The advantage of digital-native brands setting up physical brand stores—and the challenge of preserving online revenue

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Researchers from Erasmus School of Economics at Erasmus University Rotterdam, KU Leuven, Universität zu Lübeck, Christian-Albrechts-

Universität zu Kiel, and FoodLabs published a new *Journal of Marketing* article that investigates the multichannel impact of brand stores by digital-native FMCG brands.

The study is titled "Assessing the Multichannel Impact of Brand Store Entry by a Digital-Native Grocery Brand" and is authored by Michiel Van Crombrugge, Els Breugelmans, Florian Breiner, and Christian W. Scheiner.

Multichannel retailing has become crucial to the sales strategy of any brand, including digital-native brands that started retailing as online-only. Digital-native brands like Quip in the U.S. and Myprotein in Europe have partnered with independent retailers to offer consumers an in-person retail option. But some brands—especially those in the fast-moving consumer goods (FMCG) category—have opened their own brand stores to create a bigger physical footprint.

Brand stores are brick-and-mortar stores owned and operated by the manufacturer. They carry only the brand's products and are designed to sell them profitably in a brand-centric environment. Van Crombrugge explains that "these stores offer physical exposure, which digital-native brands might struggle to attain on supermarket shelves given the steep competition from mass-market brands."

Brand stores increase brand awareness, which in turn can increase sales in the company-owned online channel and independent supermarkets. "Brand stores can also spark distributor interest and prompt supermarkets to distribute more of the brand on their shelves. Since the number of brand stores that a digital-native FMCG brand can open is limited, increasing breadth and depth of supermarket distribution can further drive brand sales," adds Breugelmans.

Yet brand stores also entail risks. Sales in this channel may cannibalize sales in the incumbent channels if consumers migrate to the newly opened brand store. If brand stores signal the manufacturer's encroachment, supermarkets might reduce their distribution of the brand. Finally, opening and operating brand stores is expensive and these substantial operational costs put pressure on profits.

The supermarket effect

This research uncovers a substantially different impact of brand store entry on own-online channel sales than on sales in independent supermarkets. In areas in the vicinity of brand stores, the brand's online channel sales decreased, yet its supermarket sales increased. This is because for customers seeking a more elevated consumption experience, brand stores offer an interesting alternative, which causes cannibalization of its own online channel.

In supermarkets, on the other hand, buyers are mainly concerned with price and convenience. For them, brand stores offer an opportunity to discover a digital-native brand that otherwise would have remained anonymous between bigger mass-market brands, which in turn causes supermarket sales to increase.

The research team also discovers that brand stores spark distributor interest and prompt supermarkets to start distributing the brand on their shelves. Indeed, part of the supermarket sales increase that brand stores bring about is driven by brand stores' positive effect on the number of supermarkets that carry the brand. This increase in distribution breadth is an important component to drive sales since brands cannot open brand stores everywhere.

"We find that brand stores generate an influx of own brand store sales that more than make up for any online losses. This is not necessarily surprising because their strong local visibility, typically in locations with high foot traffic, and their appeal to customers who lack opportunities or motivations to visit the online channel or supermarket make brand stores an attractive sales channel on their own," Scheiner says.

Despite the cannibalizing impact on their own online channel, brand stores are an effective means to increase a brand's top-line sales. Digital natives in startup or growth markets that aim to draw investors' attention can try to improve their valuation through brand stores and the corresponding sales growth.

However, opening and running brand stores is a capital-intensive operation due to factors such as store rental cost and sales staff wages. Breinder warns that "our analyses show that nearly half of the brand stores under study were not able to turn a profit. Brands therefore need to carefully weigh brand stores' top-line gains against their high operational expenses to justify the investment financially."

These findings offer important insights and caveats to digital-native brands that consider opening brand stores to increase their physical footprint beyond supermarkets. The upside is that brand stores can help digital natives reach potential consumers and gain additional physical exposure that FMCG brands especially require.

Yet brand stores are not without risks: they may hurt the brand's sales in the online channel where the digital native started and further impact brand profitability if the influx of new sales is not great enough to cover those online losses and the brand stores' own substantial operating costs.

More information: Michiel Van Crombrugge et al, EXPRESS: Assessing the Multichannel Impact of Brand Store Entry by a Digital-Native Grocery Brand, *Journal of Marketing* (2023). DOI: 10.1177/00222429231193371

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