



## Executive White Paper

# Maintaining Brand Safety in Profitable Special Markets

According to experts, special markets are one of the most profitable areas of product sales because:

- They promote brand awareness without incurring advertising expense;
- There are few hidden sales costs;
- They are a good outlet for discontinued merchandise and raw materials; and
- They expose products to a new segment of consumers.

Corporations such as Tumi, Inc., Canon, Inc., and Waterford/Wedgwood, Inc. enjoy both substantial profits and brand safety in these markets.

"We wouldn't be involved in these markets unless they were profitable and brand-enhancing," said Mike Landry, director of special markets for Tumi. "The special market represents a significant portion of our overall corporate business."

Generally, special markets are all channels other than mainstream retail. This includes premium, corporate, and incentive markets.

With basic safeguards in place, the incentive industry is a win for the supplier, a win for the company, and a win for the employee. "When you achieve a goal or milestone – you get something from your company that is high quality," explained Terry Markwart, Canon USA's director and assistant general manager for the special consumer imaging group. "People see it and think you must work for a really great company."

Provided companies use sound judgment and employ the latest cost-effective methods for ensuring brand safety, special markets are safe. A best practices safety plan allows companies to take full advantage of special markets while minimizing risk.

## The Advantages of Special Markets

Special markets are the perfect complement to retail sales – offering significant profit margins, opportunities to showcase new products, and access to a broader consumer base. Following are just a few of the many benefits:

- **They are highly profitable.** Special markets' wholesale pricing is typically several percentage points higher than standard wholesale pricing and end-user pricing is usually even higher.

- **They lower the cost of goods sold.** Sales commissions are usually paid on a flat rate to a commissionable sales force of independent manufacturer's representatives. So there is no built-in overhead for sales personnel.

- **They present brands in a favorable light.** Often products are often displayed in a sumptuous rich-print catalog worthy of a coffee table. As a result, readers associate the product's brand with upscale aspiration.



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■ **There are none of the following hidden operating costs:**

- chargebacks,
- returns,
- pre-ticketing,
- special routing,
- free freight,
- sales associates spiffs,
- co-op ad expense,
- fixturing,
- markdown money, and
- special packaging.

■ **They are a good outlet for discontinued and overstock merchandise.** Every unit of this type that is sold through special markets doesn't dilute the brand by appearing at discontinued merchandise outlets.

■ **They are a good outlet for discontinued raw materials.** Special make-up programs can be implemented to expend raw materials that are no longer needed for current merchandise.

■ **They open up new markets.** When people receive a premium product as a sales incentive or corporate gift, they have a favorable experience with a brand that they might not otherwise be able to own because of its price. Special markets are a fully paid seeding program for premium merchandise. Once recipients are exposed to the brand, they often become collectors.

In a *Harvard Business Review* article called "Moneyed Masses" Paul Nunes emphasizes the importance of introducing new models of ownership that make real luxuries affordable to the average person. Special markets are one such model.

"Very often an individual that couldn't afford Tumi receives a piece of Tumi as a sales incentive," Landry said. "It's an ice breaker for them that, more often than not, turns the casual Tumi gift recipient into the ardent Tumi collector."

"There are so many hidden costs involved with retail – so you don't see the true costs of doing business in that channel. I'd say the costs of retail are significantly higher – it's only common sense. When you sell to retail, you build in a certain percentage for returns, for example. In our

world, we have almost no returns, which can be extremely costly."

Given all this, it's no wonder that more and more companies are either entering special markets or increasing their presence.

## Special Markets are Safe

Most corporate administrators would agree that maintaining brand integrity is a critical component of any successful business.

"It's all about the brand. Brand management still trumps customer management in most large companies," said Roland T. Rust in the *Harvard Business Review*. "Compelling brand images remain essential to winning and keeping customers' trade."

Markwart agrees. "A top priority at Canon is protecting our brand. We want to be sure that our product and brand are presented in the marketplace the way we want it."

It's worth noting that two of the most prevalent and costly forms of brand infringement, piracy and counterfeiting, rarely involve special markets. Part of the reason is that monitoring distribution in special markets is straightforward.

"I think special markets are probably the least complicated markets to protect," Markwart said. "It's easy for us to keep a close eye on where everything goes. We have a strong system in place - everything that involves our brand goes through three channels before it is approved – branding, marketing, and legal."

"At Canon we're a team. It's not one person making a decision about anything. We decide who gets the product – where and when. It takes longer to get a decision, but in reality it ensures that our products remain safe in special markets."

J. Terry Loury, Waterford Wedgwood USA, Inc.'s vice-president of sales for special markets added, "We have a number of stop gaps in place to monitor distribution channels. These include the outside rep and our inside sales team. It's very important to put best practices in place."

## Best Practices for Ensuring Brand Safety in Special Markets

Companies like Tumi, Canon, and Waterford are comfortable operating in all markets because they institute best practices and have comprehensive systems of controls – two policies experts recommend.

“Because the industry trades through middlemen, although it is rare, there can be hazards,” Lory explained. “Nothing is without risk, but if best practices are in place, the risk is small. It’s up to the company to qualify the distributors and make sure that middlemen know what the consequences are for violating the terms of the agreement.”

A proactive best-practices policy is vital to ensuring brand safety in any market and special markets are no exception. Comprehensive programs have five components:

1. Specifications for proactively designing products with safety features;
2. A detailed strategy for safe distribution;
3. Procedures for identifying and verifying problems;
4. Procedures for dispute remediation; and
5. A regular employee education schedule.

## Specifications for Proactively Designing Products with Safety Features

Manufacturers have an array of overt and covert product monitoring devices at their disposal. These devices range from bar-coded tags and labels to advanced laser imprinting. According to *Packaging Digest*, a trade publication of the packaging industry, the use of holograms and security inks is growing more rapidly than any other technique.

Overt trackers and protectors include: micro-optic film; holograms; color-shifting film; serialized coding, encrypted serialization; and tamper resistant and tamper evident material.

Covert trackers and protectors include: taggants that require a special reading device; retro-reflective taggants that require a special light source; and UV reflective images and security fibers.

The following are a few specific examples of monitoring devices:

■ **Barcodes** Adding serial numbers or serialized information to barcodes is simple and cost effective. Companies can add these security features to existing tags and labels without instituting costly production changes or adding additional components to the product.

■ **Invisible Taggants** These are usually composed of unique fabricated materials, which means they can be easily and accurately verified with special equipment, such as a black light, but are difficult for others to detect or reproduce. Invisible taggants have specific optical aspects that make them invisible to consumers; they don’t alter the appearance of the label and don’t affect barcode scanning.

■ **Pattern Adhesives** Combining strong adhesives with less permanent adhesives causes a label to self-destruct if it’s removed – leaving a visible mark on the object and rendering the label useless.

■ **Structured Magnetic Threads** These threads are woven into the raw material before it’s converted into tags or labels. While the threads are visible, they become an intrinsic part of the tag or label and, as a result, are extremely difficult to copy or separate.

■ **Smart Labels** They imbed a radio frequency identification chip (RFID) and antenna into the label. The manufacturer writes data into the chip and reads data from the chip using radio waves. The data can include an identification number, serial number, expiration date, lot code, and a unique customer ID.

These brand-security devices work best for tracking and authentication if they are incorporated during the manufacturing process. But anything that involves a tag or label can also be incorporated during the shipping and receiving process.

According to Landry, Tumi recently instituted a plate program to control merchandise in special markets. If two or more items go to the same address, Tumi rivets attractive custom plates to the items that include either the recipient's name, the company name, or a monogram.

"It's not a significant cost," Landry explained. "It's on the outside of the bag and once we explain why we do it, most people are OK with it."

The Tumi plate program demonstrates an important point - a strategy for employing available technology is much more important than the available technology itself.

"Too often, companies look at technology first, rather than looking at the problem and creating a strategy," explained Leonard Walle, director of new business development for Flint Ink. "Brand protection solutions are strategy-based, rather than technology-based."

## **A Detailed Strategy for Safe Distribution**

Every step of the distribution process is vulnerable to risk. A detailed distribution strategy identifies and mitigates those risks. With special markets the greatest risk occurs when the manufacturer releases merchandise to a middleman.

"When you work through distributors, you can lose control of where the product goes," Canon's Markwart said. "You need to establish guidelines with distributors; you ask them who their customers are and where they are selling your products - and you should expect a periodic report."

Like most companies that sell into special markets, Waterford Wedgwood includes a clause in the potential distributor's credit application that specifically prohibits trans-shipments.

While the distribution protocol is different for every company, it should identify the process and how the process will be monitored. It should also include samples of documents that record transactions between the manufacturer and distributor.

## **Procedures for Identifying and Verifying Problems**

When the question of product diversion arises with a distributor, the manufacturer should have a policy in place that identifies specific procedures for authentication. This assumes that the manufacturer has a nearly foolproof avenue for authenticating its products.

Products are usually authenticated by using a device-specific reader to detect the presence of the identifying material on the product. This means the manufacturer must have physical access to the products in question - not always easy.

But special markets administrators with experience also look at distribution records and see red flags - patterns of unusual activity - which point to potential problems.

"If I see a large order of stemware in our most popular pattern, I take notice," explained Lory. "Because people usually like to order their own patterns - it's a very individual thing. Stemware is not usually the first choice for a large general corporate gift."

Markwart added, "You can look at the numbers and things might look a little out of line for a product that is not typical for that channel. We keep a very close eye on drop ships - that allows us to control where merchandise is going."

An informal verification avenue for special markets administrators is networking. "We will pick up the phone and ask if another sales manager has experience with particular customers. It's important to network," Lory said.

## **Procedures for Dispute Remediation**

Comprehensive distributor agreements ensure that the manufacturer has the upper hand in a dispute.

The first and most important step in preventing disputes, is qualifying the applicant before any agreements are signed. This includes a background check.

Large corporations such as Tumi, Canon, and Waterford Wedgwood, have more leverage than small to medium-sized companies. The mere threat of severing the

relationship is often enough to keep distributors from diverting products.

“Our policy is that once we have a sense that products are or are going to be diverted, we don’t trade with that person anymore, but we investigate first to see what’s going on,” Loury said. “It’s up to us to qualify the distributor and make sure the distributor knows what the consequences are for violating our trust.”

Markwart agrees. “If you go through a distributor and things don’t look right – you need to give them a call and ask them why the distribution of a certain product looks funny. Sometimes they have a good explanation and sometimes they don’t. But you give them a chance to explain. We try to nip any problems in the bud early – to resolve things before they become a major issue.”

### **A Schedule for Regular Employee Education**

Employees need to be reminded regularly about the importance of protecting their company’s products and the integrity of the brand. Administrators can use both multimedia and printed materials to reinforce the message of trust and the importance of adhering to company values.

### **To Summarize...**

Special markets are extremely profitable and beneficial merchandise outlets. They are a cost-effective way to build on brand awareness; carry few of the hidden sales costs of retail; are a readymade outlet for discontinued merchandise and raw materials; and open up a new consumer market.

“Without a doubt, special markets is a very significant B2B industry that is alive, well, and thriving,” Loury said. “Yes, there is a risk, but it’s well worth the risk.”

As long as companies take precautions and follow best practices, special markets are both safe and rewarding. Every best practices program should include: specifications for proactively designing products with safety features; employee education; and strategies for safe distribution; dispute remediation; and identifying and correcting problems.

“You have to take a good look at your brand and your line and see if special markets make sense for your company,” Landry said. “But you have to be cautious and do it the right way. For most brands, I’d be hard pressed to see why a strong special markets division wouldn’t be a huge asset.”