

Welcome to IF Consulting's weekly e-mail newsletter

February 4, 2005

Our regular email tackles the topical issues that surround all marketing channels and their underlying strategies.

A marketing channel with gloss

Five years ago Bob Salem, former marketing vice-president for Aveda, the high-end hair-care manufacturing subsidiary of L'Oreal, and beauty industry veteran Nikos Mouyiaris teamed up to solve the ongoing dilemma of products designed for salons ending up in drugstores and supermarket chains. With losses from "product diversions" in the hair-care industry estimated to be around \$800 million annually, there was an urgent need to remove the temptation for salon owners and hairdressers to sell salon-only products to unlicensed distributors, who then resell them to mass marketers. Industry heavyweights Salem and Mouyiaris determined that the solution actually lay with salon owners rather than manufacturers.

Salem and Mouyiaris have devised an innovative marketing channel strategy that prevents the product rip-off problems still faced by rivals such as John Paul Mitchell Systems. Under the strategy, shampoos, conditioners and styling products are identified by formula number, rather than name, and carry distinctive co-branding. Client purchases of *Profound Beauty* products are therefore solely at the discretion of the salon owner or hairdresser. The hair-care expert makes a professional recommendation based on the client's hair "anatomy", while the product's labeling provides no clues as to its contents.

Asked why no one in the industry had taken this approach to distribution channels before, Salem responded, "It took us five years to come up with this. We began the project by looking at the hairdresser and the salon owner, not the brand. We built the company around the trust that their clients place in them. That's how we built the company."

http://www.businessweek.com/bwdaily/dnflash/dec2004/nf20041217_5018_db049.htm

IF Comment

The founders of *Profound Beauty* defied conventional wisdom, broke the rules in their industry and came up with a winning formula. Conventional wisdom says that products with well-known brands outsell no-name brands.

By developing a salon-only product identified by formula number and co-branded with the salon's name, *Profound Beauty* has created a new, exclusive and profitable distribution channel for salons.

With *Profound Beauty*'s products, hairdressers are seen as experts who can recommend specifically formulated products for their customers. Customers want to buy from experts and many customers buy products they believe are specifically formulated for their personal needs. Numbered products carry the same aura as drugs described by physicians.



Marketing Channel
Strategy Consultants
Maximizing shareholder value
through creating the best route
to market

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By not using distributors and selling stock to salon owners and their staff, Profound has developed strong relationships with its customers. The company was built on the basis that clients trust their hairdressers to recommend the right products.

Personal attention from Profound's sales force and salons' stock ownership is based on creating the same type of trust.

Snippets

As new franchise regulations take effect this month, fast-food giant McDonald's is stepping up its expansion efforts in China. According to Tim Lai, McDonald's managing director for North China, McDonald's will adopt a new expansion strategy in China - at least some of the new outlets will be franchised to local partners. Since it opened its first outlet in China 15 years ago, McDonald's has been expanding in the country mainly through joint ventures with various local partners. In contrast, about 70 per cent of its outlets worldwide are franchised.

http://www.chinadaily.com.cn/english/doc/2005-01/13/content_408555.htm

Computer chip manufacturer Intel launched its first formal channel program a decade ago. In this interview, Bill Siu, recently named head of the new Channel Products Group, and Steve Dallman, director of distribution and channel sales and marketing, discuss the company's restructure and enthusiasm for its new marketing channel strategy.

<http://www.crn.com/sections/distribution/distribution.jhtml?articleId=57703941>

Music – is it music something you own or rent? The answer to that question will help determine the future of new online music subscription services to be offered by RealNetworks, MusicNow and MusicNet this year or early in 2006. The new service offers to fill portable music players with an unlimited number of songs for a monthly fee, as opposed to the currently popular method of buying songs by the track, a method utilized by Apple Computer's iTunes Music Store and its successful iPod portable player.

<http://www.iht.com/articles/2005/02/03/business/netmusic.html>

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IF Consulting is a leading international marketing channel strategy consulting firm with over 30 years experience in a vast number of industry sectors. See our website for further information.

<http://www.i-f.com>