MIDDLE MARKET Growth

In an Age of E-Commerce Behemoths, Brand Is Worth Fighting to Protect

Discounting can stoke fears, as Walmart’s outdoor gear misadventure shows

GAVIN DANIELS | NOVEMBER 12, 2018

In the age of giant online retailers, it’s not easy being a specialty brand or brick-and-mortar store. Do you throw your lot in with the likes of Amazon, expanding your retail availability and risk losing pricing power, brand cache and, possibly, consumer loyalty?

Or do you go it alone, seeking to maintain your authenticity via specialty retailers and a unique bond with consumers even as the e-commerce behemoths gobble up market share from brick-and-mortar channels?

This is a do-or-die decision that specialty retailers understand all too well. However, acquirers— even very large ones— don’t always plan for how they will carefully integrate specialty brands they buy, and they can inadvertently destroy the very value they are seeking to capture in a merger.

Case in point was the seemingly non-controversial move this summer when Walmart unveiled a section of its website dedicated to high-end gear sold by its newly acquired outdoor e-commerce marketplace Moosejaw.

The resulting chaos—several well-known brands pulled their items from the new site—serves as a cautionary tale for brands looking to grow without losing what first made them great. It also offers important lessons for companies that want to acquire specialty retailers, whether in the outdoor gear space or beyond:

Authenticity and image are everything. A dedicated fly-fisherman or rock-climber does not want to think he bought his latest must-have piece of gear at Walmart (even if he did!). For that reason, omnichannel retailers need to think carefully about the optics of their acquisition and recognize the importance of not diluting a brand’s unique image and connection with consumers.

Some of the brands reportedly pulled out because the company’s new online store looks and feels too much like Walmart—complete with the retailer’s logo emblazoned on the top left of the home page. It’s obvious why Walmart would pursue an aggressive acquisition strategy. Amazon posted sales growth of 20 percent in outdoor gear last year, according to One Click Retail, compared with 5 percent for the overall sector. All told, Amazon now accounts for nearly 50 percent of all online U.S. sales. Walmart lags behind but is trying to catch up, reporting online sales growth of 40 percent in the second quarter of 2018.

For Walmart, the new premium outdoor store made sense as an effort to broaden its appeal to more up-market consumers and expand its product lines as it tries to compete with the Amazon juggernaut. Walmart's problem wasn't with intent, but execution. Walmart's recent acquisitions of digitally native brands like Bonobos and Modcloth represent a lighter touch and potentially more successful end result. Unlike Moosejaw, those products and websites were left alone and not intermingled with the low-cost retailer's signature logo.

History and compatibility matter. Over the years, Walmart has won a well-earned reputation for squeezing its vast network of suppliers on price. That is something that surely weighed on the minds of executives at the outdoor specialty brand, despite Walmart's pledge to uphold MAP pricing (which Amazon is notoriously lax in enforcing). If your whole business model is based on taking every nickel out of suppliers, any attempted marriage with high-end consumer goods is destined to be fraught.

In contrast, some brands have managed to make a relationship with behemoths like Amazon work. What they needed first, however, was bargaining power. That's how Yeti ended up selling its high-end coolers on Amazon. It grew big enough, fast enough on its own to be able to make demands that Amazon not only had to agree to, but more importantly enforce, leading, eventually, to this week's successful IPO.

Think through the strategy. Omnichannel retailers need to think carefully about their online sales strategy before they make an e-commerce marketplace acquisition, not as an afterthought. While some brands may be suitable for selling through Amazon or Walmart channels, others will rightly fear brand equity erosion and, depending on the strategy, may not make an ideal target.

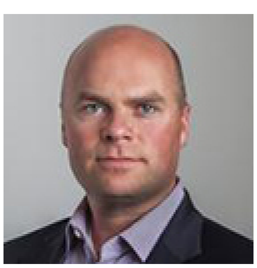
For niche brands and specialty stores, the episode highlights the need to have a clear-eyed response in the face of the Amazon and Walmart onslaught. In the world of outdoor gear suppliers, middle-market stores such as Dick's Sporting Goods are being hurt by Amazon, for the same reasons that Macy's has suffered even as many high-end boutiques have thrived.

Dick's big vendors, such as Nike and Under Armour, have moved recently to sell directly through Amazon. Smaller companies whose brands do not command enough niche appeal may have to make the decision to partner and engage.

But it is not all doom and gloom. Brands that have a strong image and niche appeal can find ways to maintain price margins and go it alone without bowing to the big boys of e-commerce.

The outdoor gear sector has several smaller players that are doing well by nurturing a high-quality image and a strong bond with consumers. California-based KUIU, for example, was founded in 2010 on exactly this premise and sells its high-end hunting apparel and gear to enthusiasts almost entirely through its own site.

Brands with such strong niche appeal will inevitably end up on the radar of Amazon, Walmart or another massive potential acquirer. But there are plenty of ways for those same brands to chart a path forward without giving up what got them there in the first place.



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