process for customers by overcoming the physical world's gaps in time, space, and memory; to promote user-to-user collaboration and communication; and to establish reverse markets, in which customers seek out products from vendors, rather than the other way around. The best marketers are providing a complete, end-to-end consumer experience—from the promise made by a product or service all the way to its delivery to

[2]*See* David C. Court, Thomas D. French, Tim I. McGuire, and Michael Partington, "Marketing in 3-D," *The McKinsey Quarterly*, 1999 Number 4, pp. 6–17.

the consumer—and creating digital brands with fundamentally broader consumer benefits than competing brands in the physical world could have. This is equally true for all kinds of consumer-oriented brands: product, media, retail, and service.

There are two reasons for building a digital brand around consumer experiences. First, this approach forces brand builders to adopt the consumer's point of view. Second, it forces managers to pay attention to all aspects of their digital brand's interactions with the consumer, from the design of the product or service to the marketing message, the sales and fulfillment processes, and the after-sales customer service effort.

Why is this approach different from its off-line counterpart? Certainly, all companies should want to provide an integrated experience for consumers—off-line as well as on-line—but aspects of the off-line experience are often unsatisfactory or accidental. Although a traditional packaged-goods company, for instance, controls the design and marketing message of its products, it must relinquish control of sales and fulfillment to the retailer, thereby putting itself in a weak position to solve problems in those areas. The Web, by contrast, offers companies ownership and control of all interactions with customers and thus creates both the ability and the need to improve their overall experience.

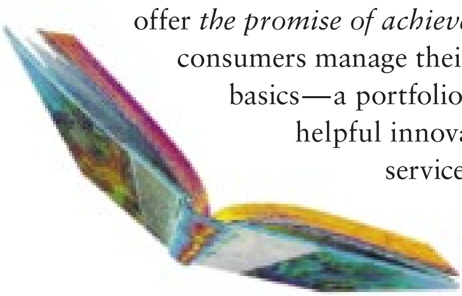
The Web gives companies control over all interactions with customers and thus makes it necessary to improve their **overall experience**

Digital promises

How do marketers build and manage digital brands? The marketer's first goal should be to select the core promise for a truly distinctive value proposition appealing to the target customers. Five of these promises are especially effective.

Digital brands that make tasks—from buying a book to searching for the best price—faster, better, and cheaper offer *the promise of convenience*. Amazon.com, like most first-generation electronic businesses, is fundamentally built on this promise.

Brands that make people feel like winners in whatever activities engage them offer *the promise of achievement*. E*trade, for example, promises to help consumers manage their finances successfully. It has gone beyond the basics—a portfolio of financial tools and research—to offer many helpful innovations, such as securities-tracking and -alert services.



Games and other activities designed to engage (and even thrill) consumers offer *the promise of fun and adventure*. Often these activities make use of "immersive" technologies, which, for example, allow electronic spectators of a marathon to hear a runner's heartbeat. Digital brands such as Quokka Sports are building their entire businesses around immersive technologies.

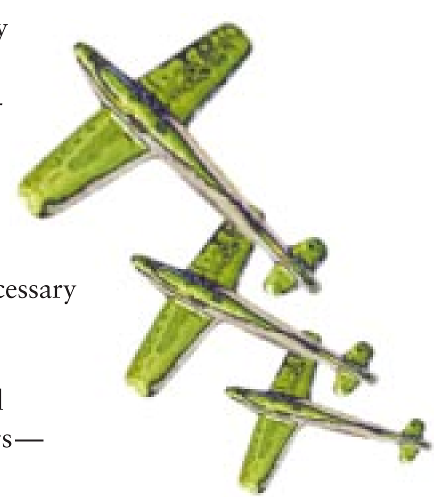
Such companies as GeoCities (which helps consumers express themselves by building and displaying their own Web pages) offer *the promise of self-expression and recognition*. Ralston Purina Dog Chow's site allows consumers to create home pages that display pictures of and stories about their pets.

Clubs or communities offer *the promise of belonging*, as well as concrete advantages. Women, for example, can exchange stories and tips with one another at the iVillage.com site. Mercata.com provides a more tangible benefit by aggregating the purchasing power of its community of users and thus helping them get better prices for a broad range of merchandise.

From promise to delivery

The promises made by digital brands are not unique to the Internet, but the medium's interactive capabilities make it easier for digital brands to deliver on their promises quickly, reliably, and rewardingly. They often do so with a scope that their landed counterparts would be hard-pressed to match. In practice, this means that promises must be translated into specific interactive functions and Web design features collectively giving consumers a seamless experience. Such design features as one-click ordering and automated shopping help deliver the promise of convenience; collaboration tools such as chat rooms or ratings functions make it possible to realize the promise of belonging.

Managers shouldn't underestimate the challenges of this translation process. What, for instance, does it mean to build a digital brand around a promise of convenience in the grocery industry? What kind of content, if any, do you need? And how about chat rooms, personalization, one-click ordering, and collaborative filtering? Digital brand builders can't afford to fall short of what they have promised, since competitors are always a click away, but they waste capital if they offer more than is necessary to make sales and keep customers.



Technology dramatically differentiates digital brands—for both customers and shareholders—

in ways that will become increasingly clear as they enter their second and third generations. To be certain of identifying all of the designs that make it possible to deliver on a promise and to build a viable economic model, today's digital brand builders must explore at least six groups of design tools. These tools are sufficiently robust technologically to help create a distinctive and relevant user experience, and they are beginning to demonstrate their ability to make money for the digital brand builders using them.

Personalization tools, such as the software that creates personalized interfaces between e-businesses and customers, hold tremendous promise for value exchange[3] and contextual commerce.[4] To be sure, the value of personalization has yet to be fully demonstrated in practice. (Fewer than 15 percent of visitors to Yahoo! have chosen to set up a "My Yahoo!" page for themselves.) Personalization tools also present risks, as well as real operational challenges, such as managing privacy, intrusiveness, and opportunity costs. For that reason, many practitioners still question the short-term return on investments in personalization tools.

Collaborative tools facilitate word of mouth, or what might be called "branded person-to-person communications"—for instance, the ratings that buyers offer sellers on eBay, the Lands' End "shop with a friend" feature, Raging Bull's discussion boards, and Pert's viral marketing (which encourages consumers to e-mail their friends instructions for obtaining free Pert Plus samples). Collaborative tools such as consumer ratings, though essential for content- and community-oriented digital brands, are underutilized.

Purchase-process streamlining tools eliminate such physical-world constraints as the need to walk into a store to purchase a product. Amazon's one-click ordering system, for example, eases transactions by sparing repeat customers the inconvenience of inputting transaction data. Peapod's shopping lists save consumers time by recording the products they purchased previously. The fact that most e-shoppers drop out of the buying process during the last clicks suggests that improvements along these lines might be very worthwhile.

Self-service tools allow customers to obtain answers and results without the delays and inconsistencies that more often than not characterize human

[3] *See* Andrew V. Abela and A. M. Sacconaghi Jr., "Value exchange: The secret of building customer relationships on-line," *The McKinsey Quarterly,* 1997 Number 2, pp. 216–9.

[4] A consumer who makes an on-line airplane reservation for Kenya on one Web site and is then served a pop-up advertisement for safari equipment on another site would have an experience of contextual commerce.

efforts to provide assistance. Such tools include software for tracking orders, preparing statements, and changing addresses on-line. Although incumbents often have difficulty integrating these Web-based tools with legacy systems, the tools are indispensable for banks, retailers, and other e-businesses that handle large volumes of transactions.

Do-it-yourself product design tools allow consumers to customize products and services, either with the help of configuration options or from scratch. Dell Computer, for example, lets customers design their own systems on-line by choosing from a range of options; customers of Music.com and Listen.com can download the music of various artists onto a single compact disc. But the need to create manufacture-to-order systems to capture the potential of these tools may make them uneconomical in industries that, unlike software and music, are not based on information.

Though essential for content- and community-oriented digital brands, **collaborative tools** such as consumer ratings are underutilized

Dynamic-pricing tools overthrow the tyranny of the fixed retail price, allowing prices to fit the particular circumstances of individual transactions. Such tools, which come in many forms, include eBay's and uBid's auctions and Priceline's offer to "name your own price." Dynamic pricing, a potential "killer application" in many categories, could permit customers to make a wider variety of trade-offs between price and value than is possible in the current world, where most sellers offer a single fixed price to all buyers.

Rethinking the business model

As digital brand builders align the promise and the design, they must also align the economic model that will sustain their businesses. For most managers of established brands, the very process of taking them on-line will force a fundamental reconsideration of the business. Digital brands offer a richer consumer experience than their physical-world counterparts, so they can and should make money by tapping into broader revenue and profit pools than any single physical-world business might enjoy. Fortunately, the range of economic opportunity for a digital brand expands dramatically as it draws from traditionally unrelated revenue and profit pools.

The economic model must be expanded because building digital brands around consumer experiences is expensive. A number of different sources of revenue ultimately makes it possible for a digital brand—and the e-business that supports it—to deliver a richer experience to the consumer. Since on-line consumers expect combinations of product types and functional benefits different from those expected by off-line consumers, marketers must adopt several different economic models to succeed.

There are six basic economic models (Exhibit 3). The success of an Internet brand rests on the skill with which it combines two or more of them.

1. Retail model. Vendors or products are aggregated to facilitate transactions for buyers.

2. Media model. A company aggregates audiences to generate revenue from third parties, such as advertisers, in the manner of the music channel MTV, the CBS television network, and *Newsweek* magazine.

3. Advisory model. An expert (such as an investment adviser or a personal shopper) offers consumers unbiased advice for a fee.

4. Made-to-order manufacturing model. A business manufactures customized products, such as locomotives, in one-time production runs.

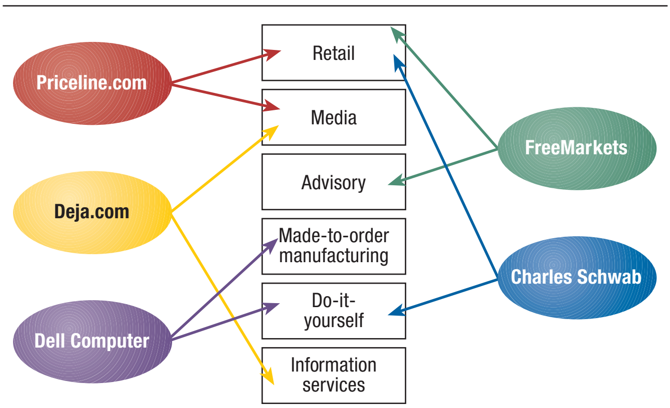
5. Do-it-yourself model. A business (such as McDonald's or IKEA) provides for or facilitates consumer self-service.

6. Information services model. A business (such as ACNielsen or J. D. Power and Associates) collects, processes, and sells information.

Priceline, for example, combines the retail and media models and therefore enjoys economics that are vastly superior to those of other travel agencies, both on- and off-line. Applying the retail model, the company aggregates suppliers of travel services, such as airlines. Applying the media model, it "monetizes" its audience to third-party advertisers by suggesting products and services to its customers.

EXHIBIT 3

New business model combinations on-line



Dell also combines two models—the made-to-order manufacturing and do-it-yourself models. The company offers computer shoppers an unparalleled choice of features and permutations. In addition, its on-line menu and instructions guide consumers through a selection process that is speedier and less prone to error than one handled by live customer service representatives. For Dell, the superior process is also less costly.

Creating winning digital brands requires managers to reconsider how they view both the Internet and branding. Off-line brands have long thrived by delivering narrow solutions to limited customer needs. On-line, however, customers have learned to expect that the companies they patronize will meet a much fuller spectrum of their needs and desires. To succeed on-line, those companies will have to create full-fledged Internet businesses, or digital brands, that can fulfill this expectation. MQ