

ADWEEK

SEPTEMBER 21, 2020

INSIDE

Heritage brand Lincoln gets an unlikely boost from millennial car buyers.

MAN OF THE HOUSE

CEO GARY FRIEDMAN

HAS BUILT RH FROM A SELLER OF 'NOSTALGIC DISCOVERY ITEMS' INTO A BILLION-DOLLAR LUXURY SHELTER BRAND. AND HE STILL SEES ROOM TO GROW. **BY DIANA PEARL**

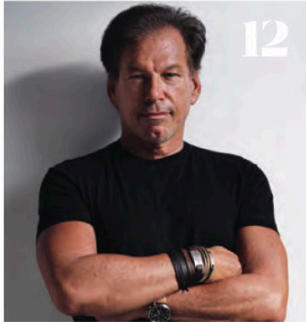


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MAN OF THE HOUSE

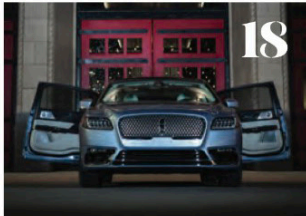
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COVER: MARK MAHANEY

Upfront

THE WEEK IN MEDIA AND MARKETING

SHOW ME THE METRICS

GETTING DIGITAL MEASUREMENT RIGHT.
BY ADWEEK STAFF

The pandemic has greatly accelerated the digital shift in everything from television viewing to grocery shopping. This has only magnified the need for accurate digital measurement. Advertisers are looking for the right metrics to gauge campaign results, and companies are stepping up with new offerings.

Translation Enterprises is combining its cultural intelligence with Nielsen's planning and activation solutions to measure cultural impact. As Translation founder Steve Stoute put it, segmentation has failed the industry: "You want to get at audiences with a high likelihood of being engaged with your product and being engaged with your storytelling."

Nielsen is also rolling out a new tool called Nielsen Compass, which matches audience levels across various media with sales data to gauge an ad campaign's return on investment across multiple product categories in 50 countries, enabling marketers to spot trends.

Meanwhile, performance-outcome guarantees are becoming more common, and NBCUniversal is taking those partnerships to another level with Total Investment Impact, a tool that gives brands the ability to understand the sales impact of their overall NBCU media spend, not just a single campaign.

Over at Google, the search giant is wooing TV media buyers with updates to YouTube that will allow targeting around a "cultural moment" such as the Olympics rather than sports as a broad category.

Still, there is no agreement on how to measure the performance of ads across platforms, and Big Tech is likely to use the veil of privacy to further their dominance of marketers' budgets.

CREATIVITY

'BUILDING A WORLD THAT WORKS'



Founded in 1892 with a line of incandescent lamps, General Electric no longer looks much like the company that Thomas Edison created. But it's still powering fundamental parts of life not just in the United States, but all around the world. To better convey its modern mission, after two decades of "Imagination at work," GE unveiled a new tagline—"Building a world that works." "We, today, are a company made up of four very large industrial businesses: aviation, renewable energy, gas power and healthcare," said GE CMO Linda Boff. "So this idea of 'building a world that works' is so resonant."
—Kathryn Lundstrom

BRAND MARKETING



Southwest Airlines launched its second national campaign of the pandemic, going against the grain of an industry that's faced pandemic-induced decimation. The "Wanna Get Away" campaign, first rolled out in 1998, was resurrected by agency GSD&M and will run on prime-time television, making Southwest the top spender in traditional TV advertising. The airline is uniquely positioned, with routes concentrated in Mexico and the Caribbean—some of the few destinations where Americans are allowed to travel now. "Southwest's voice is that much larger when its competitors are absent," noted Henry Harteveldt of Atmosphere Research Group. "Brand loyalty is low." —Ryan Barwick

HOME RUN

HOW CEO
GARY FRIEDMAN
BUILT RESTORATION
HARDWARE INTO RH,
A LUXURY-BRAND
JUGGERNAUT.
BY DIANA PEARL

THE GARY DIAIRIES

Friedman "moved Restoration Hardware from a product-driven brand to a lifestyle brand," says Thomas Serdari, a professor at NYU's Stern School of Business.



N

early June, much of the country was beginning to emerge from its pandemic-induced hibernation—cars creeping back on the road, restaurants moving tables outside and, of course, stores opening their doors.



Restoration Hardware's quaint branding circa 2001 (inset) and RH's New York City flagship store in 2018.

But while most retailers were shifting their focus to how they could reconfigure their existing stores to the new realities of the Covid-19 era, RH—previously known as Restoration Hardware—took a different approach.

In an annual letter that Gary Friedman, RH's CEO, wrote to shareholders, he laid out the brand's plans not just for the next year, but for the company's next chapter: opening new stores (or galleries, as RH calls them), expanding into the travel sphere (with RH-branded guest houses and a yacht) and entering the residential real estate market with RH Residences.

It was a bold blueprint at a time when the industry has seen five years' worth of e-commerce growth in mere months.

"We invest with a long-term view, not a short-term," Friedman, who spoke at Brandweek on Sept. 17, tells Adweek. "There's going to be all kinds of distractions that happen along the way in our lives. Great brands have great lives and are built because of great vision."

If he pulls off the changes he's planned, it wouldn't be the first time. Even in the pre-pandemic era, RH managed to defy the odds. It expanded its brick-and-mortar footprint while other stores shuttered; as retailers stopped printing catalogs, RH not only continued producing its thick tome, but eschewed the digital properties retailers migrated to instead. (Case in point: RH doesn't even have an Instagram account.)

In fact, RH has done what seems impossible in today's retail climate: maintain success, without the embrace of massive promotions or a digital-first model, while undergoing a near-complete reinvention as a luxury brand, guided by Friedman's vision.

Since going public in 2012, RH's stock price has multiplied more than 15 times the original offering. Most recently, its fiscal second-quarter earnings beat expectations, with revenue rising 0.4%, despite the ongoing pandemic, sending the stock price climbing again.

"This is the payoff of a really long-term commitment to innovation," says Melanie McShane, senior strategy director at Siegel+Gale. "They've made it very clear that they want to get into the luxury business."

HOW RESTORATION HARDWARE BECAME RH

Friedman's move to Restoration Hardware, nearly 20 years ago, came out of "heartbreak," as he puts it. He spent 14 years at Williams-Sonoma, working his way up to president of the company. He was told for years that he was next in line for the chief executive role, but when he was passed over for the job, Friedman decided to make a change—despite the fact that he had around \$50 million in unvested stock options at Williams-Sonoma.

Friedman was familiar with RH (then known as Restoration Hardware), as Williams-Sonoma had contemplated a purchase of the brand a few years prior—an acquisition that Friedman had championed and would have led had it gone through. He reached out to Steve Gordon, RH's co-founder and then CEO, about coming on board.

The business was in dire need of a turnaround. Financials were in sore shape, with the stock price slumping—at one point to just 50 cents a share. An influx of capital was necessary if the brand was to survive, let alone grow.

"It really wasn't a relevant business or brand at all," admits Friedman. "The company was built on nostalgic discovery items, things that people don't really go shopping for—things that you might trip over."

What Restoration Hardware did have was the "skeleton of an infrastructure," as Friedman puts it. There were 106 stores, designed by an architect, as well as distribution centers on the East and West coasts. It wasn't the product or the brand name that drew him to the company, but rather seeing a hole to fill and feeling that RH had the structure in place to build upon.

"There was a big void at the high end of the market, and I thought that's where the most opportunity was," he explains. "People who have more money, they spend exponentially more on their homes and the homes get bigger. The furniture they're buying is higher quality, and they're buying more of it."

BECOMING A LUXURY BRAND

But before RH could leap to a more luxe segment, the first decade of Friedman's tenure, he says, was working RH out of the place it had been in when he arrived. Avoiding bankruptcy was his first priority, after which he turned his attention to profitability. Both those goals were achieved through changing the brand's positioning and building a product assortment that would last—more foundational pieces, less knickknacks.

"He moved Restoration Hardware from a product-driven brand, what it was 20 years ago, to a lifestyle brand," says Thomai Serdari, a professor at NYU's Stern School of Business. "That's not easily achieved."

Even more difficult, notes Steve Dennis, founder and president of SageBerry Consulting, is catapulting a brand into a higher-end category than it previously occupied. "He just really leaned into a very specific set of customers and went deep into what it takes to win a disproportionate share of their spending," says Dennis.

Friedman's challenge wasn't just to identify RH's target consumer but also to convince them to accept his interpretation of the brand and set aside what they previously thought

5 WAYS TO UNLOCK YOUR BRAND'S POTENTIAL

Find the right markets

Friedman placed RH in unexpected but strategic locations. "They expanded out nationally, into places where you have a conglomeration of wealth, an affluent enclave," says Pedraza.

Don't follow the herd

"We are not chasing any sales," Friedman says of his Covid-era strategy in the company's most recent earnings call. "I don't want to be famous for, 'They did really great during that pandemic.'"

Don't be limited by your category

There isn't a luxury player on the level of a Chanel in the home space yet, but that hasn't stopped Friedman from pursuing that goal. "It's less about the category that you perform in," notes McShane, "and more about the different relationships, types of products and services that you can bring to people going forward."

Know your worth

During the recession in 2009, "everybody else was screaming value, value, value, and that meant take prices down," says Friedman. "The only way to take price down is to take quality down. So we went exactly the opposite way, and our business found there was [a] hole in the market."

Know your brand

"We don't do any Instagram, yet we're the most Instagrammed brand of our kind in the world," notes Friedman. "We just try to be super authentic" to the RH brand.

about it. To facilitate this shift, the company rebranded in 2012, now simply going by the acronym RH.

"To change people's perception of who you are, you have to do such extraordinarily great work that you create a forced reconsideration of who you are," says Friedman. "Nobody's going to notice if you make incremental changes."

THE GALLERY AS AN ASPIRATIONAL HUB

To date, RH's biggest bets have been in its approach to brick-and-mortar. Today, the company has expanded into new spaces, beyond the 106 stores it initially operated when Friedman joined. It's focused on freestanding spaces, allowing for more natural light. Inside some of its flagship stores, like those in New York, Chicago and West Palm Beach, Fla., RH operates high-end restaurants or coffee bars.

The San Francisco gallery came first in 2010, but the Chicago location was perhaps the true start of the concept in 2015. A massive space, at 70,000 square feet, it's housed in what used to be the Three Arts Club, a

'There was a big void at the high end of the market, and I thought that's where the most opportunity was.'

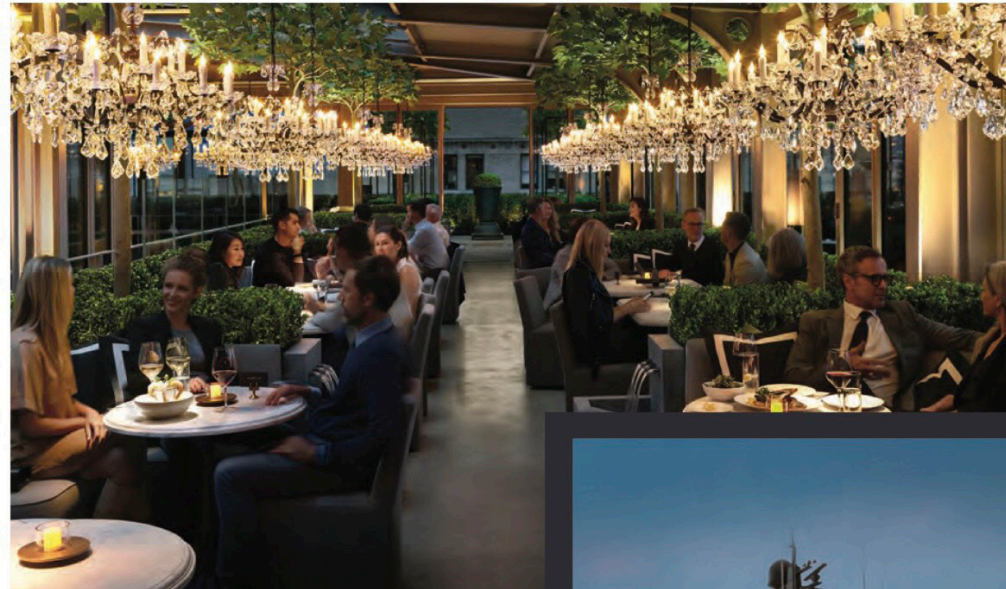
residence for young women studying the arts, built in 1914. The building had an interior courtyard that the RH team covered with a glass roof—for year-round use—and installed a restaurant.

Skepticism, Friedman recalls, abounded. (Dennis admits that nearly a decade ago, when he first heard Friedman explain the gallery concept, he thought it was "pretty crazy.")

The Chicago space in particular posed challenges: Because the gallery wasn't situated in or near Chicago's main shopping districts, instead tucked on a quiet corner in the residential Gold Coast neighborhood, the location didn't have the benefit of natural retail foot traffic. But Friedman felt the unique

PREVIOUS PAGE: MARK MAHANEY; COURTESY OF RH

FEATURE



A chic crowd dines under chandeliers at RH's rooftop restaurant in New York City.



Actress Uma Thurman poses for a photo with Friedman at the May 2014 opening of RH Greenwich in Connecticut.



RH3, an RH-branded yacht, is available for charter in the Caribbean and Mediterranean.



The 60,000-square-foot RH Marin, the Gallery at the Village, opened in California in July and features a rooftop "park."

COURTESY OF RH; GREENWICH: ROGER KISBY/GETTY IMAGES

space and the surrounding area (which, yes, is residential, but is also one of the city's wealthiest) reflected the sort of image he wanted to create.

"The first restaurateur we partnered with said, 'No one's going to come to a furniture store to eat,'" Friedman says. "Yet, from the first day, we had a line around the block."

It helps that the restaurant in Chicago, named the 3 Arts Club, stands on its own as a high-end eatery. It's a destination—and with that, so are the galleries themselves. Each one is designed for the space it occupies, and is meant to showcase the RH brand as much as it is a place to sell product.

But the gallery's foundation, Friedman says, is the product assortment. RH's galleries are gargantuan spaces, occupying 60,000 square feet or more. Instead of taking an assortment meant for a smaller store and multiplying it to fill a larger space, RH tailors its selection for each site.

"It really aspires to sell a lifestyle to people who are driven to aspire to that," says Pamela Danziger, luxury market expert and owner of Unity Marketing. "That's what the galleries are all about—providing this vision, so even if you can't afford to buy a \$10,000 sofa, you can still go to the gallery and participate in that with a \$15 cocktail in their restaurant."

MAKING RH AN EXCLUSIVE CLUB

RH devotees can also buy into that lifestyle and luxury positioning by way of RH's membership model, where consumers pay an annual fee and receive automatic discounts on RH products, as well as access to interior design and concierge services. At its core, Friedman says, the membership model allows RH to mark down merchandise without running storewide sales or deep discounts.

In avoiding the red lines, RH has separated itself from the vast majority of Ameri-

'The first restaurateur we partnered with said, "No one's going to come to a furniture store to eat.'"

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BOOK CLUB

RH CALLS ITS CATALOG A "sourcebook," and the name is fitting: The smaller ones contain more than 300 pages, while larger RH sourcebooks can top 700. Is it a retailer's mailing or an aspirational coffee-table book? The blurring of lines is intentional. Friedman sees the publication as an important "physical manifestation" of the brand intended to "grow the assortment beyond the four walls of the store," he says. At the very least, the book makes a bold statement that has earned it enthusiastic fans: House Beautiful once gushed that "thumbing through each season's issue is an experience unto itself, akin to somehow stumbling upon Gwyneth Paltrow's diary or, say, being asked to house-sit for Kim Kardashian West." It's also got its share of detractors. In 2014, when RH sent out a 17-pound sourcebook (it bundled 13 sourcebooks totaling 3,300 pages), recipients posted photos both protesting the use of paper and lampooning the size and weight—prompting the Today show to cover the phenomenon. As they say, even bad press is good press. —D.P.

can retailers: At the height of the financial crisis, with consumer spending seeing its steepest declines since World War II, there were few retailers who didn't run promotions. And in doing so, they set consumers' expectations accordingly. "Once you become promotional," says Friedman, "it's really hard to get off that drug."

RH, instead, has camouflaged its promotions, touting membership to an exclusive club with benefits. It's a similar strategy, says Milton Pedraza, CEO of the Luxury Institute, to that of high-end fashion brands.

"The ones that are true luxury do not do discounts; they do value adds," he says. "With Rolex, you might get a cleaning or free maintenance every year. You're not going to get discounts."

FOCUS ON THE FUTURE

If Phase 1 of Friedman's tenure at RH was shoring up the brand's financial future, and Phase 2 was moving it into a higher-end category and cementing its status as a major home retailer, then perhaps Phase 3 is something akin to domination of the luxury shelter category.

RH's plans for the next several years will expand its reach, "moving the brand beyond just curating and selling product to conceptualizing and selling spaces," says Friedman. In the travel sphere, RH Guesthouses are planned in cities like New York and Aspen, Colo., as well as full-blown experiences, like RH Yountville, which brings together food, art and lodging, and RH3, an RH-branded yacht, is available for charter in the Caribbean and Mediterranean. RH Residences are turnkey homes and condominiums designed in the style visitors have come to expect from the galleries.

The galleries will play a major role in the future too: RH has its eye on international expansion, and plans to open a gallery in "every major market." And its interior design services will grow in importance—particularly because that part of the business has already expanded overseas.

"Hermès, Chanel, Louis Vuitton, Gucci, Cartier, Tiffany and the rest of the finest luxury brands in the world were all born on the top of the luxury mountain," wrote Friedman in this year's shareholders letter. "Never has a brand started near the base and made the climb to the peak. We believe RH can be the first to make the climb."

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