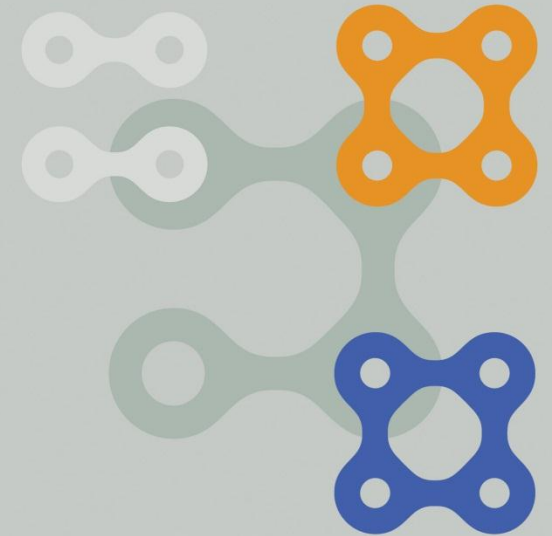


The Threat of Retailer Brands

How National Brand
Manufacturers Can Protect
Their Brands and Profits



ALLIANCE CONSULTING GROUP

We make strategy work.

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Overview Of Report

- Alliance Consulting Group's experience with clients in several categories has given us the opportunity to examine the interaction between national brands and retailer brands
- This report contains findings and suggestions for how brand producers can develop effective strategies to deal with retailer brands
- We believe retailer brands represent the most serious competitive threat to established brands in the current retail environment

Executive Summary (1)

- **The nature of private label has changed – Retailer brands are redefining the game**
 - In the past, private label products typically were relegated to “commodity” categories, offered inferior quality, were poorly packaged, and received little retailer support
 - Recently, retailers have improved quality, packaging, and marketing, often surpassing the performance of some brands. These products pose a more serious threat to national brands

- **Retailer brands are likely to grow and gain significant share from national brands**
 - Consumers are at risk of becoming emotionally disconnected from national brands
 - Large retailers, looking to increase their margins, pose a significant threat
 - Ill conceived brand manufacturer responses will strengthen the resolve of retailers engaging in a comprehensive private label strategy

- **The stakes are high – Retailer brand success may permanently change retail dynamics**
 - Retailer consolidation, new channel growth, access to internal data, in-store marketing, and the conversion of some national brand manufacturers to private label suppliers are all shifting competitive advantage and leverage from the manufacturer to the retailer
 - This shift may result in an irreversible redistribution of profits within the industry value chain and a transfer of wealth away from national brand manufacturers

Executive Summary (2)

- **Not all product categories are equally threatened. You can predict the vulnerability of your category**
 - Three dynamics determine the current or likely future success of retailer brands: the inherent “brandability” of the category, the sources of competitive advantage in the industry, and the conduct of leading brand suppliers and retailers
- **When responding to a private label threat, national brands frequently act on inadequate data to formulate their strategies**
 - Existing information is often incomplete, the analytical tasks are complex, and key people in the organization may hold strong, opposing beliefs
 - Pricing and promotion decisions are often made on the basis of gut feel, perceived necessity, and the dynamics of specific deals
 - Our experience suggests that these decisions can be significantly improved
- **Price reductions and aggressive promotions, used alone, will likely prove costly, but ineffective against retailer brand attacks under current market conditions**
 - Aggressive pricing or promotions strategies may fail to address fundamental differences in competitive approach and economics between retail and national brands

Executive Summary (3)

- **Our experience suggests that national brands develop comprehensive defensive strategies which carefully consider a combination of the following actions:**

1. Pricing and Promotion

- Increasing advertising, prices cuts, product line extensions, intensified promotions, value-added give-aways, etc. to provide short-term relief

2. Consumer Segmentation

- Tailoring product lines to satisfy the needs of each consumer segment, minimize product/consumer group overlap, and maximize profits for both manufacturer and retailer

3. Value Line Bundling

- Managing a product's "benefit bundle" to optimize both price realization and value perception among consumers

4. Retailer Relationship

- Improving or redefining (e.g., pursuing a "coopetition" strategy) retailer/manufacturer relationship

Executive Summary (4)

- Although national brands may have properly considered the four key elements to developing effective brand strategy, these brands often face internal corporate barriers which impede efficient decision-making and strategy implementation
- To help brands surmount these internal challenges, Alliance Consulting Group developed the REMAP process
- This phased approach systematically realigns cultural beliefs with market realities, identifies and outlines strategies for future growth, and develops a path forward based on a common strategic vision
- National brands which develop comprehensive brand strategies and are able to overcome internal barriers to efficient decision-making are more likely to realize significant long-term financial reward by defending both their market share and their margins from aggressive retailer brands

**Part I:
Retailer Brands – A Serious Threat
To the Power and Profitability of
National Brand Manufacturers**

Retailer Brands – A Serious Threat To National Brands

Introduction

- The severity of the current recession is causing cost-conscious consumers to lose the emotional connection to national brands and opt for private label brands as never before
- Large consolidated retailers have developed sophisticated marketing strategies for their retailer brands and are poised to gain significant market share from national brands
- The threat from branded products is not equal for all products and national brand manufacturers must quickly assess brand vulnerability and identify competitive leverage points
- Historical analysis indicates that many near-term changes to market share and retail dynamics will likely become permanent even after economic recovery is realized

Retailer Brands – A Serious Threat To National Brands

Overview

1.

The current environment provides a growth opportunity for retailer brands

Recessionary environment, increased power of retailers, and recent innovations in the private label arena are fundamentally changing the retailer/manufacturer relationship and providing opportunity for retailer brands to expand

2.

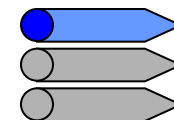
National brands are not equally vulnerable in all categories

Inherent brandability of category, structure of competitive advantage, and the conduct of leading brand suppliers determine current and potential future success of retailer brands

3.

The stakes are high

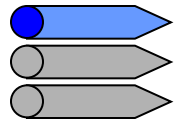
As power of retailers relative to suppliers grows, a redistribution of industry profitability toward retailers will likely occur, as experienced in the UK in the 1980s



- Throughout this report we will adopt the following terminology:

Type of Product	Characteristics
Traditional Private Label	<ul style="list-style-type: none"> ▪ Inferior product quality compared to national brands ▪ Little to no marketing support from retailer
Retailer Brand	<ul style="list-style-type: none"> ▪ Brand name owned or controlled by retailer ▪ Product quality superior to traditional private label ▪ Some form of brand positioning (value or premium)
Retailer Brand with Value Position	<ul style="list-style-type: none"> ▪ Acceptable product quality compared to national brand ▪ Moderate level of brand support primarily through in-store activities
Retailer Brand with Premium Position	<ul style="list-style-type: none"> ▪ Equivalent or superior product quality to national brand ▪ Active investment in brand building by retailer
Umbrella Brand	<ul style="list-style-type: none"> ▪ Retailer brand that covers a broad range of categories (e.g. Loblaw's President's Choice, Costco's Kirkland Signature, Wal-Mart's Great Value)
Category Brand	<ul style="list-style-type: none"> ▪ The retailer brand is limited to one category
Store Brand	<ul style="list-style-type: none"> ▪ The brand name is identical to the name of the retailer
Orphan Brand	<ul style="list-style-type: none"> ▪ Previously discontinued brand names resurrected due to valuable existing name recognition and brand equity, often by retailers for private labels

Many Well-Known Trends Are Favorable To The Continued Growth Of Retailer Brands



Key Trends

Consumer Trends

- Rise of “Individualistic” Consumer
- Increasing Price Sensitivity
- Fragmentation of Information Media



Retail Environment

- Consolidation in Major Channels
- Growth of Alternative, Low Cost Channels
- Influence of European Owners



Supplier Industry

- Marketing Strategies of Leading National Brand Suppliers Not Effective
- Conversion of Capacity From National Brands to Supply Retailer Brands
- Timid Response to Inroads by Retailer Brands

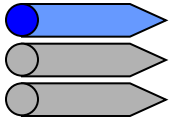


Positive Impact On Retailer Brands

- Consumer more willing to experiment, unashamed to buy off-brand
- Consumer more aware and focused on (tangible) value
- Network advertising insufficient to dominate brand building

- Retailers becoming more powerful relative to suppliers
- Increased retailer scale provides resources to invest in own brand development
- Growth of private label at mass merchants and discounters
- Competitive pressure from lower cost channels forces supermarkets to seek differentiation and new sources of profit
- Transfer of know-how and belief in retailer brands

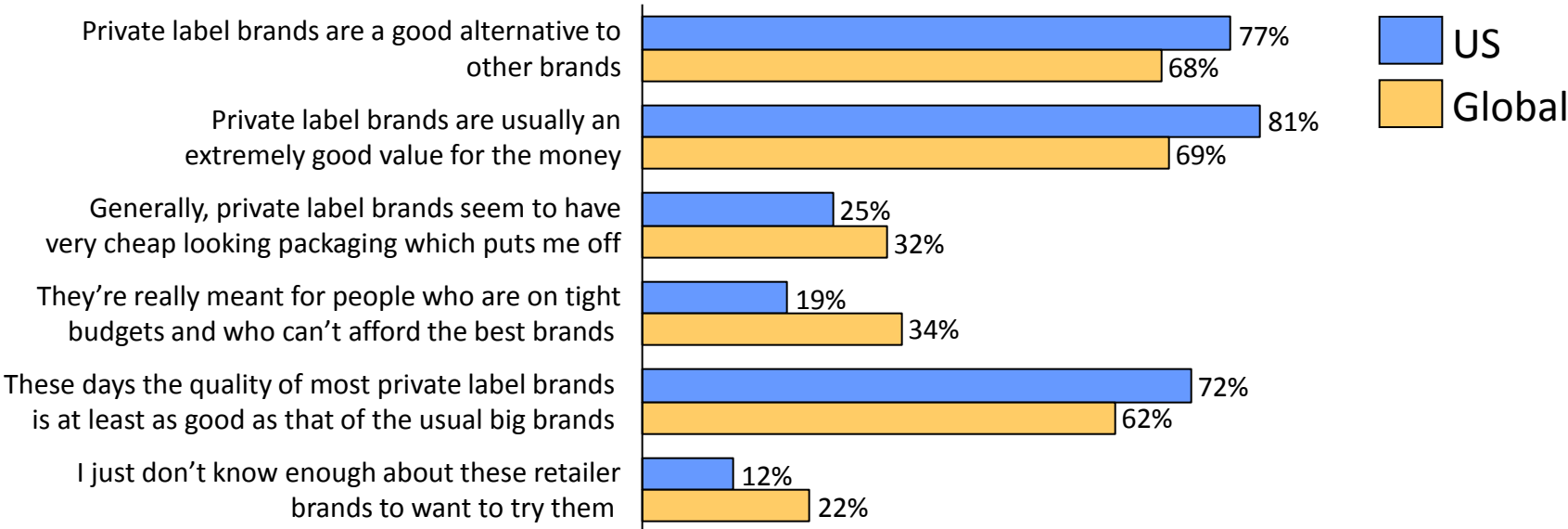
- Frequent brand “milking” through price increases, advertising cuts, lack of innovation
- Emphasis on promotions and high/low pricing at the expense of brand building investments
- Sudden availability of high quality product at very low cost (often offered at “incremental costs”)



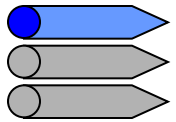
Retailer Brands Continue to Broaden Their Appeal To Consumers

- **Less stigma surrounding retailer brands than ever before due to greatly improved quality, packaging, and other value-add components**
 - Private-label household penetration evolving past its traditional demographic to include upper middle class/affluent consumers
 - The percentage of “frequent private label shoppers” is up significantly compared to just before the last recession, climbing to 41% in 2006 from only 12% in 1991

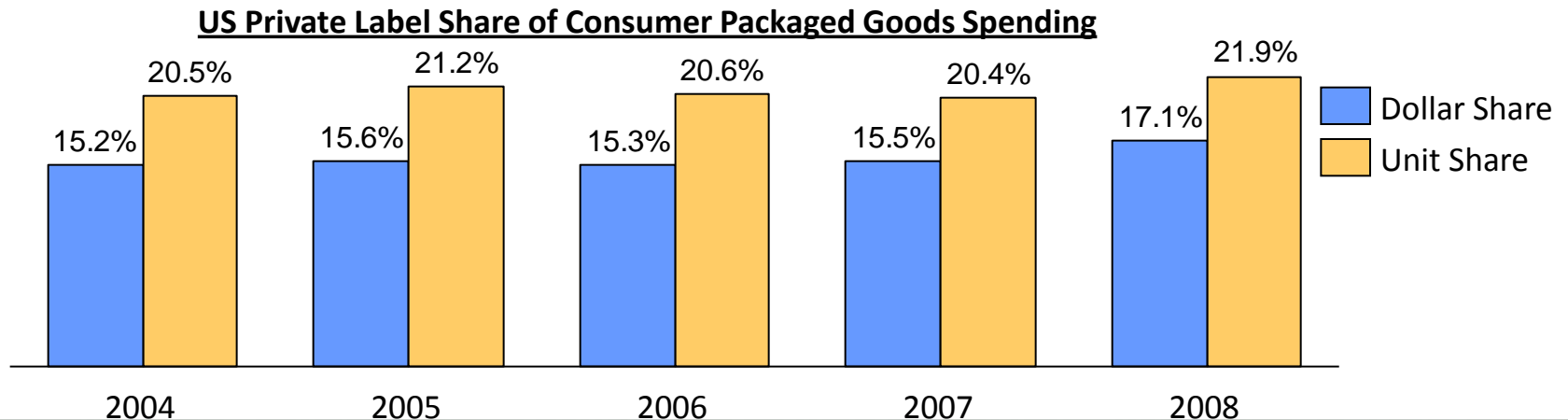
Percentage of Consumers Who Responded “Agree Slightly” or “Agree Strongly”



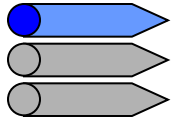
After Recent Stagnation, Retailer Brands Once Again Poised To Gain Market Share



- **Analysis of the recent US recessions indicates that retailer brands make share gains during times of economic weakness, and hold onto these gains into recovery**
 - In 1991-1993 recession, private label market share climbed from 17.6% to 20%
 - In 2001-2003 recession, private label market share climbed from 20% to 21.8%
 - From 2007-2008, the start of the current recession, private label share already rose by 1.5 percentage points, from 20.4% to 21.9%



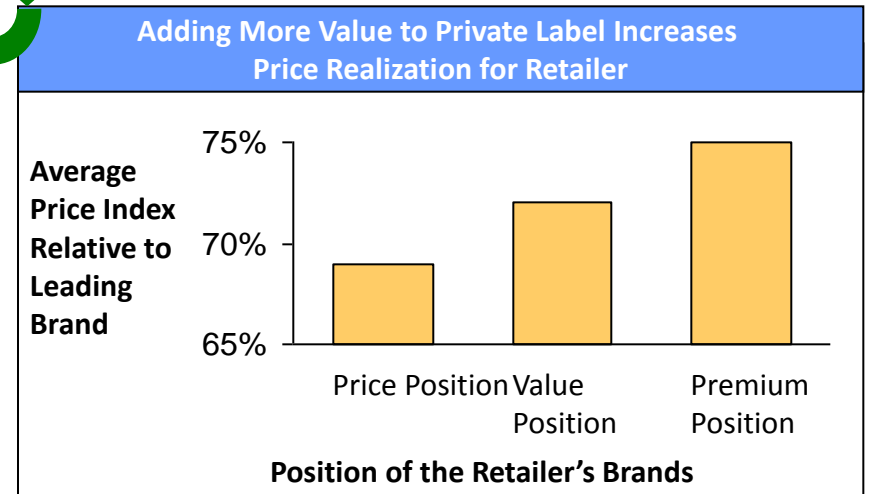
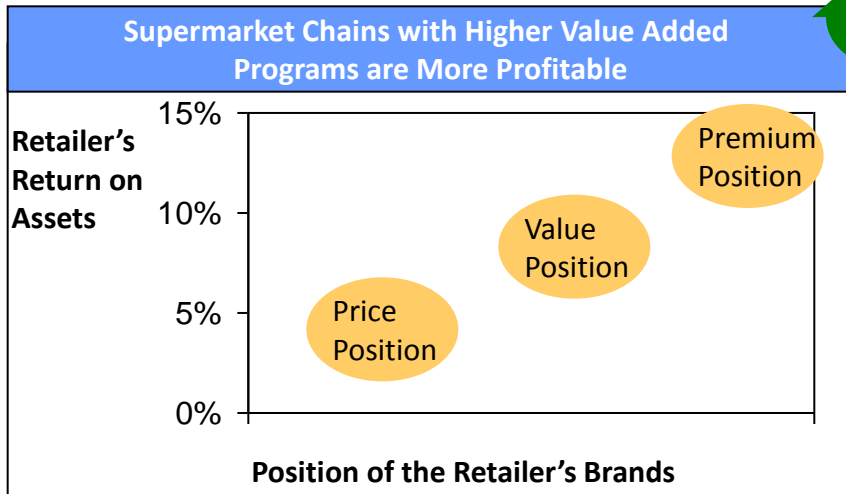
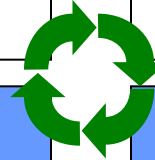
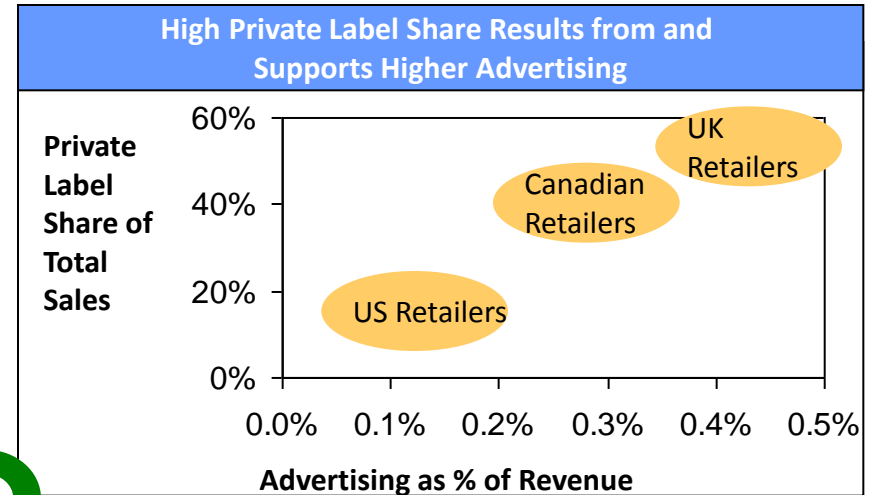
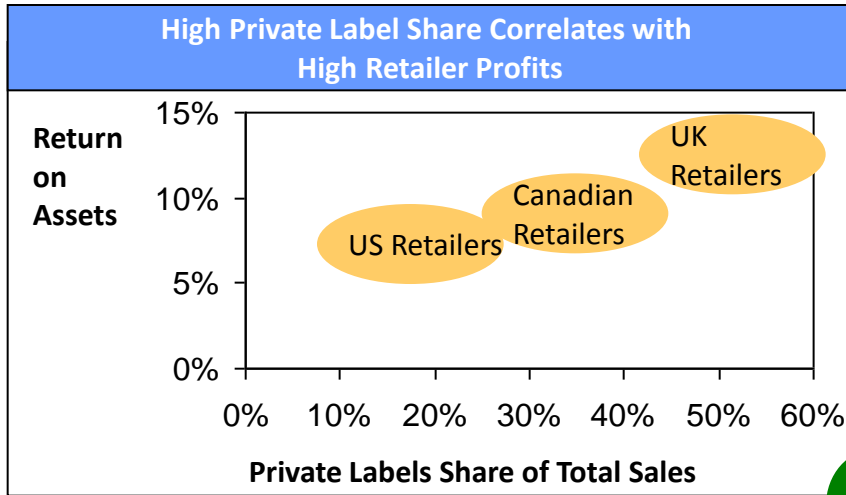
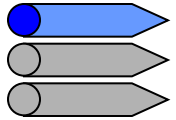
Less Well-Known, But Probably More Important Are The Economic Benefits Of Retailer Brands



- Retailers who add more product and brand value to their private label, i.e., create well-executed retailer brands, can achieve share gains and higher price realization
- High intangible value added by retailer (e.g., good packaging, advertising, etc.) grows share and yields higher price realization
- Emphasis on private label sales creates differentiation and builds store loyalty
- Growth of premium line forces retailer to invest in highly skilled people, expertise development, and distribution efficiency – these competencies in turn allow retailer to enter more complex and more profitable categories with its umbrella brand
- Broad line of premium products, increased profitability, and higher customer satisfaction lead to share gain for retailer, ability to expand and acquire, and more funds to bolster internal capabilities

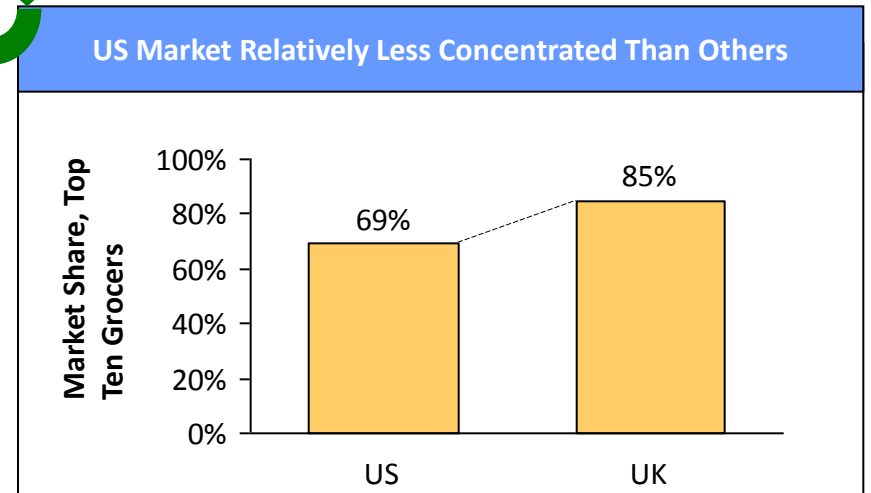
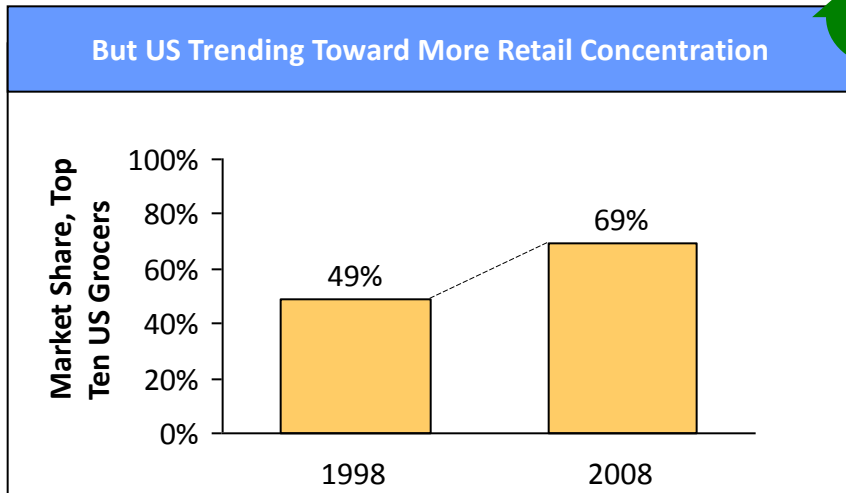
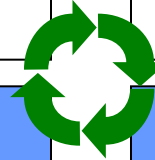
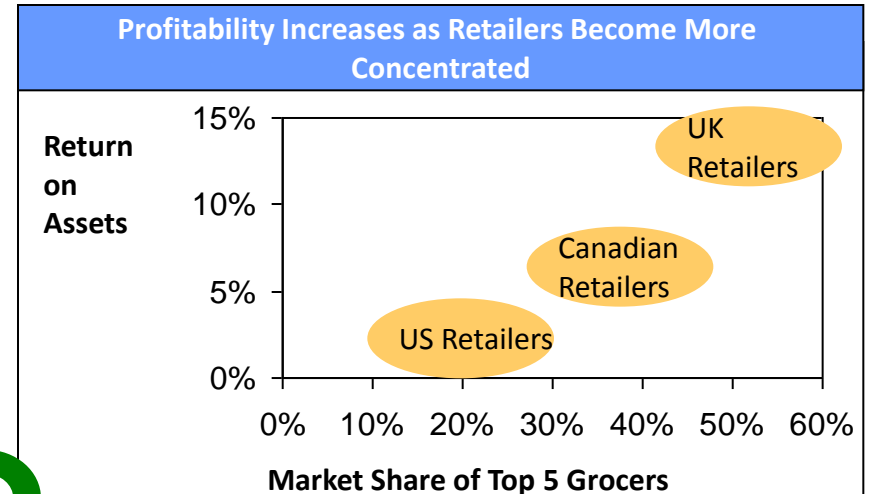
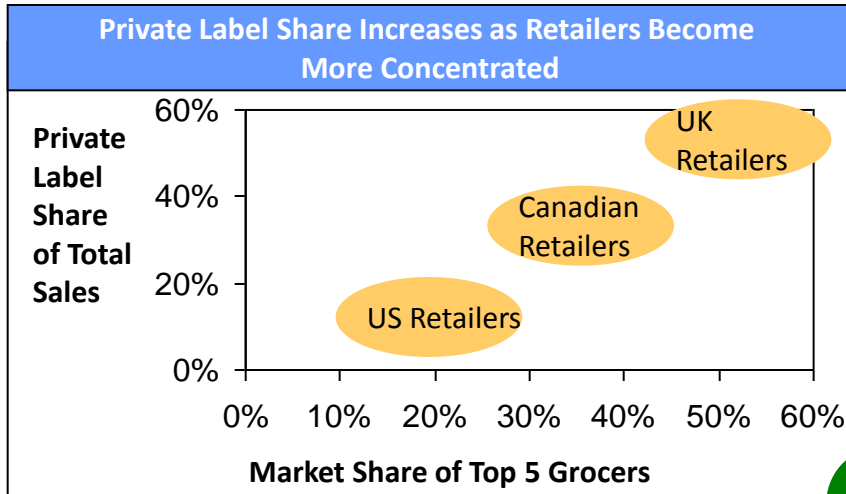
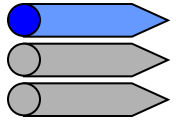
The Self-Reinforcing Loop Of Retailer Success

Retailer Brands Can Improve Profitability of Retailers

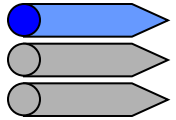


The Self-Reinforcing Loop Of Retailer Success

Higher Share, Concentration, Profits Correlated



Retailers Planning To Expand Private Label; Brand Executives Already Recognizing Need To Defend Against Retailer Brands



Retailer Brand Executives

"This is a key strategy for the company, to develop our own brands business."

Andrew Abraham,
VP for Store Brand Advertising
Supervalu, Inc., November 2008

"Through our Great Value brand re-launch, we are delivering on our promise to provide customers with the quality products they need and want at a price they can afford to help them save money and live better." Andrea Thomas,

SVP of Private Brands
Wal-Mart, March 2009

"I say wait and see, because we're going to chew [food manufacturers] up on corporate brands."

Steve Burd
Chairman & CEO
Safeway, Inc, March 2009



National Brand Executives

"Of course there's a shift to private-label at this point."

A.G. Lafley,
Chairman & CEO
Procter & Gamble, February 2009

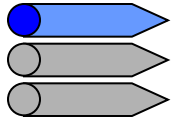
"One thing you don't want to do is create a consumer who shifted to private label and then have to spend a lot to get them back"

Tom Falk
Chairman & CEO
Kimberly-Clark, February 2009

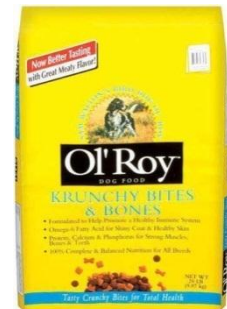
"Retailers have been talking about destocking, taking out the No. 3 or No. 4 brands, for more than a decade. We're finally starting to see that happen."

Don Knauss,
Chairman & CEO
Clorox Co., February 2009

Wal-Mart Executing Multi-Tiered Strategy To Capture Share Across All Categories

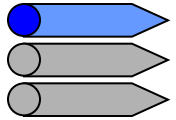


- Throughout 1990s, Wal-Mart grew by pursuing massive national expansion
 - With vast majority of regional markets penetrated, the growth curve has flattened
- Wal-Mart now looking to private label for growth
 - In early 2009, Wal-Mart announced plans to revamp its Great Value brand as sales of private label food increased
- Wal-Mart executes a multi-faceted strategy in private labels, capturing share at as many points as possible
 - Wal-Mart's sales of private label products jumped 10% to \$89.2B in 2009, while sales of branded products grew by just 2.8%
 - Private label sales account for 40% of Wal-Mart's sales, and their private label share is best in class in 16 categories



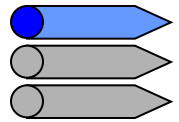
Brand Type	Example	Description
Value	Great Value	▪ Umbrella brand for grocery items at value position
Premium	Sam's Choice	▪ Umbrella brand for grocery items at premium position
Category	O' Roy	▪ Private label for dog food and treats
Orphan	White Cloud	▪ Private label for tissue products ▪ Brand acquired from Proctor & Gamble

CVS Licenses Existing Brand For Private Label To Capitalize On Established Brand Equity



- To break into a baby care category dominated by Procter & Gamble and Kimberly-Clark, CVS chose to launch private label using a licensed brand to capitalize on name recognition and brand equity
- Playskool had strong brand heritage for traditional, high-quality toys for pre-school children
- Pre-school toy category crowded, increasingly difficult to differentiate via innovation
- CVS leveraged Playskool's core brand equity traits of security, trust and quality to create line of infant products
- Exclusive partnership with CVS provided opportunity to create significant value for both parties

General Mills & Kraft Use Strategic Co-Marketing To Work With, Not Against, Retailer Brands



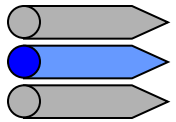
- General Mills is working with retail customers to create Old El Paso-branded taco stations promoting their own products next to complementary retailer products
- Consumers use taco stations to stock up on Old El Paso products alongside retailer brand cheese, vegetables, and meats to complete their dish
- CEO Ken Powell reports that initial response was so successful that grocers are considering permanent installations in their shopping aisles
- Kraft has developed a similar program pairing their lunch meats and cheeses with retailer brand breads at sandwich stations in Meijer grocery stores
- Using brand equity to help retailers capture share in categories not in direct competition with core brands helps gain leverage in pricing and placement negotiations



Everything you need for Tacos

A taco dinner is quick and easy when you don't have time to spend in the kitchen. See this week's in-store display for all the ingredients you need. Enjoy more on your plate and less out of your pocket!

Why Does The Current Penetration Of Private Label And Retailer Brand Vary So Much By Category?



- **Not all product categories are equally vulnerable to inroads by private label as retailer brands. A review of 195 categories and of differences between the US, Canada, and the UK suggests that three dynamics determine the vulnerability and the current and future penetration of a category**

1. The inherent “brandability” of the category

Brands should have a purpose beyond simply naming the product. To create real brand value to the consumer, brands need to deliver intangible benefits, such as creating assurance, denoting distinctive performance, or appealing to the ego or social status. In some categories it is inherently easier to provide these intangible benefits than in others. As the characteristics of a category change, the inherent brandability of a category may increase or decrease

2. The structure of competitive advantage in the category

The national brand producer and the retailer brand supplier typically start from a different position. One is large, national in scope, analytical, well-capitalized. The other is small, regional, entrepreneurial, scrappy, and flexible. The available sources of competitive advantage in a given category can be more favorable to a national brand supplier or, vice versa, to a retailer brand supplier. Over time, they may also switch

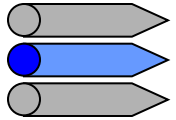
3. The conduct and strategies of the brand producers and retailers

The actual and potential penetration of private label is not only determined by the vulnerability of the category but also by the conduct and the strategies of the key players. Retailers may not (yet) have developed and properly marketed the products that could take advantage of the potential. National brand products may have erected additional barriers to private label penetration or, conversely, may have encouraged the growth of these competitors

VULNERABILITY

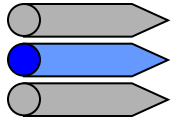
ACTUAL PENETRATION

1. Understanding The Inherent Brandability Of A Category



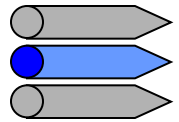
Brands Can Create Intangible Value, For Example, Through:				
	ASSURANCE	DISTINCTIVE PERFORMANCE	STATUS OR EGO APPEAL	Category Examples
	Brand assures consumers it is safe, will not fail, will deliver as promised, represents a fair value, etc.	Brand connotes a specific product, preferred taste, quality, or performance	Brand signifies a certain social standing, projects a desired image or creates positive personal feelings	
Ability to create brands <u>high</u> if...	<ul style="list-style-type: none"> Consumer cannot test or verify ingredients Cost of failure is high Purchase frequency low, price high 	<ul style="list-style-type: none"> Variability in ingredients, recipe, etc. is high Product differentiation is high 	<ul style="list-style-type: none"> Product consumed in social settings Product consumes in original package Product used in areas or at times of personal insecurity 	<ul style="list-style-type: none"> Carbonated soft drinks OTC medicine
Ability to create brands <u>low</u> if...	<ul style="list-style-type: none"> Consumer feels capable of judging relative performance Non-performance inconsequential 	<ul style="list-style-type: none"> Product is commodity 	<ul style="list-style-type: none"> Product is utilitarian Consumer has low emotional involvement in category 	<ul style="list-style-type: none"> Milk Flour

2. Understanding The Structure Of Competitive Advantage



	Manufacturing	Distribution and Logistics	New Products	Marketing
Favors National Brand Supplier if...	<ul style="list-style-type: none"> Production is scale intensive Access to key ingredients, etc., is limited Proprietary process 	<ul style="list-style-type: none"> High value added by manufacturer 	<ul style="list-style-type: none"> High R&D cost New products add significant new value 	<ul style="list-style-type: none"> Category size sufficient to afford advertising Category widely segmented with differentiated brands
Favors Retailer Brand Supplier if...	<ul style="list-style-type: none"> Overcapacity in industry Easy entry Small scale relative to market size 	<ul style="list-style-type: none"> High value added by retailer High perishability of product 	<ul style="list-style-type: none"> Product at mature end of life cycle New features easy to imitate 	<ul style="list-style-type: none"> Majority of volume sold in one package at visible price point Inherent brandability low

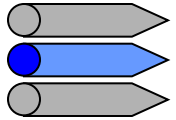
3. Understanding the Conduct And Strategies Of Brand Producers & Retailers (1)



Understanding the Conduct of Brand Producers

Effective Conduct	Ineffective Conduct
<p>Strategies of brand producers that <u>discourage</u> private label growth</p>	<p>Strategies of brand producers that <u>encourage</u> private label growth</p>
<ul style="list-style-type: none"> ▪ Brand price premium kept in line with perceived value difference ▪ Consistent, well-targeted brand building through advertising, timely repositioning, etc. ▪ Re-segmentation of consumers, line extensions with special value tailored to specific segments ▪ Acquisition of “losers” in the branded field to prevent conversion ▪ Continued investments in process technology, recipe refinements, packaging advances, and other proprietary technology which erect entry barriers 	<ul style="list-style-type: none"> ▪ Overemphasis on high/low pricing and promotions ▪ Few, highly visible price points ▪ Lack of product improvements or innovations ▪ Brand priced higher than perceived value ▪ Conversion of national brand capacity to supply private label with high quality products ▪ Excess capacity ▪ Reluctance to incorporate new technologies or extend product line, etc. for fear of cannibalizing existing brand volume

3. Understanding the Conduct And Strategies Of Brand Producers & Retailers (2)



Understanding the Conduct and Competitive Advantage of Retailers

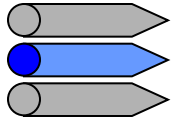
▪ Brand Building Economics

- Chains with strong existing umbrella brands (e.g., Costco's Kirkland Signature) can leverage the brand to achieve high intangible benefits at lower costs than national brands
 - If successful, these retailers can gain high market shares for their premium products at a relatively low price discount to the national brand
- Intangible benefit battleground shifts from broad national TV advertising to focused in-store activities and lower cost advertising linking the category to existing umbrella
- However, chains that have not or are not currently developing a strong umbrella brand appear to be at a cost or effectiveness disadvantage in attempting to build intangible value; these are chains likely to be restricted to value or price segment

▪ Product Economics

- Some chains currently appear to be able to achieve high tangible product benefit at low cost by exploiting existing industry overcapacity or the conversion of national brand capacity to retailer brand supply
- Initial indications are that premium reformulations perform well relative to national brands
- However, chains that attempt to backward integrate may be at a cost disadvantage relative to national brands due to sub-scale or lack of critical skills – these chains may have difficulty in achieving both high quality and low cost

3. Understanding the Conduct And Strategies Of Brand Producers & Retailers (3)

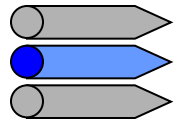


Understanding the Conduct and Competitive Advantage of Retailers (cont.)

▪ Distribution and Merchandising

- In the US, many brands have the advantage of lower distribution costs and merchandising
- The situation in European countries and longer-term US trends indicate that this advantage may disappear as chains increasingly centralize and improve their logistic functions
 - UK chains already receive centrally and distribute to stores themselves
 - Technological developments make centralized inventory control more cost-effective at a system-wide level
 - Chains increasingly interested in taking over shelf-stocking functions to improve control and overall chain image consistency

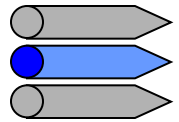
3. Understanding the Conduct And Strategies Of Brand Producers & Retailers (4)



Understanding the Conduct and Competitive Advantage of Retailers (cont.)

	Premium Retailers	Value Retailers	Price Retailers
Leverage	<ul style="list-style-type: none"> ▪ Opportunity to create and exploit umbrella brands 	<ul style="list-style-type: none"> ▪ Leverage store position and distribution and purchasing scale 	<ul style="list-style-type: none"> ▪ Growth may be limited to price segment
Category Profitability	<ul style="list-style-type: none"> ▪ Umbrella brands can significantly improve retailer's margins and profitability 	<ul style="list-style-type: none"> ▪ Dependent on higher PL volumes to improve overall category profitability 	<ul style="list-style-type: none"> ▪ Limited PL category profitability potential; high PL volume required
Competence and Commitment	<ul style="list-style-type: none"> ▪ Need sophisticated brand and image management capabilities ▪ Valued reputation at stake 	<ul style="list-style-type: none"> ▪ Probably gain advantage through inventory management skills and systems 	<ul style="list-style-type: none"> ▪ Separate PL organization ▪ Backward integration
Growth Factor	<ul style="list-style-type: none"> ▪ If successful, high growth potential of chain ▪ High growth of retailer brand ▪ Clear pioneering perception of leader, e.g. Safeway's "O" Organics brand 	<ul style="list-style-type: none"> ▪ Moderate relative growth overall ▪ Moderate private label growth ▪ Pioneering perception in operations, but not marketing 	<ul style="list-style-type: none"> ▪ Selected high growth in traditional categories ▪ High PL share but low growth ▪ Little pioneering perception

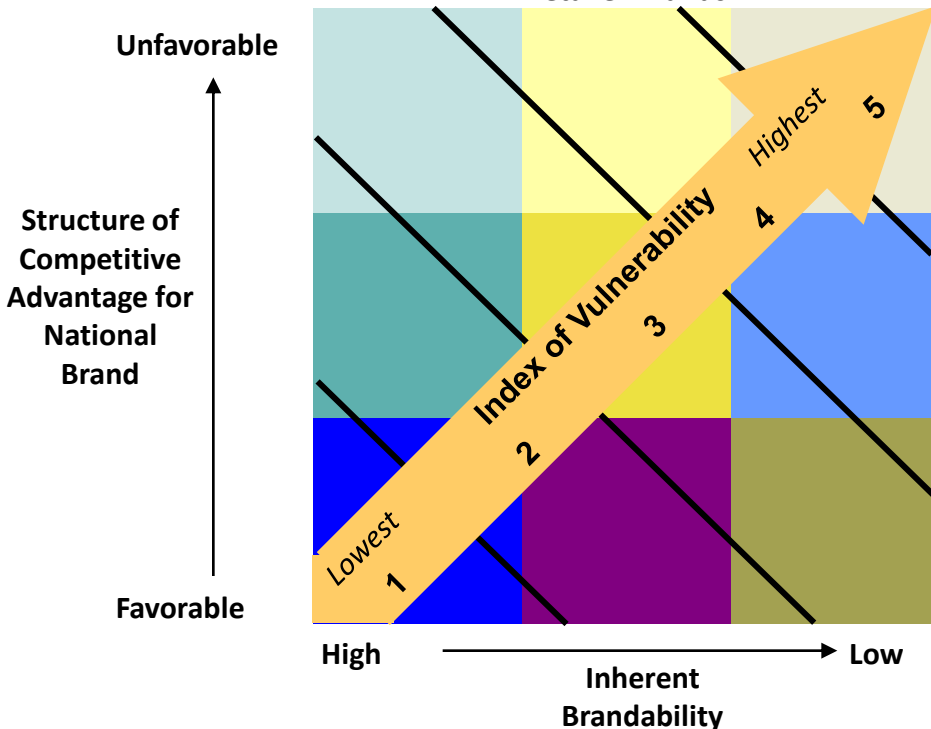
Assessing The Vulnerability Of A Category To Retailer Brand Penetration



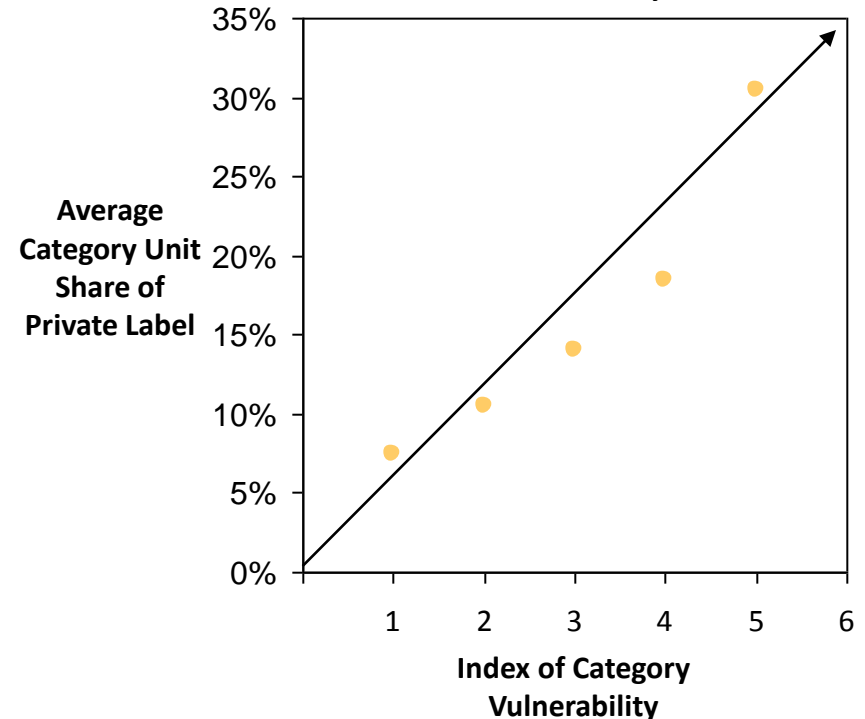
Determining Vulnerability

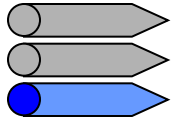
- To test the validity of this concept, Alliance examined and rated 195 categories according to their inherent brandability and structure of competitive advantage. For each category we developed an index of vulnerability, from lowest (1) to highest (5). For all categories with the same vulnerability index we calculated the average penetration of the private label and/or retailer brands

Developing an Index of Category Vulnerability to Retailer Brands



Actual Penetration Correlates with Vulnerability

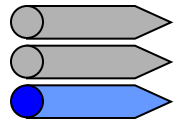




The Rules Of The Game Are Changing

- **Traditional forms of advantage for national brand no longer as strong or beginning to lose relevance**
- **Ability to maximize the profit per square foot at retail is becoming an increasingly important element of value added and relative competitive strength in the industry**
- **Retailer will develop advantage over national brand supplier in ability to maximize profit per square foot**
 - Better information
 - Sophisticated organization
 - Control over key elements of mix, e.g., in-store activities, merchandising, promotions, etc.

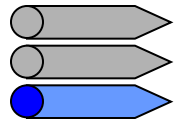
Competitive Advantage Shifting From National Brands To Retailer Brands



In many categories, the traditional competitive advantages of individual national brands suppliers over retail brands may erode. Retailers, especially those with large premium umbrella brands, are likely to gain strong positions

Traditional Competitive Advantages of National Brand Suppliers	Emerging Position of Premium Retailer Brands
<ul style="list-style-type: none"> ▪ Unique or superior product ▪ Strong real or perceived differentiation ▪ Ability to innovate 	<ul style="list-style-type: none"> ▪ Blind performance parity ▪ Perceived as “pretty much the same” ▪ Ability to tailor product to need of local demographic segment of retailer
<ul style="list-style-type: none"> ▪ Exclusive ability to build brands through national advertising ▪ Large scale and cost advantages in advertising 	<ul style="list-style-type: none"> ▪ Ability to build premium brands through in-store umbrella branding merchandising, localized promotion
<ul style="list-style-type: none"> ▪ Superior knowledge of overall consumer trends, price sensitivity, etc. ▪ Superior ability to create “pull” demand through advertising 	<ul style="list-style-type: none"> ▪ Superior knowledge of <i>actual</i> purchasing behavior, local preferences, detailed price sensitivities, etc. ▪ Equivalent, if not superior, ability to create pull demand through ads, promotions; ability to control “impulse pull”
<ul style="list-style-type: none"> ▪ Lower cost in distribution 	<ul style="list-style-type: none"> ▪ Retailer distribution system has superior costs and information
<ul style="list-style-type: none"> ▪ Some capability to assist retailer in maximizing profitability (DPP) of category, generally used with bias and reluctance 	<ul style="list-style-type: none"> ▪ Control of information and key marketing tools to maximize profitability of category (\$ per SF), used with sophistication and “ruthlessness”

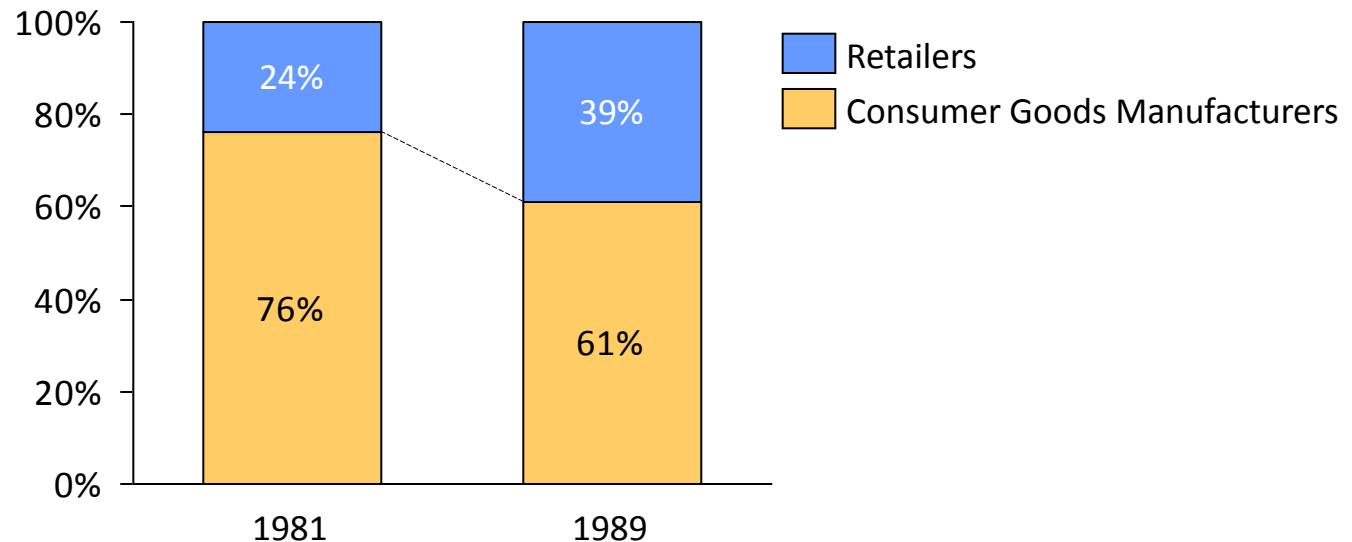
As Retailers Increase Capabilities, They Will Increase Share Of Industry's Profitability



■ Case Study: UK 1981-1989

- UK Retailers had enormous success with their brands in part due to the failure of manufacturers to launch a proper strategic response; manufacturer profits suffered dramatically

Distribution of Total UK Food Industry Profit, 1981-1989



Retailer Brands – A Serious Threat To National Brands

Section Summary

The Current Climate Has Positioned Retailer Brands for Unprecedented Growth

- Private labels gain significant market share in recessionary periods
- Large consolidated retailers have improved the quality of their products and invested in sophisticated marketing for their retailer brands

However, Not All National Brands are Equally Vulnerable to The Threat

- Three dynamics determine success against retailer brands:
 - Inherent “brandability” of the category
 - Sources of competitive advantage in the industry
 - Strategies and conduct of leading brand manufactures and retailers

Failure to Recognize and Address Vulnerabilities May Result in Irreversible Consequences

- Private label brands are unlikely to relinquish recessionary gains in market share even after the economic situation improves
- The success of comprehensive retailer brand strategies may result in an irreversible redistribution of profits within the industry value chain

In the Next Section We Have Identified Key Elements in Designing Effective Strategies to Combat The Threat of Retailer Brands

**Part II:
How National Brand Manufacturers
Can Design Effective Strategies
To Fight Retailer Brands**

Designing Effective Strategies To Fight Retailer Brands

Introduction

- **Successfully dealing with the private label threat requires a comprehensive and finely tuned strategy**

- **Formulating brand strategy is challenging:**
 - A myriad of different variables, market situations, channel influences, etc. cloud the true cause and effect relationships
 - Drawing meaningful conclusions may prove difficult if existing data lacks precision or misses key information
 - Often, people in an organization hold strong, sometimes opposing beliefs on this topic

- **As a result, despite their obvious importance and the intense attention they receive, the brand strategies in many companies are made primarily on the basis of gut feel, perceived necessity, and the dynamics of a deal**

- **Our experience suggests that strategic decisions regarding retailer brands can be significantly improved by examining:**
 - The interaction between pricing and promotion, consumer segmentation, value bundling and retailer relationships
 - The assumptions that brand manufacturers make when pursuing private label production

Designing Effective Strategies To Fight Retailer Brands

Overview

- As a way to structure some of the many variables affecting manufacturers' strategies against the retail brand threat, we will examine four different aspects throughout this section:

1. Pricing and Promotion

- Price changes often have impact on the volume purchased and/or consumed and the market share. The result on profits can be positive or negative. **What are the dynamics that determine these trade-offs?**

2. Value Line Bundling

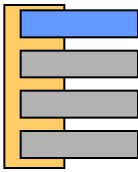
- Consumers perceive, assess and trade-off the perceived benefits relative to the price of different product bundles. Shares may change if consumers prefer the benefits of one product, even if prices are the same. **How should you manage your benefit bundle and position the brand for optimal price realization and value perception?**

3. Consumer Segmentation

- Pricing and promotion strategies are often designed and executed for one retailer, channel, or local market at a time. **Can you manage local markets and channels as a portfolio in order to optimize resource allocation and maximize volume and profit at a higher level?**

4. Managing The Retailer Relationship

- Brand manufacturers sometimes consider the possibility of pursuing a "competition" strategy, manufacturing private label products for the very retailers to which they sell their core brands. **When should brand manufacturers enter private label manufacturing?**



1. Understand How Pricing And Promotion Work To Optimize Volume And Profit

- A key task is to understand the implicit trade-offs involved in pricing and promotion strategies. The following concepts can be helpful in attempting to optimize volume and profit trade-offs

A. Price Elasticity

- A change in price affects volume. The size of price reduction necessary to obtain sizable and profitable volume gains can differ from product to product. Different consumer segments may vary in their response. How do you best manage the price/volume/profit relationship?

B. Promotional Intensity

- Promotions have a significant impact by creating a volume lift. However, increasing promotional intensity (e.g., multi-brand, multi-package promotions) may have diminishing returns. How do you structure promotions to get the most lift at lowest overall cost?

C. Category Profit Management

- Pricing strategies for one product or brand impact the total category volume and profit of the retailer. How do you optimize the profit for both retailer and brand manufacturer?

D. Market Leadership Price Premium

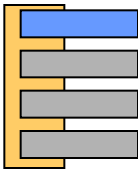
- In markets where a national brand has a sizable share advantage over its competitors, the brand typically can maintain a price premium relative to its competitors while holding share. National brand manufacturers' pricing strategies impact relative market shares and the potential to exploit this principle

E. Channel Dominance Price Premium

- In channels where a national brand has a sizable share advantage over its competitors, the brand typically can maintain a price premium relative to its competitors while holding share. National brand manufacturers' pricing strategies impact relative market shares and the potential to exploit this principle

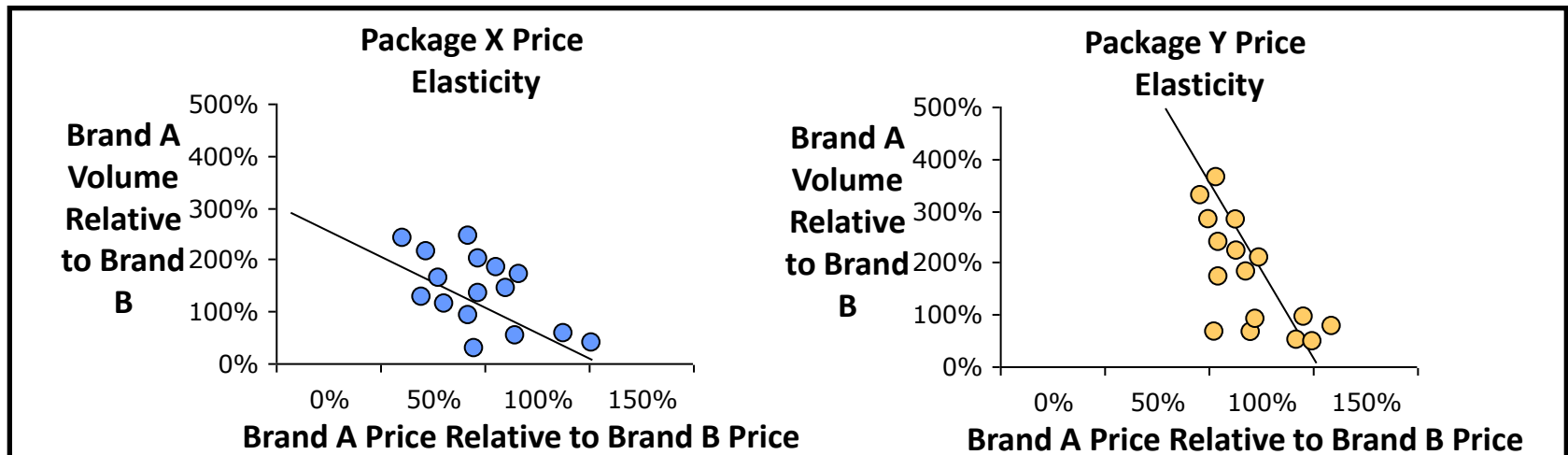
1A. Pricing and Promotion: Price Elasticity

Understand Consumer Responsiveness to Prices



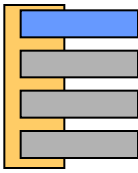
- Price elasticity explores the relationship between price changes and their impact on volume. A thorough understanding of these dynamics can lead to significant improvements in profitability

Example 1: Different slopes. The responsiveness of consumers to purchase and/or consume more at lower prices obviously can vary among categories. Less well-known is the fact that the slope also may vary between two product forms or packages of the same brand. For example, an analysis of two package types for a leading brand manufacturer showed that package Y provides much greater volume lift for a price change than package X

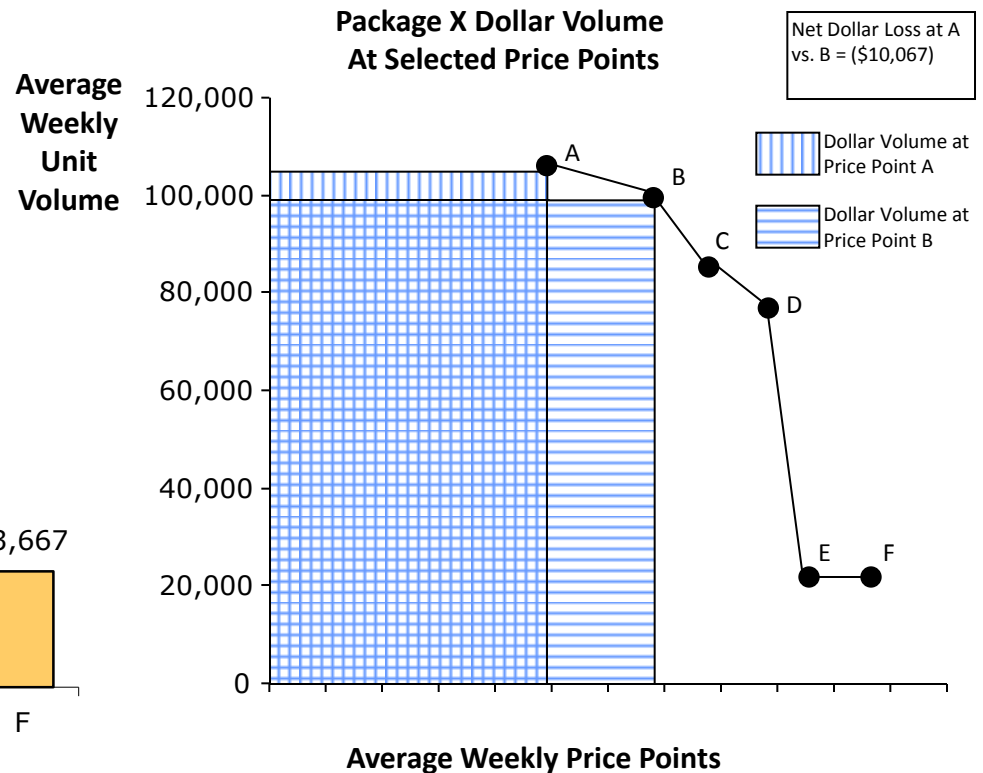
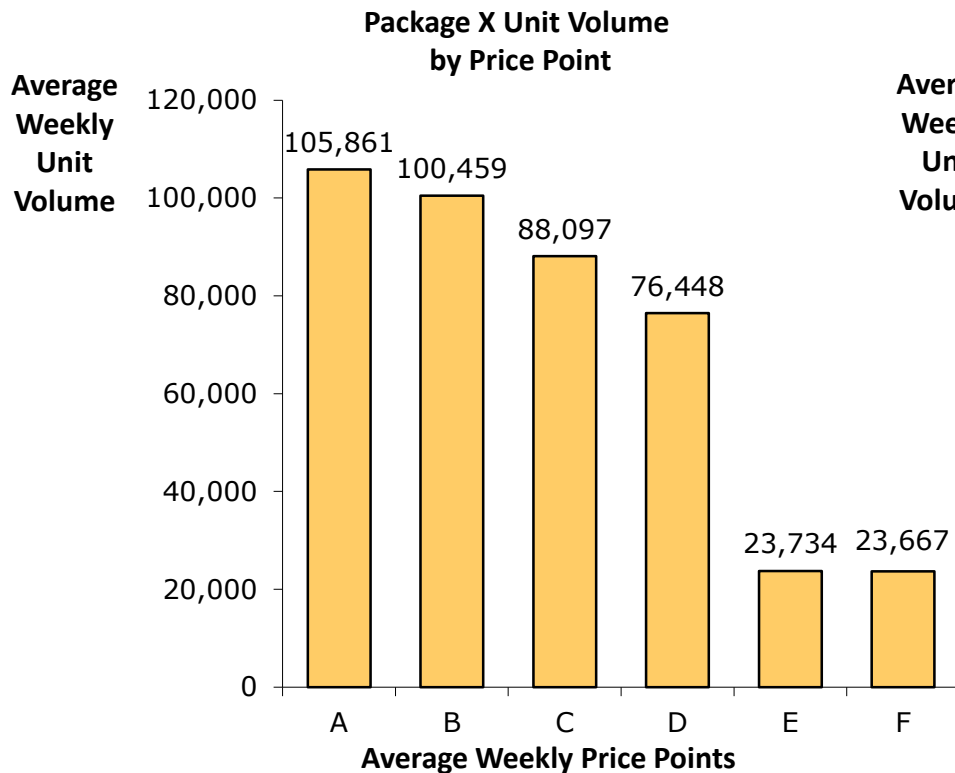


1A. Pricing and Promotion: Price Elasticity

Understand Discontinuities in Price-Volume Trade-off

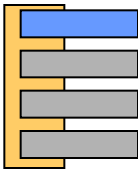


Example 2: Trigger Points. The volume change often is not proportional to the price change. As a result the profit at different price points can vary dramatically. Many products may have only a few price points which provide the volume lift necessary to justify the price reduction. At intermediate price points the net profit impact often is negative

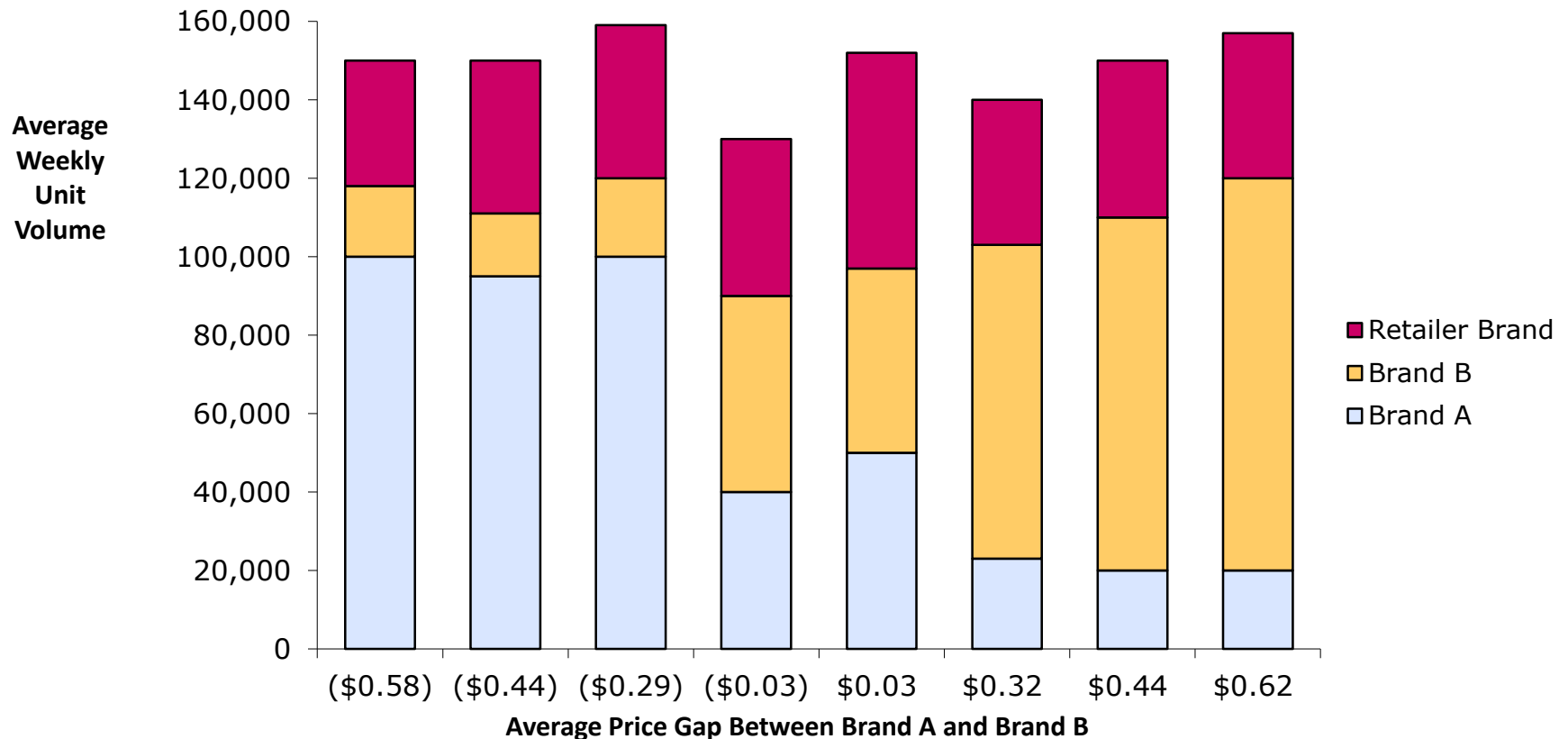


1A. Pricing and Promotion: Price Elasticity

Understand Price Impact on Category Brand Dynamics

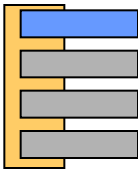


Example 3: Volume Shifts Among Brands. Price changes of one brand within a category not only affect the overall demand but also the shares of competing products within the category. Typically, the price/share shifts among national brands follow a different pattern than those between national brands and retailer brands

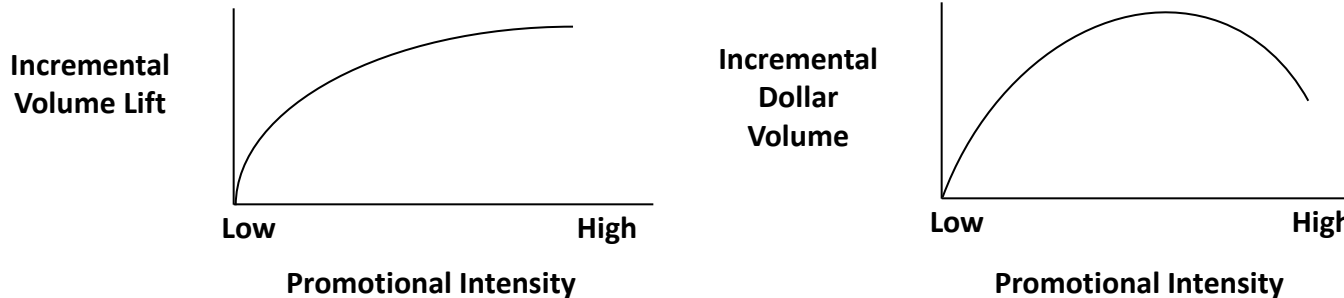


1B. Pricing and Promotion: Promotional Intensity

Greater Promotional Volume Lift by Optimizing Intensity



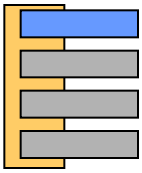
- Promotions have a significant impact by creating a volume lift (i.e., a volume increase over the base volume), but tends to diminish as the intensity of the promotion increases. In addition, dollar volume may actually decrease for some promotional combinations



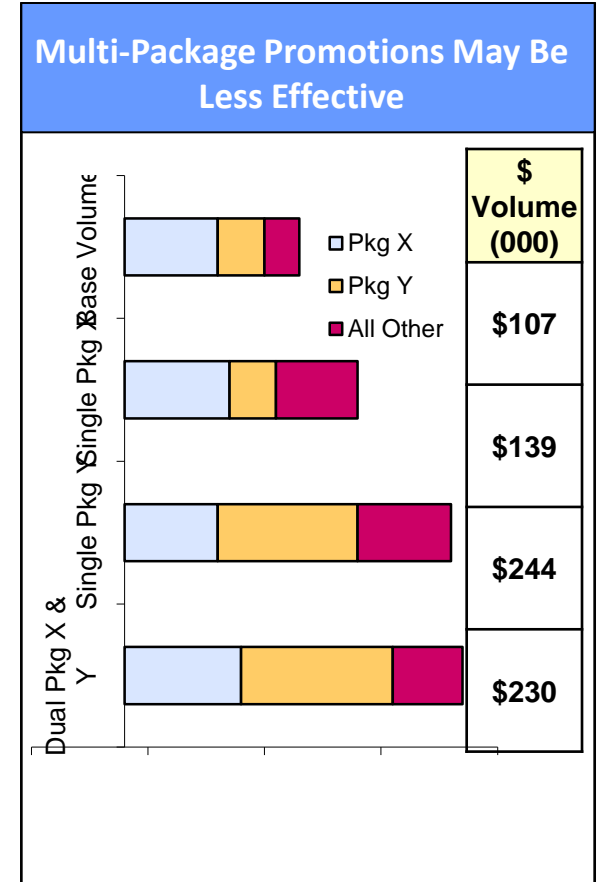
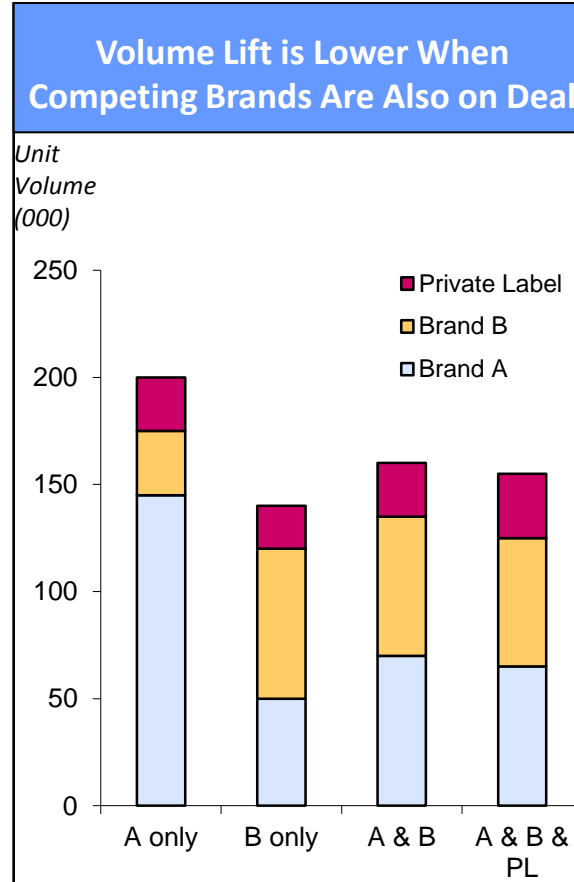
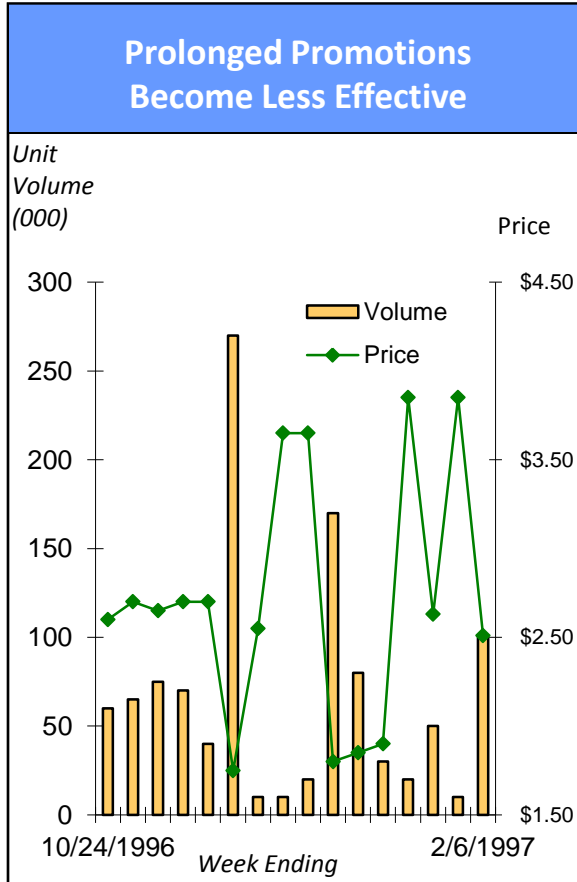
- More specifically, our analysis suggests the following observations:
 - Multiple week promotions tend to generate less volume lift than an equivalent number of single week promotions
 - The volume lift appears to be lower when competing brands are also on deal than when they are off
 - When multiple packages are co-promoted, the net effect on lift may be less beneficial than the combined effect of promoting each separately
- These findings suggest that a national brand manufacturers could achieve the desired promotional volume lifts with significant savings by optimizing discounting and promotional intensity

1B. Pricing and Promotion: Promotional Intensity

Recognize Effects of Promotions on Volume Lift

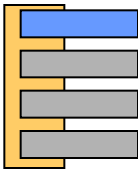


- Alliance analysis of the pricing and promotion patterns in a large category suggest the following:

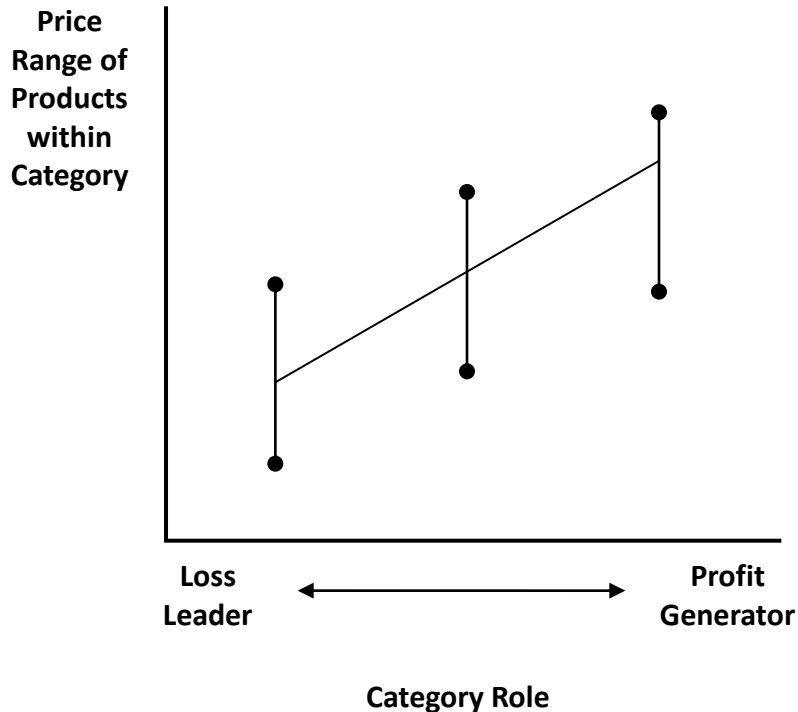


1C. Pricing and Promotion: Category Profit Management

Recognize Retailer Category Objectives

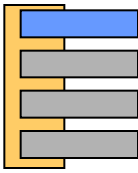


- The pricing and promotion strategies for one product or brand also impact the volume and profit of the total category for the retailer. Successful brand strategies recognize the retailer's objectives for the category and design pricing and promotions to provide sufficient category profits



Examples of Retailer Objectives for Category

- Generate traffic
- Generate profit
- Enhance image
- Differentiate from competitor
- Increase loyalty



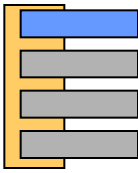
1C. Pricing and Promotion: Category Profit Management

Retailers Unaware of Store Brands' Effects on Category Profits

- Retailers are actively managing categories against the goals they have set. Retailer brands are typically managed with very specific objectives in mind. In general, the objectives of a retailer brand program are to:
 - Grow the category and increase profitability
 - Increase store traffic and attract the “right” kind of buyer
 - Enhance retailer differentiation and increase consumer loyalty
- However, retailers may have an incomplete understanding of how their own pricing and promotion of retailer brands affects the profitability of the category. In many instances, retailer brands actually reduce overall category profits because they:
 - Lower category dollar/volume share
 - Drive away customers to competing retailers
 - Trade down buyer baskets to lower retail dollar sales
 - Lower overall category profitability
- An important task for national brand manufacturers is to understand the true profit impact of the retailer’s brand on their category and where appropriate to educate retailers about the negative impacts these products can have

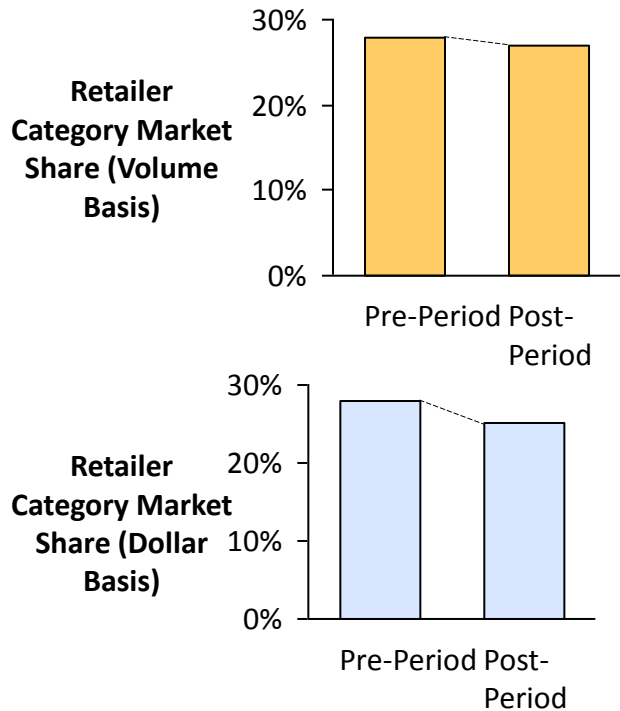
1C. Pricing and Promotion: Category Profit Management

Educate Retailer About True Profitability of Store Brands

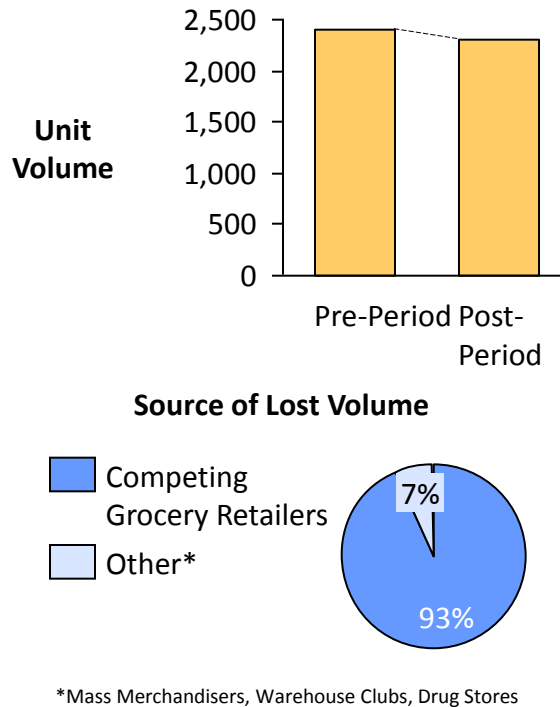


A comprehensive analysis of the total profit impact of a retailer brand on a key category was instrumental in convincing the retailer to adjust the role of its brand relative to the leading national brand. Alliance analysis supported the following key arguments:

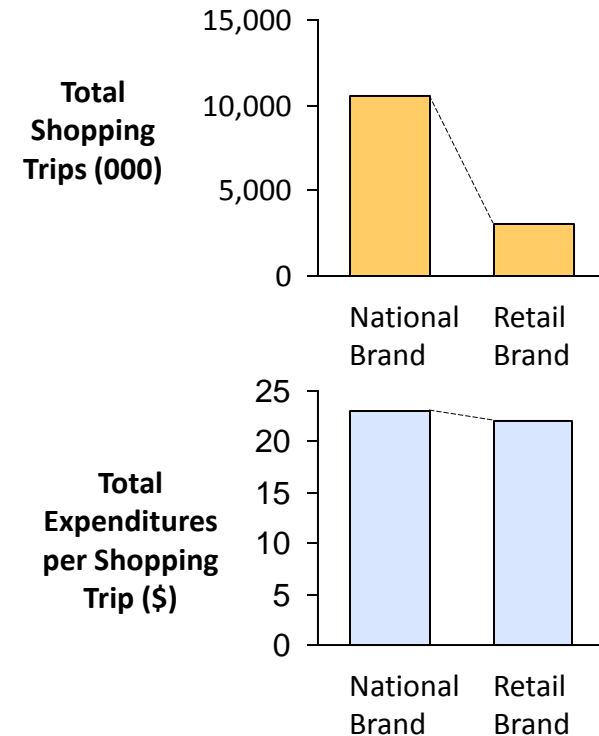
Volume and Dollar Shares Decline After Retailer Brand Introduction



Competing Retailers Gain Most of Retailer's Lost Volume

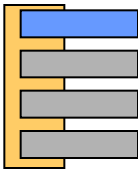


Retailer Brand Buyers Make Fewer Shopping Trips and Spend Less

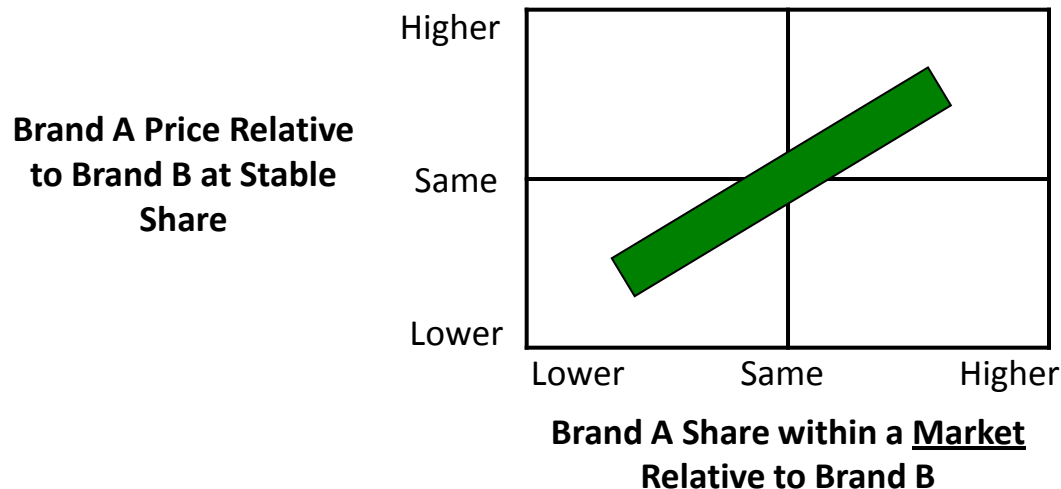


1D. Pricing and Promotion: Market Leadership Price Premium

Price Premium Commensurate With Relative Market Share

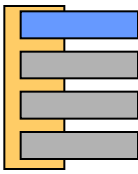


- In markets where a national brand has a sizable share advantage over its competitors, the brand can typically maintain a price premium relative to its competitors while holding share. This fact can guide marketing strategies towards prioritizing and targeting key local markets
- For example, in markets where Brand A has a sizable share advantage over Brand B, Brand A can maintain a price premium relative to Brand B while holding share. The reverse is true for Brand B in its leading markets
- This principle can be displayed in the following way:

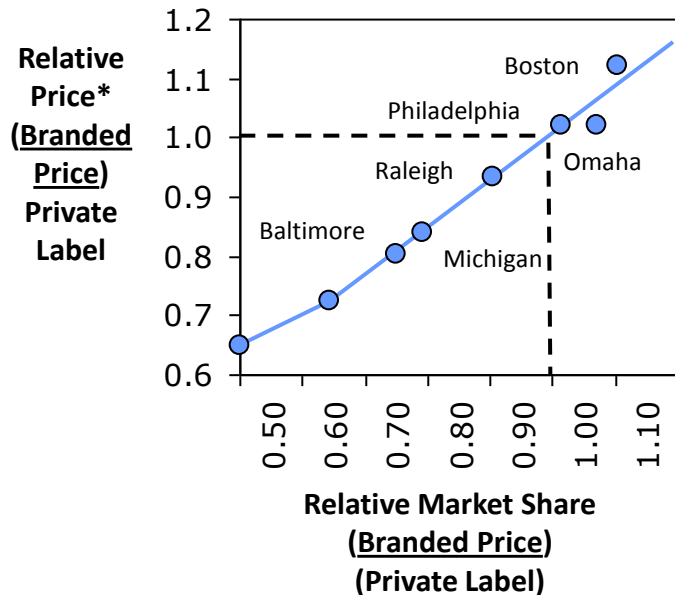


1D. Pricing and Promotion: Market Leadership Price Premium

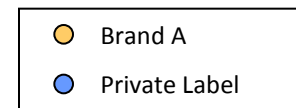
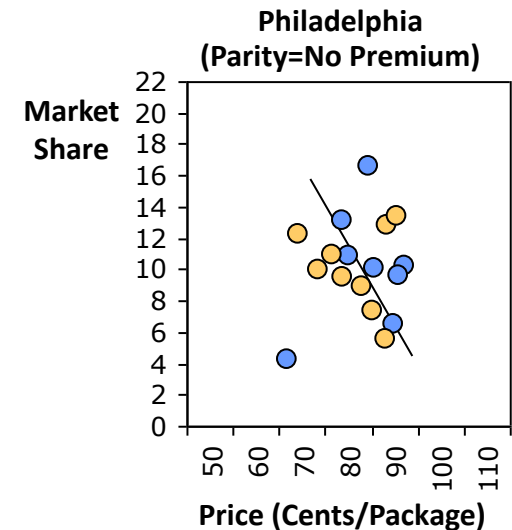
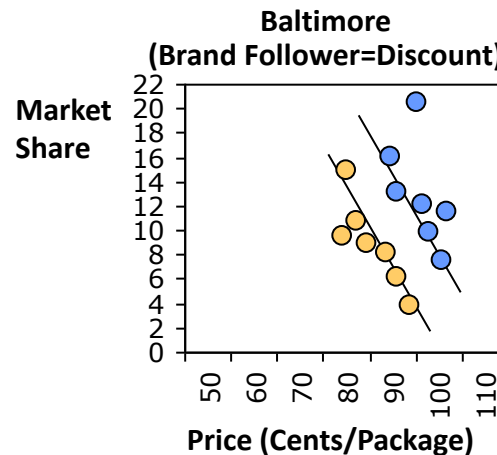
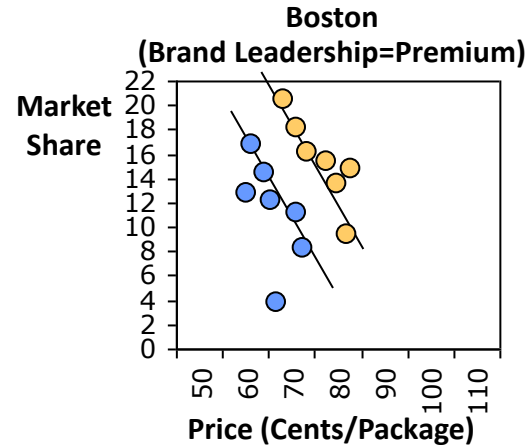
Certain Level of Market Share Needed to Command A Premium



- Analysis of a number of different local markets shows that a certain relative market share must be reached before a price premium can be maintained. The relationships may be clouded by the changing prices and promotions

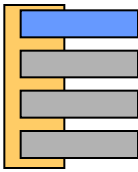


* at equal share

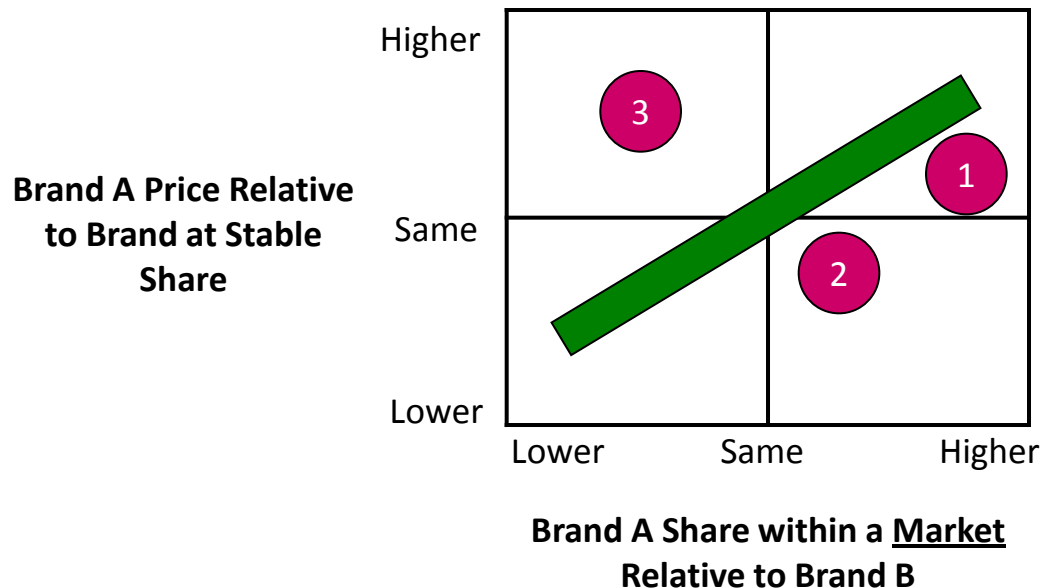


1D. Pricing and Promotion: Market Leadership Price Premium

Exceptions to Principle

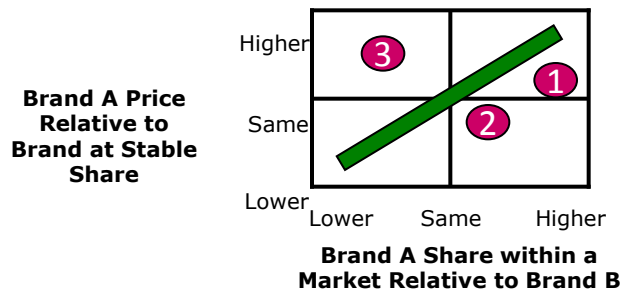
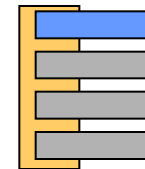


- There are other exceptions to this principle. In one category, Alliance examined aggregate market level data which seemed to deviate significantly from the postulated relationship
- An analysis of the leading national brands across markets revealed three general types of exceptions to the expected relationship



1D. Pricing and Promotion: Market Leadership Price Premium

Exceptions to Principle

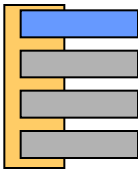


- Further analysis at the market level explained these three exceptions:

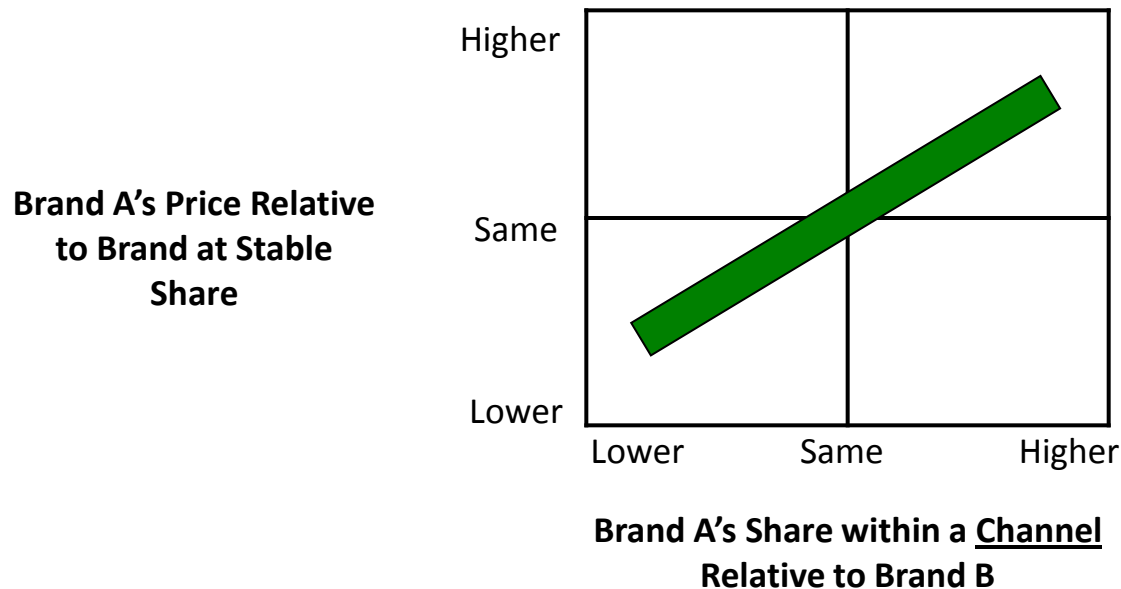
Exception 1 - The Overeager Discount Response	Exception 2 - Brand A's Market Leadership not Real	Exception 3 – The Milking Markets
<ul style="list-style-type: none"> Brand A did not exploit the opportunity to maintain a price premium commensurate with leadership position. Brand A was responding too eagerly to every price reduction and promotion of Brand B 	<ul style="list-style-type: none"> The market share advantage of Brand A in these markets is not based on a stronger brand franchise but on the fact that Brand A is buying its share leadership from Brand B. Consumers in these markets are, or are encouraged to become, highly price sensitive which implies that discounting and promotions drive volume and share changes more dramatically than in other markets. This tends to create a prisoner's dilemma in tempting to both brands to discount, proactively or defensively 	<ul style="list-style-type: none"> In some markets, Brand A appeared to be milking a weak share position by maintaining a price premium. In others, Brand A was experiencing aggressive underpricing by Brand B because Brand B was "buying" its share leadership in these markets. This was the mirror image of Exception 2

1E. Pricing and Promotion: Channel Dominance Price Premium

Price Premium Commensurate With Relative Channel Share

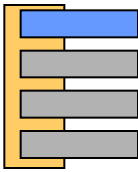


- In channels where a national brand has a sizable share advantage over its competitors, the brand can typically maintain a price premium relative to its competitors while holding share. This fact can guide a manufacturer's strategy towards prioritizing certain advantages within retailer channels. Focus can lead to share advantage and be rewarded with a price premium
- The principle can be displayed with this matrix:



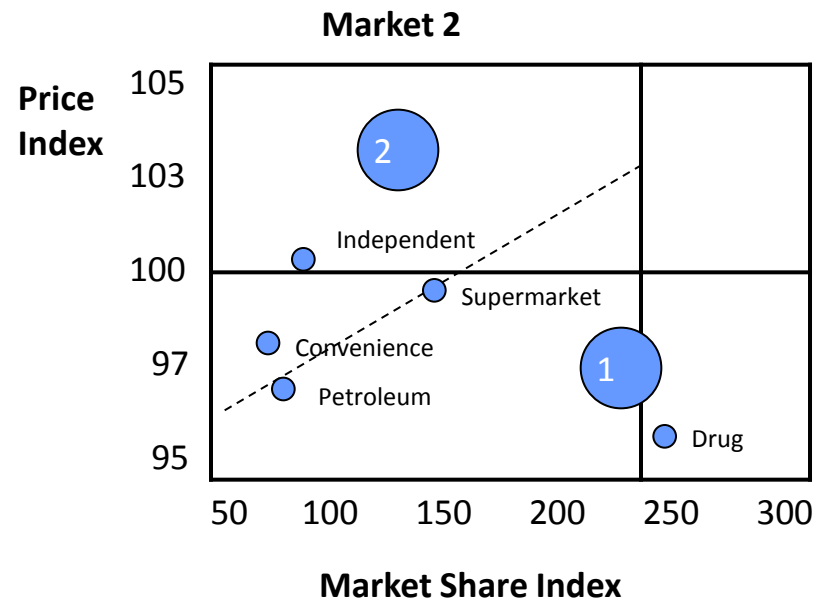
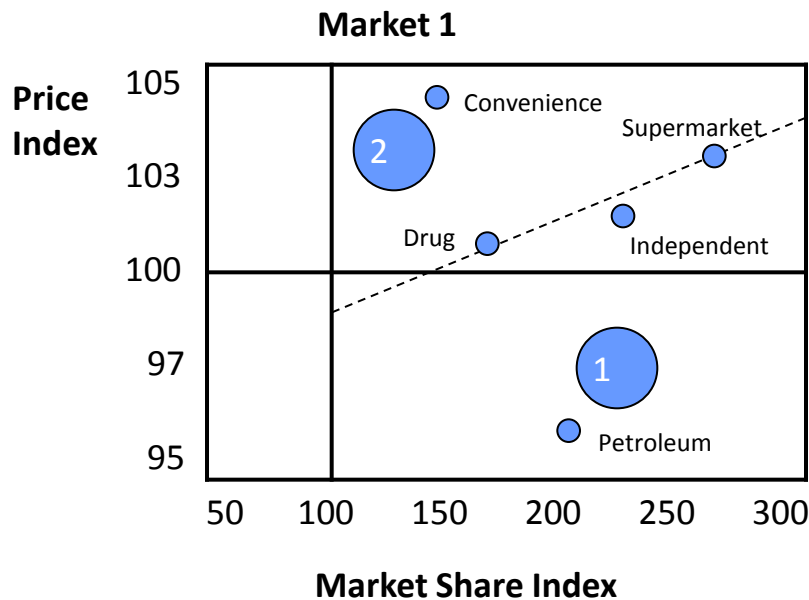
1E. Pricing and Promotion: Channel Dominance Price Premium

Exceptions to Principle



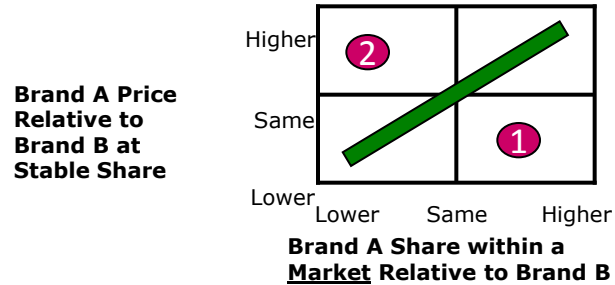
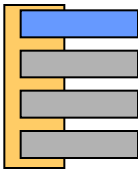
- In reality, not all channels in all markets conform to this principle. A review of available information for a leading, national brand manufacturer suggested that for the majority of channels, the price premium or discount was strongly correlated to relative share position, but with two typical exceptions:

Channel Share and Price Realization



1E. Pricing and Promotion: Channel Dominance Price Premium

Exceptions to Principle



Exception 1 - Channels where Brand A Buys Share

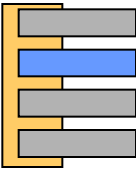
- **These exceptions were explained by the following market occurrences:**
 - Brand A used this channel to “buy” volume and a higher than average share position
 - The channel used product as a loss leader and gave preferential treatment to the lowest priced supplier

Exception 2 - Channels Where Brand A Goes for Margin

- **These exceptions were explained by the following market occurrences:**
 - Brand A used this channel to improve margins by “milking” its overall market position
 - The channel itself operated at a higher price point than the rest of market
 - Brand B used this channel to buy volume and A did not follow

2. Value Line

Manage Product Benefits To Optimize Price And Value Perception



- **Products offer benefit “bundles” that consumers compare to competing products. Consumers perceive value by assessing and trading-off the benefits relative to the price of different product bundles**

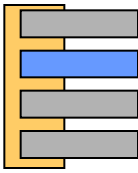
- **National brand manufacturers must carefully manage their product’s benefit bundle to optimize both price realization and value perception. The following concepts can be helpful when trying to balance the two objectives**
 - **Products generally gain market share if consumers perceive they offer a better relative value than competing choices, and vice versa. A rigorous understanding of how consumers perceive quality or performance and price of different product bundles is critical. The value line can display the results of this analysis**

 - **The ability and costs of each competitor to provide different levels of quality may vary significantly. Knowing your own and your competitors’ capabilities to move up or down the value line can guide successful repositioning strategies**

- **The following pages discuss these concepts in greater depth and highlight some key examples**

2. Value Line

Understand Type of Benefits Consumers Seek from Brands



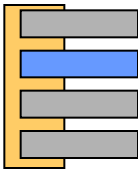
- **Consumers perceive, assess and trade-off the value of different competing products. Value perception often can be disaggregated and analyzed around four different types of desired benefits**

Tangible Benefits	Intangible Benefits	Price/Value Benefit	Situational Benefit
<ul style="list-style-type: none">▪ All physiological consequences a consumer wants to achieve or avoid by using the product	<ul style="list-style-type: none">▪ The desired consequences a consumer wants to achieve at the personal level (i.e., feelings or thoughts consumer will have about herself) and the social level (i.e., feelings or thoughts others should have about the consumer as a result of her using a particular product)	<ul style="list-style-type: none">▪ The perception that the price paid is the best available trade-off. Consumers will vary in the relative importance they attach to tangible and intangible benefits vs. price	<ul style="list-style-type: none">▪ Other considerations that are important in a specific purchase of usage situation. They typically are the reason the consumer does not pursue her first choice in a given situation (e.g., availability, right package)

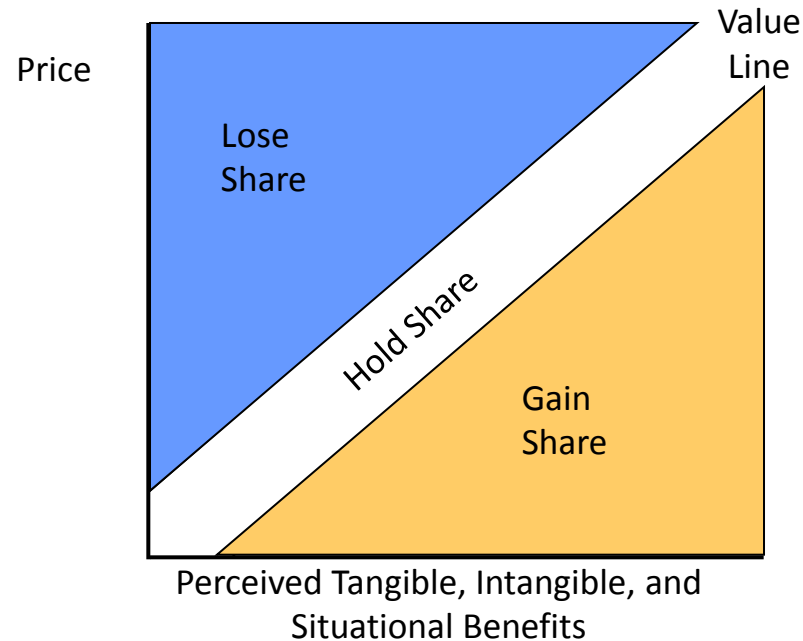
- **These benefit types vary in importance across different product categories and for different consumer segments**

2. Value Line

Consumers Choose Products That Offer Better Relative Value



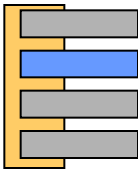
- The interaction of the four benefit types on consumers' value perception can be captured using the value line framework



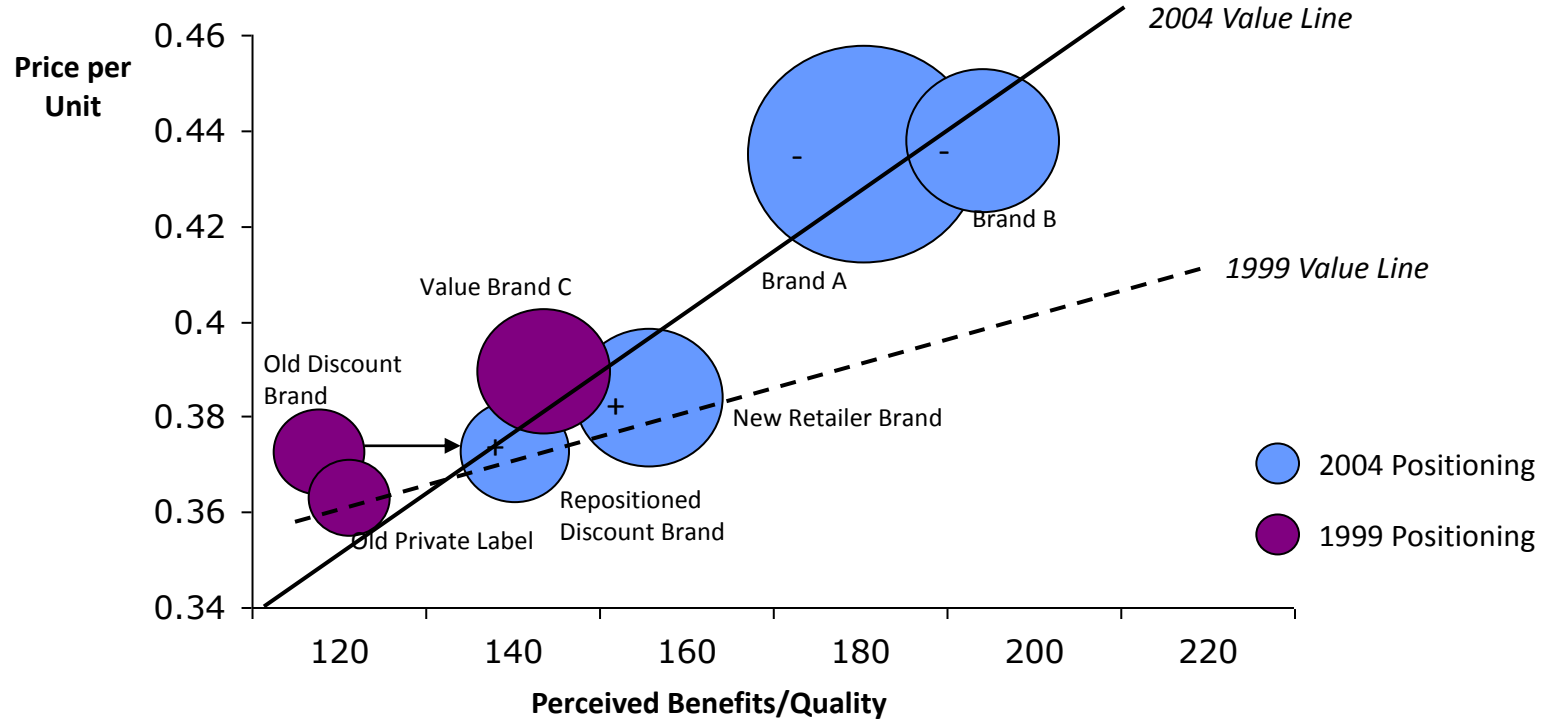
- Analyzing the market with this framework generally reveals that products gain market share if consumers perceive they offer a better relative value than competing choices based on their price and benefit bundle, and vice versa. More important, the analysis highlights which specific types of benefits are driving these perceptions. The analysis is particularly useful in categories with several price points and differentiated products

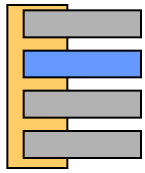
2. Value Line

Value Line Changes With Consumers' Value Perceptions



- National brand manufacturers must not only be aware of where their products fall relative to others along the value line, but also understand how the consumers' value perceptions change and reshape the value line
- In one category a distinct shift in consumer preferences had occurred. The higher quality end was no longer valued as highly after the lower end products had moved up to the middle spectrum

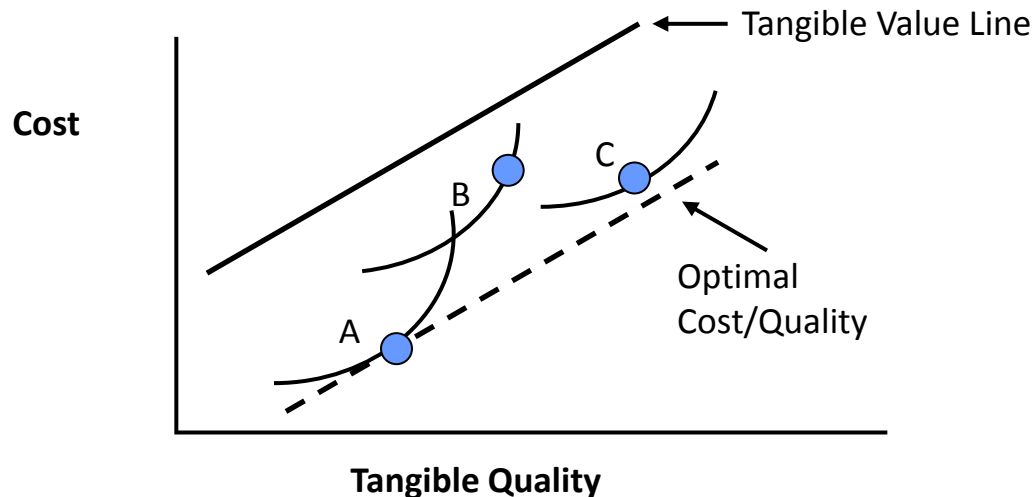




2. Value Line

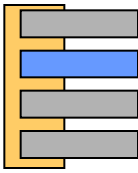
Positioning Products to Optimize Cost and Quality

- Price changes often are explored in the context of repositioning a product (e.g., by adding new performance features, or other benefits). In this context it is important to examine the ability and the costs of each competitor to provide a similar or better bundle of benefits. This analysis also needs to explore whether a competitor could move its product offering successfully up or down to obtain a better relative position on the value line
- In the example below, manufacturer A positioned its product at a point that optimizes the capabilities of its equipment. B has chosen to position its product at a point where its incremental cost of adding quality are higher than the rewards B receives in the market. C, on the other hand, could improve its relative positioning by adding further quality



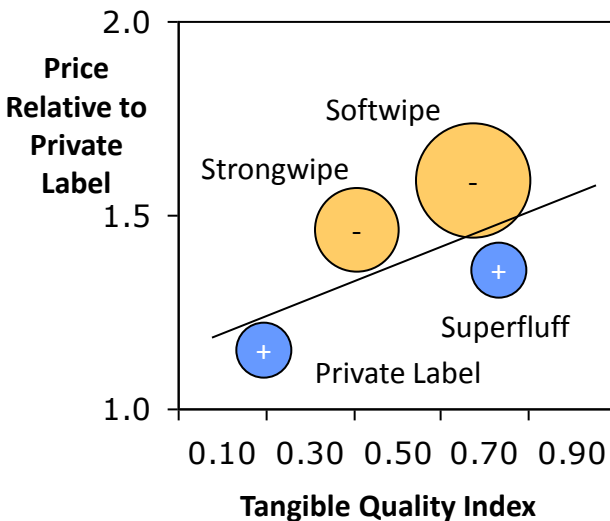
2. Value Line

Relative Costs And Segment Mobility: Paper Towel Example (1)

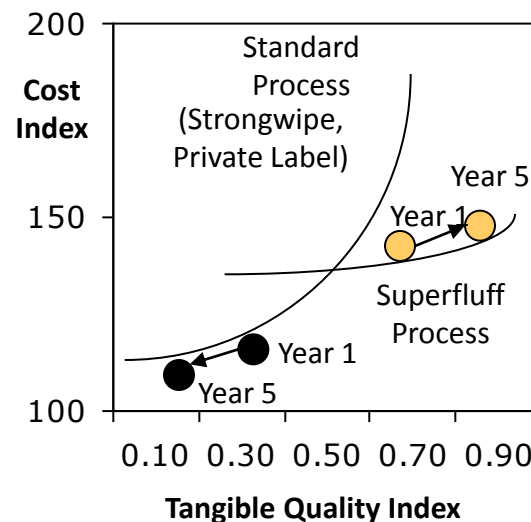


- In Year 1 Softwipe and Strongwipe were beginning to lose share to private label and Superfluff. By Year 5 the situation had worsened. The analysis revealed that both private label and Superfluff repositioned their products to exploit the relative advantage of their processes. As a result the relative value offered by Softwipe and Strongwipe declined

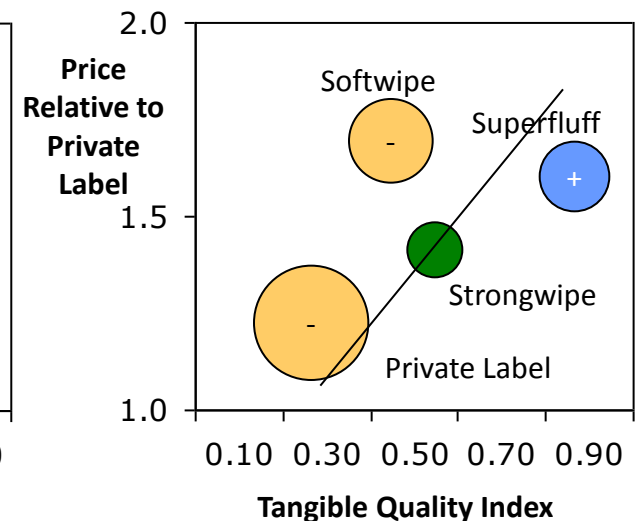
Value Line Year 1



Cost Comparison



Value Line Year 5



Market Share:



Gaining



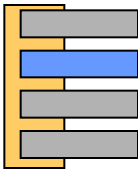
Losing



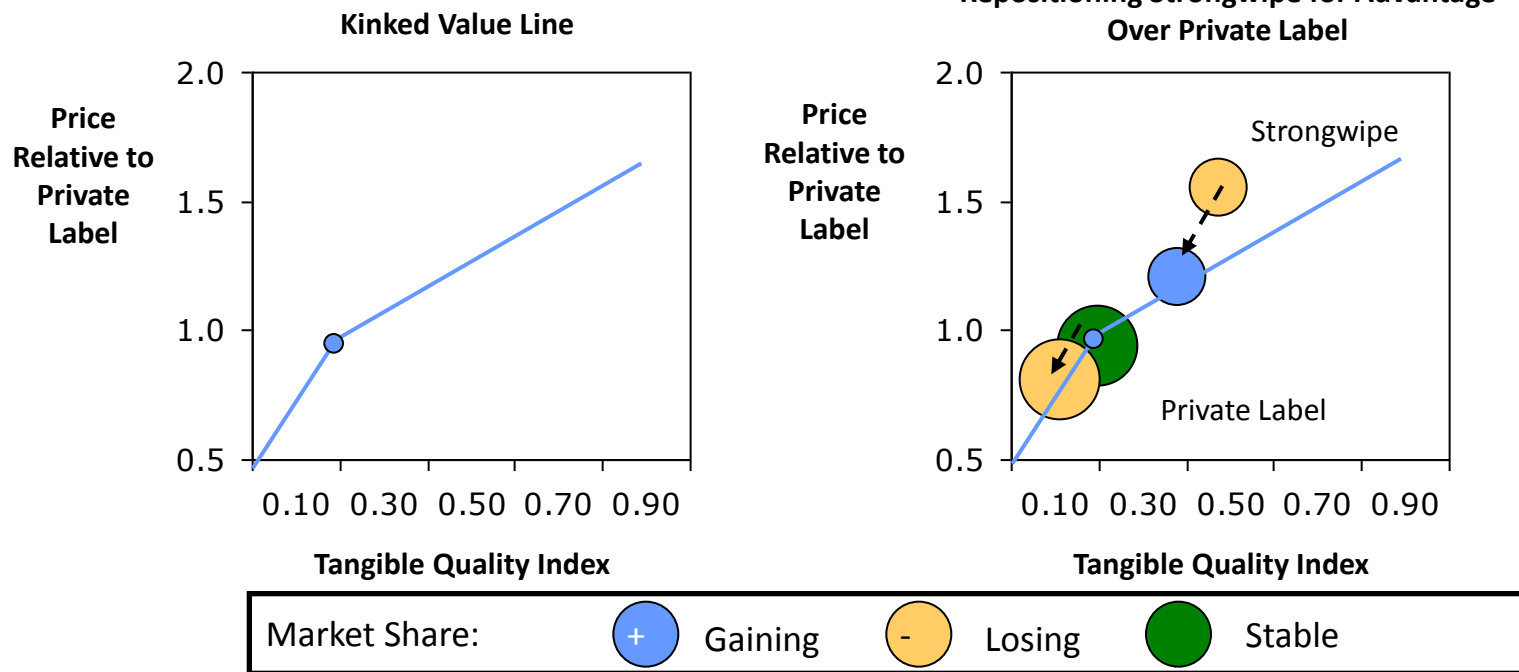
Stable

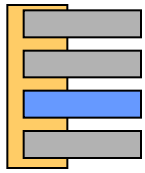
2. Value Line

Relative Costs And Segment Mobility: Paper Towel Example (2)



- Market analysis revealed that consumers perceived a “minimum threshold” of quality, below which the perceived value rapidly dropped. By repositioning Strongwipe downward, private label was forced to move below the threshold in order to maintain the necessary price discount. Many consumers now switched back to Strongwipe





3. Consumer Segmentation

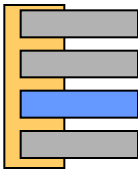
Consumers Driven By Three Primary Purchase Motivations

- The purpose of this analysis is to segment consumers in each relevant market area according to their primary purchase motivation. Three broad groups typically emerge

Primary Purchase Motivation	Explanation
Price/Value Seekers	<ul style="list-style-type: none">▪ Buy lowest priced product, largely independent of performance▪ Primary buyers of traditional private label products/value brands
Tangible Benefit Seekers (e.g., taste, packaging)	<ul style="list-style-type: none">▪ Not loyal to brand's intangible equity▪ Choose product primarily because of perceived performance; may switch to a retailer brand if it offers acceptable performance▪ Most susceptible to retailers' premium brands and value brands
Intangible Benefit Seekers	<ul style="list-style-type: none">▪ Primarily buy because of identification with brand message; product performance perceptions may be strongly influenced by brand equity▪ Much of segment appears immune to private label▪ Retailer brands with acceptable taste/performance and marketed with a clear message may carve a growing niche out of this segment

3. Consumer Segmentation

Purchase Motivation and Consumer Goods Type Drive Behavior

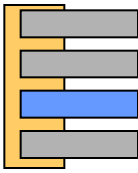


- During recessions, consumer behavior will change based on (1) their purchase motivation and (2) how consumers view the type of good being consumed

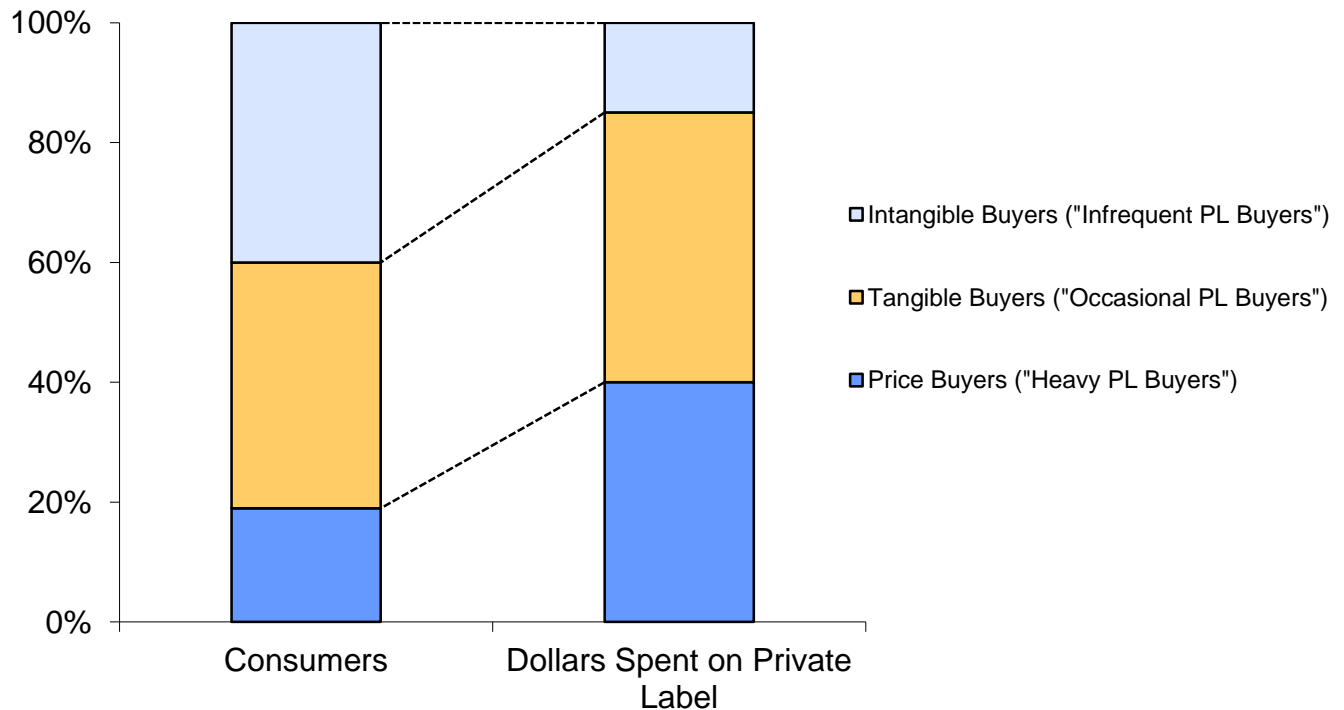
		Consumer Goods Type		
		Needs	Extras	Luxuries
		<i>Items or services necessary for daily life or viewed as essential for health and well-being (e.g., food, shelter)</i>	<i>Indulgences whose purchase seems justifiable based on short term needs (e.g., restaurant dining), or major purchases whose long-term value can be extended by postponing purchase (e.g., automobiles, appliances)</i>	<i>Unnecessary items or items whose purchase is difficult to rationalize in a recession (e.g., designer clothes, expensive jewelry)</i>
Purchase Motivation	Price/Value Seekers	<ul style="list-style-type: none"> Will switch to lower cost products, including retailer brands where applicable 	<ul style="list-style-type: none"> Will deeply reduce spending on inessential items and seek lower-cost substitutes 	<ul style="list-style-type: none"> Will eliminate or drastically reduce all purchases in this area
	Tangible Benefit Seekers	<ul style="list-style-type: none"> Will seek out favorite brands on promotion, or switch to cheaper brands Likely to stock up on favorites when good deals are available 	<ul style="list-style-type: none"> Will reduce frequency and quantity of purchase and emphasize value 	<ul style="list-style-type: none"> Will curtail spending on luxury goods, partially out of concern and partially to avoid conspicuous consumption
	Intangible Benefit Seekers	<ul style="list-style-type: none"> Will continue to purchase preferred brands at ordinary levels 	<ul style="list-style-type: none"> Will continue to purchase preferred brands at ordinary levels 	<ul style="list-style-type: none"> Will continue to purchase some luxury goods but may become less likely to purchase new types of luxuries

3. Consumer Segmentation

Propensity to Purchase Private Label Differs By Motivation

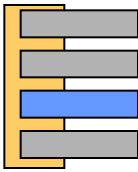


- Determining the size and purchasing patterns of consumer segments allows the national brand manufacturer to understand which consumers are the most relevant to their products.
- As national brand manufacturers develop strategies against private label, they must understand which consumer segments are purchasing private label
- Initial research suggests that “price” buyers continue to purchase a disproportionate amount of private label









3. Consumer Segmentation

Using Consumer Segmentation To Capture More Wallet Share



- Brand manufacturers can grow share by identifying key customer segments and assessing their brand loyalties to determine the greatest areas of opportunity in a recession

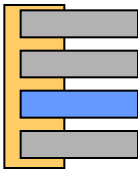
Consumer Segment	Brand Loyalty	Ability To Capture More Wallet Share
Price/Value Seekers	 “Mercenaries” - No brand loyalty, driven mostly by price	 National brand manufacturers likely unable to compete on price and risk lowering margins and devaluing brand equity if they try
Tangible Value Seekers	 “Switchers” - Brand loyalty based on tangible value, will switch if they feel they can get more value elsewhere	 Providing a better value proposition can entice customers and increase brand’s wallet share
Intangible Value Seekers	 “Loyalists” - Highly loyal to one brand based on its intangible value	 Difficult to capture more wallet share from your own loyal customers, and persuading customers loyal to other brands to switch is very costly

- In this example, Tangible Value Seekers represents the most promising purchase motivation in which to capture more wallet share because they are willing to switch brands but aren’t locked into purchasing only the lowest priced items
- Depending on category and competitive landscape, most relevant customer segmentation for identifying loyalty segments may vary (e.g., purchase motivation, age group, income, etc.)

Assessment Key:  No Brand Loyalty  Moderate Brand Loyalty  Strong Loyalty

3. Consumer Segmentation

Consumers Seek Both Tangible and Intangible Benefits

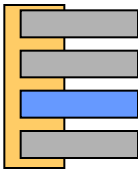


- This analysis examines how different competitors and private label suppliers attempt to bundle their proposed benefits to target specific consumer segments. Two of the most important desired benefit types typically fall into the following categories:
 - Tangible benefits offered
 - Low: product performance inferior to leading national brands
 - High: product performance equivalent to leading national brands
- The benefit proposition of different competitors can be displayed in the following matrix:

Intangible Benefits	Premium		
	Value		
	Price		
		Low	High
		Tangible Benefits	

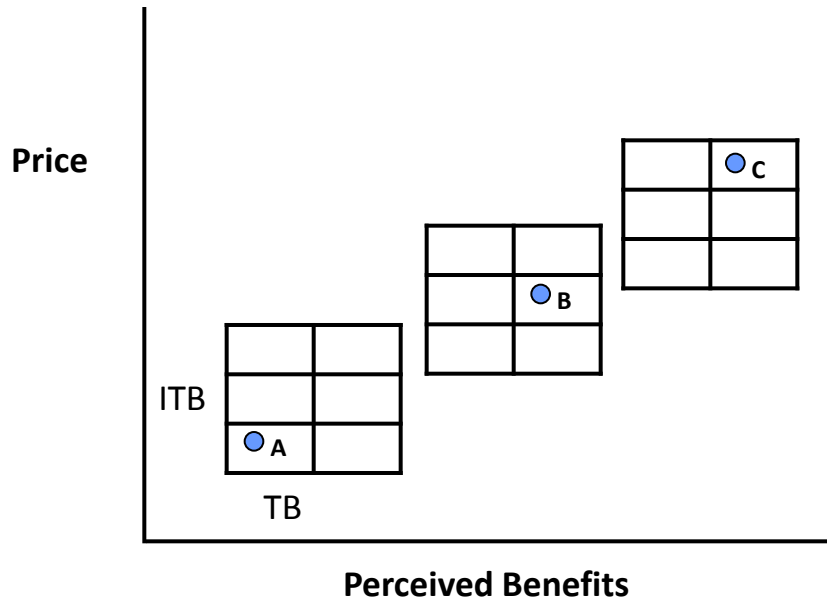
3. Consumer Segmentation

Matching Benefit Propositions and Consumer Value Perception

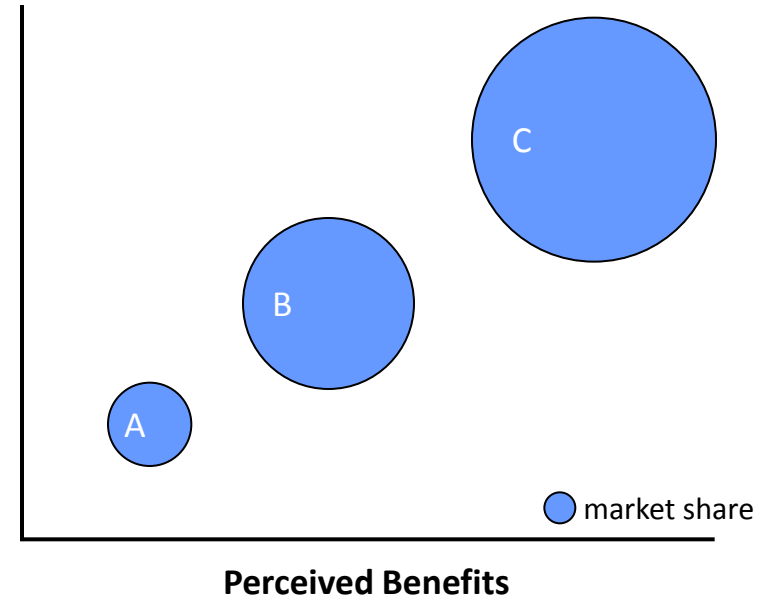


- The benefit proposition of different competitors can then be placed on a value line chart to assess how effectively different consumer segments have been targeted

Competitors A, B, and C have different benefit propositions...

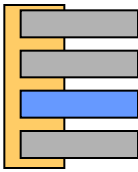


...and capture different market shares

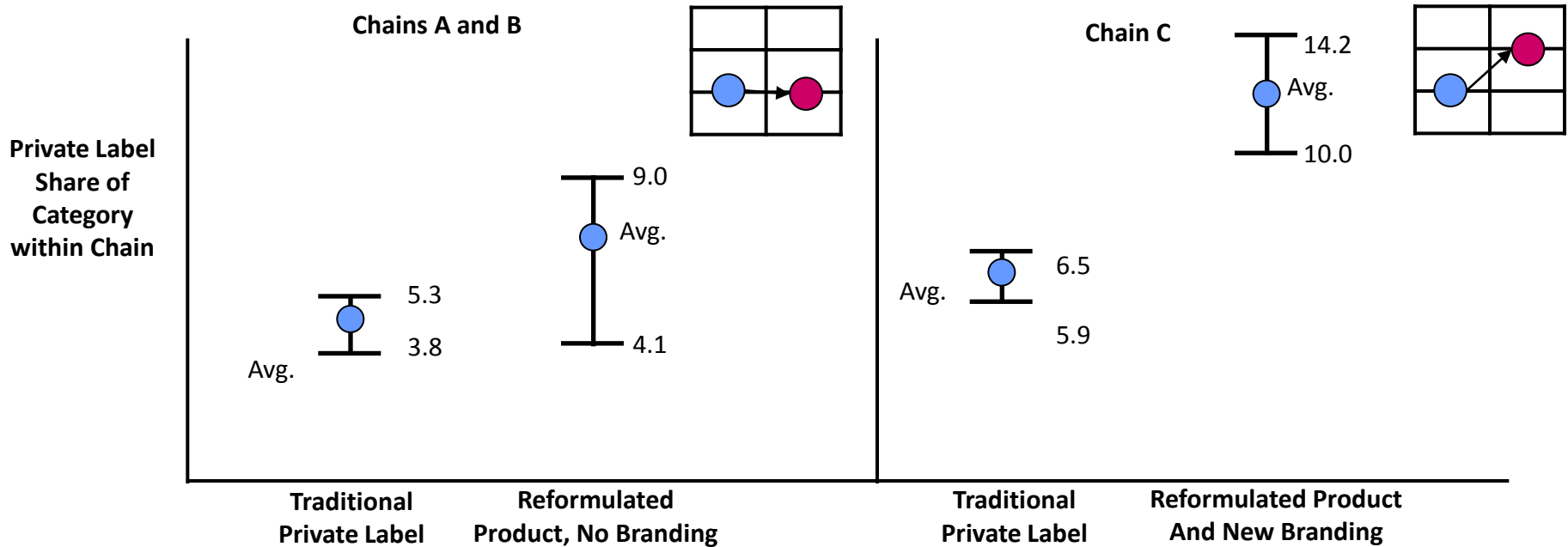


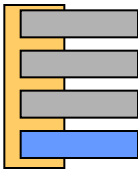
3. Consumer Segmentation

Retailer Brands Repositioned to Achieve Higher Market Share



- Quality retailer brands that are repositioned to meet consumer value perceptions achieve higher market share
- For example, within the same category, Chains A, B, and C (in different markets) reformulated their private label product (added tangible value) to match the national brand leader in blind performance comparison. Only C repositioned the private label to a new retailer brand with appropriate marketing support (also added intangible value). The consumer perceived Product C as a much higher value as evidenced by the sizable share gain





4. Retailer Relationship Management

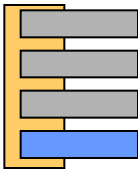
Educating the Retailer

Retailer analysis revealed that several large retailers significantly overestimated the profitability of their own brand relative to the leading national brand

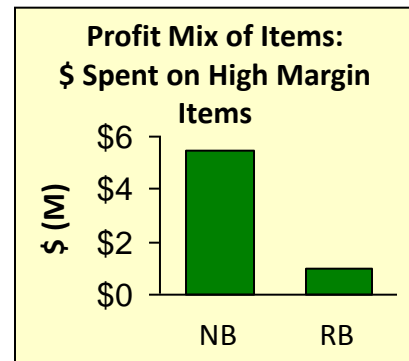
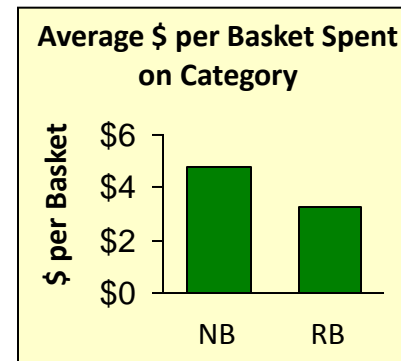
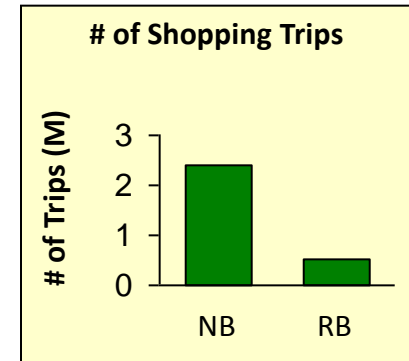
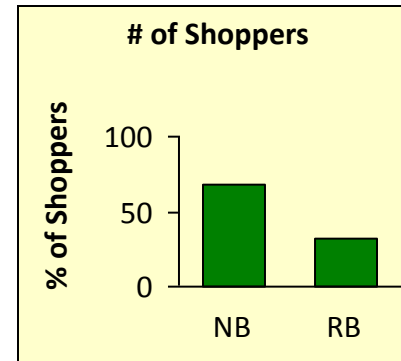
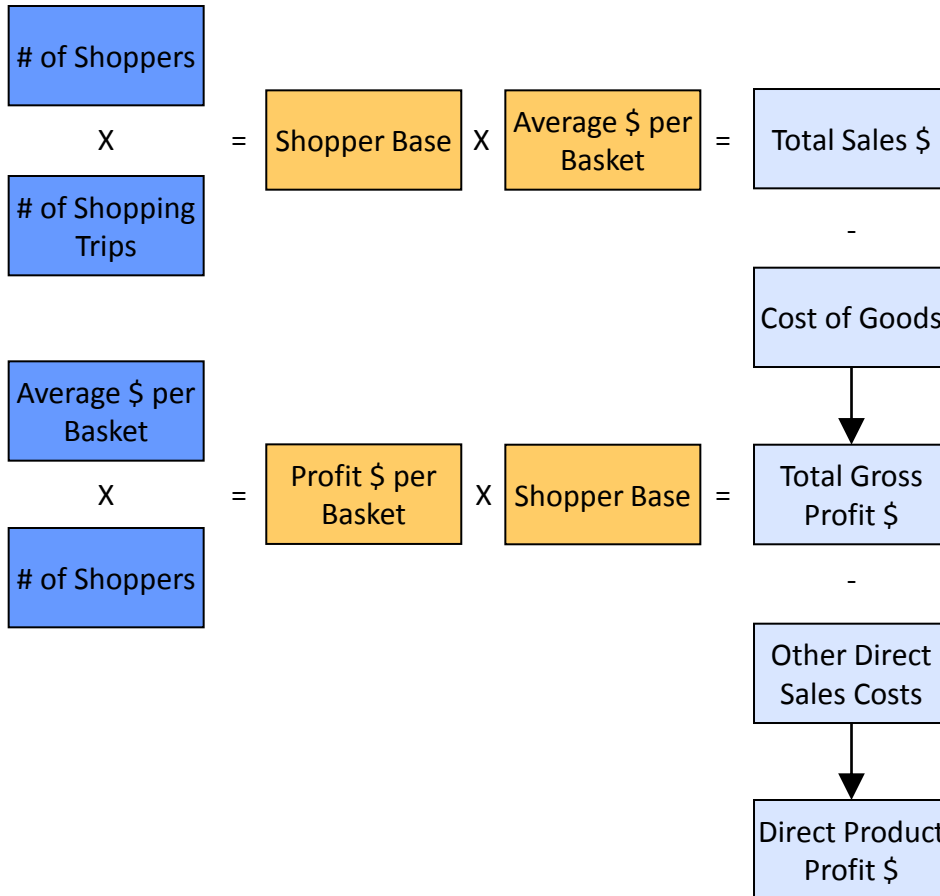
- A well prepared education effort by the manufacturer can convince retailers to curtail their aggressive push for their retailer brands by communicating the following arguments:
 - National brand shoppers can be more profitable for store than retailer brand shopper
 - Greater number of shopping trips
 - Larger average dollar basket size
 - More dollars spent on high margin items
 - Retailer brand profitability may be less attractive when costs are properly allocated
 - Over emphasizing the Retailer Brand contains risks
 - Decreased volume and share of market volume and dollars
 - Loss of customers to competing retailers

4. Retailer Relationship Management

Educating the Retailer: Attractiveness of Different Shoppers

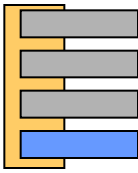


When we examined the difference between national brand and retailer brand shoppers in a category, we found that national brand shoppers are more attractive in all key components that drive total store sales and profits

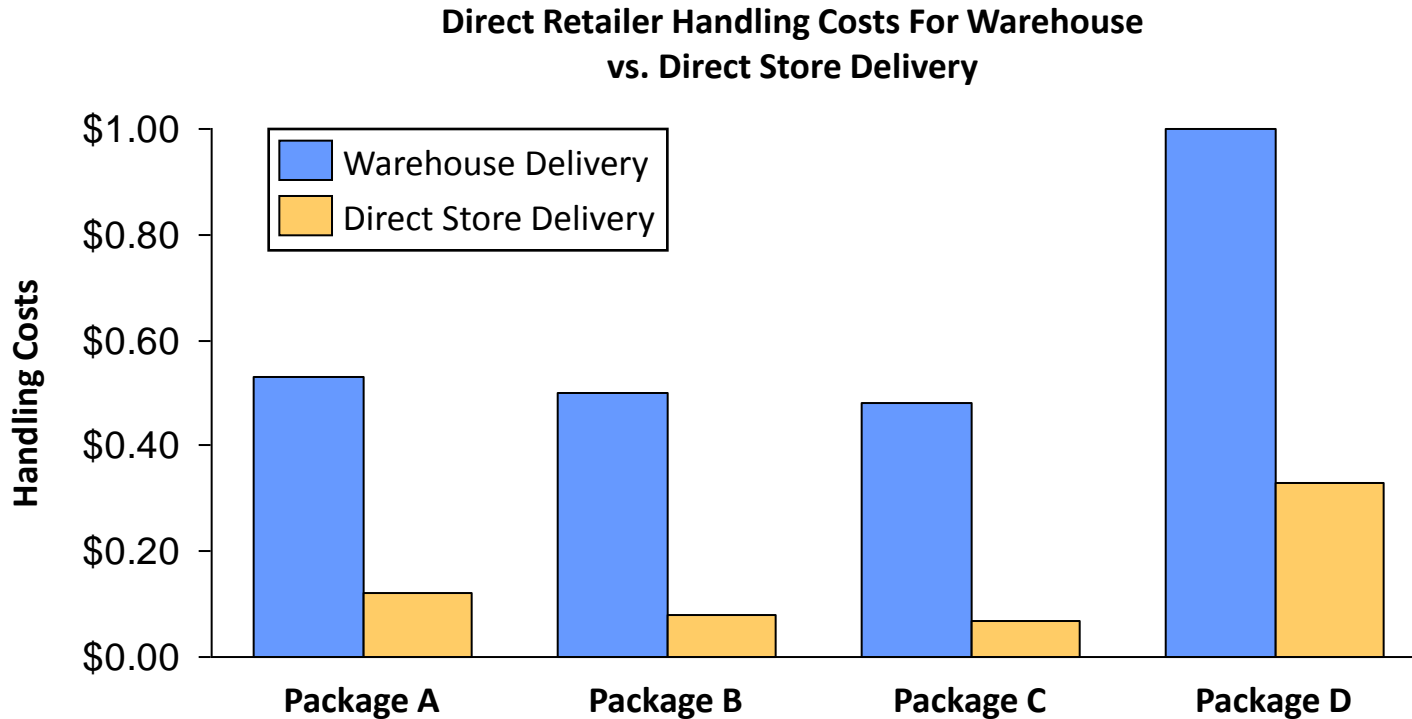


4. Retailer Relationship Management

Educating the Retailer: True Profitability of Retailer Brands

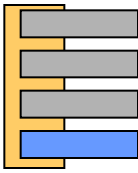


In a category where direct store delivery is offered, the direct handling costs of the retailer brand were neglected by the retailer in his profit comparison. In addition, the category managers often were unaware of other payments the retailer received from the national brand supplier



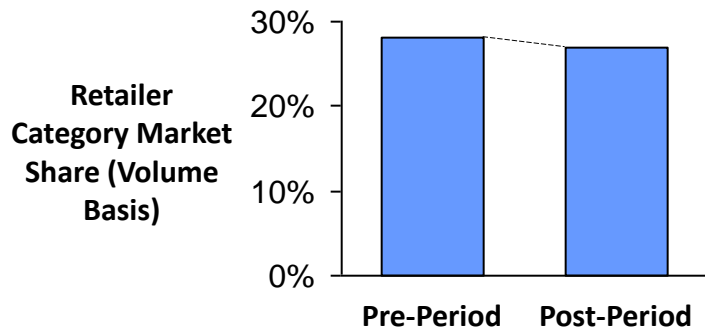
4. Retailer Relationship Management

Educating the Retailer: Risks of Emphasizing Retailer Brands

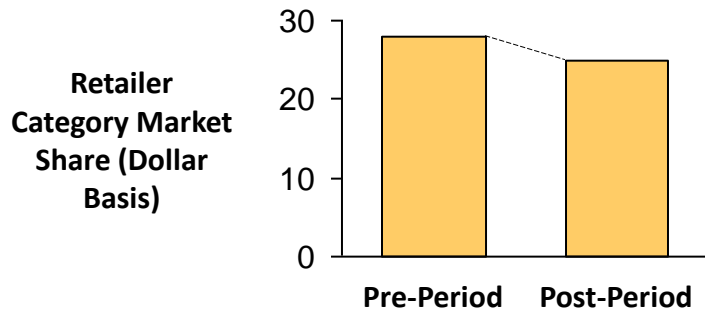
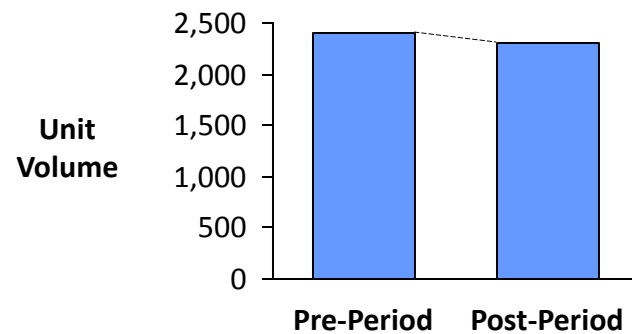


In several cases, the introduction and aggressive pursuit of retailer brands actually had negative consequences to the retailer

Category Dollar and Volume Market Share Decline



Retailer Loses Customer Mainly to Competing Retailers



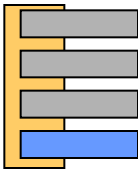
Source of Lost Volume



*Mass Merchandisers, Warehouse Clubs, Drug Stores

4. Retailer Relationship Management

Understanding When To Move Into Private Label



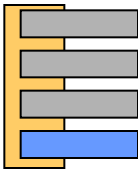
- Many national brand manufacturers decide to engage in “coopetition” with retailers by supplying them with private label products

	Branded Product Categories	Private Label Production
Bausch & Lomb	<ul style="list-style-type: none"> Eye health products, such as contact lenses and lens care products 	<ul style="list-style-type: none"> Eye care products Non-prescription nasal remedies
Del Monte Foods	<ul style="list-style-type: none"> Diverse food products, including beverages, condiments, canned fruits, and pasta 	<ul style="list-style-type: none"> Canned soup Broth Gravy
H.J. Heinz	<ul style="list-style-type: none"> Diverse food products, including condiments, canned foods, and frozen products 	<ul style="list-style-type: none"> Canned soup Baby food
McCormick	<ul style="list-style-type: none"> Spices and seasonings 	<ul style="list-style-type: none"> Spices and seasonings Salad dressings Party dips

- Although private label production may seem like a great opportunity to use excess capacity for generating short-term revenues, brand manufacturers should evaluate potential drawbacks of pursuing this course of action
- Many manufacturers pursue this option quickly based on several misguided assumptions that underestimate the complexity of the issue. The following slides present and challenge these assumptions

4. Retailer Relationship Management

Challenging Assumptions About Manufacturing Private Label



- Brand manufacturers many times pursue private label production based on the following beliefs

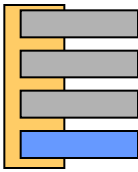
A. Private label products should be produced to increase profits in the short-term as long as the marginal costs of manufacturing are covered

B. Private label production increases efficiencies across the organization (e.g., lowering unit manufacturing costs for overall production)

C. Private label production allows the manufacturer to control the terms of its relationship with the retailer

4. Retailer Relationship Management: Challenging Assumptions

A. Covering Marginal Costs Driving Decision (1)

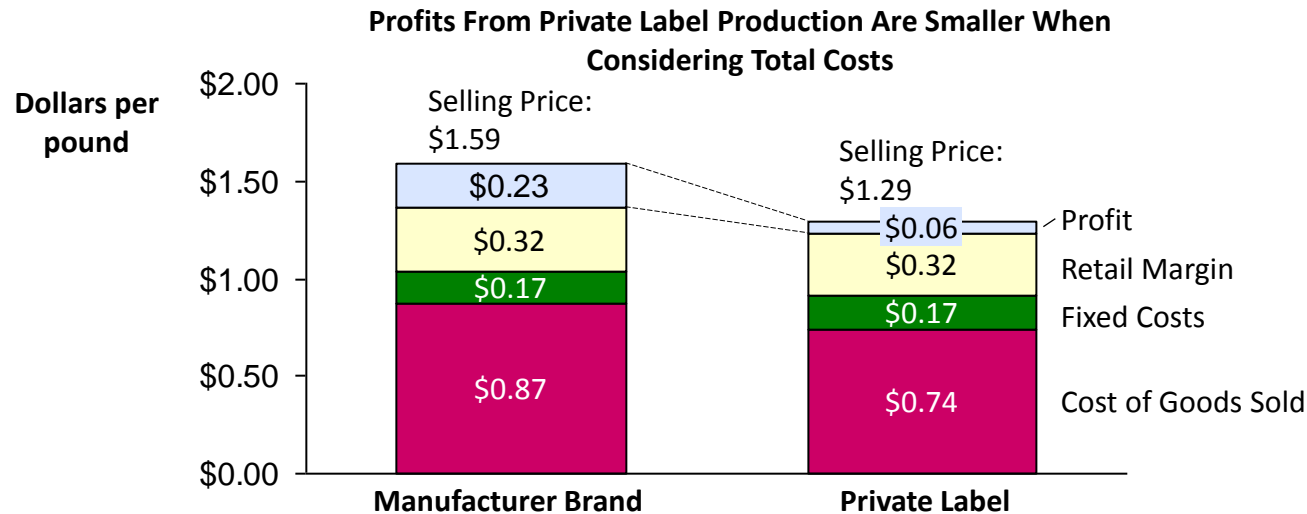


Assumption: Private label products should be produced to increase profits in the short-term as long as the marginal costs of manufacturing are covered

- Managers tend to examine private label production on an incremental marginal cost basis, because associated fixed overhead costs would have been incurred anyway

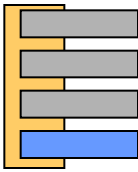
Reality: Many manufacturers become committed to private label production in the long-run while still analyzing its profitability based on marginal costs, not total costs

- Bringing production capacity in line with the sales potential of one's own brands, by closing factories or spinning off private label activities, may provide greater long-term profitability than private label production



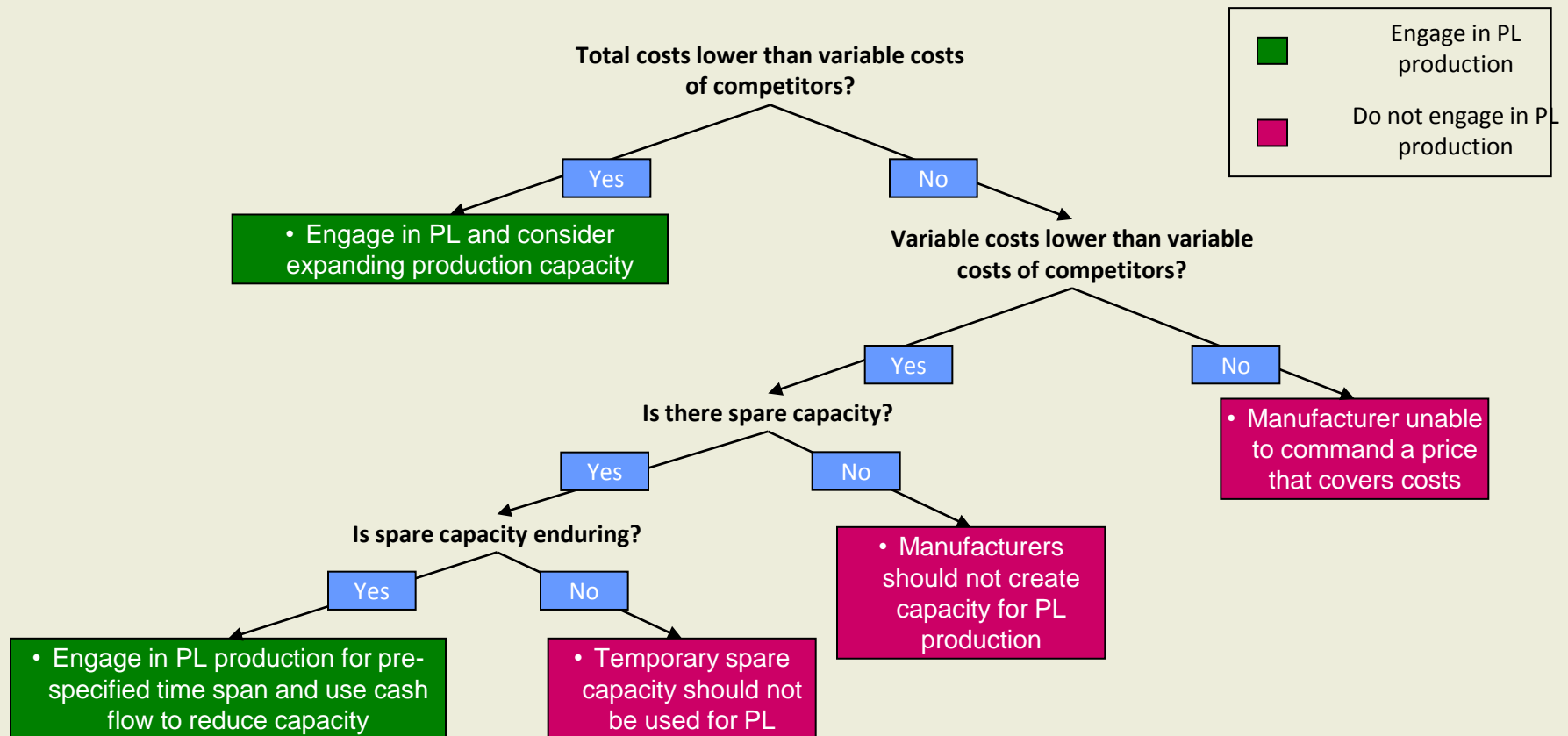
4. Retailer Relationship Management: Challenging Assumptions

A. Covering Marginal Costs Driving Decision (2)



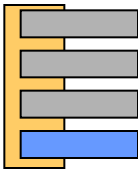
- Brand manufacturers considering private label production should evaluate if their current cost structure and production capacity is appropriate for the activity

When Should Brand Manufacturers Pursue Private Label Production?



4. Retailer Relationship Management: Challenging Assumptions

B. *Increased Organizational Efficiencies*



Assumption: *Private label production increases efficiencies across the manufacturer's organization*

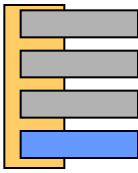
- Many manufacturers believe supplying private label products will improve efficiencies across its brands and organization by:
 - Smoothing production through high-volume orders placed in advance that require less time and effort per unit to sell than the company's own branded goods
 - Increasing cumulative production experience and lowering unit manufacturing and distribution costs

Reality: *The efficiencies of selling private-label contracts may be exaggerated*

- Private label production can result in additional manufacturing and distribution complexities that add costs (e.g., custom package labels for each private label customer, increased inventory holding costs)
- Private label manufacturing contract renewals may require long, arduous negotiations as competitors provide the retailer with competing offers
- Many retailers employ different buyers for national brands and private labels, leading manufacturers to maintain two sales relationships with each retailer
- Manufacturers risk cannibalizing their core brands' sales through their private label products

4. Retailer Relationship Management: Challenging Assumptions

C. Increased Leverage Over Manufacturer-Retailer Relations (1)



***Assumption:** Private label production allows the manufacturer to control the terms of its relationship with the retailer*

► **Many manufacturers believe producing private label products will allow them to gain more from their relationships with retailers by:**

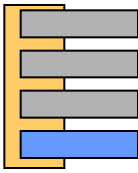
- Increasing the manufacturer's influence over retailers by managing both the store brand's quality and the price gap between company brands and private label
- Receiving rewards such as more favorable shelf allocation for the manufacturer's own brands and joint promotion opportunities

***Reality:** Private label production many times gives the retailer, not the manufacturer, increased control over the relationship by:*

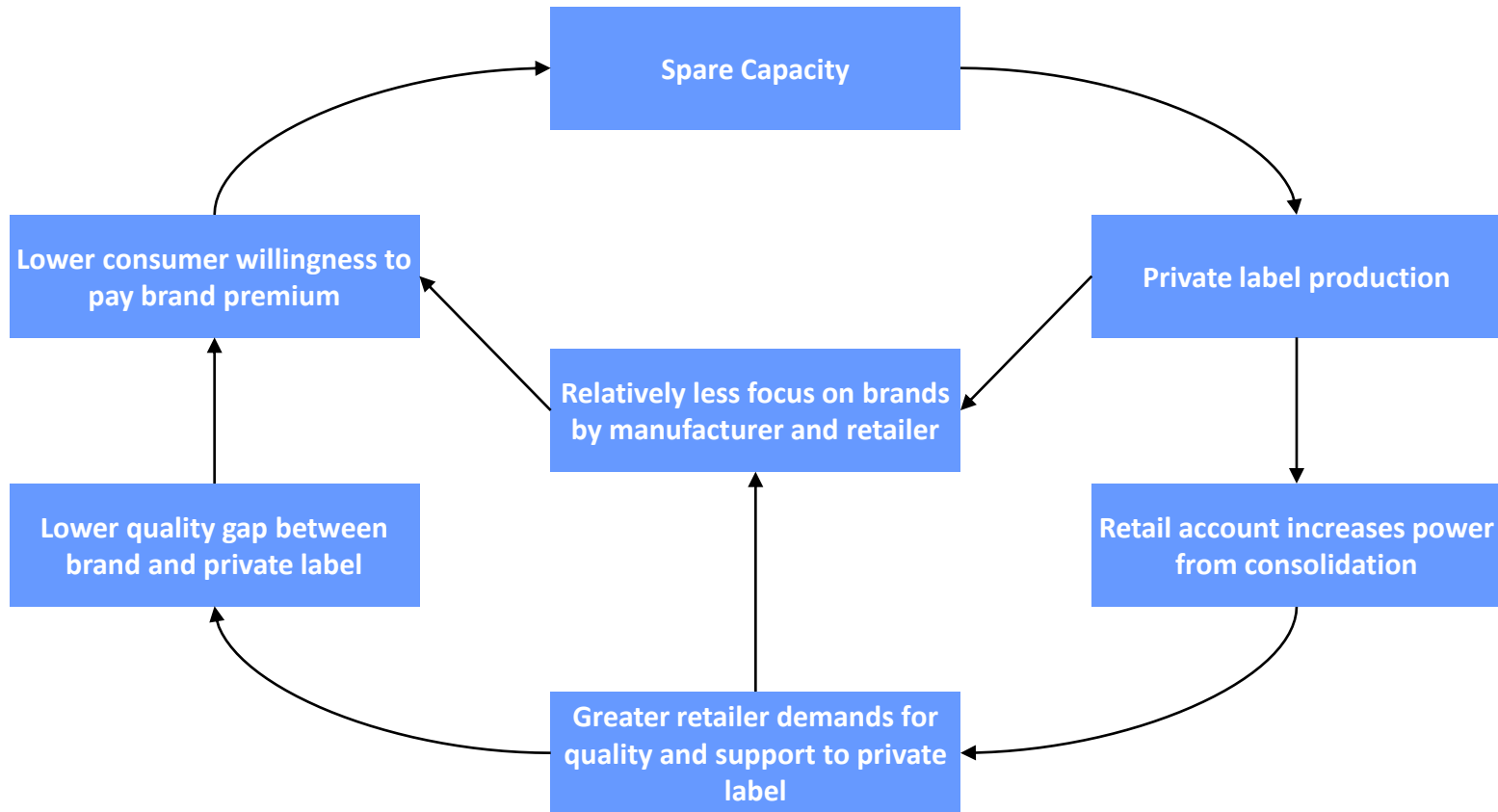
- Increasing the manufacturer's dependence on large trade accounts
- Forcing the manufacturer to disclose its cost structure and share its latest product and process improvements
- Resulting in margin pressure during private label manufacturing contract renewal

4. Retailer Relationship Management: Challenging Assumptions

C. Increased Leverage Over Manufacturer-Retailer Relations (2)



- Many national brand manufacturers that pursue private label production end up in a vicious circle where retailer accounts gain increased power over the relationship and demand better quality for their private labels, hurting the manufacturer's brands



Suggestions for a Successful Strategy

Consumer Oriented Thrust

Brand supplier should develop customer management capabilities, services, and processes that would guide retailers in increasing their value offered to consumers

- Assist retailers in adding more value to the category by differentiating the product mix, in-store merchandising, pricing and promotions, consumer communication, etc. to better fit the needs of its primary consumer segments
- Assist retailers in finding the optimal balance between achieving an appropriate category share given the primary consumer segments of the store and its position in the local market, generating traffic increasing the company's volume and share, and growing the category profitability
- Educate and support retailers in developing and executing value-enhancing, differentiated category and trademark strategies relative to their competitors (i.e., strategies which optimize the volume and profit growth for the company in a local market area by increasing incidence and transaction size and minimize “destructive” inter- and intra-channel competition)

Suggestions for a Successful Strategy

Customer Oriented Thrust

Segment and prioritize customers and create more mutually satisfactory and profitable relationships

- Invest in strategic relationships with high priority customers: e.g., the likely eventual “winners” in the consolidation of major channels, important innovators and opinion makers in the industry, and retailers which prefer to have preferential relationships with only one national brand manufacturer
- Develop solutions for how to utilize very low cost channels (e.g., club stores) to exploit new opportunities, (e.g., as a distribution channel for low volume per outlet retailers) while minimizing their potentially negative effect on higher cost supermarkets and intra-channel competition
- Streamline and fine tune the product and service offerings to lower priority retailers by tailoring the bundle to more precisely meet their needs. This may involve a (re)definition of the role the category of these retailers should play in a local market in order to create differentiated and complimentary category offerings by competing retailers

Suggestions for a Successful Strategy

Company Related Thrust

Create more proactive, routine business processes that accomplish the desired customer strategy and minimize ad hoc problems

- Define and standardize product and service bundles for major customer segments based on thorough analysis and best system thinking. Reduce or eliminate the field's ability to change the standard elements of a bundle. For elements of the bundle where the field has discretion to customize, provide the proper data, systems, skill building, and other support to insure a higher quality of decision making
- Begin a more systematic definition of roles by developing a business process model as an organization tool. Gain understanding and agreement of the key players involved. For each of the most important business processes, collect, synthesize, and disseminate the best practices and other learning throughout the system
- Explore the opportunities of new information technology, expert systems, databases, etc. in order to make more sophisticated analysis easily accessible for decision making in the field. Particularly fruitful areas appear to be pricing and promotion and approaches to translate micro-market consumer data into store-based category strategies

Designing Effective Strategies To Fight Retailer Brands

Section Summary

- The preceding slides identified some of the issues involved in developing successful strategies for national brands against retailer brands in important categories
- Our experience with multiple successful consumer goods companies suggests that there is significant profit potential in fine-tuning all elements of a comprehensive marketing strategy
- We have also found that often there are organizational barriers to such a reassessment, typically based on some of the following beliefs
 - *“We have only a narrow degree of freedom in pricing. Competition dictates what we can do”*
 - *“We don’t have the data to do a meaningful analysis of all relevant relationships”*
 - *“If we could raise our price without damage, we would already have done it. We try it often enough”*
 - *“A significant price change would require a fundamental reformulation and repositioning of the brand. We do not have consensus on whether or how to do it”*

**Part III:
Overcoming Internal Barriers
To Compete Against
Private Labels**

Overcoming Internal Barriers To Fight Private Label

Introduction

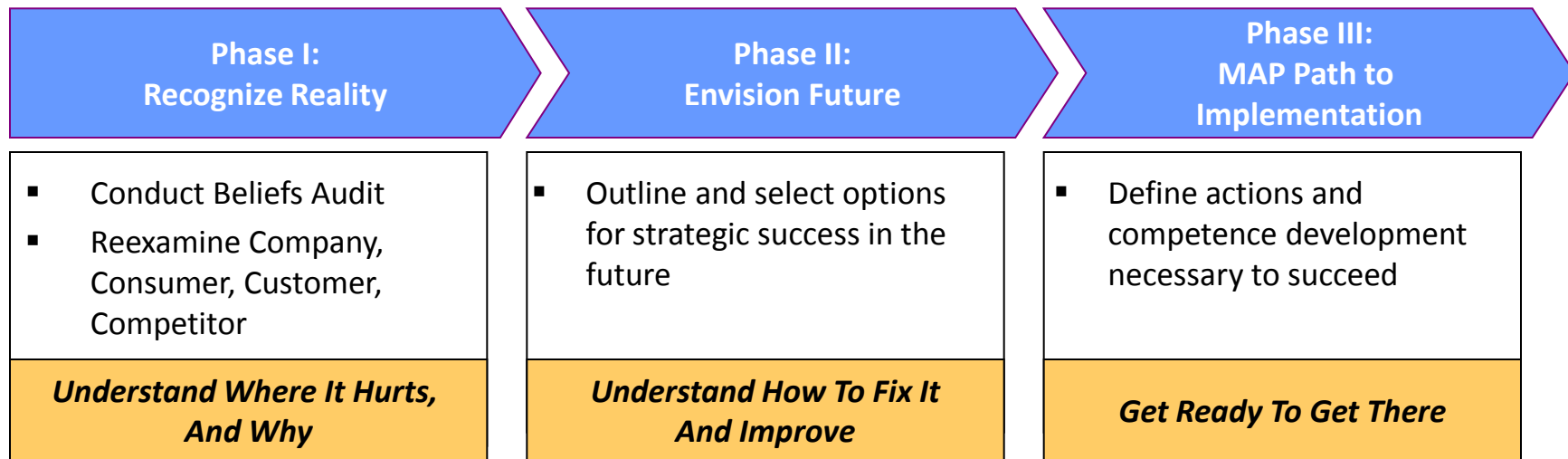
- Internal barriers can present significant obstacles in combating private label
 - Long-held beliefs and paradigms are no longer working
 - New trends may have changed how consumers and customers perceive and value product and service offerings
 - Loss of share, lower than expected profitability, and lack of a common view of the problem create stress

- Manufacturers need to systematically review beliefs about the business and redraw the map of the competitive strategy

- Alliance Consulting Group has developed the REMAP process as a comprehensive guide for this activity, combining
 - Beliefs audit
 - Strategic analysis
 - Creative Development of a new vision
 - Team Building and learning process

Overcoming Internal Barriers To Fight Private Label

Overview Of The REMAP Process



The Company	Understand core strategy beliefs and assumptions currently held by the organization; describe the major business processes required to successfully compete; examine the economics of the value added steps; assess and benchmark the strengths and weaknesses of the organization; outline options to improve the company's capabilities and performance
Consumer Needs and Marketing	Understand the needs of consumers, how they vary by segments, and how they are likely to change over the next few years; define the products and marketing approaches that will satisfy these needs better than the competition
Customer (Retailer) Needs and Segmentation	Understand the needs of customers and how they are likely to change; define the strategic segments; explore how the company can develop winning strategies by tailoring its bundle of products and services to best meet the needs of different customers
Competitive Analysis	Understand the true strengths and weaknesses of competitors; quantify economic differences and define relative competitive advantages

Application of the REMAP Process

The following pages present a few excerpts and examples from the application of the REMAP process

1. The Beliefs Audit: A tool to understand the key beliefs and assumptions of the organization and how they determine the current strategies and actions

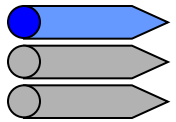
2. A Framework for Renewing the Consumer Strategy: Starting with a thorough assessment of consumer needs, this tool outlines a rigorous methodology for segmenting consumers, understanding the relative perceived value of different product offerings, and focusing market research and competitive analysis

3. Criteria of Success for a Customer Strategy: This material outlines how a national brand manufacturer can measure the effectiveness of its customer strategy. We also summarize observations on how brand suppliers can improve their approach to retailers

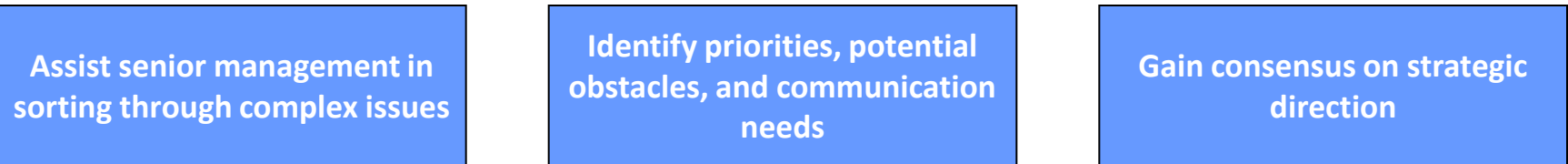
This material is not meant to be prescriptive but rather to suggest a systematic and comprehensive approach to creating an exciting and effective new strategy for a brand

The Beliefs Audit

An Excellent Tool To Begin the Strategy Process



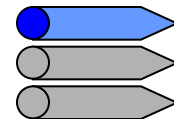
The Beliefs Audit is a proprietary tool that Alliance developed to:



- A Beliefs Audit attempts to systematically identify the major assumptions and beliefs that are behind differences of opinion, which may in turn prevent consensus
- The Beliefs Audit is different from traditional attitude surveys
 - Oriented toward strategic business issues, not attitudes toward the workplace
 - Provides the basis for strategic change and re-alignment
- Beyond the immediate objective of gathering data for constructing a change program, the Beliefs Audit can have several other benefits:
 - Signals that top management recognizes the importance of internal beliefs and the interrelationship between culture and strategy
 - Allows controversial topics to be addressed openly and objectively

The Beliefs Audit

Overview

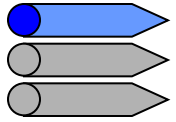


The Beliefs Audit is customized to help a company surface and address the beliefs that directly affect the specific issues with which the company is concerned. The Beliefs Audit has 5 stages:

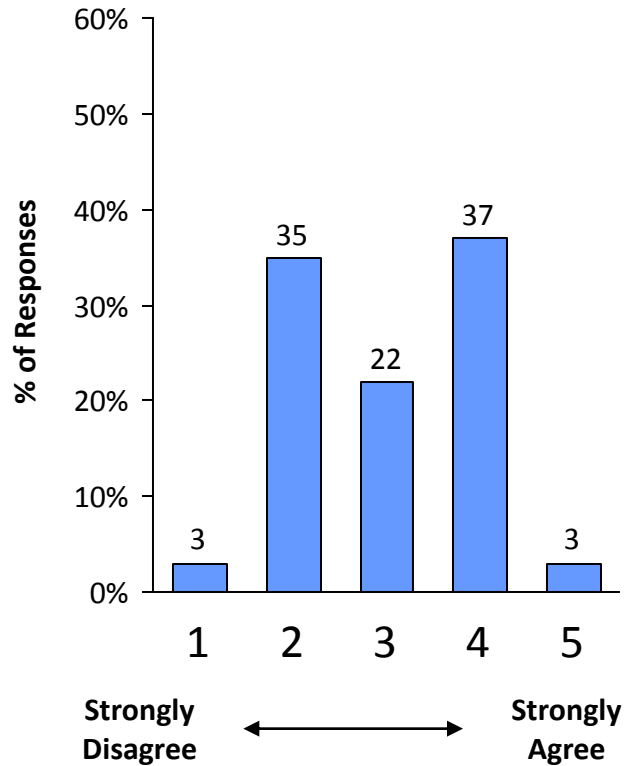
I. Issue Identification	Major issues are identified through interviews with key executives. These open-ended interviews are conducted in order to identify the topics that need to be addressed in the questionnaire
II. Survey	A written questionnaire is designed and distributed to appropriate levels of management. The questionnaire contains a series of statements to which respondents are asked to rate their level of agreement. Questions are specific to the topics and issues with which the particular company is concerned. The questionnaires are filled out anonymously and returned directly to Alliance
III. Analysis	The results are analyzed on at least two dimensions: (1) the median responses and what they imply for the company, and (2) the degree of variation in the responses and how that variation skews by function or level. Major issue areas are highlighted
IV. Review	The results are played back as part of a discussion around relevant issues (often an off-site meeting and seminar is useful)
V. Resolution	The results serve as a rich source of data to stimulate productive discussions. This provides a forum for participants to reach consensus on how to move forward in addressing the issues of concern

The Beliefs Audit

Example (1)

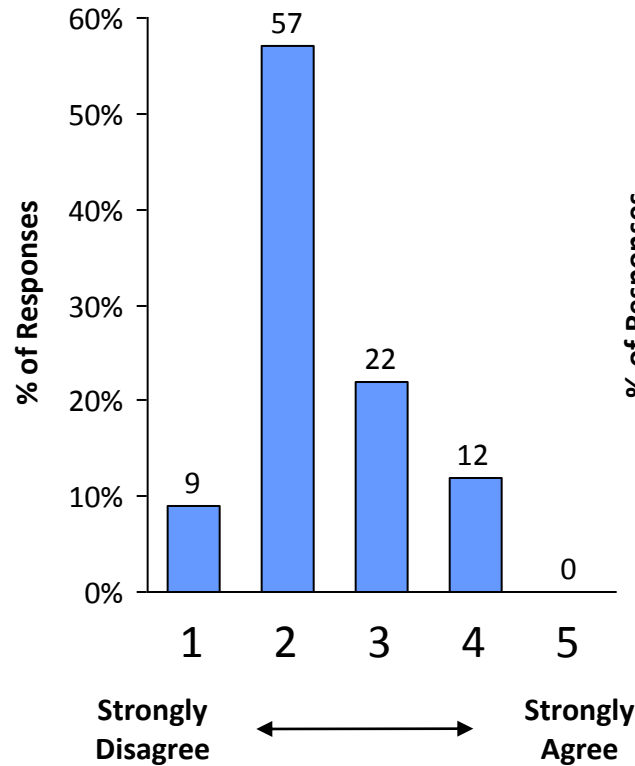


The power of our trademark is as strong as ever with customers



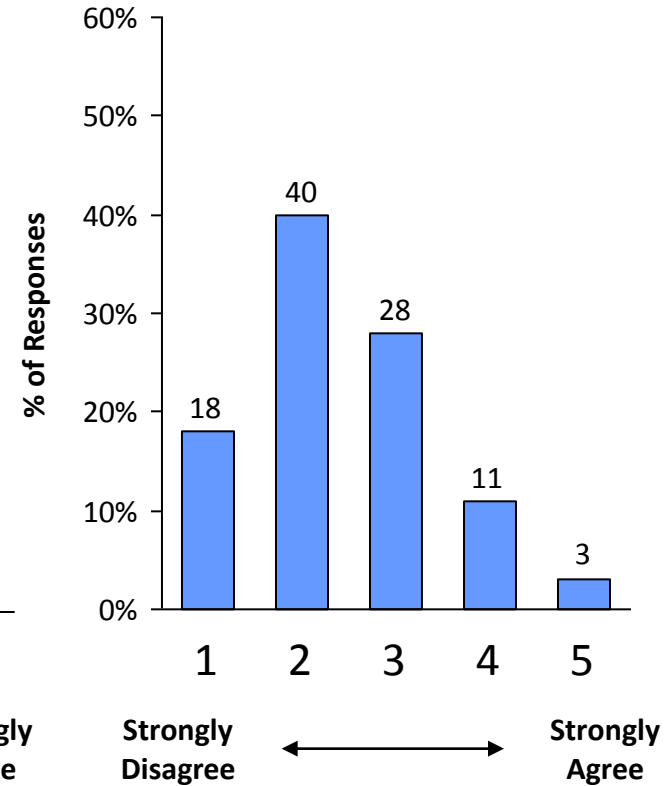
Average: 3.01

It is easy for our customers to do business with us



Average: 2.42

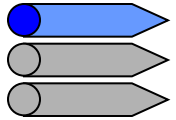
We are structured as a customer-focused organization



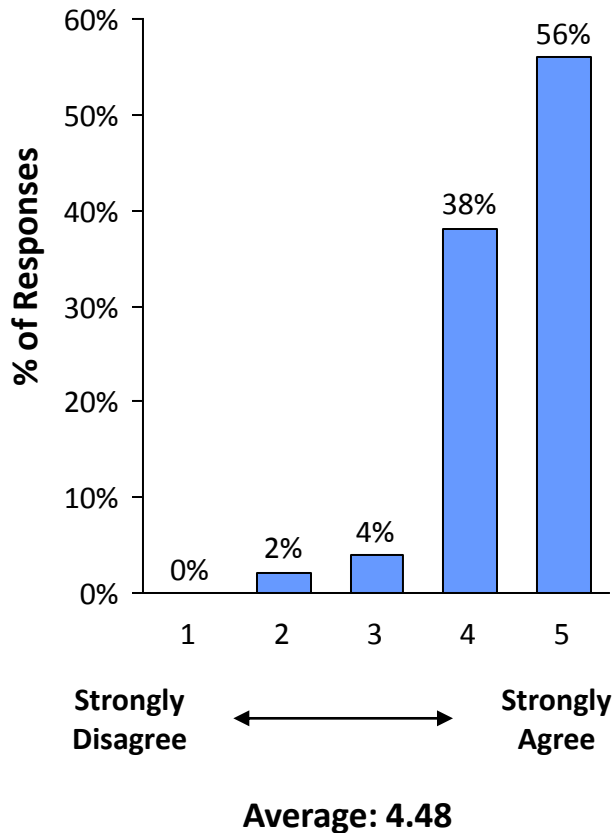
Average: 2.38

The Beliefs Audit

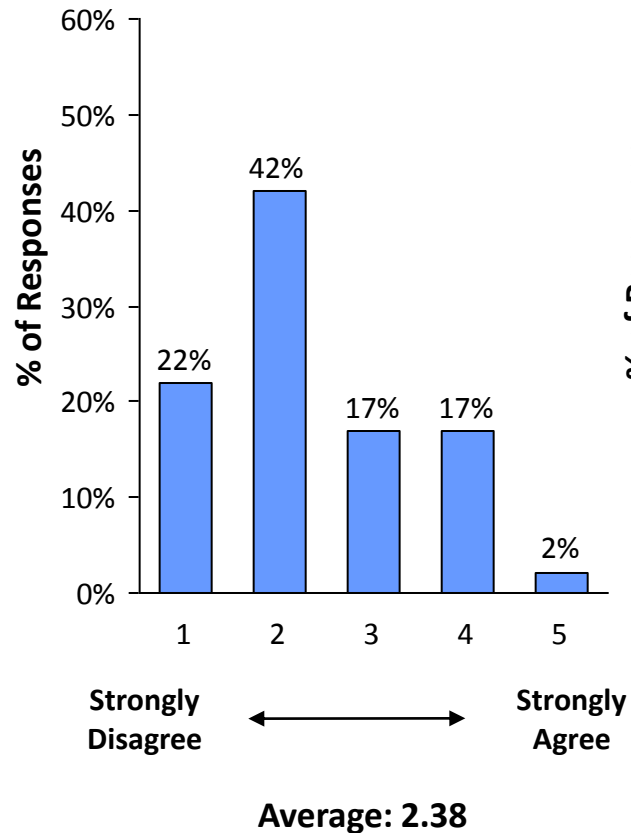
Example (2)



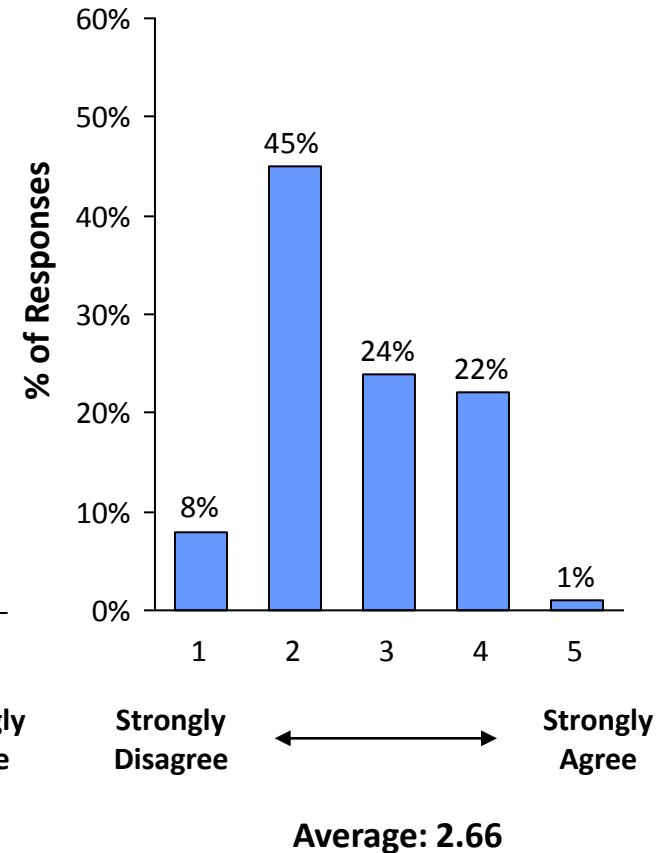
We have become over-dependent on price promotions at the expense of brand equity



We have a clear understanding of the types of pricing strategies which are most successful

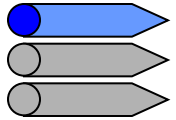


We have the tools to structure local promotions to increase system profits as well as volume

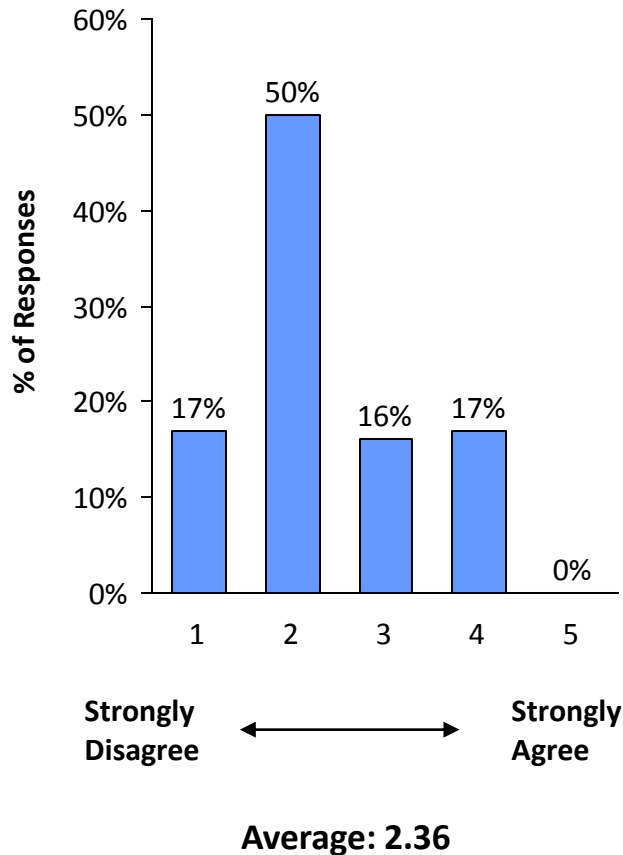


The Beliefs Audit

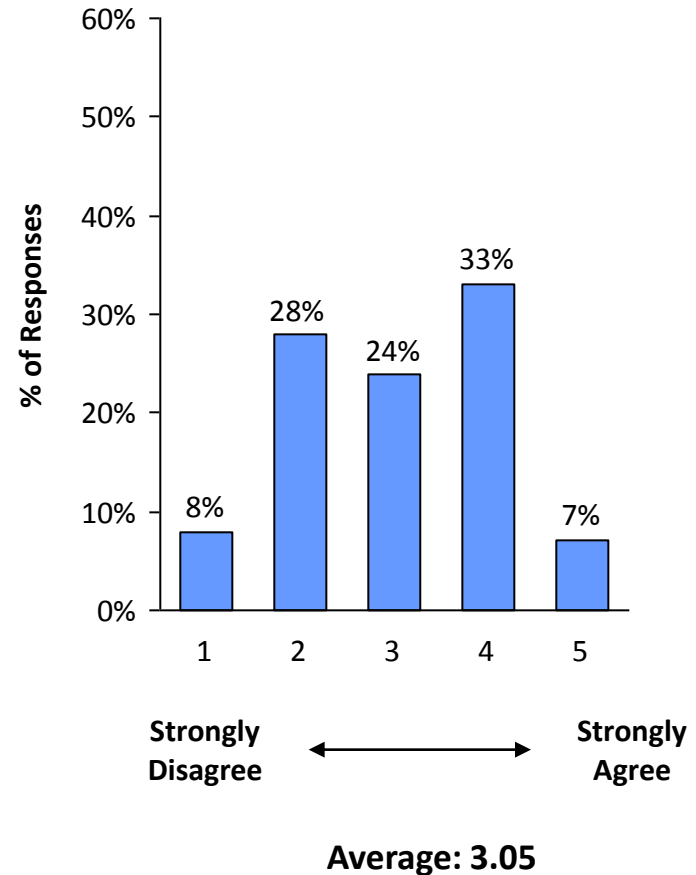
Example (3)



The threat of retailer brands will pass in the next few years as their novelty wears off

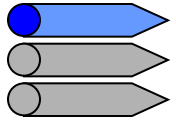


Given our current strategy it, is quite likely that in 3-5 years the leading retailers in each market will have a retailer brand with 20-30% share of category volume

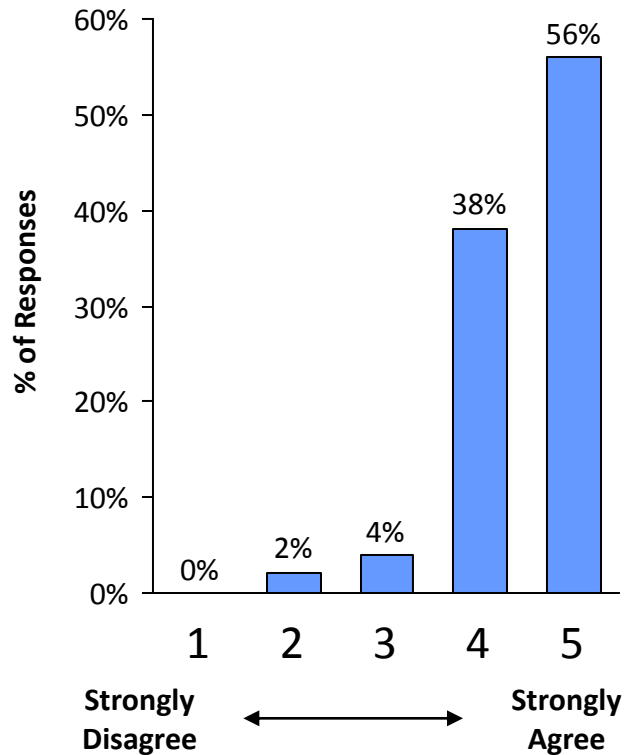


The Beliefs Audit

Example (4)

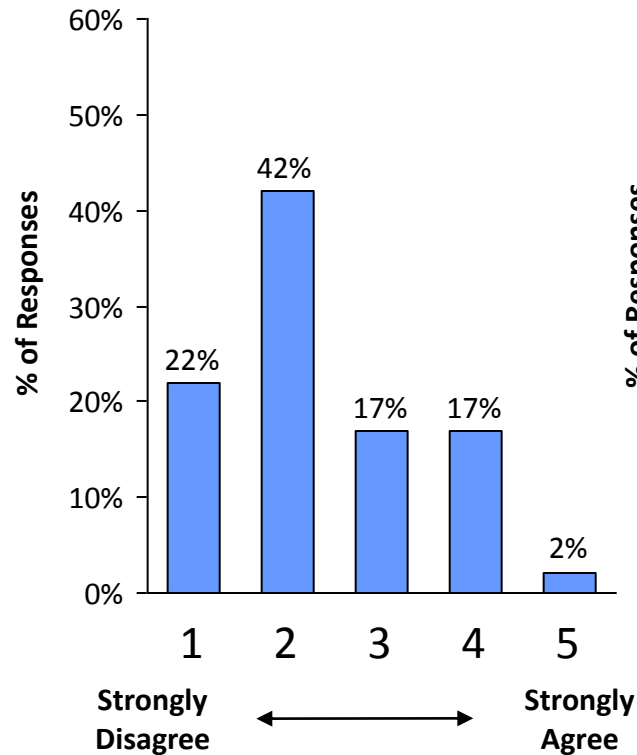


We need to be much more aggressive and coordinated to combat retailer brands



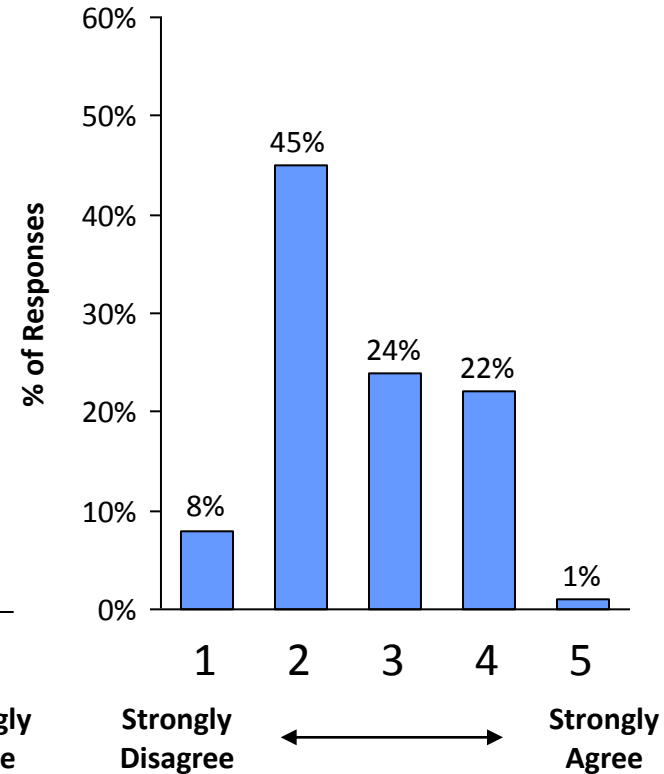
Average: 4.48

We can limit the impact of retailer brands by providing an improved package of service to major retail customers



Average: 2.38

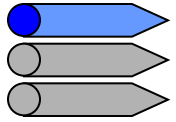
We have a clear idea of what service to offer retailers to limit the impact of retailer brands



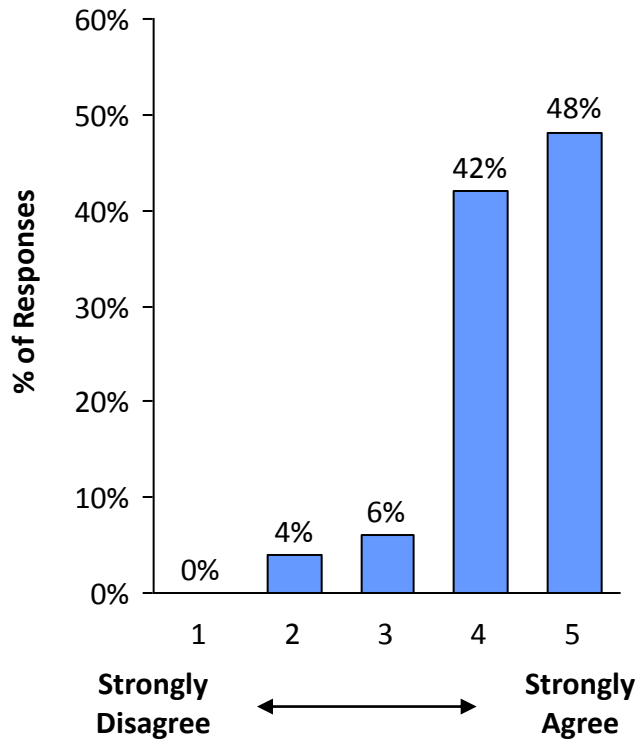
Average: 2.66

The Beliefs Audit

Example (5)

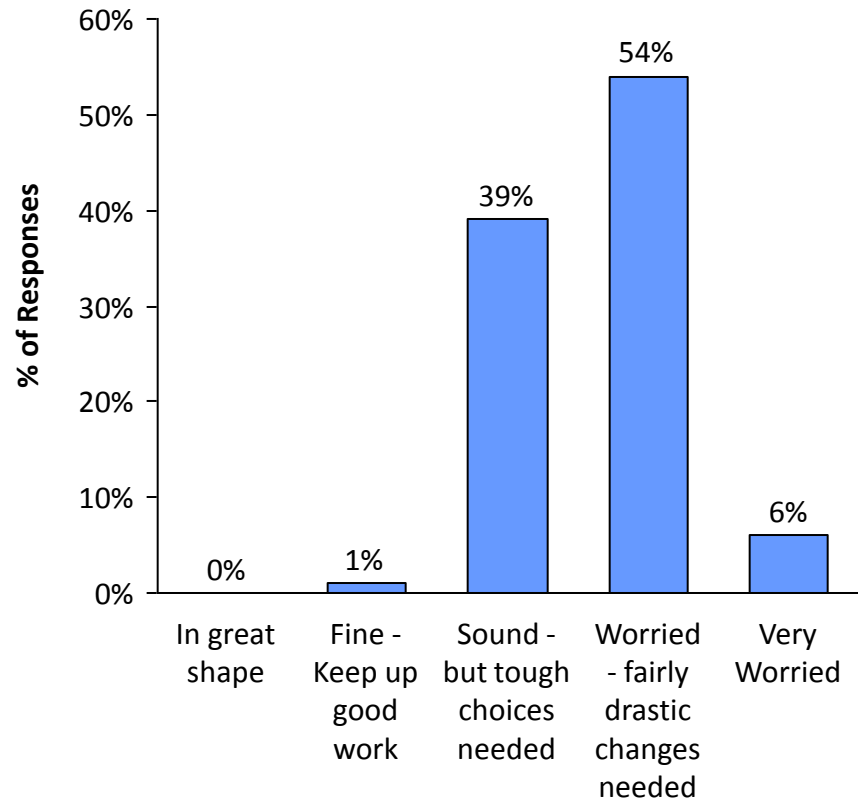


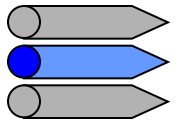
The need for us to change the way we are structured and do business is becoming increasingly urgent



Average: 4.33

Looking out to the next 3-5 years, I see the strategic outlook of our company in the U.S. as follows

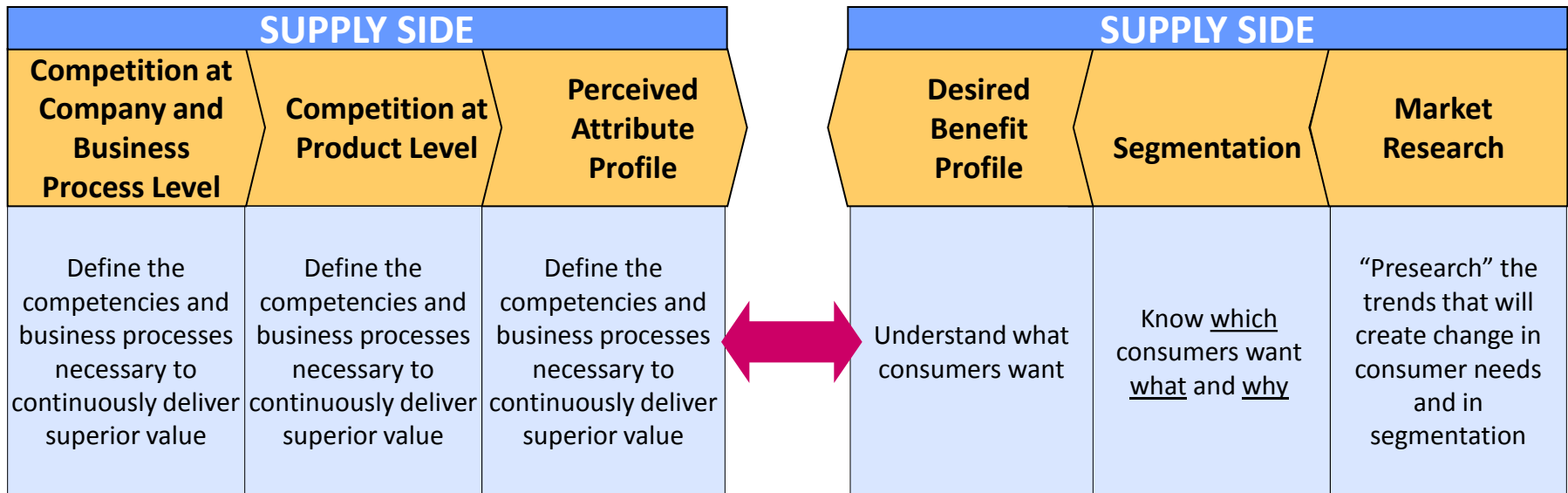




A Framework for Renewing the Consumer Strategy

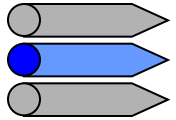
If new products and competitors have entered a category, it may be useful to renew the understanding of the consumer’s needs, how they vary among different segments, and how competitors attempt to satisfy these needs

- This framework starts at the core of the purchase and consumption decision, analyzing the demand and supply sides and helping sharpen the organization’s vocabulary to more precisely understand and discuss the new consumer reality



As an example, the following pages highlight summary findings on the desired benefit profile and consumer segmentation in one particular category

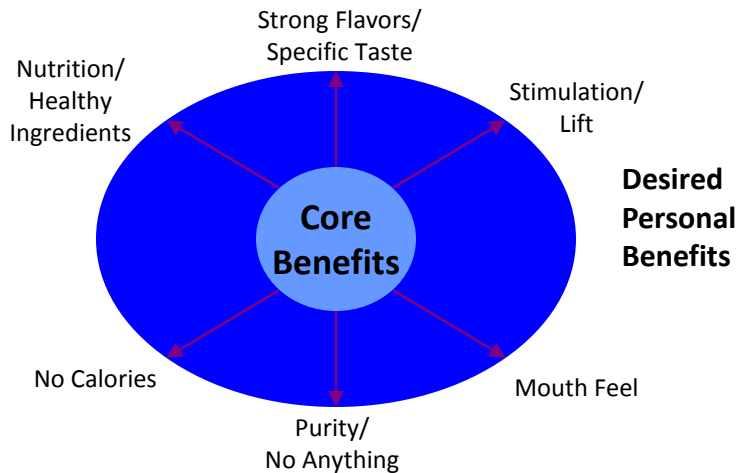
A Framework for Renewing the Consumer Strategy *Developing the Desired Benefit Profile*



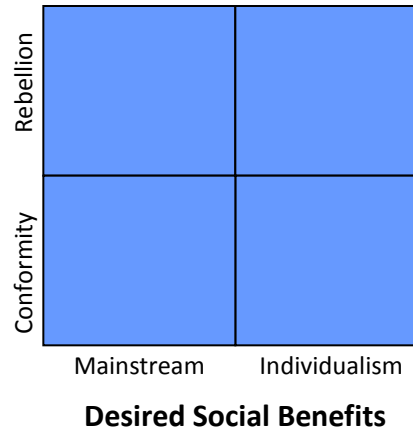
Desired Benefit Profile: What Do Consumers Want?

	Functional Benefits	Intangible Benefits	Price/Value Benefit	Situational Benefits
Definition	Physiological consequences a consumer wants to achieve or avoid by consuming product	Consequences at the: <ul style="list-style-type: none"> ▪ <u>Personal level</u>: feelings or thoughts consumer will have about herself ▪ <u>Social level</u>: feelings or thoughts others should have about the consumer because of her consuming a specific product 	The perception that the price paid is the best available trade-off. Consumers will vary in the relative importance they attach to functional and intangible benefits vs. price	Other considerations that are important in a specific purchase or consumption situation. They typically are the reason the consumer does not pursue her <u>first</u> choice in a given situation
Application to Category	<u>Core Product Benefits:</u> <ul style="list-style-type: none"> ▪ Nutrition, healthy ingredients ▪ Full strength flavor, specific taste ▪ Stimulation, lift ▪ Mouth feel ▪ Calories (Yes/No) ▪ Purity 	<u>Personal Level:</u> <ul style="list-style-type: none"> ▪ Compliance ▪ Rebellion <u>Social Level:</u> <ul style="list-style-type: none"> ▪ Mainstream ▪ Individualism 	<u>Primary Benefit Desired:</u> <ul style="list-style-type: none"> ▪ Functional Benefit ▪ Intangible Benefit ▪ Price/Value Benefit 	<u>e.g.,</u> <ul style="list-style-type: none"> ▪ Availability ▪ Convenience ▪ Packaging

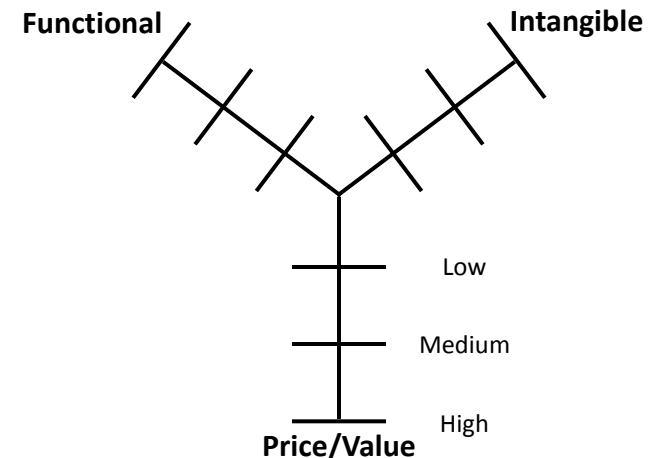
Functional Benefits



Intangible Benefits

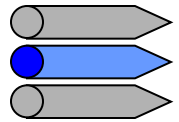


Price/Value



A Framework for Renewing the Consumer Strategy

Using Benefit Profiles to Create More Relevant Segmentation

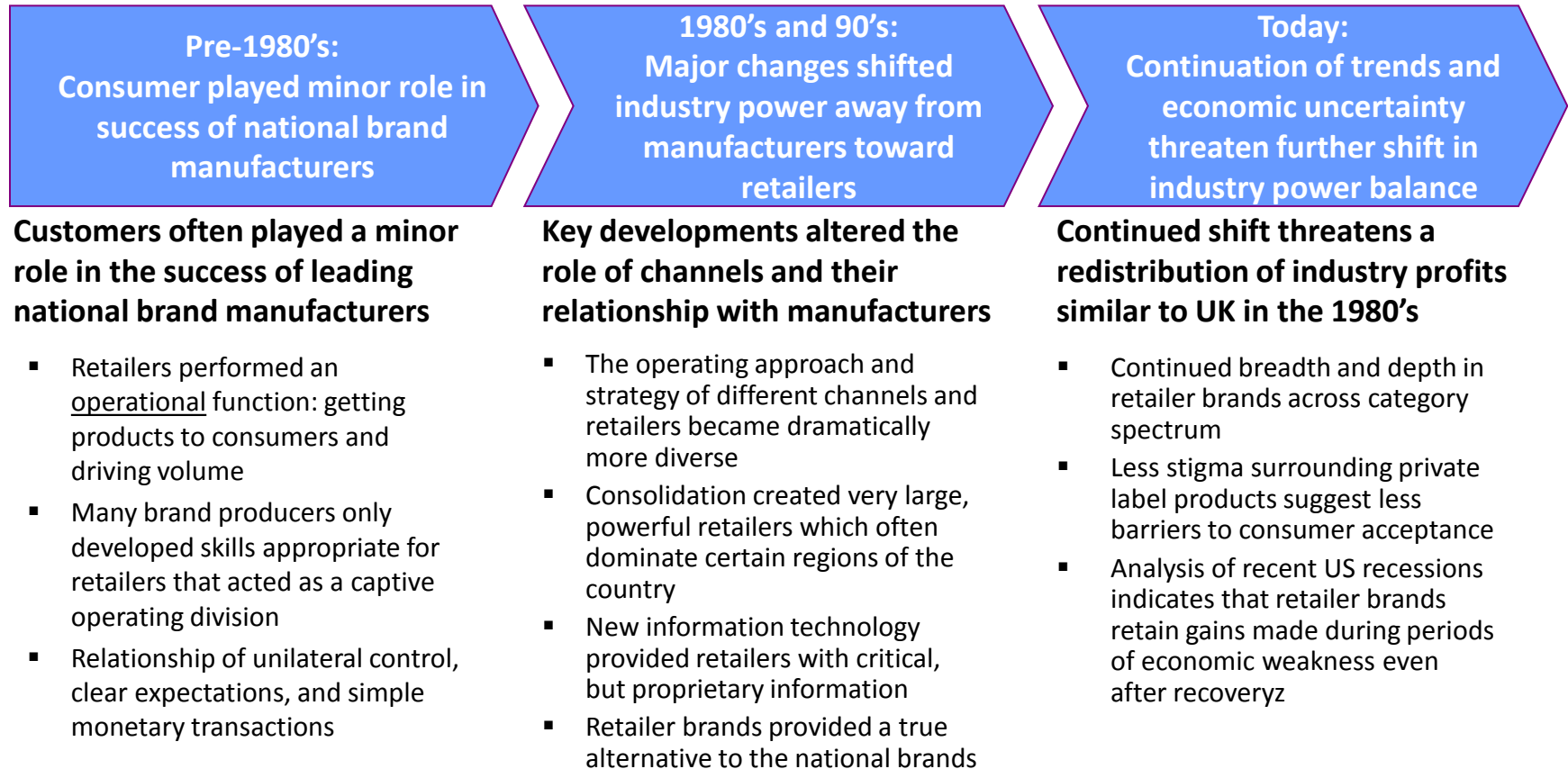
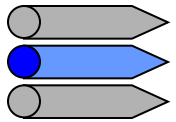


Consumer Segmentation: Which Consumers Want What and Why?

	Mindset	Occasions
Definition	The beliefs, values, and motivations that determine which benefits the consumer desires and which products are perceived to deliver these benefits (competitive choice set).	Specific instances in which the product is consumed. They present certain functional and intangible needs for which the consumer will select the “best-fit” product from her choice set.
Application to Category	<ul style="list-style-type: none"> ▪ Hedonists ■ ▪ Free Spirits ■ ▪ Naturalists ■ ▪ Go-Getters ■ ▪ Appearance Conscious ■ ▪ Health Enthusiasts ■ ▪ Moderates ■ 	<ul style="list-style-type: none"> ▪ While Eating a Meal ▪ With Passive Activity ▪ At Work/School ▪ With Physical and Social Activities ▪ Other
Developing a New Consumer Segmentation		

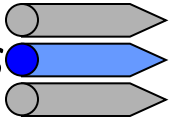
A Framework for Renewing the Consumer Strategy

The Need for Renewing Strategy



We believe that the framework outlined in the following pages can provide the process for developing a new customer strategy. National brand manufacturers have the opportunity to direct some of their enormous energy, competences, and resources to harness the changes occurring in the retail environment and turn them into a positive force for their business

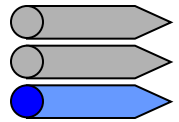
A Framework for Renewing the Consumer Strategy *Observations on the Strategy of Leading National Brands*



Our experience and interviews with several large brand manufacturers suggest the following observations. Some of these may be applicable to your company

Observations	Implications
<ul style="list-style-type: none">▪ Many companies serve very similar accounts differently. Differences seem driven by personal preference, skill, and sophistication of individual account groups rather than by a systematic strategy▪ Many sales organizations appear reluctant to <u>systematically</u> recognize and address the needs of different customer segments▪ The task of serving an ever larger number of customer segments with precisely tailored bundles of goods and services is complex and requires investments in databases, ongoing research, skill development, systems tracking, dedicated resources, etc.	<ul style="list-style-type: none">▪ The costs and benefits of experimentation and learning by individual account groups are not leveraged across the system. Collecting, synthesizing, and teaching best practices could lead to measurable performance improvements throughout the system▪ Differences among customers are likely to increase in the future. The reluctance to deal with these differences will become a disadvantage. In addition to performing the necessary analytical homework to develop a proper customer segmentation, the company also should influence the willingness and readiness of the field to execute segmented strategies▪ These investments are <u>scale</u> intensive, i.e., they yield a competitive advantage for the share leader. The leading brand supplier should capitalize on this opportunity by building the most sophisticated and effective customer management competence in the industry

Measurement Criteria of Success for a Customer Strategy

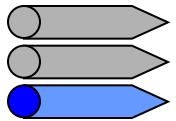


A successful customer strategy results in actions that satisfy the needs of three different constituents – the consumer, the retailer customer, and the company – in a way that yields competitive advantage and increased shareholder value for the company

Measurement Criteria of a Successful Customer Strategy		
Company Related	Customer Related	Consumer Related
<ul style="list-style-type: none"> ▪ The company understands the different needs of retailers and delivers properly tailored bundles of goods and services to each segment ▪ The organization develops the competence, i.e., the people, skills, knowledge, systems, and processes to execute the most effective and efficient customer strategy in the industry 	<ul style="list-style-type: none"> ▪ Retailer executes strategies that meet consumer success criteria ▪ Retailer cooperates with the company to achieve superior <u>efficiency</u> in the supply chain and <u>effectiveness</u> with in-store activities ▪ Retailer is convinced cooperation with the company results in superior attainment of category objectives 	<ul style="list-style-type: none"> ▪ Retailer increases <u>volume</u> of category, e.g., through increasing incidence and size of purchase ▪ Retailer increases <u>value</u> of category, e.g., by meeting needs of different consumer segments and shopping purposes, properly pricing and promoting products, enhancing the trademark ▪ Retailer <u>protects attractiveness</u> of category by pursuing a constructive pricing strategy within local market

Measurement Criteria of Success for a Customer Strategy

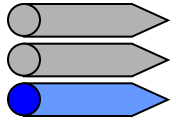
A Framework for Analysis



Knowledge and Analysis Required to Develop Such a Strategy		
Company Related	Customer Related	Consumer Related
<p>Customer Segmentation</p> <ul style="list-style-type: none"> Recognize the different needs, economics, and opportunities for building advantage for various customer segments <p>Value Chain Economics</p> <ul style="list-style-type: none"> Understand the true economics, cost to serve, system profits, etc. by channel and customer segment, today and under potential change scenarios <p>System Analysis</p> <ul style="list-style-type: none"> Collect the best practices and ideas of the company to deal with customer strategy issues and internal competence development 	<p>Customer Need Analysis</p> <ul style="list-style-type: none"> Examine which bundle of products, service, and funding is currently provided to different customer groups and how well it meets their needs relative to competition <p>Customer Related Business Process and Competitive Analysis</p> <ul style="list-style-type: none"> Examine how system serves different customers, what its strengths and weaknesses in meeting their needs are, how performance compares to competition, and how overall supply chain could improve its relative efficiency and effectiveness 	<p>Consumer Purchasing Needs Analysis</p> <ul style="list-style-type: none"> Understand how the needs of different consumer segments and shopping occasions can best be met by different retailer channels <p>Pricing and Promotion Analysis</p> <ul style="list-style-type: none"> Examine how pricing and promotion strategies can be improved to create traffic volume growth, <u>and</u> satisfactory profits <p>Retail Industry Analysis</p> <ul style="list-style-type: none"> Understand competition among retail channels, future winners and losers, and how the company can guide retailers to pursue constructive strategies within a local market

Measurement Criteria of Success for a Customer Strategy

Customer Segmentation: Purpose and Methodology



The purpose of strategic customer segmentation is to achieve four goals:

Increase Customer Satisfaction

- By giving customers more of what they really need

Increase Cost Efficiency

- By giving customers less of what they do not want or value

Build Competitive Advantage

- Through superior understanding and delivery of properly tailored bundles of goods and services

Build Efficiency

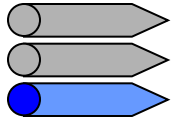
- Into provision of desired services

Methodology

- Understand the needs of customers, how they differ, what drives these differences, and how they are likely to change in the future
- Examine how the company and key competitors currently serve the needs of different customers, quantify the costs of each element of the value chain, and build a profit model for key customer groups
- Understand the strengths and weaknesses of the company relative to competition and how the company can leverage existing and potential future strengths in delivering more satisfying and more cost efficient bundles of goods and services

Measurement Criteria of Success for a Customer Strategy

Framework for Selecting Consumer Segmentation Criteria



- The criteria for grouping customers into segments should be those characteristics which drive the most important differences in the way retailers approach their consumers, organize their own strategy and operations, and work with suppliers
- The criteria also need to identify the differences in value-added steps, costs, and profits in how the company serves customers, today and in the future

Sample Criteria for Segmenting Customers		
Company Related	Customer Related	Consumer Related
<ul style="list-style-type: none"> ▪ Account share, cost, profitability, economics of current position ▪ Strength of personal relationship ▪ Match of retailer territory with plant territories ▪ Breadth of product and services offered 	<ul style="list-style-type: none"> ▪ Role of category in retailer's strategy ▪ Sophistication of category management, organizational decision making approach ▪ Strategic role of retailer brands for retailer strategy ▪ Growth strategy, competitive strength, financial health ▪ Signal value and future value of investments into customer 	<ul style="list-style-type: none"> ▪ Role of retailer overall in fulfilling consumer's needs (e.g., convenience, destination) ▪ Role of retailer's category in fulfilling consumer's needs ▪ Retailer's strategy for differentiation (e.g., service, price) ▪ Category development ▪ Importance of Retailer Brands to consumer

Overcoming Internal Barriers To Fight Private Label

Section Summary

- Internal cultural barriers may prevent national brands from effectively addressing the threat of retail brands
- Organizational weaknesses frequently drives brands to action or inaction without appropriate consideration of long-term strategic consequences
- In order to help companies surmount these obstacles and implement necessary change, Alliance Consulting Group has developed the REMAP process
- The process, based on years of experience and outlined in the following slides, helps management systematically
 - Align core strategic beliefs to the realities of current market dynamics
 - Identify and evaluate strategic options to drive future success
 - Define a path forward based on a clear vision for the future

**Part IV:
Key Takeaways**

Key Takeaways (1)

- The severity of the current recession and the improved quality and marketing of retailer brands has positioned national brands to lose significant market share in the near-term
- Market share gains by many retailer label brands in the last several economic downturns were maintained even after the economy improved
- If national brands fail to identify vulnerabilities and adapt strategies appropriately the current situation may lead to permanent changes in retail dynamics and profit margins
- Success in the fight against retailer brands will be dictated by three key elements: the inherent “brandability” of the category, the structure of the competitive advantage, and the strategic actions taken by both national brands and retailer brands

Key Takeaways (2)

- Historically, national brands have relied on price and promotion strategies as the primary tools for combating retailer brand incursions
- Changes to price and promotion carry significant downside risk. This action, taken alone, will be insufficient to address the impending threat of strong retailer brands
- Successful strategies to fight retailer brands should comprehensively address multiple strategic imperatives, including:
 - Pricing and Promotion
 - Customer Segmentation
 - Value Line Bundling
 - Retailer Relationship