

HUBCULTURE

The Next Wave of Urban Consumers

By Stan Stalnaker

chapterfourteen The Future in General

No one can predict the future, but a few things seem to be on the cards:

- [1] Consumer China is the next America.
- [2] America and Japan are swimming against the same tide.
- [3] Europe is in brain-drain danger, but fortunately it's a nice place to visit.
- [4] The hub cities, being common in their new cultural identity, mitigate these new regional realities.
- [5] Within the hub cities, the next-generation company is taking shape, driven by the primary demand of the hub: ubiquitous, end-to-end service across a variety of products and activities.

These are broad and sweeping points of reference, but they play a role in the way we think about the hubs and the larger regional or national considerations that affect the hub's ability to fully participate in the new market. It also affects how we market, and where we put our focus and our resources for the best strategic return. I will take a few minutes to explain what meaning exists in these regional shifts, followed by the role individual hubs are playing within and between the regions. These shifts are not absolutely defined by the hubs, but the personalities and emphasis within the hubs will evolve in tandem with these regions, even as they all grow closer and closer together in their common expression and outlook.

Then we'll look at how companies are evolving to deal with the new common market and outline the structure of the "neocompania," an evolving corporate structure that makes brands proxies for everything material, however unrelated, targeted to the culture with which they are primarily engaged.

The Big Picture: Hub Cities in Development

Emma is the head of marketing at Dunhill, Asia Pacific. "China is the new Japan," she said over lunch one day as we discussed the commercial prospects for the English luxury men's retailer in the near term. Her comment was specific to her business, and this is true in the high-end luxury sector. But in a broader sense she understands that China is the new America. Japan, for the luxury goods category, has been the giant gorilla gobbling up sales and fueling the category's global expansion, much as America has been the gorilla buyer for the rest of the world economy, especially over the last 10 years. The next big buyer in the global economy, whether the sector is

handbags or autos or architecture, is China. It's also the next big seller.

On a wider scale, one could say that Asia in general is the next big player because of the population equation, although a number of scholars have argued that China is in danger of collapse, decay or revolution. All of these things may be true, but the momentum has started for China, fueled by collapsing walls of information, and it would be very surprising to see it turn course from the route for which it has sailed. As the playing field levels, education improves and China focuses on building itself, inwardly (much as America did in the early 20th century), its force will be unmistakable. Executives from strategy consultant Bain & Company sum it up concisely: "China now is where the US was in the 1890s, but the development is much more accelerated." Just like McDonald's, 1.2 billion people can't be wrong.

Japan will continue to be a force in both innovation and adaptation for many sectors, and as a consumer market its size and wealth remain a potent force, even if it is a force receding in scale to the avalanche of Chinese buying that is already shoring up the accounting books of consumer retailers, especially in the high-end sector.

According to Emma and other fashion retailers, fully 80% of global revenues from companies like LVMH, Hermés, PPR (Gucci, YSL) come from Japan. At Gucci, the number for Asia is about half of total revenues, but that does not account for Japanese traveling to other markets to buy, which is included in Emma's number. Most of the money going to the luxury houses has not come from Japanese buying in the stores that now line the Ginza, but from Japanese who traveled and scooped up bargains in Sydney, Honolulu and Paris, fueling those economies. Back in the mid '90s, it was not uncommon for Japanese tour agents to charter commercial planes full of shoppers to fly to these places (even duty free outposts like Guam), lugging the loot back to Japan.

Sometimes it was sold as a parallel import, but more often, it was just a good excuse for people to save money – buying in Paris, even with the airfare, was still cheaper than shopping for half the selection at twice the price in Tokyo. When the Japanese stopped traveling, the luxury goods retailers responded by opening huge stores all over Japan – Sapporo, Osaka ... everywhere, to cater to the huge Japanese market. Tokyo remains the showcase for these brands, capped by the Louis Vuitton global store, JCrew super stores, the earlier mentioned mega-amazing Hermés building, and others, many around the Ginza and Harajuku prefectures.

To Americans, understanding the old Japanese method of travel-to-shop behavior is generally a little bit difficult, but that is because Americans don't understand what it's like to pay duties of 200% on imported goods. It also tends to conjure up parallel images of Versace-clad Venezuelan drug-lord wives leaving on the 06:55 a.m. from Caracas, flying to Miami for a day of shopping and lunch on the bay, only to return on the red-eye back south. There is a certain amount of, uh, extravagance to that form of consumption. After 12 years of post-bubble yuck-enomics and a slight reduction in the duties,

most Japanese came to realize that it was a bit extravagant too, and even though there is unrelenting demand for the latest, most avant-garde, they are a little less likely to globe-trot for the Fendi alligator than they used to.

Despite the Japan factor, the big prize is China. At last count, Dunhill had over 60 stores in China, compared to nine in America. This is where Dunhill is placing its bets, and in the luxury category, so is everyone else. Burberry, Louis Vuitton, Prada, Salvatore Ferragamo, (even mass retailers like Wal-Mart and IKEA) all say their future growth is inextricably linked to success in China. Interestingly, the near-term growth is in secondary cities like Dalian and Chengdu, where second-tier status as a city translates into first-tier desires by the residents. In Dalian, people want the status of the genuine article. In Shanghai, they are already ambivalent and just as likely to accept a fake one at a lower price.

In the auto industry the growth story is much the same: BMW, DaimlerChrysler, Fiat and Ford are all working on joint ventures with Chinese companies to start building cars for the Chinese market, and the success of Volkswagen and General Motors in their China JV projects has given them cause for hope that the investments they are making now, even if for just a piece of the future action, are not only worthwhile, but necessary to their long-term viability in the global market.

But even though luxury companies are eyeing the China market thinking it is becoming a source of huge demand and profits, the auto companies are more on the mark, for they seem to realize that in the long run the Chinese market will probably more closely resemble the American market. The reason is not just size – with one out of every four planetary citizens in China it's news to nobody that the consumer demand rivaling America will eventually be there.

The similarity is in the development and tastes of consumerism, combined with the wider spaces and the ambitions of the country itself, which lend a closer parallel to the US in the path of its development. Even the consumers in China tend to be a bit more conservative – more like the Americans, less consumed with fads, more into classic cuts and quality and price, unlike the Japanese who tend to put more emphasis on the frivolous part of frivolous. Of course, China is huge and widely disparate, so parts are comparable to Japan. Already, China enjoys more than 18 million millionaires, which is more than the entire population of Australia. China can definitely do frivolous exceptionally well.

Since China is also less developed than Japan and quite hungry for new ideas, the ability to leapfrog other countries by employing the latest infrastructure and technologies leaves increasing room for companies that wish to participate in segments of the economy where there are not strongly established domestic players. Since most of the economy was or is state-run, additional opportunities exist from partnership with newly privatized initiatives or special economic development projects that trade expertise for equity. The end result is a more open strategy for market entry.

America and Japan are both swimming against the same tide – trying to wring growth from stagnant markets as their populations age. One of the great fears by economists in both markets is what will happen as baby boomers begin to withdraw from the consumer markets, a trend that will accelerate in the middle of the decade as they begin to hit retirement, or at least pass their prime earning years. The only balance will be to continue looking outside their home markets to invest and to sell – markets bursting with younger populations across the developing world. Places like Brazil, with improving infrastructure and heaps of young people, stand out.

Since consumers in these economies have already been cultivated and harvested – both exploited and maximized in their value, the eternal search for growth is an incentive for companies based there to increasingly build outside their national borders. Both markets are mature in an economic sense, and enjoy bursts of organic growth only with technological innovation and the cyclical needs of the business sector. In turn, the business sector is itself constantly fighting a war of over-and-under capacity that generates a near zero sum return in the long run.

Europe faces the same maturation problems as Japan and America, but is saddled with the additional pressure of structural rigidity in its economies and a preoccupation with the past that is less obvious in Asia and America. The continued integration of the European Union provides a focal point for the future, but it can't seem to get past the fact that many Europeans find the best chance for wealth generation in markets abroad. Sometimes that just means going to London, Europe's main hub, but often it means Asia, where the big infrastructure and consumer development needs offer more lucrative deals. Airbus, for instance, is banking on Asia and Russia for future growth of the air transport industry, resulting in a big focus on advertising and marketing targeted to that region.

The key in Europe remains the integration of ethnicity and multiculturalism to decreasingly national populations. The changes that have occurred in Paris and Berlin and London over the last ten years – fueled by a growing acceptance of ethnicity as a cultural advantage, are helping to foster new innovation, but this seems limited to the hubs. Outside, among the broader populations, dangers of racial fundamentalism and intolerance still hold some sway.

The Mind Race: Hub Corporations in Development

Over coffee at Starbucks with an Australian marketer, David, we got to talking about multinational branding. He thinks from an anthropological perspective, while my viewpoint stems from an economics background. The funny thing about hub culture is that half the people are so well educated or have such extensive experience working in the international arena that it doesn't take much to get them to share their thoughts, as everyone likes to think they are the expert on SOMETHING. David is no exception.

Anyway, David contributed the following salient point about brands: "Product lines are blurring and brands are consolidating quickly, especially

under a series of a few holding companies that tout synergy as their *raison d'être*." This means that US, German, British and other companies are becoming like Japanese *kieretsus* and Korean *chaebols*, with accompanying dangers of conflict of interest and insular thinking that America so haughtily sniffs at Japan and Korea about on a regular basis. Currently, we don't think of Nike, Disney, LVMH and HSBC as competitors. Nike makes shoes and apparel as part of a larger sporting universe strategy. Disney operates in the entertainment field, LVMH is in luxury image goods and HSBC is a financial services leader. But the fight for survival in our hyper-competitive, cluttered ad environment means that all four of these companies are beginning to compete for one identical thing: the consumer's time, attention and eventually, heart. What you sell is becoming secondary to how you access your target. When the product a brand sells is no longer the primary motivator to the sale, the company can essentially sell anything ... and will, as long as they can compete effectively in either quality or scarcity through additional service.

The true implications of this have only just begun to unravel, but they will fundamentally change the way we view brands over the next few years – what a company makes or sells is less important than how you as a consumer feel about the company, because the big brands will sell you such a wide variety of goods and services that their traditional product lines of, say, shoes and apparel and sporting accessories are viewed as just another revenue stream. Operating by the product you sell is narrow thinking, as obsolete as thinking a cereal company can only sell one kind of cereal.

Twenty years ago no one thought it was appropriate for Nike to sell anything besides shoes, but the brand became strong enough that it eventually moved into apparel, with success. From there, it went into accessories and light sporting goods, quite a far cry from footwear, in an attempt to build an overall sports-related identity. Next up, Nike TV, a media project that puts it into competition with every media company that produces content or sells advertising. Especially because of the lower cost of entry due to the Internet, media has been the first industry to be affected by this explosion of offerings – every large consumer brand is now starting to behave in some way like a media company.

After media comes financial services and planning, with a wide variety of sophisticated finance mechanisms that allows the purchase of big-ticket items, non-cash payment for smaller items, sophisticated barter and trade systems between corporations themselves, and electronic micro-payment initiatives. All allow traditional product-oriented companies to add financial services (however silent) to their necessary competencies. Large corporations already do this behind the scenes to improve efficiency in their financial statements, making trades on their stock, buying shares in other companies and investing in emerging markets to manage their money. Eventually this will bleed out to consumers on the financial retail side. The largest, most successful brands will offer these financial services – much the way GM already finances sales of cars and trucks, and the way mass retailers offer store-branded credit cards to loyal customers. Offering these additional services again allows these corporations to up the ante on the quality,

service and scarcity equation that is so fundamental to preserving price. All this is done to avoid commoditization of their core businesses.

There are three factors driving the development of the wide-range brand: global outsourcing, economies of scale and the loyalty/productivity relationship.

Outsourcing

As discussed previously, these days anybody can make anything, for a price. The technology behind most mid-value consumer products is widely available, and manufacturing processes are transparent. If HSBC decides it wants to make toasters to give as an incentive to its banking clients, it takes about 10 minutes to get an order placed. When Gucci decided that snorkel equipment and volleyballs would be a fun spring/summer accessory, it simply had them made.

Across most consumer goods industries, actual manufacturing and production of everything from luxury watches to computer circuit boards have consolidated to a few global players. If a brand wants to make something, it simply calls up a manufacturing partner and requests the item, or gives them the specific designs created by outsourced specialists like the style-trackers. The supplier then pushes the button on production with any number of companies that are pumping out similar products, many of which are in China, Japan and other parts of Asia.

The eyewear and watch industries illustrate the point. If you are Max Mara, Ralph Lauren, Burberry, or Donna Karan, you have an alliance with an Italian company called Safilo, which has a large portion of the global eyewear market. Safilo receives designs every season from the brands, and works with its own networks of factories (from Europe to Asia), to produce hundreds of thousands of pieces under label for these brands. Some go back to the individual companies for sale in their own stores and distribution through their private channels. The remainder of the production is disseminated across Safilo's own network of thousands of eyewear retailers, who carry dozens of brands in a single shop.

Safilo's main competitor is Luxottica, which has the majority of the market and operates on a very similar structure. Together they account for upwards of 70% of the mid- to upper-range eyewear market. A few smaller players, such as Rayban and No Fear produce as well, though they are less likely to act as an outsourcer as Safilo or Luxottica. All also have their own brands and lines they are working to expand and develop.

The moment that BMW decides it wants to launch a line of high-performance driving eyewear, it can conceivably do it very quickly. Both Safilo and Luxottica could, if pressed, handle not only the production but the design and distribution for BMW, ensuring that BMW is able to roll out a topnotch product, despite the fact that BMW knows zilch about eyewear. BMW eyewear may sound unlikely, but who would have ever thought Porsche would have a successful luggage business, or that Samsonite would be making some

of today's trendiest clothes?

The outsourcing scenario is playing itself out now across all industries. TAG Heuer, the famous Swiss watchmaker, isn't actually a watchmaker – it's a marketing company that outsources much of the production of its watches to a prestigious collection of Swiss master watchmakers separate from the actual company. Granted, they are very good, but they are not guaranteed to be TAG Heuer employees.

Louis Vuitton uses Loewe workers in Spain to work on its leather products, and has been known to completely outsource the production of some items, especially when demand is so strong that its own craftsmen can't complete orders. It should be noted that there is a matter of degree to this kind of outsourcing, especially with regard to luxury companies and their bigticket items. Louis Vuitton would never outsource to Asia, even though the quality of production is often just as good, because it would be ruined if anyone ever found out the company was producing a \$2,000 briefcase in Bangladesh. The quality may not be affected, but the image it cultivates would be greatly tarnished, because there is no romantic association with Bangladesh in the mind of the consumer like there is with the crafting traditions of Europe.

Since Loewe's Spanish workers are actually among the world's best, other luxury goods companies, including those not related to Loewe under the LVMH brand, also use them to produce certain leather items. And since production facilities are not as elastic as demand, Loewe sells leather goods to other companies to use and distribute as their own at a tidy profit. Loewe will refuse to put the Loewe name on the item to protect the impression it conveys from its own brand, but it has been done. Both Loewe and Louis Vuitton are also careful to employ distinctions that make their particular products unique. In the leather world it's all about the grain. Only Louis Vuitton has "real" epi-leather, a watermark imprint placed on the leather that gives that line a distinguished look. Loewe also insists on certain leathers and unique leather stampings that only it can use, to create a subtle difference to its product. Both also make sure that no one else can buy the exact same leather, even from certain geographic locations within Europe. Most consumers don't know this, but they also don't know that Loewe sometimes makes Vuitton either.

The bottom line is that the same person could be making your leather wallet, regardless of what label it ends up with. The flip side to this is that you can buy your leather wallet, eyewear and snorkeling equipment from the same label, should you so choose. This horizontal ability to cross sell is at the core of success in the move for companies to embrace "lifestyle" as their key selling point.

The outsourcing trend is clear everywhere a product or service is produced, from autos that are made in collaboration among different car companies and sold under different marques, all the way down to the toys in a Happy Meal, which are produced by the same handful of companies that make the action figures for Mattel, which are the same companies that churn

out licensed product for Disney and Warner Brothers.

Economies of Scale

This massive move toward outsourcing creates two layers of business functionality defined by our old dot-com era buzzwords, business-to-business and business-to-consumer. Business-to-consumer brands become purveyors of anything and everything, while business-to-business producers and manufacturers become ever more specialized, spitting out variations of the same products for a variety of companies. Economies of scale drive both sides: The larger quantities that the manufacturers produce allow them to do so at a lower cost per unit, helping them on price. As we all know, all things being equal, the supplier will often get screwed on price, as the client whittles down the margin by threatening to use other suppliers who can offer the same goods or services at a lower price. The bigger the manufacturer becomes, the more it tries to consolidate its position by leading in technology and speed to market – factors that help alleviate pricing pressure that would be absolute if it was just about who could produce what by when.

Similarly, companies have two ways in which they can move to build their economies of scale: horizontally, across other product categories in an effort to build market share or enter parallel markets; or vertically, in an attempt to control as many points along the value chain as possible, from start to finish in the conception, production, distribution, sale and maintenance of a consumer product. Different companies have different strategies, but it seems that brands move best horizontally, not vertically. This is true despite the fact that many CEOs will tell you that they are moving their companies vertically in an attempt to rein in costs and improve quality of their branded products.

For the brands, leading in innovation (technology) and speed to market are key factors in enabling them to command a price premium from the consumer. This goes back to our ongoing discussion about quality and scarcity. Innovation and technology improvements affect the quality of the brand's products, while speed to market ensures that you can control scarcity, if only for a limited time. Applied across a range of products, a multiplier effect takes hold that encourages brands to diversify their product offerings as much as possible to cover hits and misses. That way, if silk ties are out of favor you have a hit in mobile phone covers to fall back on, as Dunhill learned in collaboration with Nokia.

That is a mid-range example, but like those little Russian dolls you see all over tourist locations in the Caribbean, the pattern repeats itself all the way up and down the economic food chain. At the top, the biggest companies, like Sony, Microsoft, and AOL Time Warner are all looking at trying to dominate and blur the lines of what they offer: content, products, entertainment, services ... Microsoft's move into hardware with the Xbox, combined with its move into entertainment with NBC and MSN and, probably soon, financial services with General Electric, complement alliances with partners who provide specialized information.

The simultaneous business-to-business and business-to-consumer relationships apply similarly across many categories. In this instance, Forbes, which produces electronic business and financial information for itself as well as for MSN, can be compared to Loewe. These wildly different companies have the same model. Both produce their own product, available in Loewe shops or in Forbes and at forbes.com. Yet they also sell some product (business news, leather) to others – whether Louis Vuitton or Microsoft, for additional revenue or as a promotional extension into those larger companies' product mix.

In addition, there is a mirror effect to economies of scale. The same suppliers and manufacturers who are busy specializing and growing for economy of scale on one side are often outsourcing their own internal business processes to be able to offer their range of clients a fuller suite of end-to-end solutions, again for greater economy of scale. Yesterday's tiremaker is today's tire, rubber glove and glue gum supplier, probably with a stake in the Indonesian rubber plantations that it buys from. It may own limited hard assets core to its primary function, such as the factory equipped to produce the tires, but it also knows how to get you the gloves when you need them.

Within the tire company itself, it may use outsourcing to achieve greater economies of scale, sending out advertising and public relations, human resources, information technology, or other traditional segments of the company to allow the organization to focus resources on building economy of scale in its front-end business; offering a wider variety of services and production of finished goods in the rubber sector.

But an all-everything-all-the-time strategy can harbor risk, because it is really easy for brands to wipe out when they diversify product lines too much or too quickly. It is difficult to achieve success horizontally, but even more difficult to do vertically, where a company decides to move up and down the production chain.

Chiquita (which recently filed for Chapter 11) probably would not suggest going into the processed frozen fruit and ice cream market when your core competency is growing and shipping bananas – (OK, and printing those fun little Carmen Miranda stickers). Chiquita spent the 1990s working on a move into the processed foods market and other vertical development projects that ultimately were not in the best interests of the company or its shareholders. Even though Chiquita enjoyed great brand recognition and a solid revenue base from a large share of the fresh fruit market in bananas and pineapples, its core competency was not in the packaging and sale of processed foods; it was in the growth and transportation of raw food materials.

In hindsight it would be easy to say that it was impossible for a growing and distribution company like Chiquita to move vertically in the food business, supplying more of the end-to-end product development equation. Moving horizontally, a potentially more successful strategy, would have meant expanding into the raw production of other foodstuffs; like trying to

corner the lettuce market. Or it could have grown existing market share by investing in more efficient delivery processes that would lower its cost of production.

Even though managing a banana plantation and selling Popsicles are pretty disparate businesses, Chiquita's failure with this particular vertical extension lies less with diversification and attempting to grow its economies of scale than with the method in which the company went about it. If Chiquita thought of itself as a brand first and foremost, it would have outsourced and taken the profits from letting someone else, like Kraft, produce frozen fruit Popsicles under the Chiquita name, harnessing the efficiencies that Kraft has developed over the years in the production of processed food.

Generally, wipeouts come when brands take their eye off the ball on either innovation/quality or speed-to-market/scarcity. They need the size and scope to dominate, but if they don't manage it well, they will end up third in three categories as opposed to first in one. In the current economy, being third just isn't good enough, as Chiquita learned the hard way. The list of companies that have suffered similar wipeouts goes far beyond "C," but for many it comes down to diversifying the wrong way, either outsourcing to the wrong people the wrong way, or by trying to do it all in-house and making a mess of it.

One obvious company that has been great at these brand extensions is Virgin. From telephone space to airlines to cola, the Virgin model always treats the brand as its most valuable asset, leaving the gunky work to the suppliers who specialize in producing and distributing particular products. Virgin Mobile, available in Australia, offers a wonderful example of how companies are catching on to being everything to everybody. The company offers cellular service in this market by buying bulk time from other cellular providers, rearranging benefits that the average consumer would find appealing, such as fixed rates across all times, and resells it at a price which is competitive to the other telcos, taking advantage of its economy of scale in the purchase of bulk minutes. Virgin is in an enviable position here – it offers an enhanced service by simply repackaging an existing contract, and the company avoids the responsibility of building networks or other capital and time-intensive endeavors, leaving that to its network of suppliers.

Richard Branson's ability to sell his brand, at a premium, for any number of goods and services is exactly where everybody else is starting to head – from Nike to HSBC to Disney. This model is similar to the much-maligned old Korean chaebols and Japanese kiere-tsus, groups of independently operating companies living under the same corporate umbrella. This style of thinking is central to companies that have been successful in reaching the hub culture, and rumors of radical brand extensions periodically pop up in the hub community, latching on to the collective psyche with ideas that stretch the old rules of convention but seem perfectly logical to the group. Case in point:

Subject: My kind of flight

Date: Friday, 7 Dec, 15:25:36 +0800

Reply | Reply+All | Forward | Delete | Previous | Next | Close

From Clark Howard travel email...

London-based dance music company Ministry of Sound says it has plans to turn passenger jets into flying nightclubs. The company plans to obtain four jets formerly used by Ansett, Australia's second largest airline that recently went bust. Late evening flights are planned between Sydney and Melbourne with special DJ decks where the business class used to be.

In reality, the above e-mail was kind of a hub joke, never to be taken seriously, but it appeared in many "real" news reports. What better combination of hub icons could there be? Travel, lifestyle and entertainment, all wrapped into one neat little package that is itself a transport product between hubs. What was really funny was Ministry of Sound publishing a list of news outlets that "fell" for the joke in a 2002 music compilation.

Regardless, the instant acceptance of the idea by the popular press and companies like Clark Howard demonstrates the lengths to which the new breed of hub company will go to extend its brand into new product lines and more importantly how quickly it can be embraced by the hubs. Moving from dance emporium to transport specialist seems like a wide departure, but in the view of the horizontal and vertical development model it actually makes sense. It is simply offering another service, most of which can be outsourced, and leveraging the Ministry of Sound concept, the culture of the company, to others who run the mechanics of that business. Qantas could never launch a product like this, even Branson would be hard pressed, but because Ministry of Sound has credibility in its specialization, entertainment, it is taken seriously when it takes steps to leverage entertainment into horizontal categories.

If, like Chiquita, it had chosen to expand into construction of the nightclubs it owns and production of the vodka it sells inside, that might be more of a stretch – a vertical leap that would fail, because Ministry of Sound is good at entertaining club kids, not construction and distilling. On the other hand, it would not be hard to brand a vodka as a Ministry of Sound Vodka, and have someone like Diego or Pernod Ricard produce the actual product. This is what fcuk did when it launched its new fcuk Spirits line – expanding the brand from clothing to alcohol in one quick ad campaign. It's lifestyle.

Loyalty/Productivity Relationship

The third leg of this corporate expansion troika is an intertwined story of the relationship between loyalty and productivity, both of which enable companies and brands to achieve more with less, leaving room for expansion into ever wider, ever newer areas with greater chance of success.

Loyalty greatly increases productivity in the world of hub corporations

because the cost of acquiring a new customer is usually much greater than the cost of maintaining an existing customer. The more loyal you can make your customers, the more productive your business becomes because you spend less time out hunting for maybes and more time servicing the needs of your existing client base.

It also becomes easier to cross-sell a different product or service to customers you already have a relationship with, which greatly benefits your productivity when you are trying to expand a brand across a number of horizontal points, especially if those points are unrelated in the consumer's mind. But good partners are necessary to effectively navigate these expansions, because the danger of wiping out grows exponentially with such moves.

We've already covered the importance of a good CRM and direct-marketing strategy in the overall marketing mix, and these elements are most important in helping the hub corporation develop loyalty among consumers. Once you have established this loyalty base and an ongoing relationship with the consumer, your customer group is usually more receptive to the introduction of new items through cross-promotion.

A powerful strategic change is underway for businesses that want to court loyalty with their consumers. It has to do with a combination of flexibility and strategic intelligence. Strategic intelligence is the amount of information a company knows about its clients and customers, and increasingly, its competitors. Businesses must be smart and flexible with collective intelligence if they are to be successful in the new century.

For your customer relationship, the challenge in developing strategic intelligence is figuring out how to best harness the data you collect, and how best to turn it into knowledge to make better decisions about what your client base wants. Understanding the knowledge fosters client wisdom. Knowledge gives a course of action. Information gives you a set of coordinates.

Within companies competitive knowledge is more important than ever, and as companies continually seek competitive advantage, they are increasingly finding guerilla movements (based on flexibility) the best means to gain knowledge of both their customers and their competitors. For customers this is a fine and dangerous line which requires full disclosure if a company is to maintain that halo of good aura that it spends so much time trying to build through other means. If, by using guerilla tactics to acquire information, a company is discovered to have acted improperly, it can be very damaging.

But the cell strategy remains – harmonize the data collection methods over the company, then distribute the responsibility to the tips of the organization, where they collect information and feed it back to the core. This core can then process for trends and common identifiers across the hubs. Meanwhile the ends of the organization use the specific market data they have collected to make individual market decisions.

By centralizing the data on a common platform you are able to forecast and aggregate trends across the hubs, hopefully pointing out where your

business is going before it actually gets there. Distributing the work load in a clear template to the cells increases speed because you are increasing the points of the organization that are taking in information, without having to redo everything because data is incompatible. An example of this in practice is to globally harmonize your research so that you can find points of comparison between markets. It doesn't matter what continent or region the market is located in, because the hub market will demonstrate similar characteristics across all of them.

On the competitor information side, there is more scope for employing guerilla tactics. An all-out competitor war doesn't do anyone any favors on brand, price, or research and investment for future progress. But a guerilla business can use focused cells and stealth to generate localized attacks on larger or smaller competitors. Mastering guerilla business may in turn be the survival tactic of today's large companies. As big companies morph into cells of largely autonomous action at the local level, they will compete not only against their competitors, but against their parent core and other cells within the organization. This is one way the new European and American kieretsus can avoid the fossilization that has plagued corporate Japan and Korea.

To do this, we must take the superstructure of the company and transform it into a support structure designed to extract the maximum from employees for competitive advantage at the core, while creating a system that feeds and supports local initiatives at the same time. Doing this will cut costs, empower the cells and maximize revenue into the center.

With so much emphasis in big companies on developing this sort of structure, corporate espionage, data mining, profile tracking and consumer monitoring are becoming the new norm, all justified in the name of strategic intelligence. When companies face periodic harsh economic winters, the ability to find competitive advantage through monitoring becomes all the more common.

But there are considerations in the distribution of power throughout the organization, especially if parts of the organization start to veer. Procter & Gamble's 2001 revelation that it had gone dumpster-diving for sales projections from Unilever, in a much talked about but quickly resolved case of corporate espionage, highlights the risks and opportunities companies face with regard to the acquisition of competitive intelligence. This case was about much more than dumpster-diving, and entailed a concerted effort by certain local P&G employees to systematically gather closed proprietary data from Unilever using unconventional means. When the center found out what the cell was doing however, it realized that the implications of the actions would be quite harmful if ever discovered. Thus, P&G blew the whistle on itself. This kind of blow is the downside of too much decentralization, in creating an organizational culture that is very guerilla oriented. Its means surely included more sophisticated techniques than dumpster-diving, many of which were technically legal. But it was still bad business, and P&G knew it. However, from price point and margin information to data on impending launches and new products, securing competitive data, at almost any cost, is

the new imperative; especially given this increasingly guerrilla nature of business. The reason? Companies today can actually do something with that data.

Until recently, even if you did go to extraordinary lengths to secure sensitive systemized information from your competitors, it was very difficult to use because it often did not mesh with the scout company's own informational architecture. As corporate monitoring and intellectual theft go from paper-sifting to more sophisticated eavesdropping and photographic monitoring techniques, this constraint of ineffective data is reduced, because electronic data by its nature is far quicker to analyze and compare than plain old sales figures and margin spreads pulled from some trash can.

In response, companies are also going to greater lengths to protect their own electronic data and communications, both from fierce competitors and unwieldy governments. In this sense, they have been operating quietly for many years. One example involves the case of General Motors in China. Today GM is the third largest foreign auto producer in China, in partnership with its local joint venture Shanghai GM. The company was established in the early 1990s to meet foreign entry requirements for auto production within China, but with years to go before entry into the World Trade Organization and a burgeoning population of potential car-buyers, GM saw a JV in China as the future growth vehicle for its checkered international operations.

Key GM executives in China close to the negotiations quickly learned that the Chinese government was listening in on not only the setup negotiations between the JV partner and GM, but GM's own internal communications back to Detroit, which in many cases were highly sensitive. In one of the better noted examples of "James Bond in real life" work scenarios, an executive on the project in Shanghai soon found himself driving to remote locations outside of Shanghai to wait for a GM-controlled satellite link to pass overhead. With an ancestor to the Iridium phone that he would lug out of the boot of his car, he would follow the coordinates, dial at the correct time and relay important information back to Detroit while bypassing Chinese government authorities who may have been very interested to listen in over conventional phone lines.

Given that such tapping would have been illegal in other places, the motive here is self-defense, and given what GM had at stake, the steps the company took to secure communication transmissions from China were justified, even at the high prices such activities command. How long can it be before such actions are normal for companies with an interest in protecting their livelihood, and how long after that before such actions are abused by companies using the technology against each other?

The answer is not very long, but that is the new reality of the hub corporation. It is flat, light, flexible and guerrilla-esque in execution. Kind of like a cockroach.

On the other hand, hub corporations will work to bury this internal side of the business with an ever-increasing focus on corporate reputation, honor

and reliability – all factors of survival in a world where communication is instant and hub consumers are fickle. The more they develop the brands in their efforts to communicate with the hub, the more they will have to espouse the virtues of a higher ideal to remain relevant. They have to keep up with their consumer.

Micro-brands

“I won’t work with someone I don’t know and trust. The most important assets of my company are my reputation, my contacts and my ability to connect people.” – Deborah, media consultant

A word on micro-brands, a style of company that is developing quickly in many globalized industries, especially fashion and media. Micro-brands are in many ways the corporate expression of the nonjob job worker – the individuals who increasingly fill the cracks between large companies intently focused on outsourcing. The hallmark of the micro-brand is a deep, personal and continual relationship with a network of clients.

In fashion, the micro-brand is quickly becoming the preferred choice for people bored to death with corporate fashion. Now, a global network of small clothiers produce for a core set of clients and sell at private trunk shows or other events in key cities on a regular basis. Not only does the producer travel to the client, but the client waits to purchase a large quantity of clothes at one time, face-to-face with the producer. Often it is custom ordered, even through the web, because the clothier holds personal data such as sizing and color preferences. This trend provides great opportunity for entrepreneurs, especially women, who need to juggle family life with the desire to maintain and grow a professional business. In some ways this is another example of star culture (with the idea of the custom Valentino for the Academy Awards) working its way into hub culture.

But the micro-brand model works at many levels – from high-end private shows to designers who work in the developing world to create “authentic” fashions. One example is a woman in Bali who has developed traditional Indonesian batiks in Western styles for small hotel and other business-based lines. Her model was to employ people in Balinese villages with a simple set of tools, designs and instructions. In so doing, her micro-development initiative employed women and children in home-based industry, giving the undereducated a skill and saving them from the fate of many around them who were forced into Bali’s growing sex industry. The growth of micro-initiatives like this one, especially when they are refined for a global urban audience, has many positive effects. There is some irony however – for though the net result is greatly positive for the villagers she works with, and she has been successful in the development of products the hub wants, large organizations such as the IMF and WTO, along with most protest organizations, would classify her use of children and teenagers in the program as illegal and immoral. In reality she is helping those communities, but on paper she violates the growing “ethical” principles of big business.

The Gated Universe: Hub People in Development

For the people who make up hub culture, the future is about reconciling brands on a personal level, (including the brand they call themselves) with their quest to reach that higher spiritual understanding.

The different aspects of hub people profiled in this book share a similar progression. From their motivators: travel and communication, to their key identity factors: work, relationships and leisure, they are looking for ways to connect their identity to something more permanent than materialism.

During that journey, they employ various cultural factors to get them by, including proximity, anonymity, culture adoption and biculturalism, reliance on word of mouth, experience addiction, and the acceptance and rejection of trends with studied ambivalence.

In the near future, the growth of spiritualism will be a leading factor in the cultural conversation of the hubs. One of the most interesting, but dangerous, aspects of this growth in spirituality will be the emergence of branded religion. With this emergence will come great power to the organizations that define the components of that experience, and with such power comes great danger.

The seeds of such a branded religion are around us in an infant state. The attempts of Scientology to create a religion that is “cool” have been very successful, but have left most people with a feeling that the organization is more about mind control than personal development. Poor branding.

Falun Gong is a Chinese-based meditation group, fringe religion or an evil cult, depending on whom you talk to. It has enjoyed amazingly fast growth in the development of its brand of religion by relying on very hub-esque principles – the use of guerilla organization tactics, digital communication and travel to organize itself. It is the only group in the history of China to “secretly” organize mass meditations in Tiananmen Square (reportedly up to 10,000 people at one time) behind the backs of Chinese authorities, prompting a swift but not very effective crackdown.

But these are nothing compared to the potential for a religion that found a way to combine multidimensional entertainment with the hub’s quest for spiritualism. The building blocks of such a phenomenon are obvious: visually-led multimedia sermons of fast-paced presentations, a focus on acceptance, with non-confrontational material drawn from global sources (the Bible, Koran, Bhagavad Gita, and other ancient texts), and most importantly, a shift in timing. Instead of Sunday morning, such a religion would be most effective on Saturday night, when hub culture is out playing. Not on the street bugging people, but as a destination. Instead of making people get up early on Sunday morning, such an organization could more easily keep them up late, providing a meeting point during the ubiquitous Saturday

night social scene. Most interestingly, it could even be done online, virtually, as persistent universe gaming becomes more common. Positioned as a spiritual service, such an organization would charge a flat fee, like a gym or a class, avoiding the guilt that comes with public collection of money in the modern church.

The concept becomes even more fascinating with the addition of more aspects of hub culture to the equation. What if it combined yoga and some form of sport and exercise to connect the mind and body? What if it provided a networking opportunity and a sense of status, like old churches used to be when they were the backbone of Western society, before their brands were made obsolete by the erosion of their influence in the financial and political worlds? What if everyone popped a Prozac before they went, or technology forbid, one of the new mood-enhancing drugs that replicate serotonin (the dopamine released by Ecstasy), now currently under clinical trial by big pharma, to connect the group on a level matched in raves and dance clubs? The implications are staggering. It is potentially positive, probably negative, certainly controversial and it is certainly coming.

The idea also skews toward the young. To most people over 30, such a religion seems quite foreign and “false,” going against the construct of tradition. But in a culture where tradition is recycled, the idea makes sense, and the younger the targets, the more easy it will be to sell. For the young hub culture, the thinking goes, if it works for me in building that connection to God, a higher self, et al., then it’s worth a try. Especially if it is fun.

That potential bombshell aside, for today’s existing brands the result is opportunity to add value and slow commoditization in their selling proposition. The emergence of hub culture has given birth to a new common group of desirable consumers with great spending power spread across all urban markets. The problem is, they are increasingly gated, closed to anything that is outside their own world. To crack into that world, brands must speak to these consumers through their motivators, in the language of their identities and within the context of their cultural factors.

Once successful in cracking into the group, the real work begins, and that is to create a belief that the brand is more than a proxy of material goods designed to fill their spiritual hole. Instead, we say that the brand is in tune with their spiritual self by trying to get to that same place or coming from that place. To do this effectively, the organization and the product must reflect those spiritual attributes – truth, honor, respect for life, love, a sense of connection between the mind and the body and the soul. All those things that make up our mental construct of what is good, even holy. And not just as an element – it has to be a true core of the organization, not an act. Does your company act responsibly in its consumption of resources? Does it treat employees with respect? Does it pollute? Does it kill animals, or ... people?

An example of this lies in a hub guy named James, who announced that despite how cool Krups is (the German purveyor of beautiful high-quality kitchen appliances – juicers, etc.) he would never again buy a Krups product.

This was because he had read that Krups, in 1905, had been the leading munitions supplier in Germany, and directly played a role in the buildup of the German war machine, helping to cause two world wars. He loves Krups products but the history of Krups revolts him.

“I know it was a hundred years ago. But if only they had at least changed the brand name, to show some sort of conscious break from that legacy, it would be a bit better,” he said.

Tomorrow’s versions of Krups are today’s companies destroying the environment – big companies that cut down forests for newspapers, books and magazines, and probably the entire oil, mining and auto industries. This is why the idea of Segway (both the scooter and compostible engine) and Dean Kamen’s New Hampshire company DEKA has so captured the popular imagination – it has the potential to not only stop destruction in an industry (transportation), but to reverse it with revolutionary technology. James can’t wait to get one.

“I’d easily pay three times the going price – it’s just the right thing.” he said.

Ethical morality and absolute environmental protection are the watermarks for business survival, not just success, in the near present. Today, in the absolute present, success with the hubs is best found through service, and thus, giving experience to the consumer. Through experience, they glimpse the spiritual development of a brand, because experience and service are functions of the people in the organization, not the material product. Since only other humans can identify that need for a connection to the spiritual, only they can speak for the brand as it tries to convince the consumer it too, is spiritual.

As more people in hub culture seek enlightenment, the more they will become disenchanted with materialism. People will simply stop buying for the reasons that we try to sell to them now. If they stop buying, then the brand dies, and so with it the company. Branding must evolve with the people. More people, led by those in hub culture, are evolving, or at least trying to, toward something beyond materialism. If they find spiritual understanding, and the brands move with them, then all can be good.

If not, then we will all have to deal with the consequences of the true backlash that is out there: now it is pockets of aggression separated by passive ambivalence, but it could be followed by a combined war of destruction against the very idea of brands and the people who blithely consume them. It will be fought by those who have woken to the branding charade, but missed finding a spiritual connection to drive them forward; a group that realize not that they don’t care, but that they have no hope. Fair warning? Namaste.

Hub Culture at a glance, a marketer's checklist:

Poles: travel, communication

Motivators: work, leisure, relationships

Cultural factors: proximity, anonymity, culture adoption, biculturalism, reliance on word of mouth, experience addiction, and the acceptance and disposal of trends with studied ambivalence

Target traits: environmentalism, purity of consumption (organic, sustainable), personalization, service and experience

Calculating the value of branding to a hub targeted good or service, ceteris paribus:

Q : Quantity of goods in market

QL : Quality relative to the market (decimal percentage relative to the Pc greater than 1)

S : Scarcity relative to the market (decimal percentage relative to Q less than 1)

BV : Brand Value

P : Price

Pc : commodity price

Pd : derived value price

Pp : price premium differential

Be : brand equity

Bp : brand premium

I : Input, units of goods sold

_ If your brand proposition is based on quality,

$$BV = P * QL$$

Calculate the value of your good by multiplying the price by the Quality relative to the market. If the price is \$100 and your product is 20% better than the best product out there, the brand value is \$120.

_ If your brand proposition is based on scarcity,

$$BV = Q/S$$

Calculate the brand value of your good by dividing the quantity in a specified basket by the Scarcity relative to the market. If the quantity of units is 100 in a basket of goods, and your product is 3% more scarce (unique) than the other goods in the basket, the brand value of the good is 3% higher than comparable products.

_ To calculate the price premium differential,

$$Pp = Pd - Pc$$

Where the premium is the subtraction of the highest commodity price in the market from the derived value price you are able to charge. Derived value price is the highest price you are able to charge after all incentives and discounts are subtracted from the selling price.

_ To calculate realized net price premiums on branding investment,

$$Bp = Pp * I / Be$$

Where inputs are individual units of goods sold and derived value price minus commodity price is the price premium differential you are able to command in the market. Divide by Brand equity, the sum of invested value (advertising, PR, etc.) to find the realized premium on branding investment for a good.

Stan Stalaker is Marketing Director, Fortune Group, based in Hong Kong and London. He can be reached at Stan_Stalaker@timeinc.com. Visit www.hubculture.com for more information.