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Diederich Bakker

Vertical Brand Portfolio Management

Strategies for Integrated Brand Management between Manufacturers and Retailers

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With a preface by Prof. Dr. Thorsten Raabe

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Preface

Over the last decades, the retail sector has increasingly emancipated from industry. Today we see a trade that asserts itself through strategies of vertical integration of producers' functions in horizontal and vertical rivalry relations. The retail emancipation is particularly evident by observing the development of retailer- and private label brands: brand management – typically associated with national brand manufacturers – is now widely applied by the retail sector. While the retailer brand is positioned horizontally against rivalling retailers, private label brands are applied in different categories and are therefore simultaneously a strategy in vertical competition with national brands. Growing private label market shares and the upscaling of these products into premium segments has increasingly become a concern for many brand manufacturers who have mainly responded to the "private label challenge" by fighting the retailer products and brands.

The dissertation of Diederich Bakker proposes a cooperative solution for brand manufacturers. By referring to established collaborations between industry and trade such as Efficient Consumer Response, the main idea behind the proposed Vertical Brand Portfolio Management (VBPM) is to integrate private label brands into the portfolio planning logic of supplying brand manufacturers. The dissertation offers an innovative strategy for brand manufacturers for dealing with private labels and builds on the principles of brand management and cooperation practices. In a detailed and reasoned analysis, Diederich Bakker develops a planning process that should guide brand manufacturers when engaging into such a complex strategy such as VBPM.

The merits of this dissertation are manifold. Firstly it contributes to the theoretical and conceptual marketing sciences. At the same time, the analysis on collaborations between manufacturers and retailers is of fundamental nature and closes knowledge gaps for the management of even simple forms of cooperation in practice. Although some conclusions still remain at a conceptual stage, it can be considered as scientific foresight, when emerging problem areas of brand management are anticipated and made subject of a thorough analysis. In this light, the outcome of the dissertation can be seen as an encouragement for initial attempts at vertical-brand management cooperation in practice.

Oldenburg, September 2014 Prof. Dr. Thorsten Raabe

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A word of appreciation belongs to my parents who always encouraged me to be curious and adventurous. I was lucky to enjoy their education – the most important education of all. And thanks to my dear son Paul who waited with his first attempts to walk until I was finalising this book.

Finally, I want to thank my lovely wife Tina. You stuck this out with me together and with great patience. I look forward to open the next chapter with you.

Bad Zwischenahn, September 2014 Diederich Bakker

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List of Abbreviations

AT	Agency Theory
BM	Brand Manufacturer
CDI	Category Development Index
Cf.	Confer (compare)
CEO	Chief Executive Officer
CM	Category Management
CSR	Corporate Social Responsibility
e.g.	Exempli gratia (for example)
EA	Efficient Assortment
ECR	Efficient Consumer Response
EP	Efficient Promotion
EPI	Efficient Product Introduction
et al.	Et Alia (and others)
FMCG	Fast Moving Consumer Goods
HR	Human Resources
i.e.	id est (that is)
ibid.	ibidem (the same place)
IT	Information Technology
KSA	Kurt Salomon Associates
M	Manufacturer
NB	National Brand
NBM	National Brand Manufacturer
PC	President Choice
PL	Private Label
PLMA	Private Label Manufacturers Association
POS	Point of Sale
R	Retailer
R&D	Research and Development
RB	Relational Benefits
SKU	Stock Keeping Unit
SO	Strengths Opportunities
ST	Strengths Threats
SWOT	Strengths Weaknesses Opportunities Threats
TB	Theory Borrowing
TM	Trade Mark
VA	Verbraucher Analyse
VBPM	Vertical Brand Portfolio Management
VM	Vertical Marketing
WO	Weaknesses Opportunities
WT	Weaknesses Threats

Part A Introductory Chapter

1 Introduction and Problem Definition

The proliferation of private labels has been evident in grocery retailing worldwide (Kumar and Steenkamp, 2007, Olbrich et al., 2009). Sales of private labels (PLs) have grown globally over the past decades. In North America, for example, PL unit sales have reached an average 22% share across all product categories (Nielsen, 2010). In several European countries PLs have gotten even higher market shares with 32% in Germany, 43% in Great Britain, and Switzerland leading the list with 46% unit sales (Nielsen, 2010). Traditionally considered as low price alternatives to national brands, retailers have moved upscale by introducing high quality PLs, so called premium private labels. The continuous upcoming of PLs often at the expense of national brands has forced brand manufacturers to account for PLs in their brand strategy (Hoch, 1996, Mills, 1999, Verhoef et al., 2002).

Several strategies for national brand manufacturers towards PLs exist. While some of these strategies focus exclusively on the brand manufacturers' own brand success such as investing in product innovation and brand advertising, other strategic options imply a head to head confrontation with the private label of the category (Ashley, 1998, Kumar and Steenkamp, 2007, pp. 125). Here, manufacturers often opt for cutting prices or introducing fighter brands (Verhoef et al., 2002). One could argue that an interdependent rivalry takes place between vertically aligned firms. In this sense, the dilemma for brand manufacturers is twofold: firstly they depend on the retailer to distribute their goods. Secondly by choosing to fight PLs brand manufacturers deliberately intend to weaken a competitor, which in this case is also a customer. This can result in negative relationship effects between retailer and manufacturer (Verhoef et al., 2002). The interdependency also manifests itself from the perspective of the trade. Retailers depend on ubiquitously distributed 'big' brands to attract shoppers.

While brand manufacturers are facing many challenges caused by horizontal competition and changes in consumer behaviour, the challenges that derive vertically are multidimensional. Foremost the issue of "*power*" in the marketing channels for consumer products has increasingly shifted from the manufacturer to the retailer (Kadiyali, 2000). For example, increased concentration levels in the retail sector mean that brand manufacturers nowadays have to deal with fewer but more powerful retail organisations. Currently the "Top 5"

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European grocery retailers account for approximately 50% of total industry turnover whereas in Germany the total share of the "Top 5" accounts for as much as 80% (Grünblatt, 2008, p. 365). Other reasons for retailer power are the increase in trade promotions at the expense of consumer advertising, and the sophistication of retail marketing in recent years (Belch, 2008, p. 536). Other challenge dimensions for brand manufacturers are added by the effects of large-scale retailing and the severe horizontal competition within the retail sector including the upcoming of hard discount stores. Brand manufacturers also have to deal with retail imposed scarcities of shelf space accompanied by the "emergence of the practice of slotting fees" (Kadiyali, 2000). Private labels have also contributed to the nature of the relationship between retailers and manufacturers (Banerji and Hoch, 1993, Raju et al., 1995, Hoch, 1996). As Salmon and Cmar (1987) note, substantial market shares of PLs in numerous product categories have given retailers more control of the interactions with manufacturers of national brands. These factors and the issue of a shift in power are manifestations of the changes in the relationships between manufacturers and retailers.

2 Vertical Brand Portfolio Management

As brand manufacturers are facing many challenges with the retail sector, several strategic options are available to enhance their position in the vertical relationship. The aim of this thesis is to conceptualize a strategy that proposes brand manufacturers a cooperative strategy alternative with retailers when dealing with private labels: Vertical Brand Portfolio Management (VBPM). Furthermore, a strategic step-by-step planning process will be developed to enable brand manufacturers to assess the feasibility and implementation of the strategy.

VBPM is targeted at manufacturers of national brands. The main purpose of the management strategy is the active integration of private label brands from retailers into a manufacturer's brand portfolio. The integration implies that a brand manufacturer produces and manages private labels on behalf of a cooperating retailer. Both channel members possess unique capabilities that enable them to provide superior value to end users toward which they are both targeting their offering. Therefore, the strategy builds on these strengths and unique attributes of brand manufacturer and retailer. This is foremost brand management expertise traditionally owned by brand manufacturers and shopper knowledge and access by retailers.

When the strategy is successfully implemented, the brand manufacturer will aim at offering an optimally managed multi-tiered assortment of manufacturer brands and private labels. The extended brand portfolio will be targeted at all relevant consumer segments within a product category including private label buyers. VBPM recognizes the PL as one element crucial to a category management process, which by necessity is a mutual responsibility of both the brand manufacturer and the retailer. In consequence, the strategy will therefore be based on vertical marketing theory and will analogize with established business practices such as Efficient Consumer Response and Category Management. With necessary retailer cooperation, VBPM can enable brand manufacturers to increase market shares in the categories in which they participate, avoid destructive competition within the channel relationship, and maximize consumer satisfaction.

3 General Overview of Contemporary Developments in the Field

3.1 Brand Manufacturer Responses to Private Labels

To compete with PLs, a number of different tactics and strategies have been adopted by marketers of manufacturer brands. Literature mainly discusses two opposite strategies of either distancing the national brand from the private label with product innovation and increased advertising and promotion or achieving a point of parity with the private label by reducing prices and cutting costs (Keller, 2008, p. 224, Quelch, 1996, Hoch, 1996, Mills, 1999, Verhoef et al., 2002, Parker, 2006). Each option's viability can depend on the distance between the private label and the manufacturer brand on both quality and price dimensions. Market and category characteristics can also impact the appropriateness of the route to take.

As a response to PLs, marketers of manufacturer brands have also adjusted their brand portfolios by eliminating stagnant brands and extensions and concentrated their focus on smaller number of brands and new introductions (Keller, 2008, p. 225). They have also used fighter brands to react to the lower price position of the private label (Hoch, 1996, Quelch, 1996). A controversial move by brand manufacturers is to actually produce private labels. While on the one hand it may result in economies of scale and lower fixed costs it may on the other hand lead to a commoditisation of the category (Kapferer, 2008, p. 94).

3.2 The Evolution of Private Labels

Over the last decades private labels have become important players in the marketplace and have attracted the interest of researchers in marketing (Raju et al., 1995, Narasimhan and Wilcox, 1998, Cotterill et al., 2000, Banerji and Hoch, 1993). PLs provide a means of differentiation for retailers and thus give them more bargaining power in the channel (Salmon and Cmar, 1987, Narasimhan and Wilcox, 1998, Scott-Morton, 2004). Within their offering PLs are the only brands for which the retailer is solely responsible for all areas of the marketing mix (Scott Morton and Zettelmeyer, 2004). In the past PLs were thought of as generics or 'non-brands', attracting only price-sensitive customers. Even the term 'private label', that has been widely established as the term of reference in literature, is to some extend misleading as it treats it as a thing apart. In the eyes of consumers PLs are certainly recognized as brands to which they can be loyal to (Kapferer, 2008, pp. 72).

Traditionally the appeal to consumers has been the cost savings involved when purchasing the perceived lower quality private label alternative. With national brands implementing their own value pricing strategies, private labels have created their own points of difference alongside. Recently they have begun improving quality and expanding the variety of their private label offerings by maintaining multi-tiered private label programs that start with a 'no-frills' option and include premium products that are aggressively positioned against their national counterparts. Canada's Loblaws for instance is successfully using its private label program 'President's Choice' as a key differentiator to national brands (Banerji and Hoch, 1993). Retailers have also responded quicker to the growing consumer demand for organic produce by developing new organic brands, whereas manufacturers were only able to add such product features into their existing products. The British hypermarket chain Tesco for example developed the PL brand '*Tesco Organics'* in the early 1990's to provide consumers with a variety of organic foods and Loblaws in Canada offers the PL brand *'President's Choice Organics'* in packaged goods categories such organic juices, cereals, and baby food (Nishikawa and Perrin, 2005a). In Germany, the grocery supermarket channels including discount supermarkets have a combined PL market share in the organic food sector of 49% (Nielsen, 2007). Sellers of private labels are also adopting sophisticated marketing communication programs to promote their own offerings including advertising, point-of-sale promotions and customer relationship marketing programs - domains traditionally owned by suppliers of branded goods rather than retailers.

Private labels range across all product categories. In supermarkets, private label shares have always been strong in product areas such as refrigerated food, paper products, frozen food, and pet food and have previously been successful in gaining significant market shares in product areas such as alcoholic beverages, cold remedies, and disposable diapers (Lincoln and Thomassen, 2008, pp. 21). Nonetheless, some product categories have seen less proliferation of private labels and consumer trust. Compared to the before mentioned product areas consumers are less willing to trust private labels for personal care matters and they have not been as successful in heavily advertised categories such as beer, candy, chocolate, or chewing gum (Nishikawa and Perrin, 2005a).

The research on PLs is manifold. Several academic papers have studied the market success of PLs in different settings and environments (cf. Raju et al., 1995, Dhar and Hoch, 1997). Furthermore, the strategic positioning of private labels has been researched and discussed (cf. Sayman et al., 2002, Scott-Morton, 2004) and the impact of private labels on retailer profitability determined (cf. Ailawadi and Bari Harlam, 2004, Kadiyali, 2000). Pauwels and Srinivasan (2004) show how private label entry benefits the introducing retailer, leading manufacturer brands and the consumer, while harming second-tier brand manufacturers at the same time. The authors find that higher positioned brands experience lower long-term price sensitivity by consumers and higher revenues. In contrast, the opposite is true for second-tier brands. Finally they show that retailers can benefit from high unit margins on PLs and higher unit margins on manufacturer brands.

3.3 Private Labels and the Vertical Relationship

One key factor for the increasing influence of retailers throughout the grocery marketing channel has been the role of private label products in determining the nature of vertical relations (McGrath, 1995, Doel, 1996, Fearne, 1996, Collins, 2003, Fernie, 1996).

A key selling point for PLs is their lower price relative to national brands (Sethuraman and Cole, 1999). Empirically, research focused on the determinants of price competition between national brands and private labels (cf. Cotterill et al., 2000, Sethuraman and Cole, 1999, Aggarwal and Cha, 1998). Several studies have found that price effects are asymmetric. Manufacturer's price cuts hurt private labels more than private label price cuts hurt the national brands (cf. Blattberg and Wisniewski, 1989, Sethuraman, 1996, Cotterill and Putsis, 2000). Research has started to address the competitive relationship between PLs and national brands. Putsis and Dhar (1998) describe the pattern of interaction that exists between private labels and national brands across 58 product categories. Recent research has confirmed that national brand advertising expenditures and private label market share continue to be inversely correlated (Banerji and Hoch, 1993, Dhar and Hoch, 1997, Scott-Morton, 2004). Improved quality is credited throughout the marketing literature as a major reason for the growing acceptance of PLs. Hoch and Banerji (1993) found that PL market shares are higher where mean PL quality is higher and variance in quality lower. Steiner's (2004) central thesis is that the manufacturer brand/private label competition is a highly competitive and welfare-enhancing relationship.

4 Research Philosophy and Theoretical Background

The following economic and marketing theories and concepts will be applied for the establishment and development of VBPM strategy:

- Principal Agent Theory
- Brand Portfolio Management
- Vertical Marketing

4.1 Principal Agent Theory

In Vertical Brand Portfolio Management, a retailer transfers the power of control over his private label(s) to an independent channel member, the brand manufacturer. It will be necessary to guide the practical issues involved in this cooperation on a theoretical basis. For that purpose, the 'Principal Agency Theory[1] will be used. This choice is advised because the kind of relationship obvious in the planned collaboration between manufacturer and retailer has similar characteristics as found in a typical principal-agent relationship. Furthermore, agency theory has been similarly found applicable in the context of vertical marketing collaborations (Ross et al., 1997). As part of the theory construct of 'New Institutional Economics', especially agency theory offers a perspective on how contractual terms should be developed under conditions commonly encountered in cooperative relationships (Eisenhardt,

[1] The terms 'Principal Agency Theory' and 'Agency Theory' will be used synonumously throughout the thesis.

1989). Typical agency problems are problems of uncertainty, asymmetric information, and risk preferences. In contractual control mechanisms, the parties agree on the set of activities that each will perform, policies and procedure that they will follow, and the incentives that they will receive for performing these activities (Bergen et al., 1992). The thesis will explore ways of theory implementation for VBPM concerning channel relationships and agency theory. These factors will suffice to support the relationships with trust and commitment, reputation, contractual terms, and relationship history (Anderson and Weitz, 1989, Heide and John, 1990, Morgan, 1994).

4.2 Brand Portfolio Management

As it will be shown in the next chapter, VBPM shows similarities to vertical marketing strategies. This is mainly because in VBPM the brand manufacturer also pursues an intensive relationship with a distribution channel member. Operationally, the strategy is embedded in the field of brand management and in particular brand portfolio management. A brand portfolio includes all of the brands managed by an organization (Aaker, 2004, p. 16). In the context of VBPM a brand portfolio is seen as including all the brands that a brand manufacturer actively manages within a product category and that have consumer relevance. Literature is scarce in the field of brand portfolio management. A main part of the theoretical discussion in the thesis will therefore be dedicated to branding strategy and its relevance for brand portfolios. The significance of brand architecture will find its implementation within the brand manufacturer's own brand portfolio. The following key branding concepts will be discussed and then brought in relation to VBPM: Kapferer's six types of brand architecture, Aaker's model of 'brand portfolio strategy', and here in particular product defining roles and portfolio roles, and Keller's 'Brand Product Matrix' (Aaker, 2004, pp. 13, Kapferer, 2008, pp. 347, Keller, 2008, p. 435). The models will be utilized to define the scope, roles, and interrelationships of the portfolio brands including the integrated private label(s). The models will also serve as auditing reference tools for a VBPM planning process.

4.3 Vertical Marketing Practices

The efforts of suppliers to integrate retailers into their own marketing strategies contribute to the concept of '*Vertical Marketing*' (Irrgang, 1989, p. 1, Müller-Hagedorn et al., 1999). '*Efficient Consumer Response'* (ECR) is a widely accepted and implemented form of vertical marketing (Seifert, 2006a, p. 21). Vertical Marketing and ECR will stand as the reference models to the proposed concept of VBPM. On the whole, the models and concepts share numerous parameters. Firstly, they involve the same protagonists, namely brand manufacturers and retailers. Furthermore '*Category Management'* (CM), an ECR sub-strategy, and VBPM greatly deal with marketing issues and share similar principles. For example, the CM practices of '*Efficient Promotion*' and '*Efficient Product Introduction*' are similarly affiliated with brand management principles as it is the case for VBPM. Besides, the product category perspective in CM is in congruence with the brand portfolio "mind-set" of VBPM. Each strategy also recognises PLs as indispensable elements of product categories. Additionally, a stringent consumer focus is mutually important. As the term "*Efficient Consumer Response*" indicates, the consumer is at the centre of thinking. Creating more consumer value is meant to be a key outcome when implementing ECR (Hofstetter and Jones, 2006). It is widely accepted that brands and strong customer-brand relationships create consumer value (Aaker, 2002, p. 8, Kapferer, 2008, p. 18, Keller, 2008, p. 79). VBPM draws its consumer orientation from brand portfolio management principles, which has the aim to offer a portfolio of products to different kinds of consumer segments. Hence, offering a vertical brand portfolio is the central idea of VBPM and should contribute to added consumer value. Drawing the attention directly to VBPM and the concept's imminent development of private labels, Gollnick and Schindler (2001, p. 388) come to the conclusion, that a joint-development of private labels between brand manufacturer and retailer should follow the same rules on cooperation management that are known from ECR projects. Considering the strategic goals and objectives of VBPM, collaborators can draw upon similar goals and objectives that result from an ECR cooperation. The extant literature particularly highlights the relational objective of enhanced trust as a key objective of ECR related programs (Richards, 1995, Dupre and Gruen, 2004, Corstjens et al., 1995). Similarly, trust may be considered a prerequisite or desired outcome of VBPM.

4.4 VBPM Goals

The goals of VBPM are task and content related. Task related goals derive from VM principles and determine for a cooperation who gets to execute which task with what kind of control and what amount of compensation for the efforts (Irrgang, 1993, p. 3). The focus for the operational implementation of VBPM will strongly depend on the goals that are content related (e.g. segmentation issues, prevention of brand cannibalisation, stimulation of the retail partner, contractual strategies). The following primary goals of VBPM can be formulated:

Goals of VBPM for brand manufacturers

- Broadening the market coverage (segmentation)
- Control over private label(s)
- Favourable power shift within the channel relationship
- Strengthening of the channel relationship
- Stronger shelf positioning (less vulnerable to retail de-listing)
- Increased market share and profit maximization
- Higher consumer brand loyalty
- Economies of scale

Goals of VBPM for retailers

- Improved category management
- Improved private label management
- Higher customer store brand loyalty
- Increase of category share and category profits

Figure 1 summarises the theoretical framework in which the strategy is embedded. On the one hand, the strengths of the manufacturer will be transferred via Vertical Marketing practices towards the channel partner. The strategy and the contractual terms will on the other hand be guided and governed by agency theory and trust.

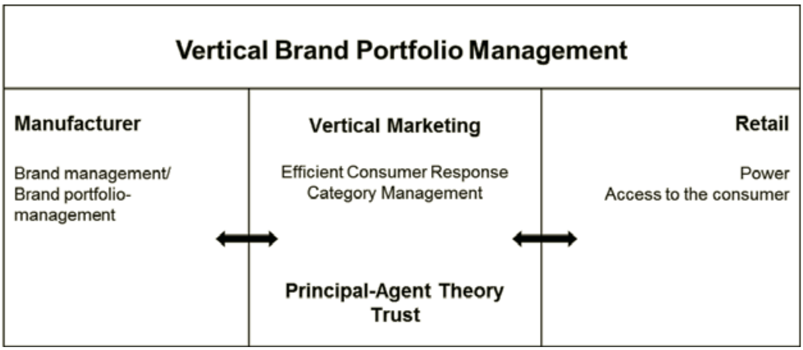

Figure 1: Theoretical framework of VBPM[2]

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[2] Source: own.

5 Goals and Structure of the Thesis

As shown, brand management and vertical marketing practices are important strategies for brand manufacturers within channel relationships. On the one hand, building brands is a key competence of brand manufacturers that has proven to be effective when dealing with private labels; on the other hand, vertical marketing programs have gained importance in enhancing relationships with the trade. As pointed out, the majority of publications on strategies for brand manufacturers on how to deal with private labels are built on counterstrategies that have a unilateral focus leaving out the trade. The thesis seeks to close this gap in the academic discussion by combining vertical marketing strategies with branding strategies for brand manufacturers when dealing with private labels. In the scope of a comprehensive discourse, strategic options for brand manufacturers on how to deal with private labels will be embedded in a vertical marketing perspective including the determination of analytical-, process oriented-, and operational guidelines for engaging in vertical brand portfolios. A strategic planning process will be the result of this discourse. The thesis will address the following core questions:

- Which theories explain and are suitable to govern cooperative relationships and how can these theories be exploited for vertical brand portfolio management?
- Which theoretical backgrounds explain the motives and goals of the players relevant to vertical brand portfolio management and how can the effects of their manners be explained?
- Which market-, intra- and inter-organisational criteria for implementing vertical brand portfolio management can be identified? How can VBPM be effectively planned for?
- How can brand management and vertical marketing programs be integrated and what are the challenges that arise from a vertical brand portfolio?
- Which courses of action derive from the gained insights for the players involved? What does this mean for the development of brand portfolios, product categories, and the vertical relationship?

Answers to these questions will offer national brand manufacturers alternative perspectives on how to deal with private labels and will place the importance of the vertical relationship into the course of action.

The thesis will commence in part B with a context driven discussion of brand portfolio issues related to VBPM. Furthermore, a literature review will include a comprehensive appraisal of private label branding strategies containing case study reviews of current private label branding strategies. A PL branding framework will be developed as a reference model for the VBPM planning process. The key vertical marketing strategies of Efficient Consumer Response and Category Management will be introduced and associated to VBPM. Additionally, the concept of vertical marketing will undergo a 'theory borrowing' process to determine the theory's appropriateness as the model of reference for VBPM. This will conclude part B. The main part of the thesis in part C will be dedicated to the conceptualisation of Vertical Brand Portfolio Management and the formulation of a four step strategic planning process for the initiation and implementation of VBPM. This planning process will combine the results of an internal and external environmental analysis to form VBPM strategy. The thesis will conclude in part D with a summary of the main findings and s conclusion.

Part B Central Themes and Theoretical Foundations

1 Vertical Brand Portfolio Management: Perspectives for Brand Manufacturers

The strategy of Vertical Brand Portfolio Management (VBPM) prescribes the integration of retailer owned brands (private labels) into brand portfolios of national brand manufacturers. The following is a discussion on the motivations and implications of VBPM for manufacturers of national brands from a brand portfolio perspective.

1.1 Brand Architecture

Brand architecture is the way in which companies organize and go to market with their brands[3]. The following definition by Aaker and Joachimsthaler (2000, p. 102) provides a thorough explanation of the term: "*Brand architecture organises and structures the brand portfolio by specifying brand roles and the nature of relationships between brands and between different product-market contexts*". Closely linked to corporate and business strategy, according to Keller (2008, p. 83) the two most common types of brand architecture are the "house of brands" and the "branded house". "Branded house" architecture employs a single corporate umbrella or family brand for all its products. The "house of brands" strategy is characterized by a group of individual brands all with different names and positioning strategies. Each brand is marketed independently with the goal to maximize profit and market share. Both brand architecture strategies have their own benefits and shortcomings and some companies employ a mix of the two but in each case the central point is the link between the brand and the product (Chailan, 2008). The goal when planning brand architectures is to reach synergy effects between the brands by ensuring necessary independency in order to enable consumers to reach a clear and logic overview of the brands and their relationship to each other (Esch et al., 2004, p. 750).

The academic discussion is twofold on where brand architectures are heading. Some authors predict a trend towards corporate branding structures due to better cost efficiencies and globalisation (Aaker and Joachimstahler, 2000, p. 306) or advantages when communicating brand values (Balmer, 2003). In contrast, several authors suggest that individual branding

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[3] In chapter 3.2, part C, a more detailed discussion will examine brand architecture with the purpose of understanding and evaluating the impacts of it on VBPM.

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strategies are becoming more disseminated. Laforet and Saunders (2007) argue that companies with an array of individual brands are less vulnerable to reputation loss across the whole business. According to Kapferer (2001, p. 396) individual brands make better use of market segmentation and differentiation in order to create barriers to cannibalisation and to avoid distribution channel conflicts. Individual brands are also a logical response to market fragmentation to meet the needs of specific customer groups (Keller et al., 2012, p. 588). This allows the brand strategy for example to grow vertically into price-sensitive markets, where the use of umbrella brands would be more difficult (Aaker, 2004, p. 232).

1.2 Managing Brand Portfolios

For the term ‚brand portfolio', literature does not offer a standardized definition. Both Aaker (2004, p. 16) and Riezebos (2003, p. 184) give the term a broad scope by including all brands managed or collected by an organisation. Hill and Lederer (2001, p. 7) provide an even more generalist perspective by not restricting it to brands owned by a company and extending the scope to every brand that plays a role in the consumer's purchase decision., Keller's definition of brand portfolio as "*the set of all brands and brand lines that a firm sells in a particular product category"* is in line with the category management perspective of VBPM (Keller, 2008, p. 434). This category perspective will be useful later on during the VBPM planning process when the selection of the category and a brand is due for strategy implementation. A brand line is understood to consist of all the products sold under a brand (ibid.).

A main portfolio issue is the composition of the brands in the brand portfolio (Apéria and Back, 2004, p. 95). This concerns the number of brands a company should manage and how the roles and relationships between brands are defined. Keller (2008, p. 434) judges a brand portfolio on its ability to maximize brand equity while no brand in the portfolio should harm or decrease the equity of the other brands. It is the combination of all brands that is supposed to maximize the overall value of the portfolio. The principal in designing a brand portfolio is to maximize market coverage so that all latent customers are being catered for, but minimize brand overlap so that brands are not competing with each other to gain the same customer's support (cannibalisation). According to Aaker (2004, p. 16) the aim should be to have the fewest relevant brands to meet set business goals. This raises the questions of the need for positioning such brands in connection to each other and of the strategic equilibrium of brands in a portfolio with each assigned “roles of play” (Douglas, 2001, Riezebos, 2003, pp. 193, Hill et al., 2005).

1.3 The Benefits of Multi-Brand Portfolios

Despite cost pressures and the economies of scale rewards of corporate brand architectures, having several brands on the market can bring numerous advantages to the organisation. To start with, market share growth opportunities can derive from creating new brand offerings. When Procter & Gamble (P&G) introduced the lower positioned washing detergent brand Cheer along the market leading Tide brand, the latter lost market share but the sales of the two combined brands increased P&G’s overall market share in the category (Ortega, 1993).

Moreover, multiple brands allow for better market coverage as they enable the company to cater segmented markets (Kapferer 2008, p. 395). One brand cannot be targeted at a number of different quality levels without risking damaging its identity.

A multi-brand approach also permits for more flexibility in the market. Well-structured brand platforms will enable strategic advances into new markets and can support brand relevance for future extension potential when brands progress along the product-life-cycle or markets become saturated (Aaker 2004, p. 34).

Another rationale supporting multi-brand policies can be to have them serve as market entry barrier to competitors. On the one hand the entry barrier can be created by offering a complete range to the trade, with a brand for each sector of the market. This is widely practised in the on-premise market where companies such as Coca-Cola offer fast-food restaurants a complete range of sodas (Kapferer, 2008, p. 396). On the other hand brand manufacturers can shut out competitors by offering retailers a selection of vertically positioned brands (Steiner, 2004).

The above examples show that maintaining brand portfolios can offer brand manufacturers several advantages within the markets they operate. Although the discussion has focussed on the pros of multi-brand portfolios, it has to be mentioned that there are risks involved in maintaining groups of brands. For example, brand portfolios often tend to inflate, which can lead to overlaps in market coverage and brand positionings (Raabe, 2004, p. 859).

1.4 Linking Market Segmentation to Brand Portfolio Strategy

Market segmentation is grouping customers or prospects according to common characteristics, needs, wants, or desires (Duncan, 2005, p. 173). It aides the marketer to target homogeneous groups of consumers who behave alike and respond to similar marketing mixes. Keller (2008, p. 99) classifies possible segmentation bases as customer oriented (socio-demographic and psychographic segmentation) or as behavioural or product-oriented (e.g. usage occasion and rate, benefits, quality levels, and brand loyalty). Kapferer (2008, p. 398) points out the growing mode of channel segmentation. Here, the focus lies on a differentiated brand presence according to different channel types and their special customer requirements.

Segmentation has a distinct tie to brand portfolio strategy, because the role of brands will often be to determine a segment-driven offering (Aaker 2004, p. 77). Brand portfolios need to be clear and understandable to consumers with strictly assigned roles for each brand. Multiple-brand portfolios enable the organisation to better meet the demands of segmented markets not only through differentiated products but also through different brands with different identities and values. The organisation of the brand portfolio reflects the type of market segmentation that the company has chosen.

Form of Segmentation	Criteria
Socio-demographic	E.g. age, gender, income
Psychographic	E.g. lifestyle, values, attitudes
Benefit	Main product benefit(s) looked for by consumers
Attitude	Consumer attitudes/expectations towards use of brand
Channel	Type of channel (e.g. department store, discount)
Occasion	Situations or places of use/consumption (e.g. at home, on-premise)
Price	Price range, value, quality

Table 1: Types of segmentation[4]

Kapferer (2008, pp. 396) highlights seven different forms of segmentation, which can be related to the company's portfolio (see table 1). Selected segmentation strategies will be discussed in this context in the following section.

[4] Source: adapted from Kapferer (2008, pp. 396).

1.4.1 Price Segmentation

Segmenting the portfolio brands along price dimensions is the most common form (Kapferer 2008, p. 400). Aligning multiple brands in a product category vertically by price allows the company to cover a wider market while the main brand is protected. This will allow it to retain a price premium. A single brand could not be targeted at several quality levels simultaneously as consumers and the trade would object (ibid.). Aligning brand portfolios vertically also allows firms to compete with fierce competition coming from struggling third- and fourth-place brands (C-, and D-brands) that compete entirely on price. Exposing a single brand to a ruinous price war competition could cost market share and dilute the brand's image (Hoch, 1996). In this context a 'House of Brands' brand architecture would be favourable over a 'Branded House' strategy as the former is letting the participating brands act independently suiting an overall portfolio strategy with each brand fulfilling its designated portfolio role. Procter & Gamble for example organizes its product categories in Europe threefold along a premium, smart buyer, and low-price segment (Kapferer 2008, p. 397).

1.4.2 Channel Segmentation

Channels can be dissimilar in order to suit different consumer segments or by the type and depth of merchandize they offer. The grocery shopping channel for instance can be divided into hard-discount, soft discount, supermarket, hypermarket, and organic stores (Colla, 2003). While hard-discount stores offer a limited amount of product categories for the lowest prices, soft discount grocery stores offer more product categories and selected name branded goods at a similar price level as hard-discount stores. Both super- and hypermarkets sell the broadest range of product categories with increasing shop surfaces and merchandize depth and breadth. While organic products are not exclusive to the organic channel this channel specialises in organic produce sold at a high-end price level[5].

Kapferer (2008, p. 398) argues that channels are fighting against each other and by providing different brands to each channel, price harmonisation problems and channel conflicts can be prevented by the suppliers. It also allows for a better adaptation to customer motives in each channel. Channel segmentation is generally complemented by a second segmentation

[5] Chapter 5, part C will review retailer types, merchandise, pricing and PL strategies in detail as part of the external audit in VBPM.

criterion, namely price (ibid., p. 399). Even though certain channel types tend to draw a distinct patronage, most channels attract a heterogeneous clientele. For instance hard-discount stores and their products appeal to different kinds of consumer segments ranging from the price sensitive low-income shopper to the well-off and educated smart shopper/bargain hunter (Hoch 1996). At other channel types, such as supermarkets, low-price positioned private labels are targeted at similar segments as mentioned above. A brand portfolio positioned along price-quality levels will allow room for targeting most of these different kinds of shopper segments within one channel effectively. Segmenting brands along channel requirements and offering the trade multiple brands can also lead to higher trade dependence and increased brand shelf presence of manufacturer brands (Keller 2008, p. 439).

1.4.3 Benefit Segmentation

Segmenting brands by benefit is related to behavioural segmentation and includes how customers think of or use a product (Keller, 2008, p. 99). Depending on the product category or customer profiles, multiple brands in a brand portfolio can be segmented on one single benefit or on several different benefits. For instance in the toothpaste category Haley (1968) determined four main segments of consumers demanding different product benefits. By applying benefit segmentation, marketing programs can be tailored to attract one or multiple segments.

The following example from "Danone Waters" shall illustrate how the company organises its non-carbonated water brand portfolio along one benefit dimension, in this case by the benefit of 'health' (see table 2). Evian takes the role of the main brand in the portfolio. Due to Evian's limited supply, Volvic, which is priced 10% below Evian, can be used for brand extensions in areas such as aromatised waters. Vitalinea is the third brand in the portfolio aimed at the weight conscious segment. The portfolio is completed by several source waters in order to serve trade expectations of low-cost brands (Kapferer 2008, p. 397).

Brand	Health Benefit	Portfolio Role
Evian	Aesthetic Health	Main brand
Volvic	Vitality	Stimulate market through brand extensions
Vitalinea	Staying slim	Address specific health problems. Positioned against Contrex
Source Waters	-	Fulfil channel expectations of low-cost brand

Table 2: Danone's non-carbonated water brand portfolio[6]

The example also shows that brand portfolios can be segmented using a mix of segmentation criteria. While benefit segmentation is the key criterion used for Danone waters, in this case the benefit of 'health', the second segmentation criterion is price. The brands beneath the main brand Evian are priced below their referent brand. The role-play of the brands in the portfolio supports the main brand's identity that in return can charge a price premium. The vertically aligned brands also offer consumers and the trade a complete range with private label-like source waters as category entry points. In summary, a single brand could not fulfil all relevant tasks that consumers and the trade are asking for without running the risk of losing its identity. Furthermore, only a multi-brand portfolio can effectively claim different quality levels, be sub-segmented, and meet distribution channel requirements at the same time.

1.5 Brand Portfolio Issues Justifying VBPM

Vertical Brand Portfolio Management recommends brand manufacturer's to produce and manage private labels (PLs) on behalf of retail partners. The retail partner therefore hands over all marketing responsibilities directed at a PL to the brand manufacturer whose task will include the integration of the PL into its own brand portfolio strategy. The integration will free up resources at the retailer's end and the PL will profit from the brand management expertise[7] - a skill that is traditionally owned by national brand manufacturers. Like the other brands in the manufacturer's brand portfolio, the PL will have to play an assigned role within the portfolio having to contribute to overall portfolio goals. The PL will therefore have an

[6] Source: derived from Kapferer (2008, p. 397).

[7] Hoch (1996) for instance recognizes that PLs are mostly managed by retailers but questions whether retailers can maintain the organizational structure for building and managing such brands in more than 300 categories effectively.

effect on the other brands in the manufacturer's portfolio. The following section is dedicated to selected brand portfolio issues that can serve as reasons for the implementation of VBPM. The discussion will build on chapter 1.3 by linking the topic explicitly to the inclusion of PLs.

1.5.1 VBPM and Segmentation Considerations

The lack of brand representation in a chosen market segmentation can justify the integration of PLs into a brand manufacturer's brand portfolio.

VBPM and channel segmentation

As pointed out before, channel segmentation enables a company to target different consumer segments as consumer price sensitivity differs across channels and purchase situations. Channel segmentation can also prevent channel conflicts and can avoid price harmonisations of channels.

Channel segmentation would mandate the production of PLs if a brand manufacturer was seeking distribution at retailers that exclusively merchandize their stores with PLs. For the German hard discount grocery retailer Aldi PL products account for approximately 95% of sales (Nishikawa and Perrin, 2005a). Aldi requires its suppliers to design and produce PLs and in return offers distribution in its vast network of stores[8].

The market scope of large retailers can also favour a channel segmentation strategy with exclusively offered PL brands to such large retail outfits. In the small appliances category for example, being sold exclusively at the US retail giant Wal-Mart would represent 45% of the US market in that category (Kapferer 2008, p. 398).

Price segmentation

Assigning a price and quality territory to each brand in a multi brand portfolio is the purpose of this segmentation strategy. If a company's brand portfolio lacks the presence of e.g. a value brand, the integration of a PL would synergise with the brands in the portfolio. Velux, a market leader for roof windows introduced 'Roof Light' as a low-cost alternative, targeting

[8] In the particular case of Aldi, considering its stringent business practices it is questionable if the company would allow brand manufacturers to manage PLs in a way that is suggested by VBPM.

price-sensitive customers (Kapferer 2008, p. 400). Roof Light is sold as a private label by large Do-it-Yourself chains with a price difference to Velux of 30%, making the product also less expensive than Velux's main competitors, that are priced with a 20% discount.

As pointed out before, offering multiple brands in the same product category can also increase brand shelf presence and dependence of retailers who might otherwise switch to another brand (Keller 2008, p. 439). The integration of a value positioned PL would meet distribution expectations of a vertically optimized product portfolio and is likely to simplify the category management process for both the retailer and the brand manufacturer.

Multi segmentation strategies

VBPM can also imply a complex vision of multiple segmentation strategies that can even span across geographical borders including the use PLs. For illustration, the case of the Michelin brand, the world's leading tyre manufacturer, will be discussed below. The case will show the flexibility and adaptation made possible by a brand portfolio including the needs of the distribution channels (see Kapferer, 2008, p. 393-395):

Traditionally, Michelin has been marketed as a mono-brand. All innovation and marketing support was dedicated to the brand while other brands, 80 worldwide, did not receive any marketing support and were not allowed to profit from the innovations of the parent company. While this strategy allowed the company a global presence it neglected the fact that the tyre market, similar to the automobile market, is segmented. The US market for instance can be segmented by price with customers wanting the best quality, customers who request a major brand that offers good value for money and those that can only afford a minimum amount for a set of tyres.

While Michelin serves the top end of the segment, Uniroyal targets the cost-conscious customer. Additionally, Michelin produces a low-cost tyre under the 'Liberator' brand, which in the US is exclusively sold at Wal-Mart. Other retailers can sell another low-cost brand from Michelin, namely the Warrior brand. The picture of the US market is complete by taking the "fashion" conscious 4 x 4 owners and pick-up drivers into account that want customised tyres. For this segment the Michelin brand is too conservative and therefore Michelin acquired the American brand BF Goodrich which is positioned as a sports brand for this price-insensitive market who see tyres as a kind of status symbol (psychographic segmentation). Michelin's US tyre portfolio is summarized in table 3.

Segmentation by price	Brands	Other Segmentation
Premium	Michelin	-
Premium	BF Goodrich	Tyre as „status symbol" (psychographic segmentation)
Smart Shopper	Uniroyal	-
Low-Price	Warrior	-
	Liberator (PL)	Channel segmentation

Table 3: Michelin's US vertical brand portfolio[9]

The Michelin brand portfolio is also operational in other markets across the globe. Michelin satisfies the growing Chinese market with the Warrior brand positioned as a middle-range brand. This strategy allows the Michelin brand to maintain its reputation in China as the world's number one brand. In Korea and Japan, the segment that demands products 'made in the USA' is satisfied by the BF Goodrich brand. In Europe, Michelin is also the top brand in the portfolio followed by the Kleber brand which is aimed at the cost-conscious segment. Like in the US, Warrior is positioned in the low-cost segment and BF Goodrich at the owners of sports utility vehicles. The European portfolio is completed by several regional brands such as Taurus in Hungary and Kormoran in the Czech Republic, for example. The private label brand Liberator is sold at 'Norauto' outlets across Europe.

The Michelin case illustrates how a brand portfolio can aid a company to satisfy several segmentation requirements with a well-structured team of brands each assigned with clear roles. Michelin as the main brand of the portfolio drives the portfolio and can keep its terrain as a brand that focuses on safety and performance. Smart buyers do not have to turn to competition and instead are served with either Uniroyal in the USA or Kleber in Europe. And further, the brand images of Michelin and the other premium brands in the portfolio are not diluted because the independent Warrior brand and the private label brand Liberator meet the needs of the low-cost customer segment who requests affordable tyre alternatives. Status

[9] Source: derived from Kapferer (2008, pp. 393).

driven customers for whom the premium Michelin brand is too bland are attracted by BF Goodrich, which attests a psychographic segmentation.

Michelin's brand portfolio – ranging from top-of-the-range bands to private label brands – enables the firm to act more flexible and to adapt to local markets including a close connection with distribution partners. It is apparent by this case that PLs can play an integral part in a firm's portfolio thinking.

1.5.2 VBPM as Entry Barrier for Competitors

Another benefit of comprehensive multi-brand portfolios is their ability to function as a barrier for competitors to be listed by retailers. If a retailer is presented with a strong, well-managed, and calibrated brand portfolio including PLs there might not be room for other brands in the retailer's offering in the particular product category. As mentioned in chapter 1.3, soft drink companies create entry barriers by providing a full range of products needed by the distribution partner (Coke, Fanta, Sprit, Lift, and et cetera). For VBPM, this can become relevant in hard- and soft-discount grocery store settings where generally slimmer assortment breadths can be found as compared to super- and hypermarkets. Additionally certain product categories do not allow for broader brand offerings. For example, the commodity-like toilet paper category is, compared to other product categories, often represented by a smaller number of national brands and PLs that possess relatively large market shares (Nishikawa and Perrin, 2005a).

1.5.3 Leveraging Brands Vertically

When auditing a brand portfolio the question whether all brands are fully leveraged and whether they have the potential to be vertically extended can be addressed. In most markets brand proliferation and competition on price are the norm. Among other factors, competition can arise from heavily discounted B-, or C-brands, sophisticated retailer private label programs, and determined competitors pursuing a leadership strategy (Aaker, 2004, p. 230). When moving a brand upmarket, Aaker (p. 234) cites attractive margins, energy and vitality of the brand, and enhancements to the brand as drivers for this move. On the other hand, moving downmarket lets the brand tap into value channels and price sensitive customers segments, which can result in driving sales volumes. Deciding on stretching brands vertically is an evident competitive strategy that requires a careful assessment of the brand's strengths and weaknesses but also involves risks that need to be considered. For example, when a brand enters a value market (a downmarket move) its perceived quality associations could be affected and it can become difficult to retain existing premium customers or loyal customers might be cannibalised (ibid.). Aaker (2004, p. 237) proposes six strategies to address these risks:

1. Reposition a struggling premium brand down
2. Position the brand to work vertically
3. Extend the brand to different products or markets
4. Use subbrands
5. Use endorsed brands
6. Develop a new band

Vertical Brand Portfolio Management implies a vertical move for a firm's brand portfolio and therefore several of Aaker's risk avoidance strategies can be "borrowed" for justifying the strategy and supporting its execution. For instance, inflated portfolios may bring forward weak brands that lack brand strength and equity. Such "C- or D-brands" may be suited as potential candidates for a value market role by repositioning them downmarket into a private label.

Further, extending a brand to different markets has been adopted successfully by 'Ridgid', generally a maker of plumber tools, and the leading US Do-it-Yourself-retailer 'The Home Depot' (Hill and Lederer, 2001, p. 56). The Home Depot exclusively sells Ridgid power tools, which makes the products similar to private labels[10]. The cooperation allows Ridgid to grow by solely extending its brand via a leading retailer in a market in which the company has never participated before.

Developing a new brand is costly and can add brand clutter to an already inflated portfolio. To avoid most risks associated with moving downmarket, VBPM can be labelled as an additional risk avoidance strategy. Including a PL in the brand portfolio role play could be a

[10] Kumar and Steenkamp (2007, p. 158) refer to such brands as 'exclusive brands' which is more accurate than calling them a private label. Identical to PLs, exclusive brands lack ubiquity, but are still owned by the brand manufacturer, while ownership of Pls rests with retailers.

cost effective and beneficial strategy for the brand manufacturer. Costs related to new brand development can be avoided and the PL has guaranteed access onto the retailer's shelves[11]. Due to the fact that PLs lack market ubiquity the brand manufacturer would have to pursue this strategy with several retailers simultaneously in order to achieve complete or near full market coverage

1.6 Implications of PL Positioning on VBPM

Positioning is the means by which a company differentiates products or services from competitors in order to give consumers a reason to purchase (Baines et al., 2011, p. 234). When positioning brands, manufacturers should take competitive brands into account and naturally include retailer PLs in their planning. In a market context one main advantage of the PL integration in VBPM is that the PL's competitive nature can be neutralised within the brand portfolio. While brand manufacturers only have to position their own products to maximize profits, the retailer focuses on maximizing profits coming from the entire product category, which includes PLs and other national brands (Sayman et al., 2002).

Firstly the breadth and depth of the retailer's PL portfolio can have an impact. Is it a multi-tiered PL portfolio in which the PL in question is an "umbrella brand" or part of it or does the brand hierarchy of the PL offering only allow the integration of a "mono brand"? The positioning of the PL, whether it is a mono brand or an umbrella brand, has a direct effect on the brand manufacturer's portfolio. Is a value brand subject of integration or is the brand manufacturer taking over a premium PL originally positioned as a direct competitor to the leading national brand? The nature of the brand manufacturer's brand portfolio and its segmentation strategy has to be taken into account as well. For example, can an existing brand from the portfolio be repositioned to take the PL's place?

1.6.1 Integrating Value Private Labels

In the case where PLs are positioned as value brands, the integration into the brand manufacturer's brand portfolio would primarily imply segmentation by price. The PL would logically be placed in the lower quality position of the brand portfolio. This could well fit into

[11] Using a PL to grow vertically can also have relational benefits for the brand manufacturer with the trade. Dunne and Narasimhan (1999) recommend producing PLs as a more peaceful alternative to flanker brands that are directed against the low-price competition by retailers. The discussion on using PLs as flanker brands will be taken up again in chapter 7.5, part C.

a manufacturer's chosen market segmentation especially for packaged goods companies that often segment their markets by price. The PL's role within the portfolio would be to serve the price-sensitive segment while allowing the other brands in the portfolio to claim higher price territories. The planning process in part C will further investigate implications of brand architecture on the integration of value PLs.

1.6.2 Integrating Premium Private Labels

Traditionally associated with inferior quality and low price, PLs have more recently moved upscale. Since the 1990s, retailers have attempted to place themselves not only in the price level but also in the quality level when offering PLs. Premium PLs are often copies of national bands of the same or even of better quality compared to the market leading national brand (Jonas and Roosen, 2005). Retailers use these products for image building and to create customer store loyalty.

Integrating premium PLs falls under the other end of the price segmentation spectrum. A brand manufacturer that has the task of managing a premium private label faces the challenge to position the brand alongside territories that have been traditionally occupied by manufacturer brands. Chapter 8.4, part C will discuss the circumstances in relation to brand portfolio strategy under which an integration of premium PLs is a feasible option.

In summary, this chapter has discussed the relevance of brand architecture and multi-brand portfolios in the context of the anticipated VBPM strategy. Main portfolio issues were brought forward. The central focus was put on segmentation issues and their significance for VBPM. Additionally, typical brand portfolio issues can be related to the consideration of VBPM as a portfolio enhancing strategy. The next section will move away from brand supplier matters towards retailer related topics concerned mainly with PL branding strategies.

2 Definition and Manifestations of Private Labels

Private labels (PLs) are products marketed by retailers and other members of the distribution chain (Keller, 2008, p. 222). PL production is generally in the hands of an independent manufacturer while distributors retain ownership over the brand. Different terms are possible and used in the academic discussion. For example, Kapferer (2008, p. 62) and Riezebos (2003, p. 7) typically refer to ”distributor-owned-brands” (DOBs). The authors argue that calling them ‘private labels’ does not account for the reach of these products. For example, consumers consider PLs as real brands that they are loyal to (Corstjens and Lal, 1996, Ailawadi et al., 2001, Kapferer, 2008, p. 72). Additionally a range of other terms can be found in the academic literature and in the business press such as retailer brands, own labels, distributor brands, home brands and so forth. All of these terms have their merits and will be used interchangeably. However the term of reference will be “private label”. It is the most widely applied term in the academic literature on this subject and used by some of the leading scholars in the field such as Hoch (1996), Quelch (1996), Steiner (2004) and Kumar and Steenkamp (2007). Finally, the privity of the manufacturers that produce PLs in the US and Europe is named “The Private Label Manufacturers Association - PLMA”.

The term “private label” is also the most neutral and least prejudice expression to apply to what to date has evolved from low-cost, basic-quality products to premium products that are often embedded in multi-tiered retailer PL portfolios. Therefore, idioms such as generics, white-labels, and no-names fail to recognise existing brand equity of PLs and segmentation strategies that retailers have applied to their private label programs. Private label brokers in the US, such as Federated Foods and Daymon Associates, offer comprehensive PL inventories (e.g. “Red & White”) to smaller retailers, that lack the means to develop such PL programs on their own (Hoch, 1996). Consequently, the broker being the legal owner of the label and not the retailer, ‘DOB’ as the term of reference contradicts with the brand ownership aspect. And finally, a ‘store brand’ is a category on its own and will be applied further on to describe store formats where all products are sold under the name of the company. Here, the goal is to consider the store as the brand.

The academic discussion has long failed to pay sufficient attention to private labels. The manufacturer brand has long been considered the only point of reference and PLs were being thought of as “non-brands” that only attracted price-sensitive customers (Kapferer, 2008, p. 66). This is partly due to their heritage of a low-cost, low-quality positioning that was primarily applied to private label grocery products. Retailers have more recently begun to improve quality and expanded PL offerings to premium products in an attempt to compete head-to-head with national brands (Scott Morton and Zettelmeyer, 2004).

Despite their reputation, retailers often are well educated when it comes to branding their own products. Nowadays, private label brands are frequently managed like any other brand with clearly defined target customers, competitors from whom they intend to gain market share, an offer and a price, attractive packaging, and communication to promote (Kapferer, 2008, p. 69). They are equipped with clearly defined product positionings and PL ranges are segmented not only by price-levels, but also by up-and-coming consumer needs and market trends[12] (Riezebos, 2003, p. 8). However, PLs receive less marketing autonomy than their manufacturer brand counterparts (Kapferer, 2008, p. 69). Firstly, as part of an overall corporate business strategy, PLs have to find their place within the retailer's marketing mix and thus need to consider the values of the store brand (ibid.). Additionally, price remains as a key marketing mix element for PLs due to their common lower-cost and good-value image for consumers (Keller, 2008, p. 223).

2.1 Strategic Options for Private Labels

In the course of defining the nature and distinction of private labels from that of manufacturer brands, different manifestations of PLs can be distinguished. By partially following Bruhn's (2006, p. 642) approach, a typologisation along the strategic dimensions of brand breadth, private label positioning, segmentation, and relationship with the store brand will be developed and applied throughout this thesis (see table 4).

Strategic dimensions	**Manifestation**
Brand Breadth	Individual brand ↔ Family brand ↔ Generic ↔ Store brand
Positioning	Generic ↔ Copycat ↔ Premium (-lite, -price)
Segmentation	Price-based ↔ Category-based ↔ Benefit-based
Relationship with store	Store name ↔ no relationship to store name (new name)

Table 4: Strategic options for private labels[13]

[12] It will be shown in chapter 2.2, that PLs nowadays serve the wants and needs of several market segments.
[13] Source: own, adapted from Bruhn (2006, p. 642), Kumar and Steenkamp (2007).

2.1.1 Brand Breadth

Retailers manage their band portfolios as part of an overall vision for the category and for the store (Kapferer, 2008, S. 67). They choose their brand mix for each category and have to make a decision on the type of brand they want to offer. The brand breadth depends on the amount of products that belong to a brand. Retailers can choose from four types of brands: individual brand, family brand, generic, or store brand. **Individual brands** - in the literature also referred to as product-, single-, or mono-brands - are restricted to one product category but can be used for several different product types and extensions within the category. Individual brands are competing directly with manufacturer brands and do not refer to the retailers name. Typical examples are the washing detergent brand “Tandil” (Aldi) or the clothing line “St. Michael” (Marks and Spencer). **Family brands** are applied across a range of related categories such as gourmet food products (“REWE Feine Welt”) to range brands such as “President’s Choice” (Loblaws). The label lends its name to products in categories that range from food, garden and household items, financial products, to telecommunication[14]. Family brands, also referred to as range brands or umbrella brands, can evoke a specific set of associations across a group of products or categories which can result in marketing economies of scale. **Generics** are discount price-level labels that range across dissimilar product categories and can often cover the retailer’s whole assortment. Examples for these assortment brands are “Savings Plus” (A&P) and “Tip” (Metro). Generics are often carried by retailers to offer shoppers an alternative to hard-discount labels (Kumar and Steenkamp, 2007, p. 30). Finally, s**tore brands** have become wide spread and significant in recent times (Roeb, 1997). Shoppers are supposed to perceive that all products are sold under the ownership of the retailer. Customers therefore no longer pay attention to individual brands. Instead, the point of purchase is in the focus and the positioning of the retail brand (store brand) in its entirety becomes the point of reference. Zara for clothing and Ikea for furniture and household items are typical examples for successful store brands.

[14] A detailed review of Loblaws’ President’s Choice and REWE’s PL programs can be found in the progression of this chapter.

2.1.2 Positioning of Private Labels

Brand positioning is "the act of designing the company's offering and image to occupy a distinctive place in the mind of the target market" (Kotler and Keller, 2006, p. 310). Several authors such as Ries and Tout (2001) and Sayman (2002) argue that price is only a possible outcome of positioning and do not explicitly see price as a determining factor for positioning. Riezebos (2003, p. 53) takes the stance that the determination of a brand's position usually takes place along two dimensions: the relative price of the brand and the intrinsic dimension (tangible and intangible assets). This stance is particularly relevant when examining the positioning of PLs because "good value" has traditionally been a key positioning determinant in that respect. On the basis of the perceived dimensions of quality- and price-levels three positioning strategies can be distinguished: generic, copycat, and premium (Kumar and Steenkamp, 2007, p. 31)

Generics[15] are the result of a simple conception with little added value and poor quality and are often available up to 50% beneath the leading national brand price level (Nishikawa and Perrin, 2005a). Retailers use them as a price competitive label against hard discount brands to provide shoppers with a low-price category entry-level option (Kumar and Steenkamp, 2007, p. 30). Price is used as the main differentiator. Generics can come in several types such as a retail brand with a subbrand like "Tesco Value" or as an individual brand with no association to the retailer ("No.1" from Carrefour). The consortium brand "Euroshopper" is another type of generic that is distributed across Europe by Albert Heijn in the Netherlands and eight other distributors (Kumar and Steenkamp, 2007, p. 33). A relationship to the store name like in Tesco's case requires careful assessment as the low quality of the generic private label could reflect negatively on the retail brand.

Also referred to as me-too-products, **copycats** follow an imitation strategy, which produces mostly family brands and individual brands, which are re-creations of leading manufacturer brands (ibid., p. 34). The retailer imitates all of the leading brand's product features including

[15] The overlapping meaning of 'generic' both in relation to brand breadth and positioning is owed to the word coining of „generic", often used as the term of reference for PLs in the low-price segment. Other terms used in this context are „no-names" or „white labels" all referring to the simple packaging and appearance that normally characterise these types of store brands.

a carbon copy like packaging that aims at profiting from consumer confusion who wrongfully take the knock-off for the brand leader (Kapferer, 2008, p. 78). Re-engineered copycat labels are generally the follow-up of leading brands' product hits. The aim for the distributor is to minimize product development costs and failure risk. Positioned at equal quality, copycats are generally priced moderately lower than their national brand counterparts. By increasing the average price of the leading brands, retailers intend to attract more customers to their own brands (Pauwels and Srinivasan, 2004).

Premium private labels are positioned in the high quality, high price segment ranging in quality as equal or superior to the leading national brand (Sayman et al., 2002). Individual brands, family brands, and especially store brands are suited to successfully implement this strategy. To consequently follow the premium brand positioning of the private label, the entire marketing mix, beyond merely price, becomes equally important in order to create and sustain customer brand loyalty.

Kumar and Steenkamp (2007, pp. 42) distinguish between two types of premium private label, i.e. "premium-lite" and "premium-price". Premium-lite PLs are aimed to be perceived as equal or as better than the leading brand while selling at a discount. The difference in price can be seen as compensation for the smaller emotional benefit of the store brand. While this strategy implies investments in product development, the challenge for the retailer lies in convincing customers of the product's good performance. Examples for successful premium-lite ranges are President's Choice (Loblaws) and Kirkland Signature (Costco) (ibid., p. 44). Premium-price positioned PLs exceed leading national brands both in quality and price. Pioneered and popular mainly in Europe these premium products can range from a single category such as clothing from the Marks & Spencer's "Per Una Due" underwear label to range brands like "Tesco Finest", that spans from freshly squeezed orange juice, to candy bars, and bath and body products (ibid., p. 46). Premium PLs also create brand equity by occupying niche and trend segments such as organic and fair trade. This has put many leading brand manufacturers in the "passenger seat" especially in the organic segment where PLs hold significantly higher market shares (Jonas and Roosen, 2005).

A special kind of private label, the 'value innovator'[16], can be found at hard discount stores (Kumar and Steenkamp, 2007, p. 62). Originated in Germany by the retailer Aldi, the phenomenon of hard discount stores has spread globally. Hard discount stores provide quality products at lowest prices. The labels are produced by specialised suppliers in exorbitant numbers and discounts are based on the elimination of all unnecessary costs (Kapferer, 2008, p. 68). Store concepts are unpretentious and assortments limited to a reduced range of goods. Aldi sells approximately 700 items compared to 100.000 at Wal-Mart and 25.000 at a regular supermarket (Kumar and Steenkamp, 2007, p. 62). Aldi's share of private label turnover is 95 % (Wal-Mart: 40%, Metro: 35%) (Lincoln and Thomassen, 2008, p. 51).

The products sold at hard discount stores are of good quality, in some cases even better than their national brand counterparts but sell at an unbeatable quality/price ratio. Private labels sold at these store types can even get "cult-like status" among consumers, like the Aldi champagne label "Veuve Durand", and can reach significant market shares in their respective categories (Gröppel-Klein, 2000, p. 853). But generally, the functional quality is at least equal to the brand leader excluding non-value-adding product features and imagery. Brand architectures are typically following a house of brands strategy and can cover multi-tiered product portfolios in selected categories. Aldi's no-frills concept, which set the benchmark for the hard discount category, has been imitated frequently in many markets starting with Lidl in Germany and the so-called "Dollar-stores" in the USA. According to Kumar and Steenkamp (2007, p. 62) these value innovator private labels are also thriving outside the consumer packaged goods industry, where e.g. Swedish clothing chain H&M and IKEA have pursued this strategy successfully.

2.1.3 Private Label Segmentation

Segmenting brand portfolios has generally been a domain dominated by brand manufacturers. However, retailers have caught up in developing refined segmentation strategies and this has resulted in brand portfolios including multiple types of private labels. It is in the area of segmentation where Kapferer (2008, p. 86) sees an opportunity and competitive advantage for

[16] This special type of private label is not a strategic dimension for PLs per se. Although it may have the appearance, it is typically a combination of the four dimensions and predominantly found at hard disocunt grocery stores.

retailers to strengthen customer loyalty. Retailers have more recently proven to being able to meet consumer needs and demands at a very quick response rate and at lower risk compared to brand manufacturers. Strong PL lines in the organic, health, and fair trade segments show proof of this ability.

Most commonly, retailers segment their PL portfolios along three segmentation strategies. Often combined, retailers segment either by price, category, or benefit (Kumar and Steenkamp, 2007, pp. 75):

Price-based segmentation is the most commonly used method for retailers to structure their PL offering. This segmentation strategy is also in line with the dominant PL positioning dimension of 'price' and the common consumer motivation of why to purchase PLs, i.e. their good value. Many European retailers maintain three-tiered PL portfolios, starting with a low-quality offering – often in the form of a generic –, a medium-quality line, and premium private labels. Three-tiered price segmentation allows the retailer to offer price sensitive consumers an alternative to hard discount store labels and permits to target quality seeking customers that normally shop for manufacturer brands.

Category-based segmentation comprises a number of different products that belong to a specific product category (e.g. laundry detergents). Often embedded in a house of store brands strategy, such category brands are neither affiliated to the store nor to one another. A private label brand that covers a category can more easily communicate category specific attributes and benefits. Unlike category overarching private label programs, often found in generic low-price lines, category store brands do not risk to cause conflict between different category associations. For example, some product categories may be positioned on functional performance, whereas others are positioned on image.

Benefit-based segmentation allows individual brands and family brands to appeal to particular consumer lifestyles and needs. Retailers have been innovative and successful in meeting recent consumer trends such as food safety and healthy living. Organic and "free-from" PL ranges show proof of these trends (e.g. "REWE Bio" or "PC Blue Menu" by Loblaws). Private labels can also appeal to consumer needs as diverse as social awareness ("Monoprix Equitable"-fair trade, "Coles Finest Fair Trade Coffee"), nostalgia ("Reflets de France" from Carrefour), the need for novel and unexpected ("Destination Saveur" by

Carrefour), or environmentalism ("PC Green" from Loblaws). It is in these market segments where PLs perform highly in innovativeness and can even outpace their manufacturer brand counterparts (Jonas and Roosen, 2005).

2.1.4 Relationship with Store

The final strategic option for private labels applied in this thesis lies in the choice of its brand name. The main distinction can be made whether or not the label has a **relationship** with the store brand name. While using the store brand name ownership of the label is obvious and can result in a transfer of brand equity to the private label and vice versa. Newly created names are often used for individual brands and category-segmented private labels. Figure 2 relates the dimension of 'relationship with store' to added value of the offering. The overview illustrates that retailers choose different approaches when relating quality to the store brand name.

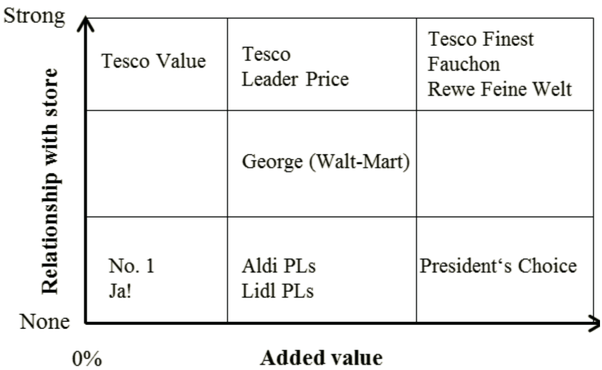

Figure 2: Relative positioning of PLs and relationship with store[17]

2.2 Multi Segmented Private Label Portfolios

Leading retailers, particularly mass merchandisers and supermarkets, combine differently positioned PLs with multiple types of segmentations. Following this strategy, these kinds of retailers have created multi segmented private label portfolios over time. To illustrate the

[17] Source: adapted from Kapferer (2008, p. 68).

complexity and the differences in retailer branding strategies, Loblaws' Presidents Choice label and REWE's recently re-structured PL portfolio will be presented and analysed.

2.2.1 Loblaws Case

Loblaws is Canada's leading supermarket retailer and began its private label 'President's Choice' (PC) in 1984 (Loblaws, 2011). The initial aim was to offer better value in groceries to Canadian consumers (Nishikawa and Perrin, 2005b). Initially positioned with a price-point focus, the label was expanded into broader segments, now offering quality and health-focused options to consumers. Beyond a sole focus on food products, the PC brand has been stretched well beyond into other product categories ranging from household items to financial services (Loblaws, 2009).

PC functions as the master brand in a "branded house" brand architecture positioned as a premium-lite private label. The label is first of all available in 32 product categories ranging from food products to household and cleaning items. PC can claim one of the biggest success stories in premium private labels due to its "Decadent Chocolate Chip" cookie. This high-quality product has more butter and chocolate chips than the leading brand and became the single best-selling cookie soon after its introduction (Lincoln and Thomassen, 2008, p. 103). PC also markets several benefit-based subbrands such as "PC Mini Chefs" targeting children and their parents, "PC Organics" and "PC Blue Menu" for the health conscious, and PC G.R.E.E.N. aimed at environmentally aware consumers (see table 5). Loblaws has stretched its PC label into different product categories. Category brands such PC Home offer furniture and kitchen appliances, whereas PC's Lawn & Garden ranges from plants, to fertilizers, and garden accessories. Consumers can also choose services from PC Financial that scope from credit cards, banking, to insurances. The President's Choice private label portfolio is complemented by another category-segmented label, PC Telecom, which includes mobile phones and mobile post- and prepaid telephony. Table 5 summarises the President's Choice PL program and links the label's to product category coverage and branding strategy.

Label	Categories	Branding Strategy
President's Choice	Over 20 food categories, house-hold, personal care	PC as the master brand. Positioned as premium-lite equal or better than leading brand. Price-based segmentation
PC Mini Chefs	11 food categories	Subbrand targeted at children aged 5-10 and their parents. Benefit segmentation of fun and healthiness
PC Organics	17 product categories of food, household items	Subbrand segmented benefit-based by taste and organic
PC Blue Menu	19 food categories	Subbrand for the health conscious segment. Line extension "Memories of …". Benefit segmentation: taste and nostalgia
PC G.R.E.E.N.	Household, cleaning, hygiene products	Subbrand. Products at par with leading brands. Benefit of environmentally friendly
PC Home	Small furniture, kitchen appliances, bathroom items	Subbrand segmented category based. Additional benefits: modern, stylish, convenient
PC Lawn & Garden	Flowers, fertiliser, garden accessories	Subbrand category based. Additional benefits of fun and easiness
PC Financial	Banking, insurance	Category based subbrand
PC Telecom	Mobile phones, telephony	Category based subbrand

Table 5: President's Choice brand portfolio[18]

PC's premium-lite positioning is promoted on its website to "deliver PC products at prices lower than the leading brands" and includes a money-back guarantee (Loblaws, 2011). Also available on PC's webpage is PCTV, the label's advisory voice introducing new products and solutions to issues related to, for example, effective gardening and cooking tips. The comprehensive website further includes "How To's" which is a forum for information and instructions on special occasions such as planning a pick-nick or a party. Consumer relationships are maintained with the monthly newsletter "Insider News" and Loblaws shoppers can create an online shopping profile that allows them to save recipes and necessary ingredients to prepare them. The website also encourages its users to eat healthily with a dedicated section called "healthy living". PC is actively involved in community service with

[18] Source: own, Loblaws (2010).

the “PC Children’s Charity”, a cause marketing initiative with the aim to help “physically or developmentally challenged children”.

PC’s marketing mix exceeds the marketing efforts that retailers generally put into their private label programs. These efforts have made PC one of “Canada’s best-known trademarks” as it is self-proclaimed by Loblaws (Loblaws, 2011). This private label brand portfolio strategy exemplifies the complexity and consumer focus that private label programs can reach. The broadly stretched family brand participates in attractive markets and appeals to divers segments.

2.2.2 REWE Case

REWE is one of Europe’s leading retail companies employing over 300.000 people and reaching an annual turnover of 48 billion Euro in 2011 (Rewe, 2012b). With the supermarket grocery segment being REWE’s primary line of business, the company recently restructured its German supermarket operations by unifying 3000 retail outlets under the REWE store brand. Along with its corporate store brand, REWE also consolidated its private label portfolio to a mix of individual-, family brands, and generics. These labels are multi-segmented and combine different positioning strategies (see table 6).

REWE’s new product range is a result of the consolidation of long serving private labels such as “Erlenhof”, “Salto”, and “Today” under the REWE family brand (Münzberg, 2008). REWE uses the corporate name for numerous segments starting with the “Qualitätsmarke REWE” (quality brand REWE) that spans across 17 product categories and is positioned as premium-lite. REWE also functions as the endorser for niche and trend products subsumed in the subbrands “REWE Bio” and “REWE Feine Welt” (REWE fine world). Both brands are the top-tier representatives in the price-based segmented REWE label portfolio but also contain benefit-based segmentation elements, such as health, social consciousness (fair trade), and indulgence. The category-based segmented individual brand Wilhelm Brandenburg offers a wide range of meat products positioned at a premium-lite level. Ja! is REWE’s generic private label with an even broader product range than its REWE portfolio partner. In 2009, the Ja! brand was extended to “Ja! Mobil”, a low-cost mobile phone provider following the trend of German retailers teaming up with mobile phone service operators such as E-Plus and T-Mobile to offer discounted mobile phone services.

Label	Categories	Type	Positioning	Segmentation
REWE	640 products over 17 categories	Store brand/ family brand	Premium-lite	Price-based with quality equal or exceeding leading brand
REWE Bio	260 products over 14 categories	Family brand/ subbrand	Premium-price	Price-based and benefit-based (health, social consciousness)
REWE Feine Welt	Gourmet food products (breakfast, condiments, beverages, delicatessen, desserts)	Family brand	Premium-price	Price-based and benefit-based (taste, exotic)
Wilhelm Brandenburg	Range of pre-packaged and fresh meat products	Individual brand	Premium-lite	Category-based
Ja!	750 products over 19 categories	Generic	Generic	Price-based low-cost products
Ja! Mobil	Mobile telephony	Generic	Generic	Category-based

Table 6: REWE private label portfolio[19]

REWE capitalises on its store brand name by lending it to the majority of its broad PL range. The relationship with the store brand also makes product choices easier for shoppers and reduces the risks for them. The private label holds key positioning importance, since its content and products have to convey the values of the store brand. REWE does not run a risk of hurting its store brand reputation by lending its name to the cheapest products like the Ja! generic.

In summary, both President's Choice and REWE exemplify that retailers today are applying branding strategies to their private label offerings that are sophisticated and that have the ability to create brand equity for both the labels and the retail brand. The strategies allow for increased market coverage and broader market segment appeal. Multi-segmented private label portfolios also permit more for a "one-stop shopping experience" considering a complete price-based segmentation where the low-price generic entry point is targeted directly versus

[19] Source: own, REWE (2009).

the hard discount supermarkets. It also illustrates the ability of these retailers to quickly respond to consumer trends taking their private labels into segments such as organic and fair trade.

2.3 Differences between Private Labels and Manufacturer Brands

The discussion on the differences between private labels and manufacturer brands is characterised by the claim that private labels do not deserve a “real brand” status (Gröppel-Klein, 2000, p. 854). This view is mainly supported by the fact that private label’s lack market ubiquity, have low to no investments in product innovation, and spend little on advertising (Kapferer, 2008, p. 74, Lincoln and Thomassen, 2008, p. 39).

Price has traditionally been the main marketing mix element used by retailers for PLs and consequently “good value” is seen as a key differentiator in the consumer’s eye (Kapferer, 2008, pp. 70). Retailers usually were able to sustain PL-affordability by light marketing budgets that were based on simply copying leading national brands without direct advertising costs (ibid.). Price as a differentiator can only be sustainable as a reasonable positioning strategy when a cost advantage for the PL can be kept and also submitted to consumers. Additionally, many retailers such as Wal-Mart work by the “everyday low prices” strategy which made them category leaders in their respective markets (Keller, 2008, p. 20). Hard-discount retailers such as Aldi can gain structural cost advantages, due to a limited assortment and great turnovers (Kumar and Steenkamp, 2007, p. 64). At the same time, PLs are part of an overall retailer strategy and as shown above they are often formally embedded under the retailer’s (umbrella) store brand. For that matter, the management of PLs does not have the same autonomy as the manufacturer brand (Kapferer, 2008, p. 70).

Despite a focus on price, several examples however prove that private labels can innovate and diversify to a level that even outpaces national brand manufacturers. The PL “Reflets de France”, which is structured as a family brand by France’s Carrefour hypermarket chain, consists of over one hundred regional products and recipes from France, which are locally made and positioned by the benefits of taste and nostalgia (Kapferer, 2008, p. 79). It would be difficult for a brand manufacturer to construct this kind of family brand with such broad diversity that is built along a regional theme. Furthermore, the British retailer Tesco has extended its Tesco standard PL into seven benefit-based subbrands, such as “Tesco Carb

Control", "Tesco Fair Trade", "Tesco Organic", and "Tesco Serves One" (Kumar and Steenkamp, 2007, pp. 84). These food offerings are all clearly distinct from each other with different benefits (ibid.). Similarly, it is hard to imagine that FMCG brands can be stretched regularly into such varied categories of food, home furnishings, banking, and telephony like Loblaws practices it in its "President's Choice" line.

Retailers have also been closing another gap by implementing integrated marketing communication programs. Promotional efforts for leading private label programs can include weekly newspaper inserts, sales promotions, direct marketing, loyalty programs, and comprehensive web sites (Keller, 2008, p. 225). REWE's newly developed "Feine Welt" label, which was introduced in September 2009, was heavily promoted by a print-, point-of-sale-, online-, and mobile campaign (Horizont, 2009). Even television has been added to the retailer media mix of private labels. For example, Real's continuously promotes its "Real Quality" label on TV and Aldi's plans to advertise on German TV were highly discussed after the retailer was already present on TV in in some of its foreign markets (Reidel, 2012). Relying on store- and family brands that reach across numerous categories can also enable retailers to bundle their marketing statements and media spendings. At the same time retailers have to acknowledge the risks associated with poorly managed PLs. One product failure can negatively affect the retailer's overall image (Kumar and Steenkamp, 2007, p. 87).

Not all retailers manage their private label portfolios with the same complexity as the examples have shown. Simple generics targeted at the competition coming from hard discount stores are often the norm that retailers only commit to. Benefit-based segmented premium PLs require a highly developed brand building approach and substantial financial investments. Not all retailers have the expertise to build and manage multi-segmented PL portfolios and lack the financial stamina to do so. However, it has to be noted, that retailers with sophisticated private label programs, such as Loblaws, Tesco, or Target, are, without exception, leaders in their respective markets with loyal customer fellowship (ibid, pp. 86).

3 Channel Relationships and Vertical Marketing Practices

Vertical Marketing (VM) ranges from the analysis, planning, and control of relationships between suppliers and retailers. Vertical Marketing is particularly relevant in distribution channels, where brand manufacturers sell their goods to consumers indirectly via retail organisations. VM includes all sales- and marketing activities that are directed towards the trade in a cooperative effort (Meffert et al., 2008, p. 316). In this context the retail organisation is not just seen as a customer. Instead the industry recognises the retailer's role as a potential filter of its consumer marketing efforts (Irrgang, 1993, p. 1).

The discussion of VM finds its relevance is several areas. Firstly, the relationship between suppliers of branded goods and retailers is characterised by mutual dependency (Tomczak and Gussek, 1992). On the one hand brand manufacturers need distributors to gain consumer access to sell their products on the other hand retailers want to sell popular brands that consumers demand. A shift in the balance of power between suppliers and retailers in favour of the retailer has been observed by a number of authors (Shaw and Gibbs, 1995, Kumar, 1996, Narasimhan and Wilcox, 1998). The power shift is partly due to on-going concentration tendencies in the retail sector where suppliers nowadays have to deal with fewer and more dominant retailers. In the meantime retailers have sophisticated their own processes. For instance, centralised procurement, intelligent consumer data, and a stronger focus on the point-of-sale are a few factors that have lead retailers to an even stronger role as gatekeepers (Zentes, 1996). Retailers that used to merely distribute branded goods are now often the leading partners opposite the branded goods industry.

The relationship between producers and retailers is characterised by conflict and diverging institutional market goals. While national brand manufacturers generally maintain a product focus, retailers emphasise their efforts on assortment and shopping environments (Meffert et al., 2008, p. 317). Retail pricing policies also fuel the conflict driven relationship from the supplier's perspective (Zentes and Swoboda, 2005). Common problems for suppliers are large price discounts that retailers allow their branded products (Kotler and Bliemel, 1995, p. 780). These discounts are usually unwanted for the brands of the supplier as it can dilute brand identity. On the other hand, retailers seek horizontal differentiation by offering unique private labels. Private label (PL) entry can have several negative effects on the branded products within a category and the relationship with the supplier of branded goods (Narasimhan and Wilcox, 1998, Mills, 1999).

Continuous competitive forces accompanied by stagnating demand have caused price pressures in most consumer markets which have had negative profit effects for both manufacturers and retailers (Goerdt, 1999, p. 9). Despite the conflictive relationship, this has lead retailers and brand manufacturers to engage in strategic cooperations in an effort of strategic reorientation (Zentes and Schramm-Klein, 2004, p. 1682). Accordingly, especially suppliers have been encouraged to develop closer relationships with retailers. The efforts are aimed at influencing the retailer's' single minded discount pricing focus, reducing the total cost in the marketing channel, and increasing consumer value in a cooperative way (Corsten and Kumar, 2005). A main supplier-retailer cooperation strategy is manifested by an industry initiative called "*Efficient Consumer Response*" (ECR). Within ECR, the collaboration between industry and retailer is based on VM principles (Zentes, 1998, pp. 47). While VM practices span across the complete value chain, e.g. product policy and supply-chain issues, ECR focuses on the collaborative analysis and design of product assortments and other marketing relevant topics (Meffert et al., 2008, p. 565). In the following, it will be shown, that VM and ECR are key theories and business practices from which VBPM can borrow numerous principles. The chapter will first offer a review of the goals and benefits of ECR and its sub-strategies and then relate these strategies to VBPM. This chapter will then be followed by a detailed reflection on the appropriateness of VM and ECR as the key theories for the anticipated VBPM strategy. For this purpose VM and ECR will undergo a theory borrowing process.

3.1 Efficient Consumer Response

Under the promise of total consumer focus the idea behind efficient consumer response (ECR) is to establish efficient, collaborative, consumer oriented business processes between suppliers and retailers in the fast-moving consumer goods industry (Kotzab and Teller, 2003). The governing body "ECR-Europe" sums up ECR as "Working together to fulfil consumers' wishes better, faster and at less cost" (Hofstetter and Jones, 2006, p. 73). In the US, the consultancy firm Kurt Salmon Associates (1993) estimated that under ECR streamlining, the supply-chain would lead to overall cost savings of 11% of retail price, or US$30 billion. In Europe, ten years after its implementation in 1995, ECR-Europe estimates that across the industry, ECR adoption has delivered savings of 3.6% on consumer sales value, i.e. over 18 Billion Euro at 1995 currency rates (Hofstetter and Jones, 2006, p. 16). Over time, ECR has become a comprehensive initiative comprising of numerous different ECR practices that are organized within two main areas of manufacturer–retailer collaboration, namely demand side management (category management) that are practices to stimulate consumer demand by promoting joint marketing and sales activities and supply side management, practices to optimize supply, with a focus on joint logistics and supply chain activities (Corsten and Kumar, 2005). Figure 3 offers an overview of the main ECR strategies. The next section will introduce the main tactics of Category Management.

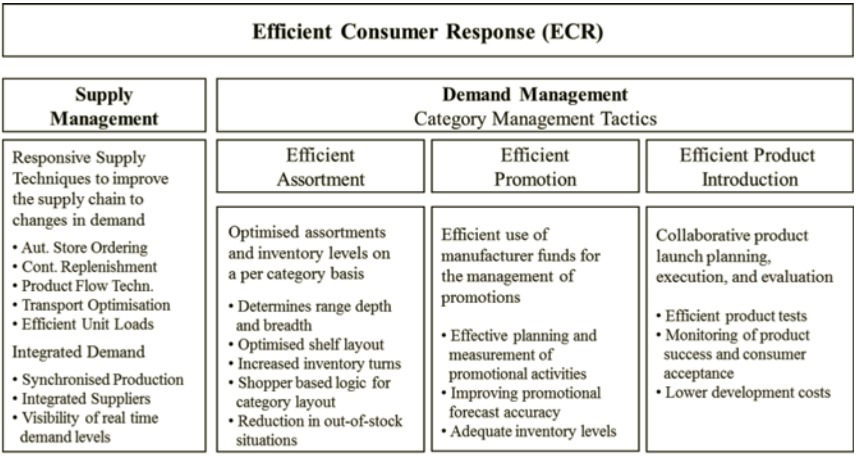

Figure 3: Primary ECR strategies[20]

3.2 Category Management

Category Management can be defined as a supplier/retailer process of mutually managing categories as strategic business units, resulting in enhanced business results by focusing on delivering consumer value (ECR Europe, 1997, p. 8). This collaborative view between supplier and retailer to create consumer value is shared by other authors (Meffert, 2000, pp. 1094, Müller-Hagedorn and Schuckel, 2003, pp. 34, Grünblatt, 2008). Category management (CM) as a management system aims to reduce the distance from supplier to customer by defining and managing product categories, rather than individual brands, in an environment of enhanced mutual trust and cooperation between manufacturers and retailers (Dupre and Gruen, 2004). CM presents a platform to maximise sales and profits and therefore a competitive advantage based on the capability to offer the right products in the right way to meet "the fast changing needs of a highly complex consumer" (Johnson, 1999). This relies on retailers sharing scanner data and on suppliers combining this data with their in-depth

[20] Source: adapted from Kurt Salmon Associates (1993, p. 29), Hofstetter and Jones (2006).

knowledge of the consumer. CM starts with a strategic transfer of the focus of management attention away from the manufacturer's brands only towards the retailer's categories. ECR Europe defines a category as "a distinct manageable group of products that consumers perceive to be related and/or substitutable in meeting a consumer need" (Blattberg et al., 1995, ECR Europe, 1997, p. 8). The category perspective is complemented with tendencies by leading FMCG-producers, that have shifted away from a pure brand management perspective towards a more category based management of broader brand portfolios (Grünblatt, 2008). This trend by the branded goods industry was also accelerated by the before mentioned power shift in favour of larger retailers that have practiced category management in their own right. Retailers have long focused on the profitability of the whole product category instead of limiting it to individual brands.

While significant cost savings with supply-oriented ECR practices were firstly accomplished, the demand side and therefore CM has become the focal point of ECR adoption. The three main concepts as shown in figure 3 are consumer oriented assortments ("*Efficient Assortment*"), optimised promotions ("*Efficient Promotion*"), and introductions of newly designed products ("*Efficient Product Introduction*") (Seifert, 2006a, pp. 147). All three concepts mainly involve the marketing and sales departments of suppliers to initiate fields of cooperation with retailers. It can be said, that assortment activities have become highly developed since the start of ECR (Lietke, 2009, p. 17). Conversely, the two remaining tactical concepts are often challenged by conflicts of interest between manufacturers and retailers (Lingenfelder et al., 1998). For instance, brand images are challenged by non-brand conforming point-of-sale presentations or constant discounting practices by retailers. As shown before, the price emphasis of the retail sector contradicts the quality focus of brand manufacturers. Consumer value also diminishes by inflated assortments or too many promotions that merely attract smart shoppers (Wünschmann and Müller, 2005, pp. 87).
As a result streamlining manufacturer and retail marketing strategies becomes imminent. Therefore, the collaborative modus operandi of CM with its holistic perspective on marketing is an approach to coordinate the demand driven channel activities of both retailer and manufacturer. This approach is meant to result in cooperation profits. The three CM applications are further discussed in the following section.

3.2.1 Efficient Assortment

Because of the category and assortment focus of the retail sector, some large brand manufacturers felt it only made sense to deal with the trade along similar lines (Freeman, 1987). Furthermore the increasing power shift from manufacturer to retailer has supported this trend. Therefore the tactical area of "*efficient assortment*" is the key concept of category management. It offers a broad base for cost savings and growth opportunities and is adopted the most among the demand side concepts (Hofstetter and Jones, 2006). The measures within the scope of assortment optimisation include resource allocation for storage, shelf space, and management of a category (ibid.). This can result in opportunities for range simplifications and regionally adapted assortments. The effort, which is mutually driven by the manufacturer and the retailer, should result in consumer-reliant assortments including optimal product shelf placements and the right pricing structures within a category. In this context, a category manager has to set the prices of all brands in the category (including private labels) so that the total category profits can be maximised. The optimisation of all categories of an assortment can become in-efficient for retailers. Therefore retailers can appoint so called "*Category Captains*" from its pool of suppliers and give them the duty of managing the corresponding categories (Seifert, p. 190). Usually retailers chose a manufacturer which is most competent within the product category (Grünblatt, 2008). Then, the retailer and category captain determine the category strategy collaboratively (see chapter 3.2.4, part B for a review of the steps of the 'category management process'). During this process, the retailer passes along scanning data that includes sales, prices, space allocations, and promotions for all category items. The manufacturer combines this data with his profound knowledge of consumer behaviour and finally designs the category structure with optimal product assortments, prices, and shelf allocations. Well managed assortments should lead to maximised merchandize turnover and optimal retail space productivity.

3.2.2 Efficient Promotion

The main purpose of "*Efficient Promotion*" is the collaboration between manufacturers and retailers to jointly plan, execute, and evaluate promotions (Lietke, 2009, p. 16). To start with, objectives that meet both the retailer and the manufacturer goals have to be determined. With promotions, the retail generally seeks to enhance the overall performance of the store ("store traffic"), whereas the brand manufacturer aims at enhancing brand equity for its own products. Next to streamlining these system immanent differences, efficient promotion can help to overcome price focused promotions that are mostly found at the point-of-sale (Feller and Großweischede, 1999). When planned and carried out well, coordinated promotions make more efficient use of resources, can yield considerable sales uplifts and generate extra profit for both the manufacturer and the retailer (Grünblatt, 2008). On the whole, efficient promotion can lead to more brand loyalty for both the brands of the manufacturer and the retail brand.

3.2.3 Efficient Product Introduction

"*Efficient Product Introduction*" entails joint product development and market introduction between manufacturer and retailer. Combining the retailer's customer knowledge with the product development expertise of the manufacturer should bring out new products that better meet consumer needs and suit the retailer's particular environment (Heydt, 1997, p. 126). The success rate of new products can be increased through coordinated product tests and the close monitoring of promotional introduction activities (Hofstetter and Jones, 2006). Using customer touch points from POS data gives the retailer quick feedback about consumer acceptance of the new product and its activation activities (Heller, 2006, p. 340). Sharing this knowledge with the manufacturer enables both collaboration partners to make appropriate changes if needed and should lower the costs associated with new product development (Heydt, 1997, p. 126).

3.2.4 The Category Management Process

The grocery industry has developed an eight-stage process to guide suppliers and retailers in their category management efforts starting with a category definition through to the subsequent joint strategy for the category including its implementation and review step. According to ECR Europe (2000, p. 21) the following eight critical steps are necessary equally for manufacturers and retailers to implement CM successfully:

Step 1: Definition of the category based on the needs of the target market
Step 2: Assignment of the category role
Step 3: Assessment of the category to find opportunities for improvement
Step 4: Setting performance targets and measurement of progress with a category scorecard

Step 5: Creating a strategy for the category

Step 6: Determining category tactics for assortment, pricing, promotion, merchandising, and supply chain management

Step 7: Category implementation – rolling out the plan

Step 8: Reviewing the category plan

Step 1 determines the products that constitute a category, subcategories, and segmentations. According to consumer perceptions, the category definition should include all products that are substitutable or from related areas. The category role definition is based on a cross-category examination. Once the category definition and roles are chosen, the emphasis of efforts lies on the category strategy (step 5) and executing the category tactics (step 6) (Basuroy et al., 2001). The coordinated participation of manufacturer and retailer at each step of the CM process is a prerequisite.

A particular importance in CM has to be accounted to the pooling and analysis of consumer and shopper data between manufacturer and retailer (Seifert, 2006, p. 160). This is particularly relevant for the controlling and measurement of the cooperative outcomes. Both parties have to judge whether or not the benefits of supplying this data exceeds the costs and risks involved. For the manufacturer, the partnership may be at the expense of relationships with other retailers or threaten the security of his brands. The retailer has to judge to what extent he will allow a manufacturer to have influence on the management of its categories. If appointed as category captain, a manufacturer can have significant influence on parts of the retailer's assortment that can reach as far as deciding over competitive brands in the retailer's assortment. For example, the category captain may advise the retailer to delist a competitive brand (Steiner, 2001).

3.3 Goals and Benefits of ECR and Category Management

While cost savings and improved profitability are generally stated as the main benefits for adopting ECR practices, the relevant academic literature and business press state a range of ECR accomplishments that are of both tangible and intangible nature. Table 7 summarises parts of the present literature on ECR and CM and highlights the key benefits for manufacturers and retailers. The benefits in table 7 are structured into three main areas, i.e. benefits for the manufacturer (M), benefits for the retailer (R), and relational benefits (RB) that result from the collaboration between manufacturer and retailer. The extant literature on ECR and CM is categorised mainly into articles focussed on empirical research (Hofstetter and Jones, 2006, Corsten and Kumar, 2005, Dupre and Gruen, 2004, Basuroy et al., 2001, Dhar et al., 2001, Broniarczyk et al., 1998, Zenor, 1994), commentary (Richards, 1995), and case-study based descriptions (Kurnia and Johnston, 2001, Johnson, 1999). Especially the empirical research is limited as it mainly focuses on the grocery segment. Nonetheless the results and evidence indicate several main goals that reoccur in these studies.

Author	ECR and CM Benefits
Hofstetter and Jones (2006)	(M) Decreased inventory levels, increased service levels, improved on-time delivery, and reduced lead-times. Improved image, higher sales, ECR adopters become retailers' preferred collaboration partners, gain better understanding of retailers' business processes, effectively manage product appearance at POS. (R) Higher supply chain efficiency. Higher sales and image. ECR adopters perform above industry average. More consumer orientated assortments, more beneficial promotions, decreased out-of-stocks. (RB) High relational benefits[21]. Jointly, more responsiveness and flexibility in the business environment. Increased level of trust and fairness among partners. Higher commitment to joint problem solving.
Corsten and Kumar (2005)	(M) Manufacturers regardless of size and the proportions of branded versus private label supplies achieve greater economic performance and develop capabilities when adopting ECR. (RB) It pays to develop trust in relationships and to work with smarter retailers.
Dupre and Gruen (2004)	(M)+(R) CM focus can result in stronger growth than market average. Improved positioning opportunities of products via sub-segmented categories. Possibility of regionally tailored assortments. Customer preference based categories lead to higher customer loyalty towards retailer and supplier brands. Lower operational costs and increased revenue. Better resource allocation and sharing, and more efficient warehouse operations and inventory. (RB) Objectivity by category captain signals trust to retailer.
Basuroy et al. (2001)	(R) Higher category profitability when CM is implemented under the premise of high inter-brand competition and low consumer store switching.
Dhar et al. (2001)	(R) CM gives clarity on assortment breadth and depth. CM helps to identify key variables for assortment success and clarity on the roles that categories can play in a store's overall portfolio. (M) ECR best practice among retailers is a decision indicator for manufacturers for marketing investments with retailers.
Kurnia and Johnston (2001)	(M) Supply side ECR improves planning base for production and promotion (R) Reduced operating costs and improved product quality. Better retailer loyalty, higher sales and profits.
Johnson (1999)	(RB) Mutual benefits in operating a trusting trading relationship.
Broniarczyk et al. (1998)	(R) Possibility of leaner assortments without putting store choice in jeopardy.
Richards (1995)	(M) Category captainship by supplier can avoid supplier lock-out.
Zenor (1994)	(M) Profit benefits to manufacturer from coordinated CM pricing structure.

Table 7: Benefits of ECR and CM[22]

[21] These are benefits that partners could not create on their own.

[22] Sources: see above under author.

Based on the results of the literature review (see table 7) the stated benefits from ECR and CM can be structured into three main benefit and goal clusters, namely (1) brand/retailer loyalty, (2), operational efficiency and profitability and (3) improvements in the supplier-retailer relations (see figure 4).

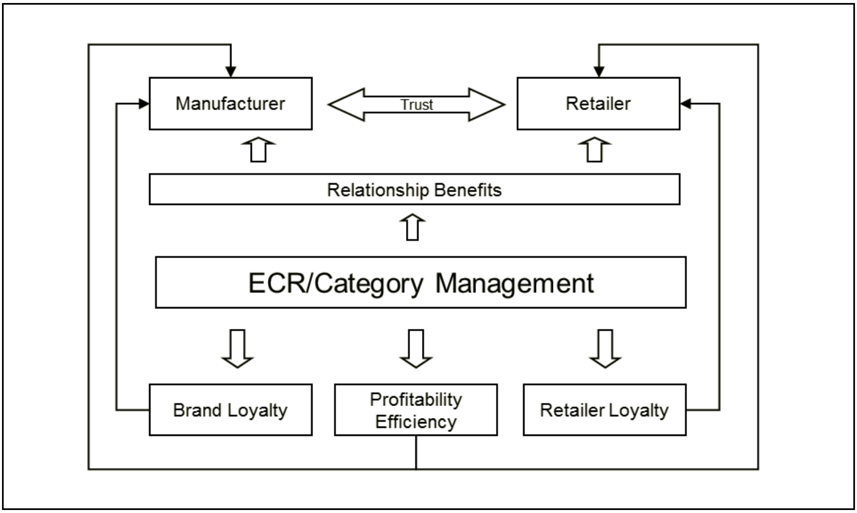

Figure 4: Benefits and goals of ECR and Category Management[23]

Especially operational efficiency derives mainly from supplier initiated supply-side activities that often result in short-term cost leaderships (Dupre and Gruen, 2004). Nevertheless supply-side benefits can lead to benefits on the demand-side. For instance, improved on-time delivery and consequently prevented out-of-stock situations particularly can lead to more customer satisfaction and therefore brand loyalty (Kurnia and Johnston, 2001). Furthermore, particularly the demand driven activities can lead to more long-term mutual benefits. ECR also implicates a total focus on the needs and wants of the consumer. Therefore a range of benefits from ECR must derive by creating more value to the customer. As illustrated in table 7, consumer value is created for example by increased service levels, consumer oriented assortments and categories, more beneficial promotions, improved product quality, better product shelf placement, and improved brand positioning. These outcomes, drawn from the

[23] Source: own.

demand-side, can lead to more long-term benefits. As a result, CM can significantly increase such long-term supplier and retailer goals of enhanced loyalty to the manufacturer's brands and the retailer brand (Barrenstein and Tweraser, 2002, p. 139). In the highly competitive fmcg-markets, this can become a distinct competitive advantage for both collaborators. With a stronger brand to sell, retailers may be more receptive to manufacturer suggestions to stock, reorder, and display their brands. On top, they also may demand smaller slotting allowances from suppliers of strong brands and allocate more favourable space to them. After all, this strengthens the manufacturer's vertical channel position and underlines his horizontal competitiveness. The retailer wins by tying-in more shoppers to its format, when store brand loyalty increases.

While ECR and CM should ultimately benefit the consumer, the relationship related benefits stay within the bilateral retailer-supplier partnership. Several mutual benefits find their origin in enhanced trust between manufacturer and retailer. Kumar (1996) suggests that trust helps manufacturer-retailer relationships appreciate their full potential. When both sides have faith in each other, they are able to exchange confidential information and will invest in understanding each other's business. Moreover they are more likely to streamline their information systems and devote people and resources to serve each other better. Especially the supply-driven ECR practices require substantial IT investments. Trust by the retailer in the partner can lead to tasks for the manufacturer that can also have long-term benefits for him. Richards (1995) points out that category captainship by a supplier can avoid supplier lock-out from a retailer. More trust in a manufacturer is generated if a category captain shows objectivity. For instance, objectivity is signalled if a supplier as category captain is willing to voluntarily delist its own weak brands (Dupre and Gruen, 2004). For the manufacturer, ECR relationships with trusted retailers enhances their economic situation (Corsten and Kumar, 2005). The authors proclaim that "it pays to develop trust in relationships and to work with smarter retailers".

3.4 Problems and Risks of ECR Adoption

Although the benefits of ECR adoption are the centre of this discussion problems and obstacles have slowed down the implementation of this cooperative strategy. ECR adoption needs cooperation and trust between the trading partners, which are doubtful to happen in a competitive environment unless costs, benefits and risks of ECR implementation can be equally shared. Especially the cost sharing and mutual distribution of benefits causes friction between the partners particularly on the part of manufacturers, who often perceive an inequitable sharing of the benefits and burdens of ECR (Freedman et al., 1997). Additionally, individual self-interested activity on the part of the participants requires streamlining which is not easy to firms coming from a free-market, competitive environment. This sets the issue of trust in the spotlight again. Manufacturers may feel the strategic security of their brands at risk when retailers reach access to consumer insights which could then be exploited through their private label programs.

Overall the benefits of ECR adoption outweigh the disadvantages and as Corsten and Kumar (2005) put it:

> *"It may be wise for suppliers to "manage" equity by adapting their perceptions of contributions and benefits and by accepting some inequity as the "cost of doing business", particularly when, (...), there are substantial economic and learning benefits from ECR relationships."*

In conclusion, ECR practices will be particularly attractive for a small number of large firms due to the substantial investments that have to be taken. This is why ECR and in particular CM stays exclusive to financially apt companies that are willing to make significant coordination- and control investments. Overall, due to rising horizontal competitive forces, especially in the grocery- and fmcg-sector, vertical cooperations such as ECR are likely to continue to gain importance (Seifert, 2006, p. 404).

3.5 Private Labels in the Category Management Context

3.5.1 Roles of Private Labels for the Retailer

Within CM practices retailers must clearly define the role that each category plays in the overall store assortment. In that process, CM also necessitates the retailer to determine the roles for their private labels (PLs), both at the overall store level and within a specific category (Hoch and Lodish, 1998). At the store level, retailers are interested in differentiating themselves from other chains, and they view PLs as a primary source of differentiation (Banerji and Hoch, 1993, Quelch, 1996). The primary role of PLs in a retailers strategy remains foremost as a profit generator, taking advantage of the integral lower variable cost structure and higher gross margins (Corstjens et al., 1995). PLs can also play an important role as image creators, where the image of best available quality for the money is portrayed. Broad PL programs can also contribute to larger market shares. Sayman and Raju's (2004) analysis of scanner data in 13 product categories disclosed the "umbrella effects" of extensive PL programs. They find that the number of PLs in other categories increases the PL share in the "target category". Larger PL sales have also given retailers a better position from which to bargain with brand manufacturers. Scott Morton and Zettelmeyer (2004) used scanner data from five supermarket chains to validate their model's prediction that, in addition to other motivations, introducing store brands into a category strengthens a retailers' bargaining position "when negotiating supply terms with manufacturers of national brands". In conclusion, private labels can play a significant role in the retailer's overall competitive strategy. Not only can PLs have an effect on store and category profitability, they can also enhance store image, create customer loyalty, and are able to support channel power by the retailer.

3.5.2 Private Label Success Factors

When looking at PLs and category management one has to look at the factors that determine the category-share private labels can attain. According to Banerji and Hoch (1993), consumers, manufacturers, and retailers equally have an effect on PL performance because their expectations and actions interrelate with each other. The needs, expectations, and behaviour of consumers define the demand side. Retailer allocation decisions affect the supply. And the environment within PLs compete is affected by the number, competitiveness, and actions of manufacturers of national brands.

On the demand side, literature suggests that differences in objective or perceived product attributes and promotional activities between manufacturer and retail brands may lead to different perceptions and preferences among consumers (De Chernatony, 1989, Richardson et al., 1994). For example, generics are generally associated with lower quality attributes that lack innovation. As a result, such different preferences may lead to varied consumer choices in category purchases between name brands and PLs (Baltas et al., 1997).

On the supply side, the retailer is, among other variables, in charge of the pricing, quality, shelf space allocation, innovation and brand advertising of the private label. Extensive private label diffusion, as measured by total private label share, can lower the average price of national brands (Putsis Jr, 1997). In a study conducted by Hoch and Banerji (1993) the authors show that, when PL quality relative to the national brands is high, store brands obtain higher market shares. The authors also find that the amount of national brand manufacturers that are operating in a category and the overall national brand advertising expenditures of the particular category have an impact on PL success. As a result, PLs can be “crowded” out of a market when national brand competition is high and when these brands heavily invest in building brand equity. On the other hand, retailer promotional support can notably augment PL performance (Sethuraman, 1995, Dhar and Hoch, 1997). A study by Dhar et al. (2001) concluded that, although lower prices, more promotion, and larger assortments generally improve performances in all categories combined, the decisive drivers of category performance vary depending on the role the category plays in the portfolio of the retailer and for the consumer. In their study they distinguish between staple categories (e.g. cereal or coffee), variety enhancers (e.g. pickles, rice), niche products (e.g. macaroni & cheese), and fill-ins (syrup or pancake mix). For example, multi-tiered PL programs in staple categories can especially increase store traffic and therefore category volume.

Common believe among many brand manufacturers is that private label competition causes a serious threat to their brands (Quelch, 1996). However PLs may in fact help a brand’s market position when certain circumstances are met. For instance, a category leader may welcome a rise in store brand share if it comes at the expense of one of its secondary brand competitors (Dhar and Hoch, 1997). For some manufacturers it may even be beneficial to encourage a retailer to carry strong store brands. In the event that both the manufacturer and the retailer have market power, Soberman and Parker (2006) recommend the launch of “quality-equivalent” PLs by the retailer. In their model, following this strategy can lead to higher average category prices and improved profitability. As a result, even a dominant manufacturer could see the incentive to agree to a retailer's request of supplying a quality-equivalent private label.

3.5.3 Category Management and Pricing Decisions

Although store brand pricing is only one of many factors that make for a successful and profitable PL program, it has a substantial impact on a PL’s market share. On the demand side it is the good value that consumers mainly look for when purchasing private labels (Keller, 2008, p. 222). Due to the heritage of lower quality and low pricing, PLs generally still sell for less than their national brand counterparts. This is also despite the upcoming of premium PLs that can account for an equal or even superior quality than the respective leading national brands. On a global basis, private label products offer consumers average savings of 31% over manufacturer brands (Nishikawa and Perrin, 2005a). The average price gaps can reach much higher dimensions in certain product categories.

While lower PL prices may increase the attractiveness for consumers to purchase them over a national brand, the retailer has to look at the profitability of the whole category when determining the pricing of its store brands. Dhar and Hoch (1997) predict that a 1% increase in the price gap between a private label and national brand leads to a marginally lower increase in store brand share. As a consequence, increasing the price gap, or in other terms, lowering the PL price will only be profitable until a point of diminishing returns (ibid.). In CM one of the key pricing policy questions must then be to determine the optimal price gap between PLs and manufacturer brands in order to achieve maximum category profitability. Adding to the pricing policy issues in CM are the findings of Cotterill and Putsis Jr. (2000) who find that markets characterized by high national brand market share and high retail concentration tend to have higher prices for both national brands and private labels.

3.6 The Integration of Private Label Production in Supplier-Retailer Collaborations

Retailers, for the most part, still do not produce PLs but engage with brand manufacturers who make the store products on their behalf (Olbrich and Braun, 2001, p. 417). This begs the question for suppliers whether or not to manufacture private labels for retailers. Various studies examine the subject of the advantages and the risks of producing private labels from the manufacturer’s perspective (Hoch, 1996, Quelch, 1996, Dunne and Narasimhan, 1999, Verhoef et al., 2002).

Dunne and Narashimhan (1999) consider three common motives for national brand manufacturers to produce private labels:

1. Economic motives
2. Relational motives, and
3. Competitive motives

Economic motives can be related to taking advantage of economies of scale, avoiding excess capacity or idle capacity, and simply reducing costs. The second motive deals with the fact that the production of PLs can improve relations with the trade in the long term, which can in

turn contribute positively to the merchandising of manufacturer brands (Oubina et al., 2006). And thirdly, producing private labels can be a chance to take sales from a competitor (Verhoef et al., 2002).
As stated before, the retailer is responsible of all PL marketing activities. On the other hand obtaining PLs from manufacturers implies a division of labour. Olbrich and Braun (2001, pp. 417) distinguish the division of labour between retailer and PL manufacturer by the level of intensity of their cooperation. The lowest level of cooperation is simply taking place between the marketing and sales departments of the manufacturer and the purchasing department of the retailer. The manufacturer only acts as a supplier of goods strictly under the given standards by the retailer. The physical distribution of goods takes place between the logistics departments of both the retailer and the supplier. Any after-sales actions by the manufacturer are only directed at the retailer and not the consumer. The next level of collaboration in PL procurement is characterised by an augmenting intensity of cooperation. Here the partners cooperate in logistics, production and merchandising of PLs. Such cooperations can be based on the exchange and evaluation of POS scanner data, which enables the supplier to react to sales developments directly and in a timely fashion. This can improve and automate purchasing and PL production planning. This division of labour can be supported by supply management oriented ECR-projects such as automated store ordering and continuous replenishment (Olbrich and Braun, 2001, p. 420). The third and most intensive form of cooperation takes place, when the augmented level is complimented by joint partnership in the planning, development, and execution of assortments, new products, new product introductions, and joint market research. Here, most of the decisions on the PL assortment and its marketing parameters are taken by the manufacturer under supervision by the retailer. This form of cooperation can be implemented in the course of category management, in particular within efficient product introduction projects (Ahlert and Borchert, 2000, p. 87).

Gollnick and Schindler (2001, p. 388) come to the conclusion, that the successful future development of PLs should follow the same rules on cooperation management that are know from ECR projects. This is particularly relevant for the development and management of PLs that are part of sophisticated and upscale retailer PL programs.

3.7 Vertical Brand Portfolio Management and ECR

As shown, ECR and CM adoption calls for diverse benefits on different levels and qualities for the parties involved. Foremost, when brand manufacturers and retailers cooperate in such a way, cost savings and profit maximisation are the key intended outcomes. However, intangible benefits related to consumer loyalty or relationship motives between the collaborators can be sought after. Category management in particular requires close and trusted relationships between the collaborators. Business processes need reengineering and substantial financial commitments are necessary. Although PLs are mostly managed by retailers, one has to question whether or not they are able to maintain the organisational structure for building and managing such brands effectively in all of the 150-200 categories that they normally carry (Hoch, 1996). Speer (1998) therefore suggests that CM is inevitable for retailers.

As the concept of Vertical Brand Portfolio Management (VBPM) suggests, a manufacturer supplies the retailer with a vertical portfolio of brands for a category that includes the production and management of private labels. As shown before, it can be beneficial to embed this kind of cooperation under a category management partnership. VBPM may therefore be considered an advanced form of CM as it adds an inward perspective of the manufacturer represented by its own portfolio brands.

Producing and managing both national brands and private labels for a retailer could lead to an exclusive supplier status by the manufacturer for selected product categories. Gaining control over the production and management of a whole category would go beyond the established competence of a category captainship. This could have a positive long-term effect on the channel relationship. The following quote from Johnson (1999) further supports these issues:

> "*The benefits of Category Management for a supplier organization are maximized when there is a purchase marketing strategy in place for the category. Purchase marketing is essentially using the store as a marketing medium, via tools such as position on shelf, pricing, communications and in-store promotions. Traditionally this has been the prerogative of retailers who own the stores. It is a challenge for the supplier to provide compelling arguments for the retailer to adapt, refine or even change the way they use the tools of the category to benefit the category as a whole and of course the supplier's position within it, thereby satisfying the business interests of both parties.*"

This quote from Johnson (1999) suggests suppliers to take over marketing activities that are traditionally in the hands of retailers. This can be interpreted as a call for a focus on vertical marketing initiatives. Taking this further into a VBPM context, the above mentioned challenge to convince retailers to adapt new ways to manage categories for mutual benefits is mirroring a similar challenge that manufacturers will be facing when proposing VBPM to retailers. Economic arguments will likely be the deciding factors for both collaborators. Nevertheless, given the importance of trust and relational aspects in CM cooperations, building on successful CM projects from the past may support the decision making process on both sides to engage in a VBPM cooperation[24].

The preceding discussion of the key vertical marketing concepts will now serve as the basis for an examination of the theory's appropriateness as the conceptual guideline for VBPM. Vertical Marketing and its applied business concepts of ECR and Category Management will next undergo a critical reflection. For that purpose the methodology of "*theory borrowing"* will be applied. This becomes necessary as the VM concept is taken out of its original context into a new setting in order to form a new concept.

4 A Critical Reflection on Vertical Marketing and Efficient Consumer Response

Vertical Brand Portfolio Management (VBPM) implies a close cooperative relationship between brand manufacturers and retailers. The perspectives on goals and objectives are twofold in the sense that both supplier and retailer will follow their own specific interests trying to profit equally from the relationship. As VBPM is based on the key strength of brand manufacturers, namely brand management expertise, the concept as such is designed for the application by manufacturers. It also can clearly be seen as an effort by suppliers of brands to direct their marketing towards the trade. The efforts of suppliers to integrate retailers into their own marketing strategies contribute to the concept of 'Vertical Marketing' (Irrgang, 1989, p. 1, Müller-Hagedorn et al., 1999).

In addition, the attention is drawn to the key vertical marketing concept of Efficient Consumer Response (ECR). As shown in the previous chapter, ECR is a widely accepted and implemented form of vertical marketing (VM) and will act as a reference theory for the

[24] At a later stage, chapter 3.4.2, part C will be dedicated to the success factors of ECR projects and will highlight further the importance of successful CM practices for the implementation of VBPM.

proposed concept of VBPM. On the whole, numerous parameters are in conformity between ECR and VBPM. Firstly, both concepts share the same protagonists, namely brand manufacturers and retailers. Furthermore ECR and VBPM greatly deal with marketing issues and share similar principles. For example, Efficient Promotion and Efficient Product Introduction are similarly affiliated to the principles of brand management as it is the case with VBPM. Besides, the brand portfolio mind-set of VBPM which recognizes PLs as indispensable is in congruence with the product category perspective of "Category Management" – a marketing application with the ECR strategy. Additionally, a stringent consumer focus is mutually important. As the term "*Efficient Consumer Response*" indicates, the consumer is at the centre of thinking. Creating more consumer value is meant to be a key outcome when implementing ECR (Hofstetter and Jones, 2006). It is widely accepted that brands and strong customer-brand relationships create consumer value (Aaker, 2002, p. 8, Kapferer, 2008, p. 18, Keller, 2008, p. 79). VBPM draws its customer orientation from brand portfolio management principles, which has the aim to offer a portfolio of products to different kinds of consumer segments. Hence, offering a vertical brand portfolio is the central idea of VBPM and should contribute to added consumer value. Next to the consumer orientation this is in line with the before mentioned category perspective of Efficient Assortment and Category Management.

Considering the strategic goals and objectives of VBPM, collaborators can draw upon similar goals and objectives that result from an ECR cooperation. Among other, the extant literature particularly highlights the relational objective of **enhanced trust** as a key objective for ECR related programs (Richards, 1995, Dupre and Gruen, 2004, Corstjens et al., 1995). Similarly for VBPM, enhanced and sustainable trust among the partners can be considered a prerequisite and desired outcome of the strategy.

Finally, drawing the attention directly to VBPM and the concept's imminent development of private labels, Gollnick and Schindler (2001, p. 388) come to the conclusion, that a joint-development of private labels between brand manufacturer and retailer should follow the same rules on cooperation management that are known from ECR projects. Such a cooperation can be implemented in the course of category management, in particular within efficient product introduction projects (Ahlert and Borchert, 2000, p. 87).

A critical reflection on the VM concept and its applied business concepts of ECR and Category Management (CM) shall determine the concepts' appropriateness as theoretical guidelines for VBPM. For this purpose the methodology of "*theory borrowing*" by Murray and Evers (1989) will be applied. The following section will first define 'theory' and outline the purpose of theory borrowing. Then, it will introduce the process that researchers should pursue when they intend to take a theory or concept out of its original context or want to change parts of a theory to form a new theory or concept. Then, the lending theory of VM is introduced in detail. The discussion of VM is followed by putting VM and its associated concepts under the theory borrowing process to test the appropriateness and validity of these paradigms for VBPM.

4.1 The Meaning of Theory

Before the concept of Theory Borrowing is introduced the term 'theory' shall be specified. Theory can be defined as an answer to the question of "why" (Whetten, 1989). In modern science the term "theory" is defined as "a formulation regarding the cause and effect relationships between two or more variables, which may or may not have been tested" (Gill and Johnson, 1997, p. 178). According to Whetten et al. (2009) theories can mostly be categorised twofold: (a) *paradigmatic* theories are formed as general theoretical perspectives and are often used to describe a particular phenomenon, and (b) *propositional* theories are constituted as one or several propositional arguments relating the application of one concept to explain a different concept. Eisenhardt (1989) recommends "*Agency Theory*" as an example of paradigmatic theory which can be used to explain problems that have a cooperative structure. As an example of propositional theory, Westbrook and Oliver (Westbrook and Oliver, 1991) apply Izard's "*Differential Emotions Theory*" to examine post-purchase emotions.

The distinction between paradigmatic and propositional theories is equally relevant for this thesis. Namely, it combines economic theories for the ontological value of VBPM and business concepts for its epistemology. Accordingly, such multi-facetted theory borrowing is common practice in the development of theory and knowledge in fields such as marketing, organisational studies, or logistics (Murray et al., 1995, Handfield and Bechtel, 2004, Whetten et al., 2009).

4.2 The Theory Borrowing Process

The interdisciplinary nature of marketing frequently implies the necessity to borrow theories and concepts from other disciplines or contexts (Murray et al., 1995). Theory Borrowing (TB) is a social process, performed by researchers, that involves removing a theory from its original frame of reference and using it in a different context to explain a phenomenon important to the field (Murray and Evers, 1989). For instance, the study of *emotions* in marketing has borrowed theories from other areas, especially psychology (Huang, 2001). The marketing discipline has been informed not only by theories from other disciplines, but also from within the field. The latter is the case when for example marketing concepts from other social or cultural contexts, such as the USA, are taken into a different cultural context, for example into a German context (Hansen and Bode, 1999, p. 440). To properly apply a borrowed theory into a new context the researcher shall not overlook the borrowed theory's existential base (Merton, 1968, p. 516) or what Murray et al. (1995) refer to as 'social roots'. Overlooking these existential roots can result in the theory's incompatibility for the new context.

In conclusion it is imperative to test borrowed theories for such incompatibilities. This kind of test methodology is shown in figure 5. It represents an implementation of this thesis' underlying assumption that theories do not develop and exist in an empty space, but instead have a clear relationship to historical circumstances (Hansen and Bode, 1999, p. 442). In a way that a theory explained a certain phenomenon within its original context the borrowed theory shall solve a problem in a new context and setting.

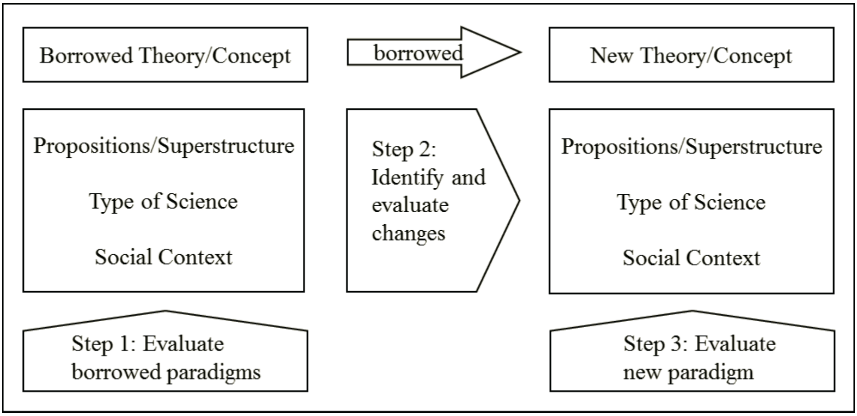

Figure 5: Theory structure and theory borrowing process[25]

In the **first step** of a conscious attempt of TB the researcher has to examine the lending theory's superstructure which consists of the theory's key propositions. What are the concepts of the theory? What are its main arguments? How were they used? These are important questions that need to be addressed in order to assess the aim of the theory's superstructure. Whether or not the new theory or concept is meaningful depends on the changes that took place in the borrowing process. Identifying these changes is part of the **second step** of the TB process. Lastly, the type of science may change or the new paradigm is settled in a different social context. Due to the interdependency of theory structure elements, the new concept may lose the synergy that derived from their interdependence when the construct selection was only partial (Murray and Evers, 1989). The **third step** contains the assessment and evaluation of the new theory or concept. As a result, the researcher should reflect on any inconsistencies between the two concept structures and explain the consequences of such inconsistencies for the new theory.

4.3 Manufacturer Strategies in the Channel Relationship

Manufacturers have to consider the channels of distribution of their goods as bottlenecks. It is up to a retailer to decide whether or not they will or continue to sell any particular manufacturer brand. Therefore, manufacturers should not only distinguish their brands in

[25] Source: adapted from Murray et al. (1995).

front of the consumer but furthermore need to include the wants and needs of retailers in their marketing thinking (Tomczak et al., 1994, p. 57). Most of the standard marketing literature and its scholars have long recognized the necessity for a joint market penetration by suppliers and retailers (Nieschlag et al., 1969, Meffert, 1975, p. 15, Kotler and Keller, 2006, p. 491).

Moreover, the necessity to join efforts is reasoned by the conflictive relationship between channel partners. Conflicts occur as a result of the differences in goals and objectives that separate suppliers from retailers. For instance manufacturers mostly aim at strengthening their brands and products. On the other hand, retailers predominantly focus on a strong store brand with an overall assortment success in mind. Table 8 summarizes selected areas of conflict between manufacturers and retailers along the marketing mix elements of ‘product’, ‘place’, ‘promotion’, and ‘price’. The differences and contrasts as to how these market players see and apply the marketing mix illustrates the potential for conflict and confrontation between them. This comparison is imperative, as it will help further on to depict different manufacturer strategies towards the trade. These strategies, also known as “vertical marketing”, will be introduced in the next section.

Marketing Mix Element	Manufacturer	Retailer
Product/Assortment	-Strong product/brand image -Focus on product innovation -Push for manufacturer/corporate brand -Distribution of entire product portfolio	-Push for private labels -Aim for product consistency -Focus on assortment/store brand .image -Selection of products based on consumer wants and needs and based on profitability
Place	-Large orders -High distribution density. -Selective distribution by own discretion -High service levels (high on-stock levels at retail level)	-Small orders -Selective or exclusive distribution by own discretion -Optimal service levels (low on-stock levels)
Promotion	-Product/brand advertising -National brand advertising -Preferred product placement -Manufacturer brand oriented promotion	-Store brand advertising -Regional brand advertising -Preferred assortment placement -Retailer brand oriented promotion
Price	-High selling price -Suggested retail price by manufacturer -Consistent prices on a national and longitudinal basis	-Low buying price -Independent price setting; option for selling below cost -Regional pricing structure based on demand and competition

Table 8: Areas of channel conflict in FMCG markets[26]

4.3.1 Vertical Marketing – General Preliminary Remarks and Definitions

As laid out throughout this thesis, the concept of Vertical Brand Portfolio Management (VBPM) is grounded on the concepts and insights of Efficient Consumer Response (ECR) and may be considered a continuation of this type of cooperative collaboration between manufacturers and retailers. From the supplier's perspective, ECR strategies are part of the *Vertical Marketing* spectrum (Müller-Hagedorn et al., 1999).

Vertical Marketing (VM) comprises the marketing efforts by manufacturers directed towards the trade. Literature has discussed the concept under different aspects. Oehme (2001, p. 454) considers VM as a bridge between consumer marketing and trade marketing, while Irrgang

[26] Source: derived from Zentes and Schramm-Klein (2004, pp. 1691), Seifert (2006, p. 24).

(1993, p. 1) sees the trade as an important catalyst for the manufacturer's consumer marketing efforts explicitly recommending the integration of the wants and needs of the trade into the manufacturer's marketing planning. Olbrich's (1995, p. 2616) definition of VM includes, next to a trade oriented marketing perspective by suppliers, the formation of cooperative partnerships between brand manufacturers and retailers. This cooperative aspect of VM can be traced back to McCammon (1970, pp. 43, cited in Olbrich, 2006, p. 243) who coined the original term of "*Vertical Marketing Systems*". To give all different viewpoints justice VM is understood *as a supplier strategy that involves the trade cooperatively when marketing to the consumer*. In practice, VM means that manufacturer and retailer coordinate their marketing efforts reciprocally. Besides, VM can be understood as a concept of *trade marketing* which Dupuis and Tissier-Desbordes (1996, p. 45) define as:

> *"A methodological procedure carried out jointly by suppliers and retailers, whose objective is to better serve customers' needs and expectations, increase profitability and competitive position while taking into account each other's constraints and specificity."*

Granted that both concepts can be seen as supplier-retailer collaborations, trade marketing, unlike VM, does not explicitly intend the supplier as the initiator of the collaboration. This puts the perspective of VM generally from the supplier.

The concept of VM in the German marketing landscape has been strongly influenced by the work of German marketing scholar Wolfgang Irrgang. He is the author and editor of several books and articles dedicated to the topic. The following discussion of VM is based on Irrgang's main concepts and theories (see table 9).

Vertical Marketing Elements	Criteria
Goals	Task allocation goals
	Profit margin goals
Strategies	Selection strategy
	Stimulation strategy
	Contractual strategy
Style	Dominance
	Conflict reduction

Table 9: Elements of Vertical Marketing[27]

4.3.2 Vertical Marketing Goals

VM goals have a strong relation to the marketing mix and partially derive from the areas of channel conflict (see table 8). Irrgang (1993, p. 3) sets two main areas for VM goals, namely:

- Task allocation goals
- Profit margin goals

Profit margin goals are strongly correlated with the collaboration tasks that are allocated between supplier and trade. Both entities strive for profit maximisation which makes the 'battle' for profit margins a natural topic of conflict. **Task allocation goals** determine who (manufacturer or retailer) gets to execute which task (marketing, information technology, and logistics), with what kind of control (intensity) and what amount of compensation for the efforts. Due to the lack of direct consumer access in the typical supplier-retailer dyad information asymmetries for shopper data exist in favour of the trade (Zentes and Schramm-Klein, 2004, p. 1692). The information gap has widened due to sophisticated scanner cash registers that offer retailers valuable shopper data. Additionally, retailers have emancipated from the marketing dominance formerly held by brand manufacturers in an effort to differentiate from their competitors. As a result, Engel et al. (1995, p. 849) have seen the shift in retailing that they describe as "the evolution from merchandising to marketing". All in all, the trade has started to enforce a strong store brand rather than focussing on supporting manufacturer brands and their products.

[27] Source: Irrgang (1993, p. 2).

	No	Low	Shared	High	Total
Price	Retailer produces and markets PLs	Free pricing of MBs by retailer	Suggested retail price	Contractual distribution	Price fixing Commission business
Promotion	Promotion for PLs	Brand promotions integrated at the POS	Coordinated displays for promotional material at POS	Implemented displays for promotional material at POS	BM advertising without POS activities
Place*	Merchandizing by retailer on own standards	Retailer merchandizing with financial BM support	Merchandizing by BM with retailer specs	Merchandizing by BM, laisser-faire by retailer	BM rents shelf space
Product	Retailer produces PLs	Retailer sells supplied PLs	Retailer quality controls MBs Retailer sells second-tier brands	Trade has say in partial aspects (e.g. packaging)	Established manufacturer brands

Manufacturer Control

Figure 6: Degree of manufacturer control over marketing mix elements[28,29]

The main focus of task allocation goals is the intensity of how to execute a certain task. Intensity is understood as the amount of control that a manufacturer wants to keep or delegate. For manufacturers the intensity can range from fully controlling tasks to completely delegating them to the channel partner. Figure 7 illustrates typical tasks between manufacturer and retailer in relation to the marketing mix. The figure also shows the amount of common manufacturer control on these tasks. It can be seen, that established manufacturer brands do not have to fear much influence by retailers in terms of product policy decisions (Irrgang, 1989, p. 19). The other marketing mix elements tend to lean away from manufacturer control towards more retailer influence (Murane, 2003, pp. 121). This is particularly the case with many activities that take place at the point-of-sale (POS). With most promotional, pricing, and merchandizing related tasks, retailers exert at least some degree of control. In a vertical marketing relationship, the aim for manufacturers is to gain back as much control as possible over these allocated tasks.

[28] Source: adapted from Irrgang (1989, pp. 18).

[29] The „place“ marketing mix element is represented by merchandising activities at the point-of-sale.

4.3.3 Vertical Marketing Strategies

Vertical Marketing strategies are a long term view for manufacturers on how to deal with the trade (Irrgang, 1989, pp. 63). Mainly three strategies constitute the guidelines of the VM mix (ibid):

1. Selection strategy
2. Stimulation strategy
3. Contractual strategy

The **selection strategy** involves long-term decisions about the type of channel intermediaries a brand manufacturer chooses to distribute goods and services. For instance, the type of channel for consumer goods can range from hard discount stores to hypermarkets. Other retail forms such as drugstores and hardware stores have similar structures ranging from low priced discount stores to stores with larger assortments and shopping surfaces. The type of retail partner also allows manufacturers for retail segmentation. Here segmentation criteria can be of geographical nature meeting motives such as ubiquitous distribution or matching the brand positioning of a product (e.g. discount vs. premium).

Once the type of distribution channel is selected, suppliers often face the task of having to motivate channel partners to act in their favour. With the **stimulation strategy**, also referred to as the **push strategy**, manufacturers attempt to create incentives and offer support for retailers to sell the products on their behalf (Seifert, 2006b, p. 25). The level of stimulation mainly depends on the amount of power that a manufacturer holds against the respective retailer (Irrgang, 1989, p. 78). More power on the side of the retailer should result in higher degrees of stimulation towards them. Incentives can include product slotting fees, discounts, and rebates on products or logistical services (Murane, 2003, p. 124). Suppliers also push their products into the channel by supporting retailers with free merchandising services or tailored consumer point-of-sale promotions (Tomczak et al., 1999, p. 833). Additionally these efforts are complemented by non-monetary incentives to create vertical preferences. Irrgang (1989, p. 99) classifies these efforts as '*manufacturer-good-will'*. He argues that manufacturers often have to deal with competitor brands that are similarly positioned. For that reason, manufacturers can make an effort to "position" themselves as a strong and sympathetic partner. This could in turn result in the retailer showing preferences toward the supplier. Not exclusively, this is particularly relevant for suppliers of B- and C-brands where the lack of brand equity from the products could potentially be compensated by manufacturer-good-will. Figure 7 points out some rational and emotional positioning criteria that a supplier can draw upon to create vertical preferences with its partners in the retail sector.

After choosing the distribution partner (selection strategy) and deciding on how to motivate them (stimulation strategy) the manufacturer has to decide whether or not the collaboration shall be guaranteed by contract. This constitutes the **contractual strategy** that can also be referred to as the **vertical cooperation strategy** (Seifert, 2006b, p. 26). VM cooperations are typically initiated by brand manufacturers who will likely try to stipulate the terms and conditions of the collaboration with the retailer. According to Irrgang (1989, p. 122) manufacturers will generally seek either quantitative or qualitative returns from the trade partner. Sales related targets often represent quantitative returns. Qualitative returns could be manifested by retailer support to supplier driven marketing programs. The intensity of contractual strategies depends on the number of areas to be covered in the cooperation and how detailed the agreements are formulated. It is in the interest of the manufacturer to integrate areas in the contracts that will particularly support his marketing goals. Manufacturers might attempt to secure long-term contracts with retailers to create entry barriers for competing suppliers (Irrgang 1989, p. 124).

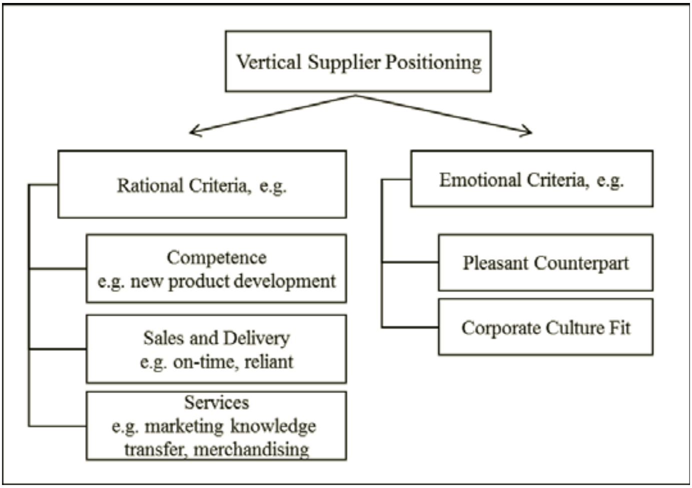

Figure 7: Vertical supplier positioning criteria[30]

[30] Source: adapted from Irrgang (1989, p. 100).

In summary, VM strategies may be considered as the operational tools for brand manufacturers to manage VM cooperations.

4.3.4 Style of Collaboration in Vertical Marketing Systems

Depending on the distribution of power between the partners, the manufacturer can determine the style of cooperation appropriately (Irrgang, 1989, pp. 130). The style of cooperation will have an impact on the culture of the relationship. With more power on the side of the manufacturer, the style can lean towards aggressive ways of collaboration. Here the manufacturer will try to impede retailers from gaining influence to dominate the relationship. Due to the on-going power shift in favour of the trade, manufacturers will seek for more peaceful and cooperative styles. For example, when pursuing a cooperative style, problems are openly discussed and compromises are sought after from both parties. The main aim of the cooperative style is to avoid or reduce conflicts between the partners. For this purpose, it can proof as a useful tool to involve retailers into the planning and execution of consumer oriented marketing activities. Mutually planned and carried-out marketing activities also promise to be more successful for both parties.

4.4 Theory Borrowing Applied

As shown in figure 5, theory borrowing (TB) can be applied following a three-step process. In the following, the key concepts of VM will be highlighted which will represent the theory’s superstructure and therefore step one of the TB process. These superstructure elements will be put in contrast with the corresponding elements of VBPM to determine to what degree the selected theory fits the phenomenon of interest. The type of science and the cognitive interests of the lending concept (VM) will be compared with those of the new phenomenon. Eventual differences or inconsistencies will be directly identified. This will represent step two of the TB process. Due to the fact that VBPM draws its business relevance mainly from the vertical marketing concepts of ECR, these key concepts will be included in the reflection. The chapter will conclude with step three, when an intra-paradigmatic evaluation identifies any changes to the new paradigm’s propositions, type of science, and cognitive interests.

4.4.1 Comparing Vertical Marketing Superstructures

VM is a long-term marketing strategy by manufacturers of branded goods towards trade partners. Therefore the key players in VM are the manufacturers of branded goods as initiators of VM and retailers as the target group for these marketing efforts. Although most ECR projects will find their origin with brand suppliers the initiative may also come from retailers. For instance, retailers strive for optimised product categories and may initiate an Efficient Assortment cooperation by searching for a category captain among its suppliers (see chapter 3 part B for more details on the ECR and Category Management concepts). In contrast, VBPM is meant to be initiated by suppliers. First they will seek to improve the channel relationship. Furthermore, the brand manufacturer's brand portfolio will act as the starting point of the cooperation. Therefore, the motives and prerequisites for VBPM are predominantly supplier related.

All concepts in question are aimed for long-term collaborations. Both ECR and VBPM postulate trusted relationships among the partners. Significant financial and personal investments from each side are often antecedences of trusted partnerships (Kumar, 1996). Such investments are necessary in VM cooperations, which will also hold true for VBPM.

The goals of VM are dominated by task allocation goals that determine who (manufacturer or retailer) gets to execute which task (marketing, information technology, and logistics), with what kind of control (intensity) and compensation for the efforts. Similarly, VBPM dedicates much importance to the cooperation's allocated tasks. For example, a key goal of VBPM is to gain more control over the task of managing the retailer's private labels. From having no control over the PL in question, manufacturers can gain nearly total control, thus giving an indication of the intensity of control. Consequently, this shift in control over the PL will strengthen the manufacturer's position within the competitive field and the vertical relation, which can be considered as an indirect compensation for the efforts made. While ECR matches other areas of VM, such as information technology and logistics, VBPM is mainly focused on marketing related tasks. Hence, it can be best related to the ECR sub-strategy "Category Management", which only deals with marketing related tasks. At this point, it has to be noted, that ECR's primacy on increasing customer value is not in the main focus of VM nor VBPM.

Vertical Marketing strategies are threefold:

1. selection-,
2. stimulation-, and
3. contractual strategies

The **selection** strategy mainly determines the type of retail partner the manufacturer will choose for distribution of its brands. The manufacturer must therefore decide as to which degree it wishes its products to be distributed. The degree of distribution can range from ubiquitous, to selective and exclusive distribution. This is in full conformity with the selection strategy applied in VBPM. Firstly, most manufacturers of branded goods will strive for ubiquitous distribution of their A-brands. Secondly, a vertically integrated PL will, by definition, only be available exclusively at the retail partner in question. Hence, by applying VBPM, the manufacturer will select a retailer following similar criteria that apply to the concepts of VM. Beyond the distribution aspect, VBPM and ECR strategies also imply competence based and trust related aspects when selecting a retailer for cooperation. Particularly ECR strategies require technological capabilities on both sides. Additionally, sharing sensible shopper data and consumer oriented brand knowledge, as it occurs in VBPM, presumes high levels of mutual trust.

The VM **stimulation** strategy decides on the ways on how to motivate the retail partner to act favourably to the manufacturer’s marketing needs. The distribution of power is the main variable that has an impact on the amount of stimulation that a manufacturer may need to apply to the respective retailer. Both monetary and non-monetary stimulation strategies are possible in VM. Using competence for know-how transfers is meant to be a key non-monetary strategy in VM (Irrgang, 1989, p. 100). Particularly non-monetary strategies are equally prevalent in ECR and VBPM. For instance, in a VBPM cooperation, a manufacturer can demonstrate and apply his brand management abilities. His efforts would result in a profitable vertical brand portfolio which should also proof to be beneficial for the retailer. Consequently, the prospective benefits should stimulate the retailer to act in the manufacturer’s interests. Equally, in Category Management cooperations, expertise in managing entire product categories can be displayed by acting as a category captain. As a result, stronger and long lasting relationships could occur once the retailer develops vertical preferences towards a particular manufacturer. Therefore identical to VM, ECR and VBPM applications can strengthen the rational and emotional positioning of the manufacturer among the trade partner.

The results of the selection and the stimulation strategy lead towards **contractual** strategy. Manufacturers will to be expected securing the returns from their efforts by contract. Similarly, intended investments are more likely committed, if they are backed up by a contractual agreement. Therefore, contractual strategy is predominantly initiated by the supplier. Being the initiator of the contract, the manufacturer will also seek leadership of the cooperation (Kunkel, 1977, p. 23). Accordingly, a VBPM partnership will be initiated by the manufacturer. The contractual agreement may however be of interest and required by both collaborators. The supplier may want to limit the external use of its innovations and brand know-how, whereas the retailer may have an interest to protect its shopper data. Similar situations occur in CM collaborations. Once again, mutual trust will be of key importance for both parties under such circumstances. On the issue of leadership, it can be stated, that managing a brand portfolio inclusive of the retailer's private label unarguably puts the manufacturer in a leading role. This will most likely lead to a category captainship position by the manufacturer. Contractual strategy also subscribes the nature of returns that a manufacturer may receive from the partner. In VM, quantitative (sales related) and qualitative (relationship related) returns are the norm. For VBPM, quantitative returns could amount to guaranteed retail listings of products supplied by the manufacturer. It has to be assumed that a vertical brand portfolio managed on behalf of the retailer would find guaranteed shelf space. Qualitative returns on the other hand could be constituted by retailers granting manufacturer brands preferred shelf placements or retailers supporting supplier developed marketing activities for the vertical brand portfolio. Finally, the contractual agreements between retailer and manufacturer for VBPM would have to mirror the longevity of ECR cooperations. This is mainly because of the significant financial commitments on each side that may be necessary to properly cooperate with each other.

In regards to the maturity of cooperation, the partners generally have diverging goals. As mentioned before, manufacturers often follow a long-term view while retailers want to maintain short term flexibility (Irrgang, 1989, p. 123). On the one hand, manufacturers want to secure their distribution channels. On the other hand, retailers want to be able to quickly adjust assortments. As to VBPM and ECR cooperations, particularly manufacturers without strong brands in their portfolios could strive for a long term contractual agreement with a retailer. Even without the pull-effects of strong brands, the lock-in effect of these cooperations would make manufacturers harder to replace.

The **style** of collaboration is dependent on the distribution of power between supplier and retailer. In VM, manufacturers will likely lean towards peaceful and cooperative styles of collaboration when power is distributed equally or in favour of the retailer. They also aim to coordinate selective marketing mix elements in the VM cooperation. Coordinating marketing mix elements with retailers is fully manifested in several ECR strategies, such as Efficient Assortment, Efficient Promotion, and Efficient New Product Introduction. VBPM's style of collaboration can generally be described as that of conflict reduction implying a close coordination of brand and marketing mix related tasks between manufacturer and retailer. The management of PLs would also move control towards the manufacturer. Given the discussed recent power shift in favour of the trade, cooperating peacefully will be equally relevant for manufacturers of strong and more so weaker second-tier brands. Putting the manufacturing of PLs into an ECR cooperation can mean a loss of power by retailers in favour of the manufacturing supplier (Braun, 2002, p. 283). Therefore, one can also argue that VBPM favours a VM style of 'dominance' if gaining power was an explicit goal by the manufacturer.

VM Element	Propositions		
	VM	**ECR**	**VBPM**
Time frame	Long-term	Long-term	Long-term
Initiator	BM	BM, Retailer	BM
Target Group	Retailer	Retailer/BM	Retailer
Main goal	BM increases control over marketing, IT, and logistical tasks	BM and Retailer aim at increasing customer value and saving costs	BM increases control over PLs and product category
Selection strategy	BM selects retailer by type and desired degree of distribution	BM/retailer selects mainly by ECR relevant capabilities and level of trust	BM selects by type and desired degree of distribution and level of trust
Stimulation strategy	Power distribution is key on the degree and amount of necessary stimulation by BM Motivation by monetary and non-monetary incentives	Power in favour of retail sector Mainly non-monetary incentives to strengthen BM positioning	Power in favour of retail sector Mainly non-monetary incentives to strengthen BM positioning
Contractual strategy	Fixing of qualitative and quantitative returns Manufacturer as leader	Qualitative and quantitative returns Mutual leadership possible	Qualitative and quantitative returns Manufacturer as leader
Style of collaboration	Dependent on the distribution of power Tendency towards peaceful and cooperative style Coordination of activities to reduce conflicts with trade	Retailers can force BM to cooperate Tendency towards peaceful and cooperative style Coordination of activities to reduce conflicts with trade	Dependent on the distribution of power Tendency towards peaceful and cooperative style Coordination of activities to reduce conflicts with trade

Table 10: A comparison of VBPM and ECR with the VM superstructure[31]

Table 10 summarises the superstructure of VM and puts the main elements of ECR and VBPM in contrast. The before mentioned differences of the two concepts to the lending theory are made visible. This constitutes step two of the theory borrowing process. It is shown, that all concepts are geared towards long-term collaborations between the same market participants, i.e. manufacturers of branded goods and retailers. On the whole, the new concept of VBPM is in conformity with all key elements of VM. The main difference of ECR strategies to VM and VBPM is that ECR strategies are not principally initiated by brand

[31] Source: own.

manufacturers. Due to higher levels of power among retailers, they can nowadays force suppliers to participate in ECR activities.
Similarly, the key VM strategies can be borrowed purposefully and consistently. “Power” and “trust” as guiding principles appear across all concepts and theories. The goals and elements of the contractual strategy act as the overall framework of these forms of cooperation. Their elements can be considered as mostly mutual across the three concepts. All styles of collaboration share a peaceful and cooperative approach.

In conclusion the key elements and propositions of VM and ECR can be found without major modifications in the VBPM concept. It can also be seen, that most propositions of VM can be found in VBPM. This is another proof of concept congruity and finalises the comparison of the propositions that is necessary for step one and step two of the theory borrowing process. Next, the social context and type of science will be evaluated.

4.4.2 Social Context

The social context of reference is Germany in its pre-reunification phase of the 70’s and late 80’s, when the concept of VM was first mentioned and when Irrgang’s VM framework, the framework of reference in this thesis, was developed. Especially the Germany of the 70’s was characterized by a seller’s market that was still dominated by successful and powerful brand manufacturers. Consumers were living in post-war prosperity that saw consistent economic growth. The 70’s also indicates the beginning of the Private Label boom with the introduction of generics that were mostly frowned upon by A-brand suppliers (Dölle, 2001, p. 349).
The term ‚*Vertical Marketing Systems’* was coined by the research of McCammon in 1970 (Olbrich, 2006, p. 243). During the same time in 1969 the first edition of the German standard marketing literature “Marketing”, by Nieschlag, Dichtl, Hörschgen, prescribed common marketing practices between channel members and points out possible conflicts between manufacturers and retailers (Irrgang, 1989, p. 1). The following quote by Thies from 1976 summarizes the conflictive channel relationship and introduces a solution based on cooperation:

> *“(...) it is in the interest of all market participants, i.e. also consumers, to stop parallel running marketing activities and beyond that the tendencies of confrontation (...), and coordinate them in a concerted way.*” (Thies, 1976, p. 17).

Thies (1976, p. 37) also points out the gain of power by retailers due to concentration tendencies in favour of large retailers and a rise of private label market shares at the expense of name brand market share. In summary, the social context of the time when VM originated can be characterized as such:

- Retailer concentration
- Power shift in favour of retailers
- Conflictive relationship between channel members
- Cooperation as a possible solution for channel conflicts

At this stage, it is worth mentioning that both business practice and literature often discuss the term “cooperation” as a two-way process of coordination and planning (cf. Linn, 1989, p. 24, Ahlert, 1996, p. 126). The cooperative nature of VM makes the concept understood along this definition. Irrgang (1989, p. 132) sees VM generally “(…) as an integration of the retailer’s expectations into the data set of the manufacturer’s marketing conception”. By the time when Irrgang’s VM conception, which is this thesis’ underlying framework, was developed during the late 1980’s, the channel relationship was embedded in a social context similar to the one 20 years prior (Irrgang, 1989, pp. 1):

- Ongoing concentration tendencies that spawns vital and strong retailers
- Manufacturers are facing fierce vertical competition
- Channel conflicts as a result of diverging goals

During the same time in the late 1980s, packaged goods giant Procter and Gamble (P&G) first cooperated with Wal-Mart in the USA which is known to be the origin of the ECR movement and the Category Management concepts (Fernie, 2004, Keller et al., 2012, p. 418). Because retailers always tended to think in terms of product categories and their profitability, P&G decided to deal with the trade along comparable lines (Freeman, 1987, cited in Keller, 2008, p. 345). Soon after in the early 1990s, the Food Marketing Institute and the consultancy firm Kurt Salomon Associates (KSA) presented the first official ECR study (Kurt Salmon Associates, 1993). Although these concepts originated in the USA and therefore in a different social context, ECR was soon after introduced successfully in Europe based on KSA’s ECR-model (Lietke, 2009, p. 9).

Today, brand manufacturers are facing a tightened horizontal and vertical competitive environment that is based on innovation and imitation (Gollnick and Schindler, 2001, p. 379).

They continuously are fighting for retailer shelf space and the grace of consumers that become less loyal to their brands. The concentration process in the German retail sector continues. For example, the market share of the five largest German grocery chains accounted for 26.3% in 1980, 44.7% in 1990, 62,6% in 2000, and 69,4% in 2006 (cf. M+M Eurodata, cited from Metro Group, 2007, p. 21). This has forced distributors to think of ways to strengthen horizontal positions. Particularly the production and management of premium PL's and multi-tiered PL portfolios has been identified as a strong tool by retailers to stay competitive and to extend their power base (Olbrich and Braun, 2001, p. 417). Besides, technological advancements have been the enabler of sophisticated ECR cooperations between channel members, namely for projects in logistical workflow data such as Efficient Replenishment (Eistert, 1996, Lamprecht, 1998). Nowadays, ECR adoption has become common practice between name brand suppliers and retailers in Europe (Hofstetter and Jones, 2006, p. 10). Category captains from the supply side are appointed by retailers enabling the category captain to manage entire product categories on behalf of the trade (Hahne, 1998, pp. 65). This can have a significant influence on the power structure in favour of the manufacturer. For example, category captains can indirectly gain power over competitors and directly over the retailer's category when assortment decisions include competitive brands and PL's (Holzkämper, 1999, p. 56). Nevertheless manufacturers today remain at the mercy of retailers who retain the overall ability to replace products at their discretion. As a result, brand owners have to deal with elastic demand curves and usually have to account for thin margins (Steiner, 2004).

The inter-paradigmatic examination of social contexts mainly brings commonalities between the contexts in question to light. First to mention is that concentration processes continue to increase in the retail sector overall and still influence the channel relationships. The power shift in favour of the trade also remains a key issue for manufacturers. The conflictive relationship between suppliers and retailers remains a problem especially for suppliers. More sophisticated PL programs add potential areas of conflict. Cooperations between manufacturers and retailers are omnipresent and are ever more considered an effective tool to soften the ties between collaborators. Particularly ECR programs are seen as mutual forms of collaboration that promise positive (relational) results on both sides.

4.4.3 Type of Science

The VM paradigm consists of normative models, whose objective is to conclude practical decision rules for suppliers from a set of observations. The concepts of VM are used realistically to describe what the world is actually alike. Therefore, induction and realism characterize the type of science and the cognitive interests of VM.

On the other hand VBPM is based on the interpretivist-social constructionism paradigm, where reality is seen as a social and dynamic construct. Thus, induction also characterizes the cognitive interest that focus on the description of subjective accounts.

While realism shares some philosophical aspects with positivism, it also recognizes that people are not objects to be studied in the style of natural science (Saunders et al., 2003, p. 85). It also recognizes the importance of understanding people's socially constructed interpretations or subjective reality.

Especially business and management research is often a mixture of positivist and interpretivist, thus likely reflecting the realism approach (Saunders et al., 2003, p. 85). Consequently the cognitive interests and types of science of VM and VBPM show sufficient areas of congruence. Therefore the borrowing theory's context is able to hold up in the context of the new era.

4.4.4 Evaluation and Conclusion of the Theory Borrowing Process

The common benchmark governing an "appropriate" theory borrowing is that the way in which a theory functions should approximately correspond the new and the old setting (Morgeson and Hofmann, 1999).Therefore the concept of VM was taken out of its original social context for the purpose to explain and guide a similar social phenomenon, i.e. VBPM. The main VM propositions were put forth for argument in a descriptive style and directly put in contrast with the key propositions of VBPM. All key propositions are congruent between the concepts:

- Trust is a key determinator for collaboration
- Control over marketing mix elements is a main goal of cooperation for manufacturers
- Distribution of power has a key influence on the terms and the style of cooperation

Comparable social contexts make the concept adoption meaningful. Accordingly, they bring out the same type of collaborators and both concepts are initiated by brand manufacturers.

Furthermore, both social settings are characterized by retail sector concentration causing similar effects and conflictive channel relationships. Finally, both concepts are based on inductive research approaches making the cognitive interests comparable.
In conclusion, the presented theory borrowing process has shown that there are no major changes in the main theory elements that could potentially result in conceptual inconsistencies. The theory borrowing can therefore be considered informed and purposeful.

4.5 Summary of Part B

Chapter 1 identified brand architecture and brand portfolios as the main environments from which a brand manufacturer can see possibilities to engage in managing a vertical brand portfolio that includes the management of private labels. Particularly segmentation issues can be called upon to justify vertical brand portfolios. Price segmentation will likely play a role in the decision making for VBPM. The external environment is represented twofold. First, channel segmentations in regards to the trade and benefit segmentation mainly for meeting consumer preferences. Several other factors were identified justifying VBPM as a possible portfolio strategy for brand manufacturers. As a result of VBPM, brands from the portfolio may be leveraged and a vertical brand portfolio can act as an entry barrier for competitors. The chapter concluded with the introduction of the issues involved in PL positioning and manufacturer portfolio strategy. This discussion can be considered as a starting point for the brand architecture audit in part C, which will specify, among others, the impacts on PL positioning on brand architecture and vice versa.

In the course of chapter 2, the thesis discussion turned over towards a private label definition and PL branding strategy discourse. Considered as “real” brands, it was established that PL management falls under specific rules that are mainly tied to the retailer store brand strategy. A main outcome of the discussion is the construction of a retailer branding framework for PLs. This framework consists of four strategic options for PLs manifested by ‘brand breadth’, ‘positioning’, ‘segmentation’, and ‘relationship with store brand’. It was shown, that retailers regularly structure their PL portfolios along these strategic options, often in a multiple way. Furthermore, it was concluded that retailers, who offer such multi-segmented and multi-tiered PL portfolios are generally leaders in their markets. The framework for the strategic options for retailer PL portfolios will be taken further in the next chapter, when the manufacturer brand portfolio will be mirrored against the respective retailer PL offer.

The remaining content of part B was entirely dedicated to the theory and concepts of vertical marketing. VM was proposed as the guiding theory for the intended development of VBPM. In a theory borrowing process, it was tested positively that VM can be adopted for application in the new context. VBPM can therefore be based and build on the principles of VM and the main concepts of ECR and Category Management. Moreover, the proposed management strategy can be considered a continuation and further development of VM as an intense form of cooperation between brand manufacturers and retailers.

In conclusion, VBPM originates from the brand manufacturer's strategic position which is expressed by the firm's brand portfolio. The principles and concepts of VM will operationalise the strategy and connect the brand manufacturer with the retailer's environment, which in turn is expressed by the retailer's store brand- and PL branding strategy.

Part C Planning for Vertical Brand Portfolio Management

The aim of the following is the formulation of a planning process that will guide brand manufacturers when engaging in Vertical Brand Portfolio Management (VBPM). The chapter will begin with the establishment of general goal criteria that should act as the overall framework of the collaboration between manufacturer and retailer. To engage in VBPM, brand manufacturers are encouraged to thoroughly assess all relevant internal and external factors. Internally, the planning process will first contain an evaluation of the manufacturer's own resources and capabilities that relate to a successful implementation of the collaboration. This analysis will foremost include the manufacturer's brand architecture and the organisation's vertical marketing capabilities. Due to the cooperative nature of VBPM it is also of vital importance to evaluate and choose retail partners with whom the strategy has a chance for a successful implementation. Additionally, the audit of other external factors should include product category characteristics, competitor brands, consumer behaviour, and private label brands.

The audit of external and internal factors is based on and will lead to the strategic analytical marketing tool of S.W.O.T. analysis. According to Wheelen and Hunger (1990, p. 11) "the factors that are most important to the corporation's future are referred to as strategic factors and are summarised with the acronym S.W.O.T., standing for Strengths, Weaknesses, Opportunities, and Threats". Strengths and weaknesses relate to the internal environment; opportunities and threats relate to the external environment. As shown above, the planning process will identify the factors from the internal and external environment that are most important to a successful implementation of VBPM. Within the VBPM audit, the classification into strengths and weaknesses and opportunities and threats is less important than the thorough identification of external and internal factors (Grant, 2005, p. 13). Therefore, the planning process has the main purpose to support brand manufacturers in identifying the external and internal factors that are critical for VBPM. The process should enable the firm to link with its external environment, i.e. it will look for a 'strategic fit' with a retailer with whom the cooperation is likely to succeed[32]. Decision rules, that need to be

[32] Grant (2005, pp. 12) views strategy as „forming a link between the firm and its external environment". For a strategy to be successful, the firm's external environment has to be aligned with the firm's internal characteristics. Grant considers a successful alignment of environments that of a 'strategic fit'.

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established as part of the audit, will act as principal guidelines for the implementation of VBPM. The planning process will finally propose measures to operationalize and control VBPM practices.

1 Setting Goals for Vertical Brand Portfolio Management

The goals that a brand manufacturer sets for the outcome of VBPM will act as the leading guidelines for the implementation of the strategy. They will strongly affect the nature and design of the cooperation. For example, brand portfolio related goals will likely yield more on economical results whereas goals towards the retail partner are expected to emphasise relational outcomes. In principal, the goals of VBPM should be based on higher-level corporate- and in particular on marketing goals and objectives. Due to the fact that such goals depend on firm-specific situations of the brand manufacturer (e.g. size, brand portfolio, customer relationships, et cetera) not all such situations can be listed. Instead a general procedure will be proposed that includes appropriate criteria to determine the respective goals for VBPM. These criteria include:

1. The scope of the goals, either internal (corporate, brand portfolio, personnel) or external (effecting the retail partner and markets)
2. The task allocations that determine who gets to execute which task within the cooperation with what kind of control (intensity) and what amount of compensation for the efforts (see chapter 4.3.2 of part B)
3. The content of the cooperation (e.g. segmentation issues, prevention of brand cannibalisation, stimulation of the relationship with a retail partner, contractual strategies)
4. Specificity. When the achievement of the goals can be measured, these items should be accounted for numerically and their fulfilment accomplished within a certain time frame (e.g. increased market share by 5% within 12 months of the cooperation)

Brand manufacturers who engage in VBPM are the initiators of this collaboration with the retail partner. Hence their interests are paramount to all decision making. This implies first of all to determine the scope of goals that bear upon the initiator's' concerns, i.e. the goals that have an effect on the brand manufacturer's own (internal) strategic environment. For example, brand manufacturers need to determine product categories and brands that are most suitable for the strategy. Essentially, the chosen brand will be affected by the outcomes of the cooperation. Integrating a PL into one's own brand portfolio and managing it on behalf of a retail partner will also affect the equilibrium of the brand portfolio in question. These are fundamental issues that need to coincide and align with the long term corporate strategy. The scope of goals will also reach towards external entities. For instance, the proposed cooperation will influence the relationship with the participating retailer and will aim at enhancing the performance of the retailer's product category that was chosen for VBPM. This process is similar to Category Management cooperations, where brand manufacturers as category captains enjoy the freedom of having (partial) control over a retailer's product category.

Tasks of the cooperation have to be allocated to the collaborators. By following vertical marketing principles the collaborators need to determine the goals that are associated with each task. For instance, it should generally be in the interest of the brand manufacturer to gain as much control over the PL as possible (goal of high intensity[33]). On the other hand, compensation for a performed task should be greater or at least equal to the invested effort. It can be said, that brand manufacturers will have an interest to take over important tasks while other tasks can be delegated.

The focus of the operational implementation of VBPM will strongly depend on the goals that are content related. For instance, content related goals can be influenced by the characteristics of the product category, the composition of the brand portfolio, or the firm's overall marketing objectives. Moreover, depending on the nature of the chosen product category for VBPM, the decision will impact the selection criteria for the company's brand bound for the strategy and will guide the selection procedure of retailers. Contractual strategies are content related as well. The longevity of the cooperation directly correlates with the duration of the contractual agreement. The longer the cooperation lasts, the longer the brand manufacturer remains in control of the PL. Maintaining more vertical brand portfolios will also cover broader consumer segments which is generally a goal of brand portfolio strategy (Aaker, 2004, p. 77, Kapferer, 2008, p. 396).

[33] As outlined in chapter 4.3.2 of part B, suppliers seek to establish Vertical Marketing cooperations of ‚high intensity‘ because the higher the intensity the more control they gain of the trade partner.

The more <u>specific</u> goals can be described in terms of scope, task intensity, and content, the easier and controlled it will be to take decisions during the process of planning and implementing VBPM. It will also enable the planner to better allow for changes or adaptation needed due to changed internal or external parameters.

When the actual goals for the strategy have been formulated and specified the internal and external analysis for the implementation of VBPM can commence. The formulation of a step-by-step planning process will be subject of the next section.

2 Four-Step Planning Process for Vertical Brand Portfolio Management

The findings gained from the discussions in part B serve as the foundation for the development of a four-step VBPM planning process:

- As seen in chapter 1, part B, brand architecture and brand portfolio strategy are the key concepts in order to assess the collaborator's' branding strategies[34]. Besides, both concepts offer the main tools to conceptualise VBPM. As laid out in the chapter, brands should take assigned roles within a portfolio. This is also the case for PLs that demand the integration into a portfolio. Moreover, the chapter highlighted the importance of segmentation, particularly price- and channel segmentation. In this context, leveraging brands vertically and the associated risks were discussed in chapter 1.5.3, part B. Nonetheless, it was established that VBPM could act as an additional risk avoidance strategy when stretching brands vertically.

- Furthermore, chapter 2, part B pointed out that it is common among retailers to develop and maintain sophisticated PL brand portfolios. The chapter's main outcome was a typologisation of PLs along the strategic dimensions of brand breadth, private label positioning, relationship with the store brand, and segmentation of private label portfolios. These established dimensions will aid the planner in comparing branding strategies and will likely lead towards solutions for strategy implementation.

[34] The terms 'brand architecture' and 'branding strategy' are used synonymously in literature and throughout this thesis. 'Brand architecture' will be the term of reference in step 1, where the manufacturer's branding environment will be assessed (see chapter 3.2, part C).

- Chapter 3, part B established Efficient Consumer Response (ECR) and Category Management (CM) as key vertical marketing (VM) business practices. Consequently, VBPM can profit from the experiences and insights that have derived from them. VM capabilities from both manufacturer and retailer have to be documented and assessed during the planning process (step 1 and 3). This is eminent from a relationship point of view to test the relationship in regards to resilience and longevity. Particularly relationship motives have been highlighted as key drivers of VM collaborations.

- Deducted from a theory borrowing process in chapter 4, part B is the appropriateness of Vertical Marketing (VM) and its associated business practices as the key theories from which VBPM can borrow. VM elements such as VM goals, strategies, and style of collaboration may be applied in VBPM. For example, task allocation goals will determine who gets to execute which task within the collaboration. Accordingly, selection strategies are expected to emerge from the external audit in step 3 of the planning process whereas contractual strategies will act as governance factors of the cooperation. The style of the collaboration, whether it is of dominance or conflict reduction, will depend on both the external and internal audit and the before mentioned strategic fit.

The planning process will start with an in-depth analysis covering the following areas:

- the manufacturer's brand architecture and brand management capabilities
- the brand manufacturer's vertical marketing capabilities
- market, category, and product characteristics, and
- potential retailers

Once the above mentioned areas have been analysed, the planning process will progress towards strategy formulation by implementing the results of the previous steps. Each step will lead to decision rules enabling or limiting the continuation of the planning process (see table 11). The planning profits from the benefits of sequential planning (Percy and Elliott, 2009, p. 73). Sequential planning implies that if the decisions made at a certain stage do not work, the decisions made at earlier stages are not overturned and remain relevant.

Stage	Planning Focus
Step One: Intra-Organisational Audit	Brand architecture Brand management expertise Vertical marketing capabilities
Step Two: Understanding Market and Product Category Characteristics	Market and product characteristics including PLs
Step Three: Evaluate Retailer	Retailer branding strategy and capabilities Manufacturer-retailer relationships
Step Four: Develop VBPM Strategy	Brand portfolio management Market segmentation Contractual strategies

Table 11: The four-step VBPM planning process

Overall, the strategic analysis and the consequent decisions need to take an organisation's higher-level mission, objectives, and policies into account (Wheelen and Hunger, 1990, p. 29). Foremost, marketing planning and objectives should guide the planner. For example, if the marketing plan calls for covering price sensitive segments, then exploring vertically into value PLs could be reasonable.

Once corporate and marketing objectives have been considered, the planner can proceed to determine the specific goals and objectives of the anticipated cooperation (see chapter 1, part C). These goals will guide but not limit the internal and external environment analysis. Pre-set goals also have the potential to be changed, dependent on the outcome of the environmental analysis. Once step one, two, and three are accomplished, a 'strategic fit' should link the internal and external factors into the formulation of the actual strategy. When implemented, measurement and control mechanisms will monitor the strategy's performance.

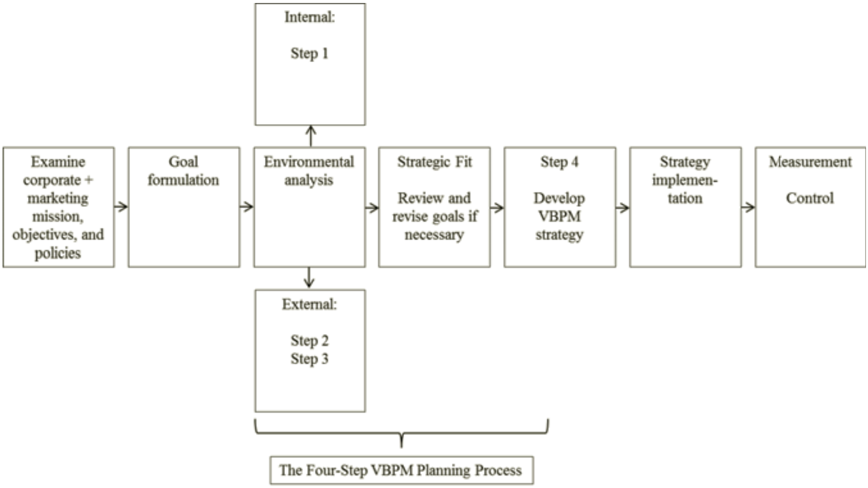

Figure 8: Sequential task overview VBPM[35]

Figure 8 connects the sequence of tasks in the planning for VBPM strategy. In summary, the VBPM planning process is hierarchical and normative. All steps are conclusive - one step at a time. This becomes particularly obvious with step three: if no retailer can be determined the planning process should stop at this stage or return to step 1 where a newly defined category might bring forward a suitable retailer. The following sections will introduce the steps 1-4 in more detail.

2.1 Step 1: Intra-Organisational Audit

The first step of the planning process is dedicated to an audit of the internal environment of the manufacturer. The audit will cover the firm's resources and organisational, management, and personnel capabilities. The analysis will particularly call for a critical evaluation of the manufacturer's branding strategy. It has to be questioned as to how the firm's brand architecture will impact the outset of VBPM. Next to that the brand portfolio strategy demands specification so that the structure of the portfolio and the scope, roles, and interrelationships of the portfolio brands are clear (Aaker, 2004, p.13). This step is mainly necessary to enable the integration of (private label)-brands into the portfolio in an informed

[35] Source: own.

way. Once a clear intra-organisational picture is given a first step towards brand and product category selection is taken. Step one will offer transparency of the portfolio brands that are generally suitable for VBPM. Next to that it will identify brands whose portfolio roles could forbid an involvement in the cooperation. For example, some brands, such as “strategic brands”, could have an exposed status within the portfolio and might therefore be unsuited for VBPM (Aaker, 2006, p. 23).

The intra-organisational audit will additionally cover the brand manufacturer’s resources and capabilities to carry out VBPM. Therefore, strengths and weaknesses within the organisation, that are important for a successful implementation of VBPM, will be uncovered and analysed. Main areas of assessment will be Vertical Marketing capabilities and brand management expertise[36]. Hence these abilities and capabilities have to be assessed and evaluated.

2.2 Step 2: Understanding Market and Product Category Characteristics

The brands of the supplier’s portfolio belong to a product category and a market[37]. Hence a holistic review of every VBPM strategy relevant product category and its market parameters is the task subsequent to the intra-organisational analysis. In this step, the planner will gain insights on items such as product variety, competitor brand market shares, share of voice, PL penetration, PL quality levels, and et cetera. The outcome of this step will enable the planner to take better informed decisions for more complex brand portfolios. Carrying out these kinds of tasks can be compared to the responsibilities of category captains within category management cooperations (see chapter 3.2 of part B).

2.3 Step 3: Evaluate Retailer

When the strategist has taken the decision as to which brands are suited for strategy implementation and fully understands the market of the respective product categories, the next step of the planning process has the aim to determine the retailer with whom VBPM can be carried out. A broad selection process will bring forth potential collaborators. Main criteria to pre-select retailers will be based on existing (ECR)-relationships, importance, and size of

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[36] One of the key motivators for a retailer to hand-over a PL into the hands of a manufacturer will likely be the latter’s’ brand management skills and the ability to manage product categories effectively.

[37] ‘Product category‘ is defined as „all products or set of products with which a brand competes“ (Keller et al., 2012, p. 120). ‘Market‘ on the other hand takes a broader perspective on all buyers and sellers „(...) who transact over a particular product or product class“ (Kotler & Keller, 2006, p. 10).

the retailer. Once eligible, the trade partner's resources and strategy relevant capabilities will then undergo an analysis by the manufacturer. Among others, this analysis will foremost cover the retailer's PL branding strategy. This step is necessary to assess the collaborators' branding strategy compatibility (retail brand vs. supplier brand architecture). Due to its cooperative nature, VBPM is based on trust and calls for experienced collaborators. For that reason, the existing relationship with the retailer and his relational capabilities should be assessed. Completing step three should bring forth retailers that carry the product category in question, whose branding strategy is compatible or can be made compatible with that of the brand manufacturer, and with whom past relationships have been positive and trusted. The selection therefore calls for the before mentioned 'strategic fit'.

2.4 Step 4: Develop VBPM Strategy

Finally, when the first three steps of the planning process are completed and each step was decided favourably, a product category with corresponding manufacturer brands can be nominated indefinitely for strategy implementation. The last and fourth step of the planning process requires the manager to decide how best to integrate the retailer's PL into the brand manufacturer's brand portfolio. Therefore, requirements that the PL has to meet in response to the manufacturer's brand architecture will be developed. This fourth and final planning sequence mainly revolves around brand management issues and in particular brand portfolio management tasks. A starting point for the integration will be given by linking it with market segmentation issues. According to Kapferer (2008, p. 396) "the organisation of the brand portfolio reflects the type of market segmentation chosen by the company" and as shown in chapter 1.5.1, part B, market segmentation is closely related to VBPM. The strategy formulation will mainly draw its input from aligning the results of step 1 of the planning process, where the manufacturer's brand architecture was examined, with the subsequent steps of external environmental analysis. The planning results may then be used to constitute the firm's overall strategic situation by using the analytical tool of S.W.O.T. analysis. Finally, contractual strategy will conclude the initiation phase of VBPM planning.

In summary, the goal of the planning process is to enable a well informed and best possible integration of PLs into a manufacturer's brand portfolio. Following the purpose of VBPM strategy, it has to be decided which product category and brands can be brought forward and

which retailers and their PLs meet the specific requirements. The process has the aim to support brand manufacturers in making these decisions.
The scope of tasks in planning for VBPM is multi-dimensional. Two independent firms have to cooperate closely which can pose challenges. Therefore, the planning process has to ensure that the interests of the initiator, i.e. the goals and objectives of the brand manufacturer, are kept as priorities throughout the planning period. Naturally, these goals and objectives have to be streamlined with the retailer's objectives in order to aim for a "win-win" situation among the collaborators. Additionally, vertical marketing strategies have to be brought in unison with brand portfolio issues.

The following chapters will establish the specific actions that firms have to take when planning for VBPM. Consequently, the chronological procedure will follow the steps laid out in the planning process, beginning with an audit of the internal environment of the brand manufacturer and followed suit by the analysis of external environmental factors. Before the conceptualisation of the planning process can commence, a framework of analysis for the internal audit will be developed first. This is subject of the next chapter.

3 Step 1: Intra-Organisational Audit

3.1 The Internal Environment – Developing a Framework for Analysis

VBPM proposes the integration of retailer PLs into brand portfolios of brand manufacturers. The cooperative strategy, which is initiated by a brand manufacturer, should foremost support him to reach his own goals, which are mainly corporate, product category-, and brand related goals. Naturally, the cooperation should benefit the partner, i.e. the retailer, resulting in a win-win situation. Nonetheless, the starting point of the collaboration originates with the manufacturer. The outcome of step-1 is a thorough investigation of the internal environment of the manufacturer and the identification of product categories and brands that are suited for strategy implementation. It has to be ensured, that the brands, once they are implemented, continue to support higher level goals of the organisation and also meet the determined goals and objectives of VBPM (for criteria of VBPM goals see chapter 1). The following section will first of all categorise 'strategy' as a preparatory step towards a general framework for analysis. Then, the internal environment will be structured by linking strategy to a resource-capability view. Furthermore, a discussion on S.W.O.T. analysis and its contribution to the framework will follow. The chapter will conclude with the provision of a check-list that will guide the intra-organisational audit and act as the framework of analysis.

3.1.1 Levels of Strategy in the Organisation

For the internal audit a framework for analysis has to be developed. This will give the audit a common approach when duplicated and the auditor a set structure. The framework must hold two key features: in order for it to be broadly applicable, it must first contain competence areas which are common to most industries; secondly, for it being useful to a single firm, these areas must list specific capabilities and resources (Ansoff, 1987, p. 90).

The starting point for the development of the framework will be taken in the area of *accountability* for strategic decisions. Wheelen and Hunger's (1990, pp. 9) "Hierarchy of Strategy" divides larger firms into three levels of strategy:

1. Corporate
2. Business
3. Functional

According to the authors, corporate strategy is concerned with decisions for a favourable portfolio strategy deriving from the numerous activities and businesses the company is involved in. It also includes the flow of resources, the relationships with the firm's environment, and the overall performance. Business strategy, on the other hand, deals with the competitiveness of specific industries or segments on a divisional level. Also known as *Strategic Business Units* (SBU's), a division may include a group of similar products (ibid., p. 10). Subsequently, functional strategy deals with the maximization of the organisation's resources and capabilities typically belonging to one business unit. Usual functional activities are organized in departments such as Marketing, Finance, Research and Development, Information Systems, Operations, and et cetera. From the firm's hierarchical perspective, the corporate planner must be aware of the contributions each functional area can make to business units and overall corporate performance (ibid, p. 139). A hierarchical perspective also permits a broad applicability to most industries due to its commonalities among larger firms. Figure 9 offers an overview of areas of responsibility with typically assigned strategy manifestations.

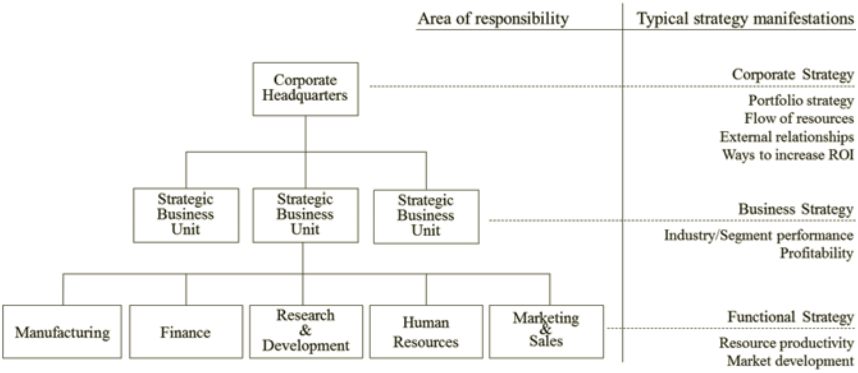

Figure 9: Hierarchy of strategy[38]

As an intermediate result, the hierarchical structure of strategy brings forth the business level and in particular the functional level as the focal point of internal analysis. In these levels, most of the VBPM processes and applications will take place.

3.1.2 Resources and Capabilities

In reference to VBPM, strategic business units will naturally lead towards brands that are managed at the functional level of the firm. Thus, the framework of analysis will foremost require an identification of the *functional resources* and *organisational capabilities* available to the firm.

Grant (2005, p. 139) offers a suitable model because it links resources and capabilities to a strategic context (see figure 10). He defines resources as the productive assets owned by a firm, whereas organisational capabilities as the firm’s skills to perform specific productive activities (ibid.). The author categorises resources further into tangible, intangible, and human resources. Tangible resources are either of financial or physical nature and easiest to determine. Conversely, intangible resources appear indiscernible. They mainly come in the form of brand names, trademarks or in other forms as reputational assets. It was established previously, that particularly branded products and (company) reputation play an important role in the initiation of VBPM[39]. These resource items, and in particular branded assets, will

[38] Source: adapted from Wheelan and Hunger (1990, p. 11).
[39] For the reasons that play a key role for brand manufacturers to initiate VBPM and retailers to engage in such a cooperation, refer to chapter 1 of part A.

contribute significantly to the extent of intra-organisational analysis when planning for VBPM. Finally, "human resources are the productive services that human beings offer to the firm in terms of their skills, knowledge, and reasoning and decision-making abilities"(Grant, 2005, p. 143). It is the human resource abilities that will turn the firm's resources into organizational capabilities. The attempt to classify capabilities brings back the discussion to the firm's principal operational level, i.e. the functional level. Grant (2005, pp. 139) recommends functional analysis as a common form of analysis in this context. The approach will then lead towards organisational capabilities that originate from the before mentioned functional areas of the firm. Figure 10 summarises the links between resources and capabilities towards strategy.

Figure 10: Links among resources, capabilities, and strategy[40]

The above discussion highlights the general resource and capability areas from which strategy originates and which are therefore subject of assessment. The purpose is to develop a framework which will contain the different kind of capabilities and resources encountered in most industries, particularly among producers of FMCG products[41]. In view of the great

[40] Source: adapted from Grant (2005, p. 139).

[41] Companies in the FMCG sector are most likely to be concerned with a strategy such as VBPM due to its roots in ECR practices which are prevalent with FMCG companies. Also, the strategy's purpose lies in solving strategic problems of brand manufacturers who in turn are generally producers of FMCG's.

variety of firms, such a list cannot be made exhaustive (Ansoff, 1987, p. 92). Nevertheless, VBPM will have particular focal areas that are specific to this collaborative strategy. Building on the resource-based capability perspective, a general check-list framework for VBPM will be defined in the following section. The objective is to link resources and functional areas with firm specific competences and to provide a general template check-list which can be completed be each manufacturer. The next section will introduce the strategic marketing assessment tool S.W.O.T. analysis and discuss the tool's contribution to the VBPM auditing framework.

3.1.3 The Internal Environment and S.W.O.T. Analysis

The extant strategy literature recommends an assessment and appraisal of the firm's internal environment when formulating strategy (Porter, 1980, Ansoff 1987, Wheelan and Hunger 1990, Grant, 2005). As shown in the previous section, the assessment part typically takes an inventory of the company's resources and capabilities. For further strategy formulation, the inventory (internal environment) is then frequently divided into strengths and weaknesses and ranked in terms of importance and performance. This kind of appraisal of the internal environment can be facilitated by using the strategic analytical tool of 'S.W.O.T. analysis'. The following is a brief examination of several applications of S.W.O.T. analysis from different authors summarised in table 12. It focuses on the objects of study within the internal environment and lists the different approaches of appraisal particularly in reference to the marketing environment. The construction of the resource-capability check-list for VBPM will be firstly facilitated by focusing on the 'Strengths and Weaknesses' assessment part of the S.W.O.T. method. Once the internal and external appraisals through step 1 to step 3 are completed, the results can be used to flow into a conceptual S.W.O.T. analysis as a basis for VBPM decision-making (see chapter 7, part C).

Author	Internal Environment	Appraisal/Marketing
Ansoff (1987)	General Management and Finance R&D Operations Marketing	Each function is assessed on four competence profiles and two-valued strength or weakness scale (examples in Marketing): Facilities and equipment: warehousing, retail outlets, sales offices, transportation equipment Personnel skills: selling, applications engineering, advertising, servicing, contract administration Organisational capabilities: direct sales, retail chain, product support, distribution and control Management capabilities: Industrial marketing, consumer merchandising, government marketing
Wheelan and Hunger (1990)	Corporate Structure Corporate Culture Corporate Resources Marketing Finance R&D Operations (Manufacturing) Human Resource Management Information Systems	Typical Marketing questions: What are the corporation's current marketing objectives, strategies, policies, and programs? How well is the corporation performing in terms of analysis of market position and marketing mix? How well does the marketing performance compare with the competition? Are marketing managers using accepted marketing concepts and techniques to enhance product performance (such as product life cycle, market segmentation, market research, and product portfolios)? What is the role of the marketing manager in the strategic management process?
Grant (2005)	Resources Finance, Technology Plant and Equipment Location, Distribution Capabilities Product Development Procurement, Engineering, Financial Management R&D, Marketing and Sales	Importance and Relative Strength range from a scale of 1 to 10 (1 = very low, 10 = very high) Marketing and Sales appraisal areas: Ability to meet customer needs, brand management expertise, advertising and promotion function.
Kotler and Keller (2006)	Marketing Finance Manufacturing Organisation	Performance: 5-scale ranking (from major strength to major weakness) Importance measured in three levels (hi, medium, low) Marketing: Company reputation, market share, customer satisfaction, customer retention, product quality, service quality, pricing-, distribution-, promotion-, sales force-, innovation effectiveness, graphical coverage

Table 12: Examples from S.W.O.T. analysis[42]

[42] Source: Ansoff (1987), Wheelan and Hunger (1990), Grant (2005), Kotler and Keller (2006).

All authors, summarised in table 12, include similar functional areas and resources into the analysis. Only the used terminologies differ respectively. Common functional departments include Finance, Research and Development, Operations/Manufacturing, and Marketing. On the other hand, resources range from tangibles such plants and products to intangible items such as brands and cost of capital. Counting brands towards a firm's resources is supported by Collins & Montgomery's (1998, p. 179) *resource-based* view on brand portfolios. Appraisals of resources and capabilities are common practice among the reviewed applications of S.W.O.T. but are subject to different scale items. Scales vary from two-valued scales up to scales ranging from 1 to 10. Some authors also rank the items in terms of their importance (Kotler and Keller, 2006, p. 55, Grant, 2005). Grant (2005, p. 156) highlights the fact that the ranking should correlate positively with the abilities of resources and capabilities in establishing a competitive advantage. Therefore, an importance ranking for a VBPM application should put the focus on the potential of each item to contribute to the success of the strategy. Some items will rank higher than others. For example, it will be shown later, that certain Vertical Marketing capabilities are more critical to the success rate of VBPM than others.

Additionally, it is important to determine the type of category of resources and capabilities in the organisation. Ansoff (1987, p. 91) recognises four categories for assessment and links them to functional areas of the organisation:
(1) Facilities and equipment
(2) Personnel skills
(3) Organisational capabilities
(4) Management capabilities
This categorisation caters for a combined assessment of (in)-tangible resources and capabilities and links them to the different levels of the organisation. This approach enables an assessment of complex business processes, whose contribution to the organisation can be measured at different levels. For example, a company may have accumulated a variety of brands (intangible resource), that are managed by well-educated brand managers (personnel skill), under a proven brand building approach of the company (organisational capability). Finally, the brand portfolio, is managed on a central level (management capability). Like this example, VBPM will involve several functional areas across different levels of the firm.

3.1.4 Resource-Capability Based Check-list for VBPM

The structure of the auditing check-list for the internal environment will be influenced by the key aspects of S.W.O.T analysis as discussed above. This will mainly mean a distinction between resources and capabilities. The importance of (in)-tangible resources for the implementation of VBPM has been shown. This foremost includes branded assets of the firm and its brand portfolio. Additionally other resources such as information technology and financial resources can act as strategy enablers. Ansoff's multi-level categorisation of capabilities will also be credited for. Capabilities will be related to the personnel-, organisational- and management level. This is in-line with the complexity of a strategic concept such as VBPM that will involve skills on all above mentioned levels.

Unlike S.W.O.T., whose main purpose is to measure the relative strengths and weaknesses of a company's resources and capabilities relative to competitors[43], the intra-organisational audit has a more focussed purpose aimed at the implementation of VBPM. The outcome of the audit should highlight the organisational ability to perform VBPM. Moreover, it should establish a foundation for the implementation of the strategy. Especially the company's resources that can be found in its brand architecture will set the "tone" of the strategy. It will also bring forth company brands that are suitable for the strategy.

Considering the rating of strengths and weaknesses, appraising resources and capabilities is less about data and more about insights and understanding (Grant, 2005, p. 157). For VBPM this means that the thorough understanding of the firm's brand architecture for example or extracting clear insights on the Vertical Marketing capabilities is more important than rating these items. Therefore, the assessment can be based on a subjective, two-level value scale of "strength" and "weakness". The importance level of the items should be dealt with similarly. The analysis will only include items that are important to the strategy. Therefore a three-level importance ranking from low, medium, to high can be used. The correlation between the importance and performance rating will give the planner an indication of prioritisation. For example, a low important rated capability that performances weakly needs less attention than a weak performing capability that ranks high in importance. As a result of the above discussion, table 13 serves as an illustration for a VBPM check-list template.

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[43] This is referred to the assessment of the strengths and weaknesses of the internal environment with S.W.O.T.. The opportunities and threats determination of S.W.O.T. is not being referred to in this context.

	Importance Hi/Med/Low	Performance Strength/Weakness	Comments
RESOURCES			
List of all tangible and intangible resources that are relevant to VBPM strategy implementation. E.g. Brand architecture, brand portfolio, IT, technology, finance, et cetera			
CAPABILITIES			
List of personnel and organisational/management capabilities that are relevant to VBPM strategy implementation. E.g. brand management, Category Management, ECR capabilities, product management, logistics, et cetera			

Table 13: Resource-Capability check-list template for VBPM[44]

In summary, the resource-capability check-list has to allow for a thorough assessment of all resources and functional areas of the firm that are relevant in respect to VBPM. It can be suspected that brand manufacturers will identify additional entries which will apply to their particular case. In addition to the manufacturer's environment, the check-list will also serve for an appraisal of the retailer's environment as part of step 3 of the VBPM planning process. Overall, the results of each resource-capability assessment will serve as intermediary reflections on the strengths and weaknesses of each examined entity. This will enable to take preliminary decisions towards strategy formulation. For example, certain brand constellations within the manufacturer's brand architecture will likely impact the criteria for product category or even retailer selection.

The following sections will specify resources and functional competencies that are key for the successful implementation of VBPM. The discussion will be centred on taking a strategic inventory of the company's brand architecture and portfolio and vertical marketing abilities.

[44] Source: own.

3.2 Strategic Resource Assessment – Brand Architecture Audit

The following will highlight the importance and significance of *brand architecture* as a strategic concept and main internal resource of the brand manufacturer for the implementation of VBPM. The discussion begins with definitional remarks on brand architecture followed by a presentation of *brand hierarchy* which is meant as the starting point of a discourse on the role of brands within brand architectures. The discussion will then move towards establishing a typology for brand architectures. Brand relationships and brand role-play in brand portfolios will conclude the discussion on brand architecture as a main organisational resource that requires the audit in the planning process for VBPM.

Brands represent the indispensable intangible resource of the firm within VBPM and are therefore the focal area of the intra-organisational audit. Within the firm, brands are generally part of a brand architecture system.

The term '*brand architecture'* is not applied consistently among branding and marketing scholars. Some authors refer to '*branding strategy'* (Kotler et al., 2002, p. 478, Hoffman et al., 2005, p. 298, Keller, 2008, p. 433), '*brand structure'* (Laforet and Saunders, 1999) and 'brand architecture' (Aaker & Joachimsthaler, 2000, p. 102, Kapferer, 2008, p. 347, Douglas et al., 2001). All concepts share the view of an organisational structure of brands and specify the roles and relationships of the brands within a market context. The following definition by Aaker and Joachimsthaler (2000, p. 102) offers a clear understanding of the term: "*Brand architecture organises and structures the brand portfolio by specifying brand roles and the nature of relationships between brands and between different product-market contexts"*. Managing brand architectures aims at reaching synergies between the brands while maintaining necessary independences so that target groups clearly and without effort understand the roles of brands and their relationships to each other (Esch et al., 2004, p. 750). A starting point of the discussion on brand architecture can be concerned with the question as to how many brand levels a company should maintain. Decisions of this kind lie in the area of "brand hierarchy" and are of strategic nature for the organisation (Kapferer, 2008, p. 349). Brand hierarchy is a way of putting a firm's branding strategy into a hierarchical order and assigning each brand with the level of managerial responsibility (Keller, 2008, p. 447). Keller (ibid.) puts brand hierarchy in a chronological order from top to bottom:

1. Corporate or company brand
2. Family brand
3. Individual brand
4. Modifier

The '*corporate'* or *'company brand'* is the highest level brand and its responsibility generally lies with top management. The corporate brand name is usually visible throughout the product offering. In some cases the corporate brand only appears as the legal originator of a product. For example, the corporate brand Procter & Gamble is visible on every individual product brand as the manufacturer of it. On the contrary, the corporate brand can virtually be the only brand visible (ibid.). This is the case e.g. with Dell computers and General Electric. '*Family brands'* are generally applied across product categories and have more room for differentiation than corporate brands (Keller et al., 2012, p. 587). The Nivea brand exemplifies the use of a family brand[45]. It is applied across a broad range of market segments ranging over a variety of personal care products such as body lotions, hair-care, and anti-aging products (Nivea, 2013). *Individual brands* are limited to one product category and companies may maintain several individual brands that are differently positioned (Keller et al., 2012, p. 588). For example, in the shampoo/hair-care category, Procter & Gamble offers four brands, namely Wella, Herbal Essence, Head & Shoulders, and Pantene. Each brand is targeted at a different segment (e.g. Wella for professional hair care) and the product may also have a specific use occasion (Head & Shoulders against dandruff) (Procter & Gamble, 2012). A *modifier* designates a special version or use of a product. Becks beer comes in varieties such as "Pilsener", "Alcohol free", "Gold", and "Lime" flavour (AB-Inbev, 2011).

Some products may be made up of all above mentioned brand levels as it is the case e.g. with a roll of 3M's Scotch removable Magic™ tape (Kapferer, 2008, p. 349): the company's corporate brand *3M*, the family brand *Scotch* as the umbrella for the company's range of tape and glue products, the individual brand *Magic™ tape* for a product line of frosted adhesive tapes, and finally a modifier *removable* that indicates the kind of Magic™ tape.

Brand hierarchy is useful when the level of organisational responsibility for any brand has to be determined. Figure 11 illustrates the relationship between corporate hierarchy levels, type of strategy, and brand hierarchy. Brand hierarchy indicates a clear coherence with levels of

[45] The 'Nivea' brand will later on also range under the term 'aligning umbrella brand' which is a more specific description within a whole set of brand architecture types by Kapferer (2008) (see chapter 3.2.2.5).

strategy which was already shown in chapter 3.1.1. Allocating brands to levels of strategy and respective managerial responsibilities will be a necessary task within the planning process of VBPM. It will be shown later on, that VBPM may lead towards visible links between manufacturer brands and PLs. Such decisions can be facilitated by linking brand levels – via brand hierarchy – with appropriate levels of responsibility in the firm.

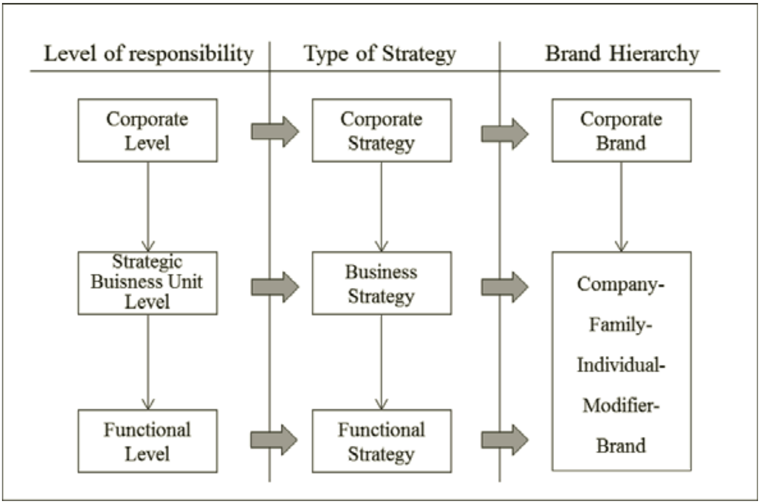

Figure 11: Links between corporate and brand hierarchy[46]

Next, the discussion will specify the different types of brand architecture. It will also be shown, that brand hierarchy levels similarly exist within specific branded constructs of companies.

3.2.1 Determining the Type of Brand Architecture

Once a clear picture of the firm's brand hierarchy is given the focus will turn towards the relationships between the different brand levels and the subsequent types of brand architecture. The basis for determining the type of brand architecture depends on the degree of integration between successive brand levels (Meffert et al., p. 172). Another point of concern is the amount of brand levels that are used and the role and visibility of the corporate brand

[46] Source: adapted from Keller (2008, p. 446), Meffert et al. (2002, p. 171).

(Kapferer, 2008, pp. 351). As shown in the previous section, both topics are related to the before mentioned ‘brand hierarchy system’. The outcomes of brand architecture have a lasting effect on the content and values that a brand can offer (ibid.). The following section will put emphasis on such effects.

The extant literature mentions two types of brand architecture as the purest and most extreme manifestations, that is at one end of the extreme the corporate brand dominant strategy “branded house” and at the other end of the continuum the individual brand dominated strategy “house of brands” (Laforet and Saunders, 1994, Aaker, 2004, p. 48, Kapferer, 2008, p. 353, Keller, 2008, p. 83). A branded house structure uses a single master brand to give coherence and lend common values to all offerings at the market and product level (Rajagopal and Sanchez, 2004). For instance, the core values of the Nivea brand at the first level are normative to all its subbrands or product descriptors on the second level. They in turn must express the values of the master brand in order to ensure the desired high degree of internal unity (Kapferer, p. 353). The house of brands strategy on the other hand uses independent and unconnected brands that makes it even possible for a company to compete in the same market (Aaker, 2004, p. 48). As mentioned before, Procter & Gamble, an often cited applier of the house of brands strategy (Laforet and Sounders, 2005), typically maintains several differently positioned brands in each of the markets where the company is present.

Several authors have developed strategies and models to describe complex brand architectures (Olins, 1989, Laforet and Saunders, 1994, Aaker and Joachimstahler, 2000). Branding scholars Aaker and Joachimsthaler (2000, p. 105) speak of the “Brand Relationship Spectrum” in this context. The brand’s position in the spectrum has relevance in the sense that it reflects the brand’s separation of corporate brand strategy. Brands in the house of brands spectrum have little to no relationship among each other whereas brands close to the branded house spectrum are highly connected to the master brand (ibid.). The “Brand Relationship Spectrum” has nine substrategies that are highly descriptive and it may be doubtful that consumers will be able to distinguish between the small differences of each substrategy (Esch et al., 2004, p. 755). Kapferer (2008, pp. 356) offers a comprehensive typologisation of brand architecture that is especially useful for the VBPM auditing process. It links the number of brand levels to the amount of freedom in the use of the marketing mix. On top of that it allows for a suitable integration of the consumer’s perception on the respective architectures in question. These parameters, i.e. brand levels, marketing freedom, and consumer perception, will similarly play a key role in the VBPM auditing context and applying then in the audit will make the assessment of brand architecture operational.

Knowledge about the effects of existing brand architectures on the implementation of the strategy is vital. For example, integrating PLs into one's own brand portfolio requires an accurate determination of the brand levels the company has in use and the implications that derive from it. Additionally, the role of the corporate brand has to be determined and put into a context with the consumer. Kapferer's (2008, pp. 356) six types of brand architecture are introduced and discussed in the following section. For each type of brand architecture, the relevance for VBPM and implications for the strategy are given underneath. This typologisation will then serve as the reference point for brand architecture in the auditing process of VBPM.

3.2.2 Kapferer's Six Main Types of Brand Architecture

3.2.2.1 Product Brand Strategy

In the product-brand strategy a brand name is assigned to only one product or product line with a distinct and unique positioning[47]. This is particular relevant for innovative companies that want to target different market segments. Companies with a product-brand strategy can achieve higher consolidated market shares when they offer differently positioned product brands to different segments. In the USA alone, "The Coca-Cola Company" maintains nearly 100 different brands in the beverage category. Among them are well-known trademarks such as Coke, Sprite, and Fanta (Coca-Cola, 2012). Coke for example comes in ten different varieties, ranging for a regular version to several diet varieties and with vanilla or cherry flavour. The product brand strategy helps to meet multiple consumer needs and expectations. With different brand names consumers are also able to better understand the differences

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[47] Positioning is defined as „arranging for a product to occupy a clear, distinctive and desirable place relative to competing products in the minds of target consumers" (Kotler, et al., 2002, p. 316). Companies can position their products in several different ways. Hooley et al. (2004, pp. 567) established six main positioning options that are based on: price, quality, service, customisation, benefit differentiation, and innovation. The chosen positioning strategy should ensure a fit between target markets and the competencies and assets the company possesses to serve those markets more effectively than competitors are able to (ibid.). While positioning is an important concept in marketing strategy, the definitional discussion on positioning strategies shall be limited at this stage. Understanding and applying the concept of positioning will be assumed as existing knowledge within organisation's targeted for VBPM. The discussion on the impact of positioning strategies on VBPM will be taken up in the context of step 4, when VBPM strategy is formulated.

between offerings. Furthermore, launching brands under a new name also protects existing brands in the company's brand portfolio and avoids negative spillovers if new brands become a failure. When the company name plays no significant role, launching new brands into new markets can be done with less risk and more freedom. Retailers also favour this strategy (Kapferer, 2012, p. 318). When a brand manufacturer is able to deliver a host of strong brands, retailers are likely to reward this with the allocation of additional shelf space.

On the other hand, the product-brand strategy is costly. Launching new brands requires communication investments and retailers treat new brands as new entries that require listing fees.

VBPM implications:
– Most freedom in the use of marketing mix elements among all types of brand architecture allows for high levels of flexibility in VBPM strategy formulation – PL with own positioning. No negative spillover effects to other portfolio brands in the vertical portfolio of the manufacturer – Potential C-brand of portfolio transferred into PL

3.2.2.2 Line Brand Strategy

A brand line includes complementary products under one brand name. The products can be different but are closely related to the initial product. For example, Benckiser's "Calgon" line started its life-cycle as a powdered dishwashing detergent and was then gradually extended to a rinsing agent and a limescale inhibitor (Kapferer, 2008, p. 359). Extensions rely on the success of an initial product and consumers generally perceive the products to be related. A line brand strategy strengthens brand equity and the products under a successful brand name are easier to place with distributors. Relying on existing strong brand equity can also reduce launching costs. On the other hand, line strategies have the limitation that only closely related innovations to the existing products should be added to the line.

VBPM implications:
– Shared brand equity by all product extensions – PL would have direct association to other product brands – Product category limited to that of line brand expertise – PL integration dependant on parent brand positioning from manufacturer – Possible co-brand strategy between line brand and PL – Potential negative spillover effects

3.2.2.3 Range Brand Strategy

A whole range of products that belong to the same area of competence are marketed under one brand name. For example, this is the case for over 100 frozen food products from the '*Bird's Eye*' brand that combines all its products under a unique brand concept (Kapferer, 2008, p. 360). Products under a range brand profit from the equity of a shared name which mainly becomes an advantage when promoting the products. Launching new products under the same brand concept is easily facilitated and more economical. Range brands may become confusing for consumers when the range expands. Consumer confusion can be offset by implementing intermediate category levels. Such a structure is often in line with the way that retailers organise their product categories (e.g. seafood, lean cuisine). Range brands then can market a whole array of products that are categorised in meaningful and structured groups. This enables the company to cover different segments.

VBPM implications:

- Range brands cover large product ranges similar to that of PL ranges[48]
- Shared brand concept by all range products lowers the branding flexibility for the vertical portfolio brands
- PL opportunity by using a special line to target particular segment
- Negative spillover effects possible

3.2.2.4 Endorsing Brand Strategy

The endorsing brand strategy combines two brand levels: an endorsing brand that lends its approval to a range of products grouped under product brands, line brands or range brands. GM endorses Opel, Johnson endorses Pledge. Endorsed brands are free to have their own space whereas the endorser takes a back role. The endorser stands for quality and guarantee while the product brands can move freely within their own personality. This manifests the different roles at each stage of the branding hierarchy. At the top level, the endorser represents corporate (social) responsibility. At the next level, the product brand occupies a distinct function dedicated towards points of differentiation (Kapferer and Laurent, 1992).

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[48] As shown in chapter 2 of part B, PL brands can be determined by breadth, whereas broad PL brands often span across many product categories or even cover the retailer's whole assortment.

VBPM implications:

- PL as product brand, line brand, or range brand with own positioning
- PL with endorsement by corporate brand
- Negative spillover effects possible
- PL can step out of endorsement strategy to avoid negative spillover

3.2.2.5 Umbrella Brand Strategies

Umbrella brand strategies come in two forms: the flexible umbrella strategy and the aligning (masterbrand) umbrella strategy. Both strategies consist of a single brand name and level that can cover numerous, often even unrelated product categories. The flexible umbrella brand strategy is characterised by the high degree of marketing freedom that individual product divisions receive. In Japan, the Mitsubishi brand name is host for diverse product categories such as telecom, automotive, shipbuilding, financial services, electronics, but also foods and beverages (Mitsubishi, 2013). Within the flexible umbrella brand strategy it is common that each division is branded differently. For example, Mitsubishi cars have a distinct slogan and brand personality that is different to the other product divisions. It is the degree of marketing freedom that makes the flexible umbrella strategy similar to that of a house of brands strategy. A key advantage also lies in the important role that the umbrella brand plays as the equivalent to a respected corporate brand. This is in particular relevant in Asian markets where authoritative corporate brands are well regarded. This in turn has a positive relationship with the amount of power a manufacturer can omit towards its various stakeholders. In turn, large flexible umbrella brands lack intangibles such as emotional values. They often tend towards technical and quality aspirations instead.

The aligning (masterbrand) umbrella strategy is no different on the surface. It contains a single brand on top with descriptive names for products, services, or divisions underneath. Yet, the two types of umbrella brands are fully unalike. Here, the parent brand delivers a complete frame of reference under which everything has to align. Next to the brand name all products share the same central values. This is what comes closest to the "branded house" strategy. A centrally managed masterbrand serves as a rigid guideline from product composition to brand communication. Products are sold under the master brand's name plus a differentiating descriptor of the market or target. For instance, Beiersdorf's 'Nivea' brand for personal care and beauty combines numerous segments and consumer needs under one umbrella brand (e.g. Nivea body wash, Nivea lotion, Nivea for men) (Nivea, 2013). This strategy offers economies of scale. A brand identity is being sustained to combine varieties of values that are differentiating and relevant in the markets where it competes. When executed well, this type of brand architecture can result in enormous brand power. In price-sensitive markets however, where volume-for-money is key, Laforet and Saunders (2007) point out that umbrella branding is not ideal and may conflict with the umbrella brand's use in other, less prices sensitive, segments.

VBPM implications:

- Imminent association with corporate (umbrella) name
- Possible negative spillover effects to all products under umbrella
- Flexible umbrella strategy offers PL opportunity when PL placed in new position and segment
- Endorser brand strategy possible solution for PL (PL endorsed by umbrella brand)

3.2.2.6 Source Brand Strategy

The source brand strategy resembles the umbrella brand strategy only that the products have their own name. Different to the endorsing brand strategy, the masterbrand takes a lead role by giving the product a seal of approval and distinction. This strategy has the ability to provide a double sense of difference and depth. The parent brand has the overall meaning and is modified by a daughter brand to attract diverse customer segments. This is the case with Yves Saint Laurent as the parent brand that attracts different segments with its product brands Poison, Opium, Jazz, etc. (Kapferer, p. 368). Source brands receive the benefit of branding efficiency that goes beyond the endorsing function. The two-level branding structure allows for shared values from the first layer of the parent brand and different personalities on the subbrand level. The limitations of the source brand strategy lie in the lack of freedom when it comes to brand extensions and product communication. All actions should be related to the parent brand’s area of expertise.

VBPM implications:

- Two-level brand structure with strong association to the parent brand
- Likely negative spillover effects to parent brand
- Limited PL opportunity due to narrow freedom for brand extensions and brand communications
- PL possibility as subbrand when clearly differentiated

Table 14 summarises the main aspects and pros and cons of Kapferer's six types of brand architecture.

Brand Architecture	Advantages	Disadvantages
Product brand One brand name per product (line) with one positioning strategy. Suitable for innovative companies and advisable in growing markets Examples: Accor: Sofitel, Novotel, Ibis Procter & Gamble: Ariel, Vizir, Dash	Multi-segmentation and differentiation with maximised market coverage possible. Most marketing freedom and low-risk strategy to enter new markets. Minimised negative spillover effects to other portfolio brands	High cost strategy No positive spillovers
Line brand: Numerous complementary products under a single name Examples: l'Oréal: Studio Line hair products. Reckitt Benckiser: Calgon dish washing	Reinforced brand equity via extensions. Easier distribution for each line extension with reduced launch costs	Extension limited to closely related product innovations
Range brand Large product lines under one brand name and brand concept that all belong to a related field of competence. Names for particular product lines structure the offer. Example: Findus (Lean cuisine, Traditional, Seafoods)	Shared brand equity. Communication economies of scale. Simplifies new product launches	Consumer confusion possible when brand expands
Endorser brand Two brand levels. Top-level endorser brand lends security and guarantee to product brands with independent positioning. Examples: GM/Opel, ICI/Dulux	Allows for differentiation while maintaining commonality by the security and guarantee lending endorser brand	Negative spillover effects to endorser possible
Umbrella brand Flexible umbrella brand: single brand name can cover numerous unrelated product categories. Similar to "house of brands" strategy with unique positioning per product Examples: Mitsubishi, Toshiba	Allows for great freedom and differentiation on the product level. Can bring strong corporate brands forward. Power increase	Often technical and quality driven and therefore lacking intangible values like emotions
Aligning (master) umbrella brand: single brand name with common value system on the product level ("branded house") Examples: Nivea, Sony	Economies of scale. Can result in very strong brands	Masterbrand is vulnerable due to large exposure
Source brand Two-brand level structure with a leading parent brand and differentiating daughter brands Examples: Garnier-Fructis, Danone-Actimel	Branding efficiency. Sources of strong shared values and uniqueness on the product level	Brand extensions are fully tied to the core meaning of the parent brand. Limited freedom

Table 14: Kapferer's six types of brand architecture[49]

[49] Source: adapted from Kapferer (2008, pp. 356).

Even within any one firm, marketers may adopt different brand architecture types for different products (Keller, 2008, p. 463). In what form such complex brand architecture systems may come will be discussed in the following.

3.2.3 Complex Brand Architectures – Unilever Case

Kapferer's six main types of brand architecture are theoretical models and in practice do not always come in pure form. Instead, brand architectures are often mixed and combined and grow to more complex structures (Rajagopal and Sanchez, 2004, Laforet and Saunders, 2005). Companies may apply different architectures as a result of corporate objectives, consumer behaviour, or competitive activity (Keller, 2008, p. 463). According to Laforet and Saunders (2007) suppliers of grocery brands nowadays apply more complexity in the way they construct brand architecture. Variation within a given type of architecture also depends on the firm's administrative tradition and international expansion strategy, as well as on the grade of cohesion among product lines or business units (Rajagopal and Sanchez, 2004). To illustrate how companies are mixing and matching brand architectures a brief case will be constructed by examining one product category of the multinational fast-moving consumer goods company Unilever. The company currently maintains over 400 different brands in its global portfolio (Unilever, 2012). In the margarine category, for example, the German division of Unilever brings six product brands to market that are each targeted at different market segments (ibid.). Some of these brands apply complex brand architectures on their own that go beyond the product brand type. Each brand and their architectures will be presented in the following. Kapferer's brand architecture typology is applied in this analysis.

The flagship brand *Rama* is targeted at families with the benefits of healthy upbringing and wellbeing. The brand comes in six different product variations of Rama margarine, a breakfast version, an organic based margarine, a lower calorie version called Rama balance, a lightly salted version, and a variety that is targeted at butter consumers due to its butter-like taste. Rama extended its brand into baking and cooking categories with the line extensions of Rama Culinesse and Rama Cremfine. With these line extensions, Rama can be considered a 'line brand' according to Kapferer's line brand architecture. The product brand *Lätta* is a semi-bold breakfast margarine that comes in three product variations (Classic, Extra fit, and with Yoghurt). *Becel*, which is a range brand, mainly offers margarine products targeted at cholesterol and heart condition conscious consumers. The brand extended to other product categories such as yoghurt, milk, and even meat based bread spreads. *Homa Gold* is a product brand with a small brand line and targeted at traditional users of margarine that mainly use the product for baking and frying (Unilever, n.d. a). With *Flora soft*, Unilever brings another product brand to market with a small brand line that is targeted at consumers who value low sodium and lactose-free products (Unilever, n.d. b). *Sanella* is the last margarine product brand from Unilever for baking and cooking applications. Unilever has two more brands in their portfolio that also contain margarine products in their brand lines. First of all, the range brand *Bertolli* delivers the promise of a Mediterranean feeling due to its Italian origin. The product range covers pasta, olive oils, pasta sauces, salad dressings, herbs, and the Bertolli bread spread, which is an olive oil based margarine. Another range brand with margarine products in its portfolio is *Du darfst*. The brand started out with one semi-bold margarine product. Nowadays, the brand targets weight- and health conscious woman with over 80 products ranging from ready-to-eat meals, bread spreads, and a semi-bold margarine.

Brand	**Type of Brand Architecture**	**Segment**	**Benefit**
Rama	Line Brand	Families	Health, Wellbeing
Lätta	Product Brand	Breakfast spread	Health, Fitness
Becel	Range Brand	Heart smart people	Lowers cholesterol
Homa Gold	Product Brand	Traditional	Baking and frying
Flora Soft	Product Brand	Low sodium, lactose-free	Health
Sanella	Product Brand	Baking, cooking	'Baking expert'
Bertolli	Range Brand	Italian food	Mediterranean feeling
Du Darfst	Range Brand	Weight conscious woman	Taste with lower calories

Table 15: Unilever's German margarine brand portfolio[50]

As shown in table 15, all margarine brands from Unilever are targeted at different market segments with varying benefits. The brand promises differ from taste, to lifestyle, use application, and health benefits. Most products that are for direct consumption promote health

[50] Source: own, derived from Unilever (2012).

benefits[51]. This might likely have to do with the category defining benefit of margarine as a healthier alternative to other bread spreads, mainly butter. The brand names and benefit claims stand as individual brands without any connection to each other. The corporate *Unilever* brand appears on all of its product packages (Laforet and Saunders, 2005). It indicates the maker of the product for warranty and guarantee purposes. In 2004, Unilever introduced a new corporate logo that appears on all of its packaging (Horizont, 2004). Next to the legal function of product maker the logo display also increases the company's visibility (van den Bosch et al., 2005). Although all margarine brands bear the Unilever logo, it can be argued that consumers are not able to distinguish any connection between Unilever's margarine brands. The product brands have no visual connection with each other and the corporate logo takes a very passive stance addressing product maker requirements. The brand name is what consumers will foremost and likely recognise. Besides, the Unilever corporate brand does not actively communicate any kind of meaning or benefit. Judging by its current branding strategy, if Unilever were to target a new market segment within the margarine category it would likely integrate an independent product brand with a unique positioning and no visible connection to the other portfolio brands. While Unilever's overall branding strategy is a house of brands strategy, individual product brands can apply different architecture types as seen above. Hence, an overall corporate brand strategy may only be prescriptive to the individual product brand level.

VBPM implications:

- Companies with multiple brand entries per category may apply different brand architectures on the product level
- Brand architecture must be audited at a detailed product level
- PL entry related to particular architecture of parent brand
- PL integration may affect portfolio structure and imply portfolio re-structure process

This Unilever case illustrates once more the relevance of brand architecture at the outset of VBPM planning. As shown, brand architecture sets the role of the corporate brand and is the expression of the organisation's branding philosophy. On an operational level, brand

[51] The Sanella and Homa Gold products are suggested for indirect consumption as a cooking aid or baking ingredient. The Bertolli brand on the other hand is targeted more at Italian food lovers where the margarine product only plays a minor role.

architecture indicates how to deal with brand extensions and brand additions to the portfolio[52]. When taking the company's brand inventory, the planner first of all has to carefully analyse the applied brand architectures. The key task within the VBPM planning process is then to determine the implications that derive from the encountered architectures. The contextual complexity is obvious when companies maintain large brand portfolios for different market segments and channels of distribution under the use of mixed types of brand architecture.

The next section will clarify the general branding consequences that derive from brand architecture when a new brand is added to a portfolio. The consequences can range from impacting the PL positioning on the one hand and also imply the restructuring of the manufacturer's brand architecture on the other. Kapferer's six types of brand architecture will be the reference points for this discussion. Later on in chapter 7.2, brand architecture will be a main part of the broader discussion of VBPM strategy development.

3.2.4 The Effects of Brand Architecture on Brand Portfolio Growth

When a brand is considered for portfolio integration it will be affected by the type of brand it encounters. As Douglas et al. (2001) state: "brand architecture indicates how new brands, whether acquired or developed, will be treated". Therefore, it has to be determined how and where the entrant fits into the brand architecture and whether or not it overlaps with existing portfolio brands. Esch et al. (2004, p. 759) determine two interdependent variables that have an influence on an integration[53]:

1) The *role* of the corporate or umbrella brand
2) The amount of necessary *independence* of the brands among each other

When a type of brand architecture is encountered where the corporate brand plays a significant role, the entrant would normally seek integration under the leading brand's guiding principles. Branding synergies will be the result of all contributing brands. At the same time all products under the umbrella are less independent. When independence of the portfolio brands is more imperative, less branding synergies can be realised and the corporate or

[52] For a detailed discussion on brand architecture and brand growth see next chapter.

[53] Esch et al. (2004) speak of *synergies* and *independence* in this context. Synergies derive as a result of the corporate brand and its role within a portfolio. When a corporate or umbrella brand plays an important role, as it is the case in the branded house architecture, branding synergies are the result as all brands in the portfolio contribute towards the brand equity of the master brand and the other portfolio brands under the umbrella profit from its equity.

umbrella brand can take a back stand. As a result, brands receive higher degrees of marketing freedom. Figure 12 illustrates the decrease in brand independence when moving away from a house of brands strategy and the increase in the importance of the corporate brand at the same time.

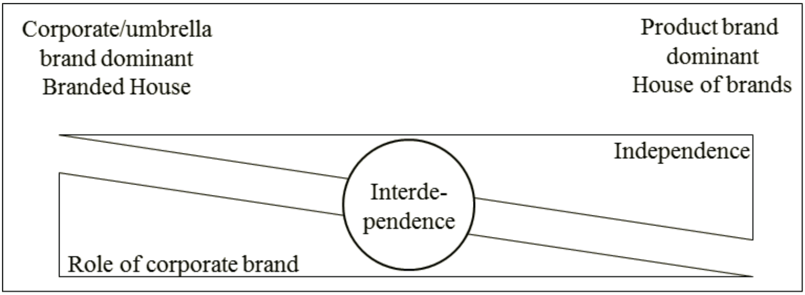

Figure 12: Interdependence between role of the corporate brand and independence[54]

Kapferer's brand architecture types that were introduced in the previous section will be put in this context. To show the effects of brand architecture on brand portfolio growth, two of the extreme forms of the spectrum – i.e. the house of brands with the example of the Product Brand Strategy and branded house with the Aligning Masterbrand Strategy – will be discussed.

The Product Brand Strategy and to a certain extent the Flexible Umbrella Strategy allow for the most independence of all brands – for existing and newly added ones. Brands under these architectures can be targeted at different market segments and have their own positioning and brand identity. Within a Product Brand Strategy the product brands have no connection to each other. A new entrant will not gain from any product brand's equity nor will the portfolio brands be vulnerable to negative spillovers caused by the entrant. All brands only profit from their own equity and have little to no connection to the corporate brand. Shown by the Unilever case in the previous section, the corporate brand foremost has the legal function of product maker. Newly added brands would equally be independent from the other brands including the corporate brand. A new portfolio entrant needs to target a new market segment under an exclusive positioning in the portfolio in order to justify its independence (see Figure 13) and to avoid possible cannibalisation effects.

[54] Source: adapted from Esch et al. (2004, p. 760).

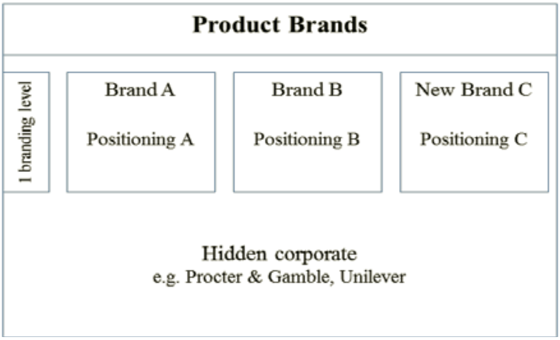

Figure 13: Product brand strategy with new brand[55]

On the other hand, the Aligning Masterbrand strategy allows for the least independence of the products in the portfolio. A single brand prescribes cohesion for the whole only permitting descriptors for the products or services underneath it. A corporate identity is the given framework for all sub-brands including a mutual positioning and common visual identities (Kapferer, 2008, p. 366). New products would naturally be absorbed under the aegis of the masterbrand (see figure 14). This strategy would therefore allow for the least marketing freedom for newly added sub-brands. At the same time, the masterbrand's supremacy would result in significant marketing synergies. New products would receive a pre-set identity and positioning which would make the integration a relatively simple process. Only the occupation of a meaningful market segment would be the pending task at the outset of the integration.

[55] Source: adapted from Kapferer (2008, p. 354).

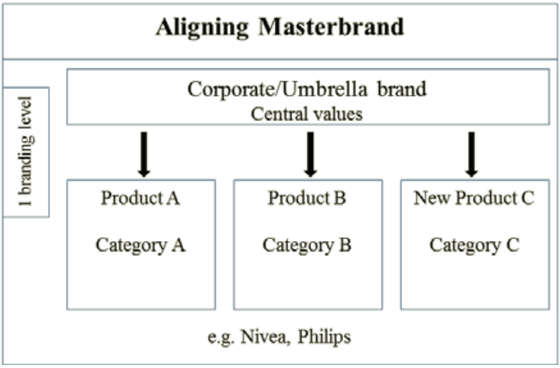

Figure 14: Aligning masterbrand strategy with new product[56]

To decide which strategy is right or wrong depends on the particular situation of the company (Joachimstahler and Pfeiffer, 2004, p. 727). When the brand has more the role as indicator of origin, source effect, and reassurance, architectures tend towards branded houses (Kapferer, 2008, p. 352). On the other hand, when differentiation and personalisation is important, house of brands strategies are recommended (ibid.). Rajagopal and Sanchez (2004) have developed attributes that can be achieved partially dependent on a particular brand architecture. The authors reveal for example, that the best market impact (one of the attributes) can be obtained ideally with independent brands. The academic community is indecisive over which architecture system to favour. For example, Kapferer (2008, p. 377) sees a rise of branded houses, Laforet and Saunders (2007) on the other hand have discovered that "corporate branding is declining as companies accumulate numerous brands and compete over segments, where they need to differentiate their product". These findings may suggest that house of brand strategies will be more prevalent especially in the FMCG sector – a favourable architecture for VBPM due to its prevention of reputation loss (spillover effects).

The preceding discussion has shown, that the process of integrating new brands into a portfolio requires and exact determination of an organisation's brand architecture. The role of the corporate brand and the degree of necessary independence of the product brands are key factors of consideration before the integration. Both factors are inversely proportional to each other and both gain or lose significance at either end of the spectrum of brand architecture.

[56] Source: adapted from Kapferer (2008, p. 366).

Brand architecture is a plan and like any plan practice sometimes shows deviations. Brand architectures can come in mixed and complex forms. Unilever's German margarine product portfolio was just one example that showed heterogeneity in its brand architecture composition. Every organisation's brand architecture has its own history and individual character. At the same time it has to be mentioned that a brand's integration does not strictly have to happen under the rules of the leading architecture just for the sake of it. There could be circumstances that a brand deviates from the prescribed brand architecture rules when the intended strategy implies it. Here, Chandler's (1962) well known theory of "structure follows strategy" may be employed. The strategic goals that lie behind the integration of a new brand to a portfolio should have priority over the composition of its resources. In other words, brand integration should foremost follow strategy over brand architecture. For instance, if the market situation demands a differentiated brand with attributes that a given corporate brand under the encountered branded house architecture cannot give, the integration should take these factors into account and a different branding strategy for the new brand may be recommended.

VBPM implications:

- The role of the corporate brand and the independence of product brands are reversely proportional to each other
- Brand architectures can differ within a firm's brand portfolio
- Existing architectures do not have to be prescribed to a new portfolio entrant
- Spillover effects are key determinants for architecture adaptation

3.2.5 The Effects of Brand Architecture on VBPM

The firm's brand architecture has also far-reaching effects on the VBPM strategy configuration. For the intra-organisational audit, it can be concluded, that the VBPM planner has to determine the company's brand architecture or architecture system at the beginning of the audit. This will reveal the role of the corporate brand and highlight the degree of necessary independence of potential product brands. The audit will foremost enable the planner to determine potential branding consequences for the PL and the brand portfolio. For example, the potential visibility of the corporate brand on the PL and how to name the product will be partly subject to brand architecture. Also, the degree of independence will open or close an array of marketing possibilities for the PL. Moreover, brand architecture will inform the planner of covered and potentially uncovered market segments. Even though PLs are generally targeted at the lower price segment, the audit can still clarify whether or not there is room for the PL in the first place. At the same time, higher positioned premium PLs could also be under consideration. Finally, the architecture audit will reveal and clarify the positioning strategies of the portfolio brands. This knowledge is necessary to ensure a prevention of brand overlaps and cannibalisation. Overall, the 'structure follows strategy' principle (Chandler, 1962) also applies in this context. The strategic concept of VBPM and its intended goals will have priority over the structure of the encountered type of brand architecture.

According to the Intra-Organisational Check-list (see table 13), the assessed brand architecture should be rated permitting for an importance and strength or weakness rating. Due to its significance for the strategy, brand architecture should be considered as highly important. The strength and weakness rating should refer to the ability of the architecture system to facilitate the implementation of VBPM. Criteria such as potential negative spillover effects, role of the corporate brand, and segmentation issues should serve the planner as guidelines at this stage. Due to the fact that the planning process is only at the beginning, this rating should be treated as temporary and needs to be reviewed throughout the planning period.

During a later stage of the planning process, brand architecture will play a significant role once again. In step three, the retailer's brand architecture will be first analysed and then put into relation with the brand manufacturer's architecture. This step is necessary to assess the mutual branding consequences caused when the two architecture systems meet within VBPM strategy.

VBPM implications:

- Brand architecture audit will clarify covered segments and positioning strategies of category brands to avoid brand overlaps
- Uncovered segments are potential PL opportunities
- Architecture strength and weakness rating will give suitability indication for VBPM
- Architecture audit serves as intermediate step for strategic fit with retailer architecture

Building on the findings of the brand architecture audit, the VBPM planner will next examine the firm's brand portfolio. Here, the focus lies in the identification of all brands and their roles and relationships with each other.

3.2.6 Taking an Inventory of the Portfolio Brands

Brands are the key assets of the organisation in the context a VBPM. After concluding on the manufacturer's brand architecture, the audit will now take a complete inventory of all brands in the portfolio. This inventory will be followed by determining the role-play of brands within the portfolio. Such portfolio roles have only been established partially before during the brand architecture discussion when the role of the corporate brand was in the main focus. The audit will now go beyond the role of the corporate brand and examine the roles and relationships of all the brands that play a role within the firm and that are strategy relevant.

As already pointed out in chapter 1.2, part B, literature does not offer a standardized definition for the term ‚brand portfolio'. Both Aaker (2004, p. 16) and Riezebos (2003, p. 184) define the term by including all brands managed or collected by an organisation. Keller (2008, p. 434) defines brand portfolio as "*the set of all brands and brand lines that a firm sells in a particular product category"*. This category perspective will be useful later on in this chapter and during the VBPM process when the selection of the category and a brand is due. For the brand portfolio inventory, Hill and Lederer (2001, p. 7) provide a broad perspective by not restricting a portfolio to brands owned by a company or in a particular category. The authors rather extend the scope to every brand that plays a role in the consumer's purchase decision process. As it will be shown later, the VBPM planner has to make an account for every brand that has consumer relevance – even brands that are not owned by the company. This includes for example co-brands, ingredient brands, or other secondary brand associations. A consumer perspective is also in line with the ECR concept, which prescribes consumer orientation as the guiding principle.

For taking an inventory of the brands and products of the firm, Keller's brand-product matrix is a suitable instrument (Keller, 2008, p. 434). It can provide the planner with a graphical representation of all the brands and products put to market per offering and per category. It can also aid to determine the relationships between the products and brands of any particular product category. The category perspective is useful for the VBPM auditing task because it prioritises categories as strategic business units. This is also similar to ECR's Category Management practice.

		Products			
		1	2	....	N
Brands	A	brand line brand A			
	B	brand line brand B			
	⋮				
	N				

Figure 15: Keller's brand-product matrix[57]

A row of the matrix represents all the products sold under one brand name (see figure 15). This manifests the brand extension strategy. A *brand line*, which is one row of the matrix, consists of all products and variants sold under the brand name. Here the *brand-product relationships* are manifested. For example, there are numerous kinds of soap by the brand *Dove*. The brand brings to market different formulas, sizes, package types, and applications such as a Dove bar soap, Dove liquid hand soap, Dove soap flakes, and Dove dish soap (Randall et al., 1998). The different soap products are all connected to the Dove brand.

The columns of the matrix are subject of the *product-brand relationships* and form the brand portfolio strategy. It captures the number and nature of all brands and brand lines that are marketed in one product category and is the expression of a particular segmentation. For instance, Unilever's' before mentioned German margarine category consists of five product brands that are each targeted at different market segments (see chapter 3.2.3). Each brand varies in brand line length. While Bertoli has only one margarine bread spread on offer, the Rama brand consists of five product variations. On top of that, the Rama brand extended into several other product categories. According to Keller (2008, pp. 435), a branding strategy is characterised by its breadth (i.e. in terms of the brand extension strategy) and its depth (i.e. in terms of the brand portfolio). A branding strategy can be seen as both deep and broad if the company has a large number of brands, which are widely extended (Keller, 2008, p. 435). This is the case for Unilever and its margarine category. It was shown in the previous section

[57] Source: Keller (2008, p. 434).

that some of the six product brands were widely extended. In terms of breadth, no other manufacturer brings more brands to market than Unilever. In 2012 the ‘Verbraucher Analyse’[58] listed 7 Unilever brands among the top 15 margarine brands in Germany (VA, 2012). All other products were single brands from different companies.

The brand portfolio audit should not be limited just to the category brands, no matter if the company has only one brand or multiple brands per category on offer. Instead, the audit should include all brands that are visible in the product category at question. Hill and Lederer’s (2001) broad view on brand portfolios implies, that an inventory includes all brands, whether they are owned by the company or not. The main criterion of inclusion is consumer relevance. For example, the external “Intel inside” brand drives Dell’s product strategy and likely has consumer relevance when forming a purchase decision (Hill and Lederer, 2001, p. 7). What kind of role these and other brands play both for the company and the consumer, will be subject of the next section when roles and relationships of portfolio brands are discussed. At this point it has to be pointed out that the brand portfolio audit should be broad at the inventory stage. Brands should be noted regardless of their importance, origin, or role. Keller’s brand-product matrix is a category related tool but will still aid to reveal other brands that play turn up in a product strategy.

3.2.7 Brand-Product Matrix – Procter & Gamble Washing Detergent Category

The task of listing category brands should be straightforward in most cases. However, each brand’s brand line may be more complex depending on the amount of products sold under a particular brand name. To illustrate the application of the brand-product matrix, an example from the UK washing detergent category shall be used. This product category is well suited for the illustration because the market is dominated by two players that both bring multi-brand portfolios for this category to market (Bainbridge, 2012). The following example takes a thorough look at Procter & Gamble’s UK presence and starts with the well-known washing detergent product brand *Ariel*. This brand is available in as many as 16 different product variants (see figure 16). The consumer can choose between four different product forms: gel, powder, “liquitabs”, and tablets. Each form is then offered for four different kind of use applications. Therefore, Ariel powder comes as a biological formula, for coloured clothing,

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[58] The ‘Verbraucher Analyse’ (VA) is a German consumer analysis report published by ‘Axel Springer AG’ and the ‘Bauer Media Group’.

with “Febreze Effect” for freshness, and as a non-bio almond and honey powder that makes clothes more gentle (Procter & Gamble, 2012a). All other forms of Ariel have products for the same kind of applications. The product line becomes even longer when promotional offers such as value packs and different package sizes are added. Ariel also extended into the stain removal sub-category. This line comes as a gel, powder, and spray and totals five different products variants. This makes Ariel practically a range brand.

Ariel Brand Line	**Ariel Powder**	Ariel with Actilift™ Biological Powder	Ariel with Actilift™ Colour Powder	Ariel with Actilift™ with Febreze Effect Powder	Ariel Non Bio Almond Milk and Honey Powder
	Ariel Excel Gel	Ariel with Actilift™ Biological Excel Gel	Ariel with Actilift™ Colour Excel Gel	Ariel with Actilift™ with Febreze effect Excel Gel	Ariel Non Bio Almond Milk and Honey Excel Gel
	Ariel Excel Liquitabs	Ariel with Actilift™ Biological Excel Tabs	Ariel with Actilift™ Colour Excel Tabs	Ariel with Actilift™ with Febreze Effect Excel Tabs	Ariel Non Bio Almond Milk and Honey Excel Tabs
	Ariel Tablets	Ariel with Actilift™ Biological Tablets	Ariel with Actilift™ Colour Tablets	Ariel with Actilift™ with Febreze Effect Tablets	Ariel Non Bio Almond Milk and Honey Tablets
Bold 2in1 Brand Line	**Bold 2in1 Powder**	Crystal Rain & White Lily	Lavender & Camomile	Sparkling Pomegranate & Orange Blossom	Infusions White Diamond & Lotus Flower
	Bold 2in1 Liquitabs	Crystal Rain & White Lily	Lavender & Camomile	Sparkling Pomegranate & Orange Blossom	Infusions White Diamond & Lotus Flower
	Bold 2in1 Tablets	Crystal Rain & White Lily	Lavender & Camomile	Sparkling Pomegranate & Orange Blossom	
	Bold 2in1 Liquid	Crystal Rain & White Lily			
Daz Brand Line	**Daz Powder**	Daz Bio Powder	Daz Mandarin & Lime Splash	Daz Summer Flower Power Powder	
	Daz Liquitabs	Daz Regular Liquitabs	Daz Mandarin & Lime Liquitabs	Daz Summer Flower Power Liquitabs	
	Daz Liquid	Mandarin & Lime Splash	Summer Flower Power		
	Daz Tablets	Daz Tablets			
Fairy Non Bio	**Fairy Powder**				
	Fairy Liquitabs				
	Fairy Liquid				
	Fairy Tablets				
	Fairy Gel				

Figure 16: Procter & Gamble's UK washing detergent product category[59] [60]

[59] Source: Procter & Gamble (2012b).

[60] For practical illustration purposes the rows per product brand are shown in blocks of four. Strictly speaking, these blocks should be put in one row as a brand line is one row of the brand-product matrix. In Ariel's case, the brand line consists of 16 products in total in one row.

The *Bold 2in1* product brand is the second brand in the P&G washing detergent category and offers in total 13 product variants (see figure 16). The brand's unique selling proposition is the so called "new scent release technology" which is supposed to release a fresh scent for up to 12 hours every time a garment is touched (Procter & Gamble, 2012b).

P&G sells nine products under the *Daz* brand name. This brand is offered in the same forms as the other P&G brands except a gel (see figure 16). The product variants hold the Daz product name with a descriptor that specifies the offer, e.g. *Daz Mandarine & Lime Splash* (Procter & Gamble, 2012c).

Finally, the fourth detergent brand by P&G, *Fairy*, is a range brand that offers two fabric softener products and a five washing detergent varieties. The main promise of all Fairy products is softness (Procter & Gamble, 2011). Among the four P&G detergents, this brand line is the shortest with only five products (see figure 16).

In summary, P&G's complete washing detergent category is made up of over 40 product variants under four different product brand names. They are made visible using the brand-product matrix as shown above. Several other brands can be found among the brand lines of this product category. When taking a closer look at the Ariel brand line for example, it is apparent that all line extensions, with the exception of the Non Bio Almond Milk And Honey products, come with the trademarked *Actilift™* technology. The common use of this branded differentiator (see chapter 3.2.8.2) leverages brand equity towards the extensions. Ariel also follows a co-branding strategy with another P&G brand, i.e. the air freshener *Febreze*. *Ariel with Febreze Effect* gives clothes an extended freshness. Finally, the P&G corporate brand as the maker of the products can be found on each package in the form of a shadow endorsement. All of these brands would have to be noted on the brand portfolio audit sheet. The brand-product relationships are first of all characterised by the common brand name on all products. Secondly, all products will bear a shadow endorsement by the P&G corporate logo on the back of each package. The sixteen different product varieties are targeted at different segments and use occasions. For the consumer, the brand-product relationships are mainly visible by the Ariel brand name but not so much by the shadow endorsement of the P&G logo. The consumer can also make a connection between the varieties, which bear the Actilift™ technology. When extending the perspective on all detergent brands by P&G, no obvious product-brand relationships can be visualised using the brand-product matrix. All brands are product brands without a link to each other except the before mentioned P&G shadow endorsement.

VBPM implications:

- Brand-product matrix makes all brands in a product category visible
- Such brands include product brands, co-brands, and any other visible portfolio brands
- This gives VBPM planner initial overview of relevant brands
- First impression on brand connections and relationships

The relationships of the product brands in the category as described above can be explained as a question of the brand product- and product brand relationships. These relationships reflect an external view of the brands from the customer's viewpoint (Aaker, 2004, p. 18). Therefore, when the brand inventory is taken, the planner has to assess and determine the brand relationships within each brand line, the product category and the brand portfolio. The detailed assessment of the brand portfolio will be part of the next section.

3.2.8 Brand Portfolio Audit

The audit has taken the planner from examining the brand architecture to taking an inventory of the product category's brands including all product brands and any other visible brands owned by the company. Thus far, the examination has been without judgement. It has been a descriptive audit of the branded assets only with a "hint" of strategy assessment when brand architecture was in the focus. The audit currently provides an overview of the branded assets and leads the way to more substantial analysis.

From this point on, the analysis will take place on three different levels consecutively:

1. Brand level
2. Category level
3. Brand portfolio level

The brand level analysis will point out the brand-product relationships. This analysis starts with a breakdown of every brand's identity to enable the planner to understand the brand's coherent meaning for all products. The category level examination will bring the product-brand relationships to light which will ultimately lead to brand portfolio strategy. At this level the analysis will put all identified product brands and other trademarks into a relational context.

3.2.8.1 Brand Level Analysis

The portfolio audit so far has only been narrowed by taking an inventory of brand lines. In order to fully understand the brand-product relationships, the audit will broaden its scope by examining brand identity.

Brand identity is a common concept applied in the branding literature and in practice (Aaker, 2002, p. 68, Meffert et al., 2002, pp. 40, Riezebos, 2003, p. 60, Kotler and Keller, 2006, p. 279, Kapferer, 2008, p. 171). For the auditing process, it is not necessary to review the meaning of the term in its totality. Instead, an applied definition of the term shall serve as a guideline to identify the key features that make up brand identity. In the social sciences, it is common to tailor the meaning of identity towards a particular research purpose (Meffert, 2004, p. 299). Coming from the brand owner's perspective, brand identity shall be determined as *the set of brand elements and brand values that are unique to the brand*. This definition includes the main aspects that most scholars include in their views on brand identity, i.e. the visual aspects of a brand represented by the brand elements and the meaning and purpose of a brand represented by the term brand value.

Brand names, logos, symbols, characters, slogans, and packages are examples of trademarkable brand elements that foremost distinguish a brand's visual identity and give the brand substance (Keller, 2008, p. 140). They can be easily identified and therefore audited. In addition to these rather tangible elements, a brand's identity can be made up by a value system. Kapferer (2008, p. 274) distinguishes between 'central' values, i.e. values that are "non-negotiable", and 'peripheral' values, which may or may not be present throughout a brand line (see figure 17). The differentiation is helpful to manage a brand line. Central values are ubiquitous throughout all products and make up the core identity of the brand. Peripheral values on the other hand allow for segment specific distinctions. For example, Nivea sun screen lotion should be hypo-allergenic to support the brand's central value of taking care of oneself. Additionally the product shows scientific proof, which is generally not in Nivea's core value set. Here, scientific endorsement is necessary in order to par with Nivea's main competitors (e.g. l'Oréal and Estée Lauder) which have implemented science as a key denominator in this category in regards to skin damage from sun (Kapferer 2008, p. 274). Other Nivea products may not necessarily need back-up from scientific tests which makes scientific endorsement a peripheral value for the brand.

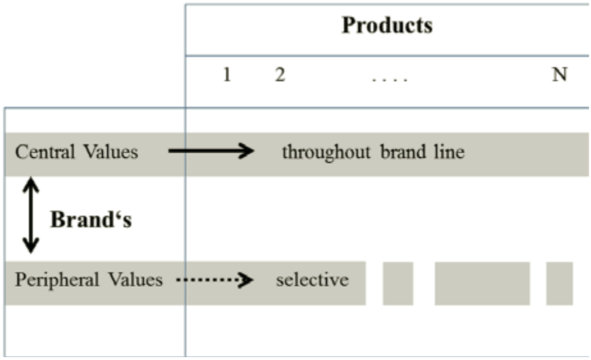

Figure 17: Core values and peripheral values in the brand line[61]

In the audit, all brand elements of a brand are firstly identified. This can be considered a rather simple and descriptive task. Knowledge about the brand elements will allow the planner to determine the extent as to how these elements are transferred within the brand line and possibly other product categories. Next to that, both set of values, i.e. central and peripheral values, have to be determined. This will then represent the brand's identity and its penetration throughout the line. To determine the brand-product relationships, it is particularly helpful to understand the parent brand's identity. The brand acts as "*a tool of integration*: (…) *by bringing together a range of products and services under its name, each of which must carry the central brand values*" (Kapferer, 2008, p. 273). The first integrating factor can be identified as the brand name and other brand elements. The brand acts as the roof of a normative system of tangible and intangible values (Keller, 2008, p. 59). Therefore, every product in a brand line that carries the name and the set of values prescribed by the brand will enhance the brand's equity and vice versa. Knowledge about the brand values can give particular guidance in bringing light into the brand-product relationships and therefore guidance in the VBPM strategy. For instance, brand extensions, which among others, are a possible manifestation of VBPM, will be directed by the coherent application of the brand's value propositions. On the other hand, knowledge about the brand values is critical to avoid potential brand overlaps. In particular peripheral values enable the brand manager to create differentiation in a brand line. As seen with the Ariel case in the previous section, the

[61] Source: adapted from Kapferer (2008, p. 276) and Keller (2008, p. 434).

Actilift^{TM} technology is a benefit proposition that most Ariel products hold. The non-biological version of Ariel however does not offer the Actilift^{TM} feature. Hence, Actilift^{TM}'s particular benefits make it a peripheral value. Lacking Actilift^{TM} may even make the product in question minor in quality and therefore a cheaper entry version of Ariel. In a vertical downward extension – another likely outcome of VBPM – not passing on peripheral values may turn out as a possible tactic. As peripheral values can add equity to a brand, not passing them on in a downward extension would make the extended product less valuable and justify the move.

As shown in the context above, brand identity is a result of a brand's brand elements and its value system. The identity integrates products under a common set of tangible and intangible elements that define brand-product relationships. This analysis has taken place at the brand level. Auditing the elements that constitute a brand's identity will give the VBPM planner direction to determine brand-product relationships and can provide guidance for potential VBPM tactics such as brand extension strategy.

VBPM implications:

- A brand's identity is made up of its brand elements and the brand's value system
- Understanding brand identity will enable the planner to determine brand-product relationships
- Guidance especially for potential brand extensions within VBPM strategy is given

As shown above, numerous brands are often visible together on one product. The relational context of brands within a product, the product category and a company's brand portfolio is generally viewed and judged externally by customers. Hence, the role that each brand is playing in this context needs to be defined and managed. The following category- and portfolio level examination will bring the product-brand relationships to light which will be leading towards portfolio roles and brand portfolio strategy. It has to be mentioned that the category level examination is also an audit of the product-defining roles, which can also take place outside a category perspective on a single brand level.

3.2.8.2 Category and Brand Portfolio Level Analysis

Brand sets and brand portfolios should not be a collection of brands by coincidence, but instead should reflect a well-structured and coherent group in which each brand has its place and clearly defined role (Kapferer, 2012, p. 360). In this section, first product-defining roles will be referred to the brand- and the category level. The discussion is then followed by defining portfolio roles which will lead to brand portfolio strategy. In the brand portfolio audit, the distinction between the different kind of brand roles is necessary to gain an understanding of the interaction between the portfolio brands. In addition, integrating new brands to a portfolio is circumstantial and will be affected by the role-play of the existing portfolio brands. This is the main reason to include this assessment in the VBPM audit.

3.2.8.3 Product-Defining Roles

According to Aaker (2004, pp. 18) any offering is identified to consumers by a brand and more often by a set of brands, where the product-defining roles reflect an external view of the brands from the customer's perspective. Aaker (ibid.) lists these product defining roles[62]:

- master brand
- endorser brand
- subbrand
- descriptor
- product brand
- umbrella brand
- branded differentiator
- brand alliance

Master brands are the main indicator of the offering and function as the point of reference for the customer. Siemens is the master brand that produces home appliances, medical instruments, power engines and many other goods. Mercedes is the master brand topping a range of automobiles.

The role of an *endorser brand* is to deliver integrity and substance to an offering. Endorsers mainly represent organisational brands as opposed to product brands, because organisational associations such as innovation and trust play a main role in endorsing situations (ibid., p. 43). The cold and flu medicine "Coricidine HBP" from Merck Consumer Care sponsors the

[62] To circumvent an apparent repetition of certain brand types that were introduced in 3.2.2 such as master brand or umbrella brand, it has to be pointed out once again that this discussion is focussed on the perceived brand roles from the customer's point of view.

American Heart Association (MSD, 2012). This endorsement is especially purposeful as Coricidine HBP is a special formula for patients with high blood pressure (HBP). The American Heart Association's logo is actively displayed in Coricidine HBP's advertisements and should give the offer more credibility.

Subbrands modify a master brand, which remains the primary frame of reference. The subbrand often stretches the master brand into a new segment, as seen with Apple's "iPhone" for example. Subbrands are brands on its own right which can create brand equity. Subbrands have high significance in portfolio strategy whenever brands need to be stretched into new product-market contexts or existing brand equity can be leveraged Aaker (2004, p. 44). The "Toyota Prius" can benefit from the master brand's equity and gains brand strength on its own as a (sub)branded hybrid version. The other alternative extension version could have been via a less unique descriptor, such as "Toyota Hybrid".

Descriptors have a describing role, mainly in a functional way. They can specify an offering and direct it towards a product category (e.g. "Toppits steam bags"). More suggestive descriptors such as "Aspirin Direkt" can help define an offering both functionally and in a distinctive way. Descriptors can play key roles as they have the ability to capture equity (e.g. "Holiday inn Express") and therefore deserve active brand management (ibid.).

Product brands are individual products or product lines and often come in the form of a master brand and a subbrand ("Audi A4"), or a master brand and a descriptor ("Ariel Powder"). *Umbrella brands* lend their brand name to a grouping of offerings whether to related or unrelated product categories.[63]

Branded differentiators are brands or subbrands that describe a feature, ingredient, service, or program (ibid., p. 19). As mentioned in chapter 3.2.7, a branded ingredient can be found in the washing detergent Ariel which comes with the branded and trademarked Actilift™ technology – a special formula based on special enzymes, polymers, and molecules for cleaner clothes (Procter & Gamble, 2012d). In this case, Actilift™ augments the offering and provides superior functions and benefits. Due to the branded nature of Actilift™ competitors cannot simply copy this technology. Actilift™ can create a feeling of confidence among

[63] 'Product brands' and 'umbrella brands' as roles have been discussed in more detail in the brand architecture section in chapters 3.2.2.1 and 3.2.2.5). In this section, they are mentioned as a matter of completion of Aaker's product-defining roles discussion. From the consumer's point of view it is key to determine the driver role that a product or umbrella brand can play in the purchase decision.

consumers and has the ability to differentiate. Other examples of the several kinds of branded differentiators are *branded features* (e.g. Nike "Lunaglide+" soles), *branded ingredients* (e.g. Dell laptops with "Intel Inside"), *branded services* (e.g. Chevrolet and "OnStar" safety features) and *branded programs* (e.g. "Nespresso Club").

Brand alliances bring together two or more firms that associate their brands together in order to create superior offerings or to build strategic brand-building programs Aaker (2004, p. 161). Due to their strategic nature, brand alliances have a long-term focus as opposed to simple partnerships which can usually be called off more easily (Kapferer, 2008, p. 169). The alliance should bring together complementary competences that neither firm nor brand would have had on its own. A common form of brand alliance is *co-branding* which is often used synonymously with the term brand alliance (Esch et al., 2006). Here at least two brands (from different firms or from within the same organisation) join forces to bring an offer to market in which each brand plays a driver role (Macrae, 1996, p. 197, Aaker, 2004, p. 20). The co-brands can be two or more master brands, as it is the common case with credit card offerings ("American Express and Air France"), an ingredient brand and a product brand ("McFlurry with M&M's"), or as an endorsement (Michal Jordan and "Nike with Air Jordan"). As shown above, the "Ariel with Febreze" effect washing detergent brings together two intra-organisational brands from the Procter & Gamble brand portfolio. Here the desired benefit of fresh clothes is supported by the air freshening brand Febreze. The main benefit of co-branding lies in synergising two or more sources of brand equity (Esch et al., 2006). At the same time, each individual source of brand equity can be enhanced by the new offering (ibid.).

Sometimes, several product-defining roles are combined to define an offer in a set of brands. The before mentioned example of Scotch adhesive tape shall be examined again to illustrate the multiple use of product-defining roles in one product (see chapter 3.2) (Kapferer, 2008, p. 349): on top of the package ranks the master brand "Scotch", which is the base for numerous versions of tape. In smaller letters the endorser brand of 3M is visible. Even though 3M is a well-known corporation which would qualify it for the master brand top position, it is safe to assume that the Scotch brand has a stronger driver role. In the USA, the term "Scotch" is the established denomination for adhesive tapes and therefore defines the product category. The actual product name can be found underneath the Scotch brand name: "Removable Magic Tape". Magic™ Tape is a subbrand of Scotch for a small line of invisible tapes. "Removable" and “Tape” are descriptors that describe the offering in a functional way. Figure 18 illustrates these product-defining roles and in addition specifies the corresponding brand architecture for the Scotch Magic tape brand. It contrasts brand architecture with product-defining roles. This two-way perspective shows the differences and overlaps in branding terminology.

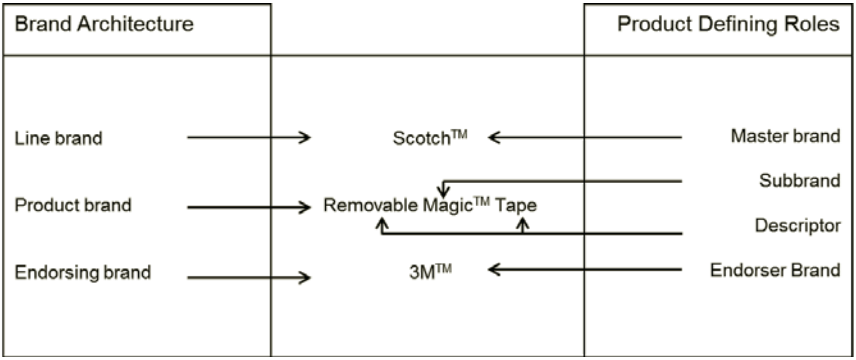

Figure 18: Product defining roles vs. brand architecture[64]

According to Aaker (2004, p.21), the specification of a set of product-defining brands for an offering is one of the most important aspects from a brand perspective. Each described brand should have a well-defined role that will influence how the brand is managed (ibid.). In the above example, “Scotch” serves as the reference point and category identification. 3M, a world class maker of over 70.000 products, gives the offer credibility and ownership responsibility. The subbrand “Magic” differentiates the rather generic product of adhesive tapes and gives a hint towards its benefit of “invisibility”. The descriptors “tape” and “removable” once again define the category and describe parts of the offer in a functional way[65].

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[64] Source: adapted from Kapferer (2008, pp. 349) and Aaker (2004, pp. 19).

[65] Kapferer (2008, p. 349) uses the example of 3M Scotch tape to illustrate different types and roles of brands. The author’s five brand roles especially give credit to the consumer perspective. Firstly, motivators are the main drivers of choice that create desire. Supporting roles are the producer’s endorsement and responsibility (manifested e.g. by a service hotline), the identifier of origin (often the manufacturer brand), the source of value (e.g. branded houses like Nestlé), and designators that specify an offer (similar to Aaker’s ‘descriptors’). The above comparison of product defining roles and brand architecture also precipitates brand hierarchy into the discussion (see chapter 3.2). From a hierarchical point of view 3M would act as the corporate brand, Scotch as the umbrella/family brand, Magic as an individual brand and Removable as a modifier.

Product-defining roles can also play a key role in the VBPM strategy. When implementing the strategy, one of the main points of concern is the mutual use of brand equity across the portfolio brands including PLs. The brand equity building potential of branded differentiators and brand alliances has to be carefully considered. From a consumer perspective, negative spillover effects have to be avoided. At the same time, brand manufacturers have to decide how far they want to go in sharing accrued brand equity with their retail partners. From a category perspective, the overall category attractiveness should be a priority. In VBPM, the category perspective is a pivotal element.

Product-defining roles are mainly limited to span across a portfolio. Brand scope, the topic of the next section, will specify the diffusion of brands beyond portfolios into categories and even markets.

VBPM implications:

- Product-defining roles represent the customer's perspective of an offer
- These roles influence the management of each brand
- Brands that were identified during the brand inventory can now be labelled with a role
- Within VBPM it has to be decided which roles can be shared with the PL
- Especially branded differentiators and brand alliances have to be carefully considered for PL transfer due to their brand equity potential
- Product-defining roles are another means to relate brands with each other – this can evoke negative spillover effects once PLs are part of the role play

Eventually, the VBPM auditor has to question whether or not an endorsement of a PL actually profits the PL and the endorsing manufacturer brand. On the other hand it has to be determined if a vertical brand extension can actually hurt the extending brand. Product-defining roles are an external view of the brands from the consumer's point-of-view. Therefore it may be advisable to consider the consumer's reactions to a potential brand alliance between a name brand and a PL by conducting consumer research. When should premium and value products be offered under an existing brand or when should there be no visible connection? Such strategic portfolio questions are relevant for any portfolio. They become more complex in a cooperation between two separate entities as planned in VBPM.

In summary, offers are identified by consumers by a set of brands where the product-defining roles make up the consumer's perspective. Several product-defining roles have been established and need to be identified in every particular case by the VBPM auditor. Being a crucial part of brand strategy, product-defining roles also play a key role in VBPM. Brand scopes become more complex within a VBPM collaboration when PLs are integrated and start participating in the role-play of brands. How far brands can be leveraged – even towards PLs – is subject of a thorough assessment during the planning process. A clear audit of the product-defining roles will facilitate an informed and purposeful PL integration from a brand management perspective. To take a final decision the planning process may also be complemented by consumer research.

3.2.8.4 The Scope of Portfolio Roles

The previous section has mainly looked at the roles that brands play in products and portfolios and how they are understood by the consumers. Changes to the role-play have to be carefully considered. On the other side of decision making is the company itself that owns and manages the brands in the portfolio. Hence, the roles of the brands in the portfolio, and in particular their strategic relevance for the company, have to undergo an investigation as part of the first step of the VBPM audit. This will make up the company's perspective of portfolio roles as opposed to the consumer's viewpoint in product-defining roles.

"Portfolio roles reflect an internal, managerial perspective on the brand portfolio" (Aaker, 2004, p. 23). Every portfolio brand cannot be viewed in isolation but instead must be managed as part of a whole (ibid.). This perspective enables an appropriate allocation of resources on the one hand and shows clarity of each brand's contribution to the portfolio (ibid.). The VBPM planner is advised to determine every company brand's portfolio role so that taken roles are recognised and vacant roles can be assigned. Aaker's definition above clarifies, that brand portfolio strategy is associated with corporate strategy due to its overall strategic relevance. Broken down to business strategy, the 'depth' of a branding strategy concerns the number and nature of brands marketed in a particular product category (Keller et al., 2012, p. 571). This limitation to one product category is only partially suitable for VBPM. The focus on a single product category leads to the necessary topic of segmentation as the main motivator to maintain two or more brands in one category (see chapter 1.4, part B). Furthermore, chapter 3.2.6 determined that the audit should not stop at brands outside a particular product category or brands that are not owned by the company. For auditing portfolio roles, the scope of brand portfolio will be set to *all brands owned and managed by a company*. This is owed to the fact that even category unrelated brands from within the firm's portfolio or brands owned by other firms may play a role for an offer. Such an example was shown with P&G's "Ariel with Febreze effect" - a washing detergent co-branding with an air-freshener also owned by P&G[66]. This co-branding alliance is just one example of two company brands from different categories that can be customer facing in one product.

The determination of portfolio roles therefore firstly includes a complete list of all brands that participate in any particular offer. This task has already been accomplished in the previous step where the product-defining roles audit should have revealed all visible brands. Naturally, the evaluation will then draw from the previous audits of brand architecture and brand hierarchy. For example, the firm's brand architecture will impact the role of the corporate brand for the portfolio. Its brand scope can be extended over the entire offer or be mainly invisible. An audit of the portfolio roles will therefore reconcile previously made assessments of the roles that brands play – only now from a portfolio and therefore corporate point of view. These previously made assessments are part of "portfolio roles" and will be made visible in the audit check-list (see chapter 3.2.8.5). To determine portfolio roles, Aaker's (2004, pp. 23) five portfolio roles will be introduced. Additionally, low-end entry level, high-end prestige brands, and the role of increased shelf presence and retailer dependence by Keller (2012, p. 579) will be included in the discussion.

3.2.8.5 Determination of Portfolio Roles for the VBPM Audit

Aaker's portfolio roles include strategic brands, branded energisers, silver bullet brands, flanker brands, and cash cow brands (Aaker, 2004, pp. 23). They will be introduced in detail in the following[67]:

Strategic brands

Strategic brands are assets to the organisation that have to succeed and therefore should receive all necessary management support. Aaker (ibid., p. 23) distinguishes between three types of strategic brands: *current power brands* – brands that generate substantial sales and profits, *future power brands* – brands that are expected to be highly profitable, and *linchpin brands* – assets that will not necessarily generate sales but instead influence the

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[66] See chapter 3.2.7.

[67] This discussion will mainly focus on the introduction of these roles to enable the planner to fully understand these roles for the auditing task. Chapter 7.5 will emphasize on which roles and how these roles can be leveraged in VBPM.

success of an important business area of the organisation (e.g. branded loyalty programs of hotel chains or airlines).

From a brand-building point of view future power brands and linchpin brands need support. In the organisation, this can lead to problems, because such brands generally do not generate profits and are therefore often neglected (ibid., p. 24). On the other hand, current power brands often enjoy overspending. Both instances call for higher level portfolio management to ensure that each brand receives the attention it deserves according to its status. The identification of strategic brands should also be guided by business strategy (ibid.). Certain brands should receive strategic brand status once they are able to contribute to the business strategy of the firm. This underlines the significance of this portfolio role for VBPM. For example, if the firm's business strategy calls for premium segmentation, then value PL's should not receive an endorsement from a strategic brand.

Branded energiser

"A branded energiser is a branded product, promotion, sponsorship, symbol, program, or other entity that by association significantly enhances and energises a target brand, with both the branded energiser and its association with the target brand being actively managed over an extended time period" (Aaker, 2004, pp. 145). Such branded energisers can be owned by the firm or owned and managed by another organisation. The following examples will exemplify both categories:

- The "Snuggle" teddy bear is a branded symbol for softness and likeability closely tied to the "Snuggle" fabric softener brand
- The re-launched "Volkswagen Beetle" automobile delivers energy to the "VW" brand
- The "Apple iPhone" subbrand has energised the "Apple" master brand
- Steve Jobs was the branded CEO of "Apple" and face behind many innovations by the computer and entertainment company energising every aspect of the company and brand
- "NikeFuel" is a branded program by the sports gear manufacturer that helps amateur athletes to measure daily sports activities, thus linking physical exercise with the "Nike" brand
- The "Audi Quattro Cup" is a branded golf tournament for amateurs all around the world energising the "Audi" brand among a premium clientele

- The “Coca-Cola Christmas truck” is a recurring branded promotional activity energising the “Coke” brand during the colder winter months

Branded energisers also can be owned by other firms, and are actively used and managed to energise one’s own offer (ibid.):

- The “Australian Open Tennis Championships” has given the Korean “KIA” automobile manufacturer energy around the world
- Local professional sports teams can promote and energise the communities that are hosting them (ibid.)
- Celebrities provide energy for brands when endorsed by them (ibid.)

Branded energisers should logically be connected to the target brand and enhance its value. Therefore branded energisers call for an active brand management (ibid.).

Silver bullet brands

The plethora of branded energisers or branded differentiators that some organisations own emphasises the need for prioritisation by the firm (ibid.). They can be organised into groups of low, medium, and high impact on their target brand and costs involved. Silver bullet brands are considered the ones of high importance with the ability to significantly impact the image of another brand. This has the effect that such silver bullets should be managed and funded according to their status. The clothing retailer H&M managed to get a clothing line designed by the famous designer Karl Lagerfeld. This highly advertised collaboration created a tremendous amount of buzz for the H&M brand and the collection was sold out within hours (AdMe Group, 2004). Due to its importance to the target brand, silver bullet brands should receive corporate brand level attention (Aaker, 2004, p. 156.).

Flanker brands

Flanker brands have the purpose to defend a flagship brand of the portfolio against competitors, that are attacking the main brand with a value offering or special positioning (Aaker, 2004, p. 26, Keller et al., 2012, p. 578). This way the flagship brand is able to maintain its place and price point while the flanker brand directly ‘fights’ against the competition. Many strong manufacturer brands have utilised flanker brands in response to value brands and private labels. For instance, Miller brewing Co. repositioned its existing ‘Miller High Life’ brand to a discount beer in order to protect its premium flagship ‘Miller Genuine Draft’ brand (Keller et al., 2012, p. 578).

Cash Cow brands

Cash cow brands generally report stagnant sales but still maintain loyal customer bases (Aaker, 2004, p. 27). Therefore they generally do not require much marketing investments and the profits can be "milked" (Kotler and Keller, 2006, p. 302). On the other hand, by keeping them on the market, existing customers are prevented from having to switch to competitors. For the portfolio, the role of cash cow is to deliver funds that can be invested in strategic, silver bullets, or flanker brands for future growth (Aaker, 2004, p. 27.). For example, in the highly competitive market of razors, "Gillette" has kept its "Sensor", "Contour" and "GII" brands in the shelves while in the meantime the products were surpassed by numerous Gillette product innovations (Keller et al., 2012, p. 579). Together, these brands still make up for approximately 30% of annual sales for the company (Haas, 2010, p. 80).

Low-end entry level or high-end prestige brands

Two other portfolio roles that can enhance a portfolio as a whole are Keller's low-end entry level or high-end prestige brand roles (Keller et al., 2012, p. 579). Low-end entry level brands are mainly line extensions at a low price and quality point with the aim to attract first-time customers to a brand franchise. The idea is to gain customers and once they are brand loyal to trade them up within the portfolio. On the other end of the spectrum are high-end prestige brands that are supposed to add status and credibility to an entire portfolio (ibid.). Both brand roles can be illustrated by the hotel chain Marriott (Aaker, 2004, p. 229). The company offers value oriented families a choice with the Marriott endorsed Fairfield Inn hotel chain. At the same time Marriott purchased the Ritz-Carlton group for the highest end of the hotel industry where prestige and self-expressive benefits are called for (ibid.).

All the above mentioned portfolio roles have a direct relation to the brand portfolio and understanding them serves to better manage and fund a portfolio as a whole. This understanding is also necessary for the VBPM planner and therefore part of the internal audit within step 1 of the VBPM planning process. As it has been established before, a newly added brand to any portfolio will have an impact on the portfolio's balance. Determining and understanding every brand's portfolio role is consequently a prerequisite to the potential PL integration within the envisaged VBPM strategy. Once this understanding is clear, the portfolio role for the PL has to be decided upon. A conceivable portfolio role for a value PL e.g. could be the above mentioned 'low-end entry level' role. In this context, it is meaningful to include Keller et al.'s (2012, p. 579) portfolio roles '*to increase shelf presence and retailer dependence'*. Although these roles may not typically be seen in a role-play context and rather be considered a goal, they could well be applicable in the particular VBPM context. An established motive for brand manufacturers to engage in VBPM is to offset the recent power shift in favour of retailers (refer to part A). This view derives from vertical marketing goals and strategies that prescribe the level of control and the intensity of the collaboration in respect to the increase in power towards retailers (see chapter 4 part B). Managing a PL on behalf of the retailer will possibly increase the dependence of the retailer on the managing manufacturer and hence increase his power. Therefore, for the VBPM concept, these portfolio roles will be added to the VBPM auditing check-list (see table 16).

Portfolio Roles
Strategic Brand
Branded Energiser
Silver Bullet Brand
Flanker Brand
Cash Cow Brand
Low-end entry level Brand
High-end prestige Brands
Increase Shelf Presence and Retailer Dependence

Table 16: Portfolio roles for VBPM[68]

There are several other reasons that make a thorough portfolio role inventory necessary. These considerations either relate to customers, the competition, and of course the company. They can relate to profit contributions, segmentation, and future growth. In summary, this final step of the brand architecture audit will mainly put the firm's viewpoint into perspective and will have a significant impact on the VBPM strategy. It should foremost enable a better informed strategy implementation. Whether with or without the integration of a PL into the brand manufacturer's brand portfolio, the aim of a balanced brand portfolio should remain at maximising market coverage while preventing portfolio overlaps. Overall, the intended PL

[68] Source: Aaker (2004), Keller et al. (2012).

integration within a VBPM collaboration requires a definite portfolio role allocation for the new entrant. This portfolio role will ultimately manifest the strategic reason-why of the brand.

3.3 Brand Architecture Audit Check-list and Audit Questions

The VBPM planner is advised to apply a check-list that provides a systematic way to critically assess and record the firm's brand portfolio. For this audit, the "Resource-Capability based check-list for VBPM" template will be used[69]. The list is not exhaustive and the assessment may lead to further analysis and change based on the particular circumstances of the organisation. The following is a recap of the main contents of the check-list that the auditor should assess.

The audit is firstly concerned with the firm's brand architecture and starts with a determination of brand levels. This manifests the company's brand hierarchy and leads the way for a critical discussion as to what role the corporate or umbrella brand has in the brand structure. Determining brand hierarchy should also link levels of brand responsibility with types of strategy. Constructing brand hierarchy trees can visualise the firm's brand structures as a first step in determining brand architecture.

Building on the firm's brand hierarchy, the particular brand architecture of the brand portfolio will be determined and evaluated. As it has been established before, Kapferer's six types of brand architecture are best suited for the VBPM auditing process. The audit will list and describe the firm's brand architecture(s) and will offer an indication of its impacts for VBPM. For example, a source brand architecture differs largely from a product brand architecture. These branding strategies would have different implications for a potential PL integration. On the other hand, umbrella brand architectures come in different forms (flexible versus aligning). As obvious an architecture may seem, the exact assessment will bring differences and implications for VBPM to light. This assessment will also reveal the necessary independence of brands that the company's branding strategy may imply. The type of brand architecture(s) has a significant impact on VBPM and can influence the direction of the strategy significantly.

The brand portfolio is an expression of the firm's brand architecture and next on the agenda of the audit check-list. All brands and their brand lines will be inventoried using Keller's brand-

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[69] See chapter 3.1.4, part C.

product matrix. This will reveal and clarify the brand-product and the product-brand relationships. The assessment will help to make all company brands visible. This inventory is also necessary to see if there are interrelationships between company owned and non – company owned brands.

Once all brands are made visible and categorised a brand portfolio audit will start on the brand level basis. Every brand's brand elements including its core and peripheral values, i.e. brand identity, should be determined. This assessment will later on enable a better informed PL integration into the portfolio where it has to be decided which brand values and brand elements can or should not be transferred to the new portfolio entrant. To take the consumer perspective into the assessment, the audit will broaden its scope to a category level analysis. Here, the product-defining roles will reflect an external view of the brands from the customer's perspective. Aaker's eight product-defining roles should suffice the planner in determining the roles that may play a role in each offering. Interrelations between portfolio- and external brands will be in the focus once more when brand alliances are subject of discussion.

The assessment of the portfolio perspective (portfolio roles) will conclude the audit. The planner has to determine strategic brands, branded energisers and other portfolio roles. The planner has to consider the internal portfolio role play while assessing the brand portfolio. The check-list should enable to anticipate changes to the role play when brands are integrated.

Once the branded resources are listed and examined, the planner will also decide on the importance level of each resource. This rating should be referred to the ability of the particular item to facilitate the implementation of VBPM. To this effect, the resource can be considered either a strength or a weakness. Due to the overall importance of brand architecture and its corresponding assessment items, all items are considered as highly important for the strategy. An importance rating column is therefore not necessary. Table 17 is an example for a check-list with them main assessment items for the audit.

Brand Architecture Item	Rating Strength/Weakness	Comments
Brand hierarchy		
Type of brand architecture(s)		
Brand-product matrix		
Brand-product relationships		
Product-brand relationships		
Brand identities		
Product defining roles		
Portfolio roles		

Table 17: Brand architecture audit check-list[70]

At each stage of the auditing process, **audit questions** shall guide the planner during the evaluation. The particular focus of these questions is geared towards cohesion with VBPM issues and their effects on the brand architecture from its different perspectives. The questions shall sharpen the analysis towards the specific issue of "vertical integration" and should challenge the existing portfolio strategy in this context. Answers to these questions may result in further analysis and can lead to changing roles and relationships within the brand portfolio. For the final outcome of VBPM, the audit is the first step, towards the need for developing new brands or subbrands, changing brand roles, or extending existing brands. The main focus should however stay to look for brand architecture implications within the VBPM planning process. At the same time the process shall serve to identify a product category and brand that is suited for the strategy. For that matter, the audit is the first and most important component for this initial decision that needs to be taken. The list of audit questions may be seen as an indispensable appendix to each resource of the brand architecture check-list:

[70] Source: own.

Brand Architecture – How many brand levels does the company maintain? Who is responsible for each brand level? Draw diagrams of brand hierarchy trees. What are the decision criteria especially for the level-up direction? How does brand hierarchy and/or corporate strategy influence decisions on the business and functional level? How are brand-building resources allocated across hierarchy levels – Which type of brand architecture is being applied for what reasons? Does the company have a mixed/multiple architecture approach? What segments are covered for what company or market related context? Are there opportunities in untapped segments? What positioning strategies are applied? How do these strategies related to higher level strategies? – What is the role of the corporate or company brand? Can the corporate brand be associated with non-company owned brands (such as PLs)? Can negative/positive spillovers be anticipated? How much freedom in the use of the marketing mix is allowed on the brand level? How much independence is needed for product brands?
Brand Portfolio Inventory – Which brands and brand lines exist by using the brand-product matrix? Distinguish between company-owned and external brands. What are the brand-product relationships (brand extensions). Are brands from other categories present in the particular product category? Are such brands penetrated throughout the category? What are the product-brand relationships? – Determine each brand's identity consisting of the brand elements and value system (central-peripheral values). How penetrated are the brand elements throughout a brand line. Are central values consistently present in a brand line? Which and where are peripheral values applied? Which brand elements and values can be suggested/disregarded for VBPM? What is the potential for brand extensions?
Product-Defining Roles – From the brand inventory, identify the master brands, endorser brands, endorsed brands, subbrands, descriptors, branded differentiators, and co-brands. – Which brands have driver responsibility? Which brands receive or need active brand management? Do master brands have a significant role? How far are they stretched?

Do subbrands play a significant role?

- Which endorser brands add value or have the potential to distract? Can endorser brands be transferred into VBPM?
- Are descriptors applied actively? Do they play a key role and capture equity? Do they deserve and get active management? Are descriptors typical for that particular product category? Are they imminent for all products including PLs?
- How are branded differentiators applied? Distinguish between branded features, ingredients, services, and programs. Do they occupy driver roles? Are they company owned and/or external? Can they be leveraged across other brand lines, products, or PLs? Are they actively managed? Identify potential branded differentiators for VBPM.

Which co-brands are identified? Do the partners and competences match and enhance value? Are partnerships exclusive or can they be leveraged across other brands and products? What is the legal situation when leveraging? Should other or more partners be considered? Identify potential co-branding programs for VBPM.

Brand Scope

- How far do brands reach across brand lines, the portfolio, and markets? Which brands, according to product-defining role, are stretched?
- Are brands with driver status adequately stretched?
- Which brands can be stretched vertically? Which brands cannot? Would a vertical extension be executed with the use of a subbrand or an endorsement?

Portfolio Roles

- Identify the strategic brands. Which are the current power, future power, and linchpin brands? Does any of these portfolio role statuses forbid VBPM participation?
- Distinguish between company owned and external branded energisers. Do they enhance the target brand? Can they be transferred to other brands? Categorise branded energisers according to their impact on the target brand/other brand. What branded energisers should be treated as a silver bullet? Can silver bullets be used in a broader context of VBPM? Can other brands in the portfolio play an energiser role? Are branded energisers properly managed and by whom?
- Are flanker brands in place? Which brands are they defending? What is the

competitive situation? Can a PL play a flanker role? Can existing brands be turned into flanker brands, or are new brands needed?

- What brands are holding cash cow status? What do they contribute and what brands are receiving the contributions? What is their position on the brand life cycle? According to their position, which cash cow brands are candidates for PL transfer?
- Identify low-end entry level and high-end prestige brands. Distinguish the low-end entry level brands from flanker brands. How would a PL affect the low-end entry level role? Can a PL bring in customers to the brand franchise? Can PLs take on the low-end entry level role?
- Are there brands in the current portfolio that actively increase retailer shelf presence? What brands make retailers dependant? What is their current role in the portfolio? Would a PL increase shelf presence and retailer dependence?

Figure 19: Audit questions[71]

The next section will turn the focus towards firm specific capabilities, namely related to brand management and vertical marketing capabilities. This discussion will conclude the resource-capability assessment of the brand manufacturer's internal environment.

3.4 Organisational Capability Inventory and Assessment

As shown in chapter 3.1.4 of part C, the intra-organisational audit is also comprised of determining the firm's capabilities that are pertinent for VBPM strategy implementation. First of all, this assessment is concerned with personnel and management capabilities that lie in the area of brand management. The thorough audit of the company's brand architecture has shown the relevance of this organisational asset for VBPM. Following the resource related audit, the firm's capabilities of managing these branded assets have to be determined. The significance of these capabilities can also be underlined by the motivation of retailers to engage in a VBPM cooperation with knowledgeable brand manufacturers in the first place. This motivation can possibly be enhanced by the competencies and the track record of the brand manufacturer in managing brands and brand portfolios. Another key capability of assessment will be the vertical marketing (VM) abilities of the brand manufacturer. The applicability and significance of VM for VBPM was previously highlighted in chapter 4, part

[71] Source: own, adapted from Aaker (2004, pp. 86).

B. Now the planner has to track the firm's abilities in VM areas such as Efficient Product Introduction, Efficient Assortment, and other Category Management practices. These capabilities are equally essential for successful VBPM implementation and will give an indication of the cooperativeness of the brand manufacturer. The following section will first discuss relevant brand management capabilities.

3.4.1 Brand Management Capabilities

Keller (2008, p. 38) defines brand management as the design and implementation of marketing programs and activities to build, measure, and manage brand equity. Successful brand management should therefore result in strong brands – brands that possess a lot of equity (ibid.). Accomplishments in brand management could therefore be related to a brand's amount of brand equity. The extant literature offers numerous methods and views to measure and determine the value of brands[72]. Keller (2008, pp. 315) for example implements several tools in his strategic brand management process to measure brand performance, such as the "Brand Value Chain", brand audits, and continuous brand tracking. Another common practice is to put a monetary value on a brand, e.g. when it is sold or to add its value as an intangible asset on a company's balance sheet (Feldwick, 1996). According to Aaker (2002, p. 316), limiting brand valuation to financial measures demonstrates short-term thinking and should be complemented with "brand asset measures". Aaker's "Brand Equity Ten" are measures categorised into variables such as customer loyalty, brand image, and brand awareness (Aaker, 2002, p. 344). Finally, numerous commercial agencies offer their services in evaluating the strength and value of brands. Among others, often cited are Milward Brown's "Brandz" or Interbrand's "Best Brands" annual hit list (Kapferer, 2012, pp. 460).

Measuring brand equity in any of the above mentioned ways may be a suitable approach in drawing conclusions about an organisation's brand management capabilities. Especially from the retailer's perspective in a VBPM collaboration, measured brand value could act as one of the deciding factors to make a judgement on a brand manufacturer's subscripted brand management capabilities.

While strong brands may signal the firm's brand management reputation to external parties, brands and therefore brand equity are foremost intangible resources of the company that stand aside human resources and skills of the organisation (Barney, 1991, Srivastava et al., 2001).

[72] The terms „brand equity", „brand value", and „brand performance" are used synonymously.

The focus can be put towards the firm's top management as well as to the functional level of brand management (Meffert and Burmann, 2002, p. 83). To suffice the firm's hierarchical management order, the embeddedness of brands within an organisation and the resulting consequences for brands and its management shall be discussed first.

3.4.1.1 Tasks and Responsibilities at the Organisational Level

Marketing strategy should support and contribute to corporate strategy (Baines et al., 2011, p. 163). Hence, brands are directly affected by a firm's corporate-, business-, and naturally by its marketing strategy. The tasks of a company's top management in relation to brands lie first of all in determining the company's business strategies and within its business strategies the effective brand strategies (Meffert and Burmann, 2002, p. 84). Whether or not brands are affected directly by corporate strategy is also a result of the company's branding strategy. As highlighted before, companies can follow a branded house strategy, where the corporate brand (or an umbrella brand) plays a significant role with all or many products of the company. In this case, the decision-making capacities at the product level are affected directly by the higher-level corporate level. This circumstance and the overall effect of corporate strategy on brands should be accounted for during the VBPM audit.

The effect of corporate strategy at the brand level and the support by top management can also take form via the organisational culture of the firm. Aaker (2002, p. 342) states that *"firms that are good at developing strong brands usually have a strong brand-building culture, including clearly defined values, norms, and organisational symbols. Top management visibly supports the brands, and actions that put brands at risk are questioned as a matter of course."* This first of all stresses the importance of management support that is given to brands. It also clarifies that strong brands are not just a result of technical management procedures. This kind of impact of brands on an organisation's norms and values finds its expression e.g. at companies like Lexus, Dell, and Harley-Davidson, who have managed to create a great sense of pride among staff over their products and brands (Kotler et al., 2011, p. 626).

Dependencies on top management also lie with the nature and management of brand portfolios (Meffert and Burmann, 2002, p. 84). Goals and visions of portfolio brands should be in accordance with the company's corporate identity, its business vision, and CSR activities (ibid). Whether managed by one person or by a team, brand portfolios should receive the visible support of the organisation's leadership (Aaker, 2004, p. 88). This concerns the allocation of funds to individual portfolio brands and the monitoring and measurement of the portfolio's' contribution to the overall corporate strategy (Kapferer, 2012, pp. 364). Aaker (2004, p. 89) essentially assigns brand portfolio management a top priority as an organisational issue that without interest and involvement from the leadership would have difficulties in achieving its objectives. For VBPM, it is necessary to determine factors that can signal the planner the firm's portfolio management capabilities. Several related factors will be discussed.

The transition between brand management and managing multi-brand entries is smooth when the portfolio is built of brands that all follow a common brand building approach, with common brand planning and monitoring systems (Aaker, 2004, p. 88). A brand planning template could for instance mean to set a brand identity for each brand in place which will help to guide the development and coordination of the tactical brand programs (Aaker, 2002, p. 340). Even with mutual planning systems implemented on the brand level, one of the key issues in managing brand portfolios is '*coordination'* (Hill and Lederer, 2001, pp. 155, Aaker, 2002, p. 342, Kapferer, 2012, p. 359). Aaker (2004, pp. 88) proposes a portfolio manager who needs the necessary authority and top management support to effectively manage a portfolio. Hill & Lederer (2001, pp. 155) also propose the role of the portfolio manager who sets portfolio visions and goals and who oversees brand managers that work along a brand toolkit. The authors also highlight the necessary involvement of top management in brand portfolio management. For example, at 3M, the CEO of the company is the sponsor of the "Corporate Brand Management Committee" (ibid., p. 163). Kapferer (2012, p. 359) calls for strong coordination by either brand coordinators or also brand committees. Among other tasks, such governing bodies should ensure that the desired brand-role-plays in the portfolio are monitored, that funds and innovations are spread according to portfolio strategy, and that brand duplication is avoided. Aaker (2002, p. 347) proposes the role of the "category manager" – traditionally seen in the context of distribution and logistics - in relation to the coordination of multiple brands. The category perspective may also aid in preventing cannibalisation issues among category brands (ibid.).

In summary, the following factors are likely to have relevance towards brand (portfolio) management capabilities at the firm level and may suit the VBPM planner as indicators:

– common brand building approach for all portfolio brands
– top management support
– organisational brand building culture
– brand portfolio coordination system
– brand portfolio manager

It can be concluded, that brands and brand portfolios are closely connected to corporate strategy and require the involvement of the organisation's top management. It is the auditor's task to specifically identify and assess any direct management responsibilities that could potentially affect the implementation or the outset of VBPM. This could for example involve specific approval procedures in a branded house brand architecture.

3.4.1.2 Brand Management Tasks at the Functional Level

After establishing the duties and responsibilities in brand management by the firm's leadership and at the organisational level, the discussion will now lead towards the functional level of brand management. The discussion is geared towards human resource capabilities that would enhance a successful implementation of VBPM.

Brand management is generally executed by brand managers that typically work within a group of people in the firm (Low and Fullerton, 1994). Brand managers are the coordinators responsible of the entire set of marketing activities dedicated to the brand they are in charge of (Hehman, 1984). The job description of "*brand manager*" is particularly common in the FMCG sector and the term is known for being coined in the 1930s by Procter & Gamble (ibid, Aaker, 1996, p. 344). A brand manager holds a critical role within the internal environment of the firm connecting it with several external stakeholders (Lysonski, 1985). Within a brand manager system, the brand manager is obligated to deal with external entities such as customers, retailers, advertising agencies, and competitors, and communicate with internal departments such as Accounting, R&D, and Production (ibid.). The day to day tasks of a brand manager involve first of all the coordination of different departments within the organisation to build and maintain the brand's identity (Meffert and Burmann, 2002, p. 91). Secondly, brand managers work with external agencies and supply chain members to maintain a positive brand image and optimal delivery of the brand promise to the end-user and finally they need to gather and interpret external data from consumers and competitors and circulate the information internally (Lysonski and Woodside, 1989). Low and Fullerton (1994) state, that an effective brand manager system would ideally bring forward managers with entrepreneurial flexibility, creativity, and relationship-building skills. This is similar to Meffert and Burmann's (2002, p. 85) "font-line-entrepreneurs" that are supposed to enhance a brand culture with flexibility and market proximity.

Another key quality stated in the literature to successfully manage brands is the competency of teamwork (Macrae, 1996, pp. 140, Low and Fullerton, 1994). The above mentioned brand manager tasks and skills are predominantly of intangible nature for which Cui et al. (2012) developed three types of 'intangible capital', i.e. informational, relational, and human capital[73]. The authors argue that these types of intangible capital at the firm level by Hunt (2000) are appropriate at the individual marketer level and are important to possess as a successful brand manager (Griffith and Lusch, 2007, Nath and Mahajan, 2011). Ultimately, brand manager capabilities should lead to brand performance .

The above discussion illustrates the overall intangible nature of brand management capabilities at the functional – brand manager – level. Assessing such "soft" factors will pose a challenge to the VBPM planner. It is questionable, whether a detailed assessment of such capabilities is feasible in the first place. Having to assess human resource related skills goes beyond the scope of necessary tasks in the VBPM planning phase. Measures such as brand value, organisational capabilities, and the overall reputation of the company in this field should generally suffice the auditor and retailer alike to make a judgement on the firm's brand management capabilities[74]. It is conceivable, that a lacking of specific brand management capabilities at the functional level may be discovered throughout the implementation of the strategy. Possible deficiencies in these areas could be addressed with training programs progressively throughout the cooperation.

Table 18 summarises selected capabilities in the area of brand management that the VBPM planner should be able to observe and assess accordingly.

[73] In their empirical research, Cui et al. (2012) test a fourth variable of intangible capital, i.e. organisational capital, but find it to be insignificant in contributing to brand management capabilities.

[74] Chapter 7.9.4 will address these issues again in the context of signalling competencies in the likely agency relationship between manufacturer and retailer.

Brand Management Capabilities	**Performance** Strength/Weakness	**Comments**
Organisational brand building culture		
Top management support		
Common brand building approach for all portfolio brands		
Brand portfolio coordination system/brand portfolio manager		
Brand value		

Table 18: Brand management capability check-list[75]

The last key area of capability assessment in the VBPM audit is the brand manufacturer's experiences and abilities in practicing vertical marketing (VM). Due to the conformities between VBPM and VM the planner has to assess whether or not the firm has sufficient levels of prior VM experience which can support the firm to practice VBPM successfully. The following section will identify the key success factors known in VM cooperations and operationalize them for an audit of VM capabilities.

3.4.2 Assessing Vertical Marketing Capabilities

In chapter 3, part B, the VM practices of ECR and in particular Category Management were established as strategic management concepts that are analogical to the intended VBPM strategy. Therefore, the strategic success factors that are critical for a long term implementation of ECR practices will also be applicable for the intended VBPM concept. Destined especially for the internal audit, this chapter will discuss the strategic success factors in an ECR cooperation that can be broken down also to the firm and personnel level of the brand manufacturer in a VBPM cooperation.

To engage in VBPM, experiences in ECR can be considered a prerequisite. For the discussion it will be assumed that brand manufacturers will possess ECR experience or perform ECR regularly. Mainly companies that possess the necessary ECR competencies – both organisational and HR related – are believed to operate a VBPM partnership with success more likely. Besides, if it would come to a VBPM collaboration between a brand

[75] Source: own.

manufacturer and a retailer, the cooperation would likely spring from a prior Category Management partnership between the two.
Several authors have established critical success factors for the implementation of ECR. Corsten (2004) considers working in teams, incentive systems, staff trainings, and investing in ECR relationships as critical ECR-success factors. Von der Heydt (1999) distinguishes between so-called "hard" and "soft" ECR success factors. The hard factors are represented by the implementation of the main ECR strategies, such as Efficient Promotion, Efficient Product Introduction, and et cetera. Von der Heydt's soft factors have a primary function for ECR as they are of attitudinal, behavioural, and motivational nature in reference to ECR personnel. A comprehensive study by the well published ECR expert and academic Dirk Seifert[76] was dedicated especially in determining critical ECR success factors. The study was conducted in Germany between 1999 and 2000 and included an expert panel from the leading German retailers (e.g. REWE, Tengelmann, and Edeka), well experienced Category Management companies (e.g. Coca-Cola, Colgate Palmolive, and Procter & Gamble), business consultancy firms (e.g. Arthur D. Little, Boston Consulting Group, and McKinsey & Company), and proven ECR researchers and marketing academics (Seifert, 2001). The above mentioned panel members exemplify a similar composition of protagonists intended to participate in VBPM (i.e. fmcg producers and large scale retailers). Several strategic ECR success factors were selected from the study and identified as important for the VBPM audit. Their significance for VBPM stems mainly from the fact that practicing ECR successfully can be interpreted as a supporting argument for cooperativeness. Possessing specific ECR skills among the staff and having specific ECR systems in place will also signal the planner the needed commitment by an organisation that is required for complex collaborations such as VBPM. By all means, possessing VM capabilities does not guarantee VBPM success. A brief discussion of the success factors and their VBPM relevance will be discussed below:

3.4.2.1 Key Success Factor: Involvement of Top Management

An important strategic management concept such as ECR should therefore be endorsed and supervised by the company's management. Experiences have shown that companies identified as ECR leaders all demonstrated strong management support of their ECR activities (Kurt Salmon Associates, 1997). This is necessary, because ECR activities are cross functional and

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[76] Dirk Seifert is a proliferated author on the topic of ECR.

span across a variety of departments both internally and externally. Top management support is needed to enable this kind of collaboration. In addition, ECR practices regularly require the release of confidential data to external parties, which normally would require the authorisation by the top management. For example, in ECR partnerships brand manufacturers regularly exchange consumer data with retailers who in turn supply the partner with scanner sales figures (Apéria and Back, 2004, p. 202).

3.4.2.2 Key Success Factor: ECR Measurement

The next strategic success factor for sustainable ECR implementation is the continuous measurement of the costs and benefits of on-going ECR projects. Seifert (2006a, p. 283) argues that the measurement is necessary so that cooperation profits can be fairly distributed among the collaborators. The identification of problem areas will also enable the organisation to take appropriate cause of action. A possible tool to measure ECR projects is the "Global Scorecard" developed by the ECR governing body "ECR Europe".

For the VBPM audit it is first of all revealing whether or not the organisation is evaluating its ECR projects. It will give the auditor a first indication of how serious the organisation is about ECR. Whether or not the standardised Global Scorecard system is applied will have an impact on the generalisability of the results. In an ideal case, the Global Scorecard System is used and the firm is benchmarking its own ECR efforts with retailers that are potentially in question for VBPM.

3.4.2.3 Key Success Factor: Category Management Capabilities

In chapter 3.2, part B, the three main Category Management (CM) applications were introduced as Efficient Promotion (EP), Efficient Assortment (EA), and Efficient Product Introduction (EPI). Explicit experiences in these practices would signal the VBPM auditor a strong indication of ECR capabilities with particular marketing relevance. Among the three applications EA is likely to be adopted first among ECR adopters because the strategy can be monitored easily and the related benefits are easily quantifiable (Brockmann and Morgan, 1999). Visible experience in EP and in particular EPI would optimally prepare the organisation for VBPM. For instance, EPI can be considered as the most complex CM strategy. It involves the sharing of sensible data among collaborators and requires a close coordination of activities (Borchert, 2001). These are features that similarly characterise

VBPM[77]. CM experience by any of the above mentioned strategies is a clear strength and VM capability for assessment. The similarities with VBPM especially make EPI an enabling strategy and key capability.

3.4.2.4 Key Success Factor: Information Technology Capabilities

The successful implementation of ECR requires fast and accurate exchange of data among trading partners (Seifert, 2006a, pp. 79). The use of information- and communication technologies along the supply chain is a key enabler for ECR (ibid.).

As discussed before, retailers can supply manufacturers with scanner data from their point of sale registers. Next to a logistical use in the supply chain, manufacturers can make use of this data to analyse consumer behaviour related topics. The availability and the use of this data is another IT related VM capability that can be noted and audited. IT cooperation may be needed in VBPM when category related data, such as scanner data has to be exchanged to measure the effects of VBPM on the category performance.

3.4.2.5 Key Success Factor: Organisational Change

Organisational change is closely related to organisational strategy (Rieley and Clarkson, 2001). Therefore, the implementation of ECR as a management strategy may result in organisational changes (Seifert, 2006, p. 311). For example, in Supply Chain Management there is the need for participants to synchronise activities along supply chain members such as manufacturers, distributors, and the trade (Burnes and New, 1997). An organization may, as a result of ECR-adoption, be confronted with internal resistance due to an established departmental modus operandi by the people involved (Seifert, 2006, p. 312).

For the VBPM audit, organisational change related to CM implementation will be in the focus. Supplier-retailer relationships are traditionally managed between sales managers on the supplier's' side and purchasers on the retailer's' end (Corsten and Kumar, 2005). It is obvious, that complex CM strategies such as Efficient Promotion or Efficient Product Introduction cannot be implemented effectively between sales and procurement departments. Instead, interdisciplinary teams on the supplier and demand side have to coordinate their

[77] EPI has over time evolved to three separate strategies that differ in terms of their scope and collaboration intensity: (1) new product introduction activities, (2) product development and (3) development and production of private labels (Borchert, 2001). Especially the development and production of PLs in an ECR relationship requires high amounts of trust and harmonisation among the collaborators (Hanser, 1999, p. 98).

activities (ibid.). Such teams are multifunctional and members generally consist of marketing, R&D, logistics, and IT departments (Wiezorek, 1998, p. 401, Olbrich and Braun, 2001, p. 421). For example, at Unilever, with ECR adoption, multilevel teams have effectively replaced the traditional supplier-retailer interfaces that were characterized by sales reps calling on buyers with an emphasis on price, quantities, and deals (Corsten and Kumar, 2005). The relationship culture between supplier and retailer should experience significant improvements following such an organisational change (Seifert, 2006, p. 338).

For the audit of organisational change within the VBPM audit it is proposed to first of all initiate an inventory of internal stakeholders that are actively involved in CM projects. This inventory will reveal the firm's departmental CM-pervasiveness. The extent as to how many different departments (i.e. marketing, finance, sales, logistics, and IT) are participating in CM projects will indicate how far this ECR practice has penetrated internally. By all means, practicing VBPM will eventually lead to organisational change due to the strategy's complexity. Interdisciplinary teams are likely to displace the traditional forms of collaboration.

Table 19 gives an overview of the main ECR capabilities that the VBPM auditor is inclined to examine. These capabilities are based on the before mentioned ECR key success factors. Whether or not it is necessary to measure all of these capabilities as proposed above has to be decided on an individual basis. For some of the capability items, their sheer existence in the organization will give an indication of ECR commitment and VM professionalism. It has to be mentioned that the VM capability assessment should not go beyond a manageable scope of things. At the end, a thorough but brief review of the proposed ECR capability areas as shown in table 19 will give the auditor a sufficient impression of the firm's ECR capabilities and indicate which of the assessed capability items are a strength or should be considered a weakness. As mentioned in chapter 3.1.4, appraising capabilities is less about data and more about insights and understanding (Grant, 2005, p. 157).
The ECR capability check-list will also aid the auditor in determining which capability should be treated with priority over other capabilities. The proposed importance rating is taken from Seifert's empirical study on key ECR success factors and uses the average importance ranking

for the success factors by the brand manufacturers that participated in the study (Seifert, 2001).

ECR CAPABILITIES	**Importance** Hi/Med/Low	**Performance** Strength/Weakness	**Comments**
Top management involvement	High		
ECR measurement	Med		
Category Management Capabilities	High		
IT capabilities	Med		
Organisational change	High		

Table 19: ECR capability check-list[78]

3.5 Summary of the Findings of the Intra-Organisational Audit

Based on the firm's corporate and business strategy, the planning process should commence with a clear determination of the goals for VBPM strategy. Criteria for these goals are the scope of the goals, task allocation decisions, the actual content of the cooperation, and the specificity of goals. Once the goals are determined, the planning process is meant to continue with an internal investigation of the firm's resources and capabilities. For that matter, a resource-capability perspective was put into context with 'strategy'. The discussion lead to a resource-capability based check-list in order to give companies an operational tool to assess its resources and capabilities that are relevant for the implementation of VBPM. The check-list makes use of the methodology of the strategic marketing assessment tool S.W.O.T. analysis.

The internal assessment should foremost focus on the branded assets and their management and the organisation's vertical marketing capabilities. To start the assessment, a detailed discussion of brand architecture and its relevance for VBPM was presented. Aaker and Joachimsthaler's (2000, p. 102) definition of 'brand architecture' offers the planner a clear understanding of the scope of the internal assessment: "*Brand architecture organises and*

[78] Source: adapted from Seifert (2001).

structures the brand portfolio by specifying brand roles and the nature of relationships between brands and between different product-market contexts". From here on companies are enabled to gradually audit a firm's brand architecture starting with a determination of the company's brand hierarchy. This discussion also assigned brand hierarchies to corresponding types of strategy and respective levels of responsibility within the firm. Kapferer's typologisation of brand architecture will serve as a reference point enabling the planner to locate encountered brand architectures. It has to be pointed out that brand architectures are often mixed and they regularly come in more complex forms than the presented typologies. With brand architecture, it was made clear that the planner has to pay particular attention to the role of the corporate brand. Whether or not the corporate brand plays a significant role in the company's branding strategy will have significant impacts on the intended VBPM strategy. Negative spillover effects have been a key concern in the discussion.

Once a clear understanding of the architecture typology is given, the planner is compelled to take an inventory of the firm's brands. This overview can be guided by using Keller's 'Brand-Product-Matrix' - a tool to visualise and analyse brand-product relationships. It was made clear that the inventory of the company brands has to be extended to all brands, which play a role in the customer's decision making. While brands are made visible in this step, the analysis should include a distinct evaluation of each product brand's' brand identity. This should guide the planner at a later stage of the VBPM strategy when brand elements and brand values might need to be transferred to new entrants into the portfolio. Brand-product relationships are also the expression of brand extension strategy, which was highlighted as an important "playing field" in VBPM.

Beyond the individual brand perspective, the determination of product-defining roles will offer the planner a tool to investigate the perspective of the consumer on one's brand portfolio. In particular the roles of 'branded differentiator' and 'brand alliance' will offer the VBPM strategist operational tools when implementing VBPM.

Finally, determining portfolio roles is essential to identify the roles that the brands play for the company and as part of a role-play in the portfolio. Especially the portfolio roles 'flanker brands', 'low-end entry level brand' and 'increased shelf presence and retailer dependence' were identified as key roles for VBPM. A brand architecture check-list accompanied by detailed audit questions will enable the planner to thoroughly assess the companies branded resources in a practical way. The specification of the brand architecture then lead to the establishment of criteria that a PL requires in relation to the above mentioned brand architecture components. This constitutes a first step towards the formulation of VBPM strategy. The guide for the PL points out all areas of brand architecture which are relevant for its integration and offers decision alternatives.

Once the company's brand architecture is assessed, the planner is advised to progress with an audit of the company's strategy relevant capabilities. First, the natural progression of assessment will continue with brand management capabilities of the firm. On a corporate level, organisational resources, such as top management support, brand portfolio coordination system, and common brand building approach, altogether should brand (portfolio) management capabilities that are key to brand performance. Assessing all items will give the planner a comprehensive view on the organisation's brand management capabilities, which are considered as fundamental to VBPM strategy.

The last item of assessment in the intra-organisational audit is the company's ability to practice vertical marketing. The VM concept was established as the guiding theory for VBPM in chapter 4 of part B and is, similar to brand architecture and brand management capabilities, of vital importance for successfully engaging in VBPM. Five VM key success factors were established as suitable VM capability items for assessment. As it is with brand management capabilities, VM skills originate at an organisational and top management level and break down to the individual managerial level.
All the above mentioned capabilities are subject to respective check-lists that are at the auditor's disposal. The skills and resources should be evaluated by using a S.W.O.T.-like strength and weakness performance rating. This will highlight areas where the organisation performs well and items, where improvement may be recommended. Overall, the approach of the intra-organisational audit should be taken with an attitude of openness. The appraisal of resources and capabilities is less about data and more about insights and understanding (Grant, 2005, p. 157). For VBPM this means that the thorough understanding of the firm's brand architecture for example or extracting clear insights on the Vertical Marketing

capabilities is more important than rating these items. The results of the audit may be filled with hard facts on the one hand and a subjective understanding of the company's ability to practice VBPM on the other.

The purpose of the next step is to take a first view at the external environment by assessing relevant market characteristics. This will constitute step two of the VBPM planning process.

4 Step 2: Understanding Market Characteristics

Step 1 of the VBPM planning process has enabled the planner to gain a thorough inventory and understanding of the firm's brand portfolio. Among other factors, establishing knowledge about brand roles as seen from the consumer's perspective and from within the organisational context should give initial guidance towards PL integration in the portfolio. As the integration constitutes an internal process the external circumstances that will impact the integration now have to be evaluated. From a broader market perspective, the firm's competitive situation in a market context has to be established in order to take market driven decisions within the VBPM strategy. This evaluation will foremost clarify external market and product category characteristics that are likely to impact VBPM strategy. The following section will firstly clarify terminologies and then define the scope of the market examination.

The external environmental analysis will take its direction by applying similar decision criteria that brand manufacturers are concerned with when they decide to produce PLs. The topic has received only limited empirical attention mainly due to the fact that the identity of PL manufacturers is not disclosed especially when they are also producing national brands (ter Braak, 2012, p. 4). Nevertheless, such decisions should include a thorough analysis of market and product category characteristics. For example, it is important to analyse the composition of the product category in which a firm wants to participate. Typical questions include: which brands belong to the category, what is their market share, how are they positioned, what is the share of PLs, et cetera. On the other hand, certain product categories have a low penetration of PL products and brand manufacturers have to decide whether or not it makes sense to produce a PL for such a market. At the same time, market characteristics may have an impact on the firm's decisions to be active in the field of PL production and similarly to engage in VBPM. In certain international markets, supplying PLs may be a successful way of market entry due to saturated markets with several strong players already playing the field. This was for instance the case for Agfa in its successful Canadian efforts to compete with Kodak and Fuji in the household film market (Dunne & Narasimhan, 1999). Therefore, one's own market position in relation to the competitive field will be under investigation. These and other criteria will be introduced in the following section. Their relevance for the external environmental analysis and their impact on VBPM will be the main focus of the discussion.

4.1 Market Shares and Market Power

The term 'market' has been defined in this thesis as all buyers and sellers „who transact over a particular product or product class" (Kotler & Keller, 2006, p. 10). The focus of this section will mainly be on the sellers of products – in this case the brand manufacturer's competitors – and the buyers, which can be distinguished as trade customers of the brand manufacturer and consumers of the manufacturer's brands. In fast moving consumer goods markets – the main perspective for VBPM - manufacturers are faced with two types of competition: first, horizontal strategic interactions occur with other manufacturers of branded goods, and second, manufacturers have to deal with vertical strategic interactions where they are facing competition from retailers that offer PLs (Draganska and Klapper, 2006).

Taking a view on the competitive environment of a particular product category, the brand manufacturer's position in the competitive field can be distinguished by its market share (ter Braak, 2012, p. 17). The position can be considered as a powerful one, when market shares are high. Empirical research has proven that when companies possess high market shares, hence when they are powerful, they are able to exercise higher degrees of influence on the behaviour of channel members (Rao and McLaughlin, 1989, Shervani et al., 2007). In the context of a manufacturer-retailer relationship, this influence finds its relevance in gaining better access to retailer shelf space (ter Braak, 2012, p. 17). The more market share a manufacturer has as a result of popular brands, the more willing retailers are going to be in giving them access to their shelves (ibid.). Therefore, a manufacturer with high market shares should be able to better control the terms with a trade partner. While this may be true in a setting with a conventional supermarket, manufacturers may have to amend their practices depending on the type of retail partner they deal with, in particular when dealing with hard discounters (Deleersnyder et al., 2007). Hard discounters, such as Aldi, rely mainly on offering PLs. Therefore they deal less frequently with manufacturers of leading national brands and are less susceptible to be influenced by them (ter Braak, 2012, p. 36). For the VBPM strategy, it is important to fully understand one's own position vis-à-vis its retail partners when engaging in the strategy. More power could mean more influence on the terms and conditions of the collaboration with the retailer. With an awareness of one's own power in mind, a manufacturer may make use of it when negotiating terms. On the other hand, manufacturers that lack market power may find themselves in a weaker position. All of this still has to be related to the type of retail format one is facing. While market power may be relevant when dealing with traditional supermarkets, hard discounters may be less impressed by it when negotiating over the terms of VBPM. In conclusion, the auditor will have to determine the company's market shares and those of the main competitors. This will first of all enable the planner to gain an understanding of his organisation's own market power and the possible positive implications when dealing with the respective retailer. Secondly, having knowledge about the market shares of the competitors will highlight their relevant market power situations. This knowledge can also be useful during the strategy negotiations.

There is a special circumstance where market power of the manufacturer can lead to the production of PLs and even benefit the overall performance of a product category. In a model developed by Soberman and Parker (2006), the launch of a quality-equivalent PL leads to higher average category prices, when both the manufacturer and the retailer have market power. Therefore, even a manufacturer with a leading national brand and market dominance has an incentive to agree to a retailer's request to supply a quality-equivalent PL. The mutual benefits result in higher category prices and margins for both the manufacturer and the retailer[79].

[79] Soberman & Parker's findings are based on a model, but most of their conclusions and recommendations are affirmations of findings from previous empirical studies.

VBPM implications:

- Market power can be measured in a manufacturer's market share per product category
- Leading in market share may result in market power towards channel members
- Having market power could have a positive effect on the terms and conditions when negotiating for VBPM
- Hard discounters may not be effected by market power as much as other types of retailers
- Mutual market power may incentivise the production of quality equivalent PLs as it can add to higher category prices and value

4.2 The Competitive Environment

While the first market characteristic in the form of market shares highlighted some aspects of manufacturer dealings with retailers, the perspective will now be firstly drawn towards horizontal interactions. The discussion foremost deals with the manufacturer's position in the competitive field and how this relates to the production of PLs. Later in this section, more aspects of vertical interactions will be discussed.

One reason to produce PLs mentioned in the extant literature is to shut out competitors (Kumar and Steenkamp, 2007, p. 137). The argument is that if a company can produce PLs why should it leave it to the competition. Additionally, PLs will contribute to overall market share, which in turn can improve the competitive situation of the firm (Dunne & Narasimhan, 1999). In this context, the before mentioned determination of market shares will give a first indication of the firm's position in the competitive field. When a brand has low market shares, offering a PL may be an advisable strategy to attack the market leader and gain market share (ibid.). Brand strength in comparison to competitor brands will offer more insights on the competitive situation. Weaker brands that would normally result in lower market shares may support the arguments in favour of producing PLs as mentioned above. On the other hand, Dunne and Narasimhan's (1999) arguments of "low entry barriers" put an additional light on the competitive situation with other brands in the category. The authors argue that if new competitors are likely to enter a category with a close copy of the company's brand, the manufacturer may be better off beating them by producing a PL. On the other hand, if the own brand is strong or even patented, or if it has significant cost advantages over that of rivals, supplying private labels may offer small or no benefits. Entry barriers can be measured by brand value and the degree of innovation in a particular product category. Technically advanced brands that strive on innovation will be harder to copy than products in commodity like categories. One's own cost structure for a product and market knowledge in this field should give the VBPM auditor the relevant decision criteria in this area.

Another factor in the competitive environment and in direct context of VBPM is knowledge about the producers of current PLs for the product category in question. It can be argued that engaging in VBPM can improve a manufacturer's position opposed to its competitors. If a company gets chosen by a retailer to produce a PL, the previous PL and its supplier will be delisted[80]. If this PL producer happens to be a direct competitor, the firm can gain a competitive advantage over this competitor. On the manufacturer's side, respective market shares would increase and decrease on the competitor's end. As mentioned above where "competition shut out" was highlighted as a PL production incentive, the decision whether or not to engage in VBPM can be related to improving the firm's competitive situation when considering the competitive environment.

Therefore, knowledge about the current PL producer can be used in support of VBPM engagement. The company that currently supplies the PL for the retailer can be found out by simply asking the retailer. The supplier will either be a dedicated PL producer or a dual brander[81]. In the latter's case, the dual brander's national brands and their market share will decide on the competitive relevance of this company for the VBPM auditor.

VBPM implications:

- It may not be advisable to engage in VBPM when the entry barriers for the competitors are high
- Low market shares may support the case of producing PLs to improve the competitive situation
- The competitive position relative to the current PL producer can impact VBPM engagement

4.3 Retailer Characteristics and Power in the Channel Relationship

As already mentioned, the customers of brand manufacturers, i.e. retailers, are also their competitors when they sell PLs. Actions related to this field can be subsumed in the area of "vertical strategic interaction", which Lee and Staelin (1997) define as "*the direction of a channel member's reaction to the actions of its channel partner within a given demand*

[80] Providing that the retailer already had stocked a PL in the category in question.

[81] The term "dual brander" derives from Kumar and Steenkamp's (2007, p. 131) term „dual strategy" that describes companies that manufacture manufacturer brands and PLs for a retailer simultaneously.

structure". A field of empirical research in this context has focussed on the pricing strategies and mark-up behaviour of manufacturers and retailers (Choi, 1991, Raju et al., 1995). The content of this section shall remain at a more general level and build on past research that has discussed the growing importance of retailers and the power they have gained over their suppliers. Grant (1987) established in a UK context that large retail chains can obtain wholesale discounts from their suppliers. As a first step in this area of research, it is important to establish factors that describe retail outlets and their main characteristics as determinants for retailer power (Draganska and Klapper, 2006). Such factors are important for the VBPM auditor to better understand the type of retailer the firm is dealing with and the implications this has towards the amount of retailer power.

Draganska and Klapper (2006) have built a concept of factors from literature that describes individual retail chains. In their research, the authors use this conceptualisation to understand its impact on the intensity of price competition among manufacturers. For the VBPM audit, the conceptualisation will be adapted in order to classify retailers and show their linked potential to exert power on other channel members. This power shift towards retailers has been discussed widely in the literature and is one of the cited reasons for the rise of PLs (Kumar and Steenkamp, 2006, pp. 2). The specific retailer characteristics and their measurement items are summarized in table 20.

Economies of scale: The degree of power that retailers have over suppliers is much higher in countries with high retailer concentration (Nenycz-Thiel, 2011). High retailer concentration means that fewer retailers will combine more market share among each other. Larger retailers will profit from exploiting economies of scale and by negotiating better price conditions from suppliers (Grant, 1987, Dhar and Hoch, 1997). The consequences for brand suppliers result in increased dependencies on retailers with stronger buying power. Measures of economies of scale and therefore retailer size are total sales as reflected by market share and number of stores per retailer.

Private Labels: The introduction of PLs has strongly influenced the nature of the supplier-retailer interactions (Banerji and Hoch, 1993, Raju et al., 1995). PLs give retailers a means of differentiation among their competitors and create store loyalty among their customers (Narasimhan and Wilcox, 1998, Sudhir and Debabrata Talukdar, 2004). PLs also provide retailers with more bargaining power towards manufacturers (Salmon and Cmar, 1987, Scott Morton and Zettelmeyer, 2004). PL activity for a particular retailer can be determined by its commitment to quality, breadth of PL assortment, the role of the retailers name in the PL branding strategy, the amount of premium PL offerings, and the share of PL sales (Dhar and Hoch, 1997). PL share on overall sales differ significantly between store types. Some discounters such as Aldi offer over 90% of their merchandise under a store brand name (Fassnacht and Königsfeld, 2012). Private label penetration also correlates positively with retailer concentration. Nine out of the top ten countries ranked by share of PLs showed above average retailer concentration rates (Nishikawa and Perrin, 2005a, p. 6). The breadth of PL assortments is also an interesting factor of consideration. As shown in chapter 2.2.2, part B, REWE in Germany sells five different PL brands over a variety of categories and in different price and quality segments. Commitment to quality can be found e.g. with REWE's "Feine Welt" store brand which offers top of the range gourmet food products.

Assortment depth: A consistent assortment provision can contribute to service quality which has become an important point of differentiation among retailers (Krishnan et al., 2002). Assortment dimensions, whether seen in size or depth, can intensify competition among manufacturers (Dhar and Hoch, 1997, Draganska and Klapper, 2006). Given that shelf space is limited and larger assortments draw greater number of customers into the store retailers can put pressure on manufacturers to gain access to the scarce commodity of shelf space. The VBPM can measure assortment depth of a retailer by the average number of stock keeping units (SKU's) carried across the retailer (Shankar and Bolton, 2004) and total square footage to account for the size of the store (Draganska and Klapper, 2006).

Category expertise: a retailer's special knowledge in a product category will allow for more retailer independence from brand manufacturers (Dhar and Hoch, 1997). In certain categories, retailers can develop special expertise such as putting a focus on fresh produce or serving the needs of certain ethnic groups (Draganska and Klapper, 2006). Manufacturers may be forced to make up for a lack of category knowledge by lowering price (ibid.). Category expertise can be measured with Dhar and Hoch's (1997) Category Development Index (CDI), which determines the relative performance of a chain in a particular product category. CDI is defined as:

$$CDI = \frac{\text{Account Equivalent Unit Volume for Category}}{\text{Market Equivalent Unit Volume for Category}} \times \frac{\text{Market All Commodity Volume\$}}{\text{Account All Commodity Volume\$}}$$

The measure tells the retailer in which categories it does better compared to its performance across all categories. Categories with a high CDI are more important for the retailer and will inform the VBPM planner of explicit category expertise. This may also be of importance overall for the strategy as retailers with a high degree of category expertise may not be in need for manufacturer know how in that particular category. In other words, VBPM might be more attractive to be applied in product categories where the manufacturer's category expertise is higher than that of the retailer.

Retailer Pricing: The last item of retailer power over manufacturers is their discounting policies over manufacturer brands. In the channel relationship, manufacturers can normally only suggest consumer retail prices. It is up to the retailer to set the final retail price for its merchandise. The problem for a manufacturer brand occurs when the retailer heavily discounts the products which in turn can have a negative effect on the brand's equity. Retailers can thereby attract customers to the store and increase store traffic by discounting brands - sometimes even under wholesale prices. The VBPM planner can measure retailer pricing behaviour by observing the discounting practices of a particular retailer and compare the results with other customers. Frequent or significant discounting practice over manufacturer brands in a category can be considered as possessing high amounts of power by the retailer.

Retailer Characteristics	Measures
Economies of scale	Market share, number of stores per retailer
Private labels	Commitment to quality, breadth of PL assortment, the role of the retailers name in the PL branding strategy, the amount of premium PL offerings, and the share of PL sales
Assortment depth	Average number SKU's and relative square footage
Category expertise	Category Development Index (CDI)
Retailer Pricing	Retailer discounting policy

Table 20: Retailer characteristics and their measurement[82]

VBPM implications:

- Several retailer characteristics can impact the channel relationship
- The degree of retailer power can be determined by measuring specific retailer characteristics during the VBPM audit
- Knowledge about the degree of retailer power is essential to estimate the control of the terms and conditions of the collaboration
- High degrees of retailer power may weaken the manufacturer's negotiation position

The perspective of the consumer towards the purchase behaviour of PLs is another market variable that can impact the manufacturer's decision to produce PLs. For example, a manufacturer may avoid a PL involvement in segments that have a high proportion of price sensitive shoppers. These and other factors for the audit and their VBPM relevance will be subject of the following section.

4.4 Consumer Characteristics

Understanding the characteristics of PL prone shoppers is one of the most applied research topics in the PL literature (Dawes and Nenycz-Thiel, 2011). General wisdom states that PLs sell at a discount and are most appealing to price sensitive consumers. And in fact, PLs are priced 30% lower than manufacturer brands on average worldwide (Lincoln and Thomassen, 2008, p. 19). Similarly, the majority of studies in this field confirm that consumers show price sensitivity when they buy PLs (Ailawadi et al., 2001). One would expect that consumers with low incomes would, because of their reduced purchasing power, be the most price sensitive

[82] Source: adapted from Dhar and Hoch (1997), Draganska and Klapper (2006).

and prone to buy store brands primarily. However, the middle-income consumers are actually the least image-conscious and therefore willing to pay the lowest premium for national brands as opposed to low-income or high-income earners (Sethuraman, 2003). Hence, middle-income earners are most attracted by PL products. The effects of demographic factors, such as income, and other psychographic and category behaviour factors will be established in this section. Their relevance for VBPM will be emphasized.

As the above example of income vs. price-sensitivity shows, demographic factors have influence on psychographic characteristics that impact the purchase behaviour of PLs and branded products. Several studies have attempted to understand the purchasing behaviour of consumers towards manufacturer brands and PLs. While the context and conceptual framework of such studies may differ, they have all identified several consumer characteristics that can impact a particular purchase behaviour per customer segment. For example, Hoch (1996) confirms the positive relationship of income and price sensitivity. However, in his and other studies, high income households that also show high education levels have higher shares of PLs in their shopping baskets (Sethuraman, 2003). The reason for that may be that more educated consumers are more aware of the quality of PL products than less educated buyers. Other demographic factors included in research are age, gender, and family size. To exemplify the discussion on other demographic factors, Hoch's (1996) results give some more indication over demographics and purchase behaviour:

> "*Trading areas populated by more elderly people, more large households, more women working outside the home, and a larger percentage of black and Hispanic consumers tend to be both more price sensitive and more prone to purchasing private labels. Alternatively, when household incomes and housing values are higher and competition is less intense, stores*[83] *are less price sensitive, and private labels do not perform as well*."

As it can be seen, the results in this study relate once more to price sensitivity and purchasing behaviour. In conclusion, despite no theoretical methodology in selecting demographic variables in this context, Sethuraman (2002) has investigated over 20 studies in this field and

[83] The term ‚stores' refers to the clientele that shop at a particular store. This clientele may be dependent for instance on the area or neighbourhood the store is located in.

identified the following variables as the most used ones: gender, age, income, education, and family size. These demographic factors will also be set for the VBPM audit.

Next to price sensitivity and PL proneness that were related to demographics, there are other psychographic factors discussed in the PL vs. manufacturer brand literature. Sethuraman and Cole (1999) investigate price premiums that consumers are willing to pay for manufacturer brands over PLs. The study claims that the willingness to pay a price premium depends on the perceived risk when purchasing PLs. Dunn et al. (1986) established performance and financial risks as mostly associated with the PL/manufacturer brand choice. Next to associated risks, some perceptual variables have been subject of investigation. Among them is the widely accepted variable of “perceived quality gap/perceived quality differential” between PLs and manufacturer brands (Sethuraman and Cole, 1999, Davis and Brito, 2004, Kumar and Steenkamp, 2007). Kumar and Steenkamp (2007, p. 93) for example found out that perceived quality gaps vary across categories with manufacturer brands being more successful when consumers believe that they are of considerably higher quality. However, in only 45% of sixty-six researched categories in a US study, a perceived quality gap was significant (Kumar and Steenkamp, 2007, p. 97). For brand manufacturers these findings are particularly relevant to stay ahead of PLs by consistently offering better quality. The VBPM audit should reveal perceived quality differentials for the category in question. This will enable the VBPM strategist to better position the PL on quality levels relative to its national brand later on during the planning process. Similarly, Sethuraman and Cole (1999) recommend to maintain the favourable high quality perceptions if consumers perceive a large quality differential between manufacturer brands and PLs.

Another important measure for the willingness of consumers to pay a price premium is brand equity (Sethuraman, 2003). Keller (2011, p. 42) defines brand equity in terms of the marketing effects uniquely attributable to a brand. Manufacturer brands especially offer intangible values that most PLs do not offer (Kumar and Steenkamp, 2007, p. 99). Researchers have long advocated strong brands when dealing with the PL competition (Hoch, 1996, Verhoef et al., 2002). Sethuraman (2003) established that consumers would be willing to pay a premium of approx. 37% for manufacturer brands over PLs. The contribution of brand equity to it accounts for about 30%. Kumar and Steenkamp (2007, pp. 99) turn towards brand imagery in this context. Brand imagery is defined by the authors as the personalised social-emotional bond a consumer has with a brand. In their research, manufacturer brands are positively affected in product categories that are high on imagery. For example, the average price premium for high imagery categories such as deodorants and hair-colouring is 61 per cent. Categories that are low on imagery such as canned green beans or kitchen paper were found to only surpass PLs by 38 per cent (ibid.). In the VBPM auditing, cues for brand strength or brand imagery are easily determinable for the firm's own brands. The brand managers should have this information readily available. Knowledge in this domain will again help within the VBPM strategy to position all category brands seen from a category perspective.

Finally, behavioural variables may be subject of investigation because they may influence consumer's' willingness to pay price premiums for branded products. Sethuraman and Cole (1999) find that consumers pay lower price premiums in categories which they purchase more frequently than in categories which they purchase less frequently. The authors recommend brand manufacturers in the PL competition to reduce prices for frequently purchased products that are consumed mainly for functionality than for pleasure, and where the price-quality inference is weak.

VBPM implications:

- Certain demographics can have different impacts on PL purchase behaviour. Such impacts have to be investigated individually per customer segment (e.g. price sensitivity is not necessarily a symptom of low income)
- Perceived quality differentials between manufacturer brands and PLs are a key purchase factor for consumers. Determining these factors will enable the planner to optimally position brands in the category including PLs
- Price premiums are a result of brand strength and brand imagery and knowledge about these factors will be necessary to manage a product category
- The consumer willingness to pay price premiums for branded products also depends on the purchase frequency of the product category in question

Table 21 summarises the main consumer factors that are up for the VBPM audit. Most of the measures can be related to PL proneness or the willingness to pay a price premium for a national brand. At the same time the strategist gains an understanding of consumer characteristics that related to the overall manufacturer brand vs. PL relationship. Several of these aspects will be used again during the VBPM strategy formulation.

Consumer Factors	Measures
Demographic	Gender, age, income, education, family size
Psychographic	Price sensitivity Willingness to pay price premium Perceived performance and financial risk Perceived quality differential/gap Brand imagery
Behavioural	Purchase frequency

Table 21: Consumer factors and measurements[84]

4.5 Product Category Characteristics

Differences in PL market share occur on a product category level and are quite significant The product area of refrigerated food had an aggregated PL share of value sales in 2005 of 32% globally and was therefore the top selling area overall (Nishikawa and Perrin, 2005a, p. 4). Within that product area, the product category of "ready to eat meals" totalled an even higher share of 47%. At the other end of the market share spectrum in that year was the baby food product area with a total share of only 2% (ibid.). From the 80 product categories surveyed by 'The Nielsen Company' in 2005, chewing gum had the lowest global PL market share of 1% of all product categories (Nishikawa and Perrin, 2005, p. 14). This chapter will investigate the reasons for such category share differences and will attempt to explain the impacts for the VBPM audit and strategy. First of all the VBPM auditor has to understand what factors constitute a product category and within a category management approach this is best done from the consumer's perspective.

ECR Europe defines a product category as:

> "*A distinct manageable group of products/services that consumers perceive to be interrelated and/or substitutable in meeting a consumer need.*"(ECR Europe, 1997, p. 8)

A first perspective on PL share shall be directed towards price. Following the conventional wisdom of PLs being low price alternatives, similar to the consumer perspective one could

[84] Source: own.

argue that a large price gap to the national brand would result in high PL market shares. Figure 20 shows a mixed result when comparing PL shares with the price differential to manufacturer brands. In some categories high price gaps also show high PL shares such as pet food and health care products. On the other hand low price gaps result similarly in high PL shares of several food categories.

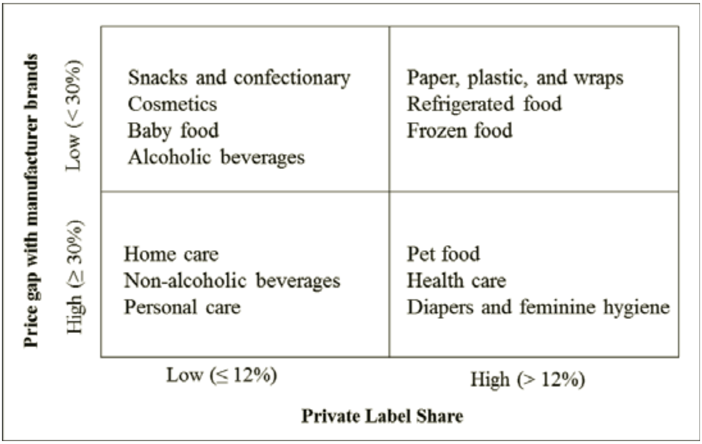

Figure 20: Global private label share and price gap[85]

In a U.S. study on PL market share factors in 34 food categories spread over 106 different store locations, Dhar and Hoch (1997) showed the main category related factors that favour a large market share of PLs at the retailer level:

1. High quality PLs relative to the manufacturer brands. The better the quality of the PL products, the higher their market share.
2. Low variability of quality of PLs. Differences in quality of PLs have a negative effect on PL share.
3. A small number of national manufacturers operating in the category. The lower the number of national brands, the larger the market share of the PLs. Large numbers of national brands in a category results in a crowding-out effect that includes PLs. (Srinivasan et al., 2004)
4. Low national advertising expenditures by manufacturer brands (push and pull-tactics).

[85] Source: Kumar and Steenkamp (2007, p. 92).

The perspective on the retailer level is appropriate for the VBPM audit because the strategy is carried out with one retailer at a time. Therefore any particular category situation should be evaluated on a per retailer basis.

The impact of quality on PL share has also proven to be an important enhancing factor in other studies. Kumar and Steenkamp (2007, p. 93) come to this conclusion in a Dutch supermarket setting where PL performance was best for a retailer when consumers rated the share leading PL products also the ones with the highest quality. In this particular case, these PLs also had the smallest price gap to the national brand.

Additionally, PL shares are expected to be higher in product categories in which PLs have lower quality variability[86]. Quality variability for PLs depends on the ability to implement reliable manufacturing of the products (Banerji and Hoch, 1993). For categories involving simple manufacturing methods that can be found across many suppliers, quality variability for private labels is expected to be small. On the other hand, product categories in which production processes require sophistication that most dedicated PL suppliers cannot compete with, PL variability is likely to be high (ibid.). For the VBPM audit, quality in the category is an important factor. As the above discussion shows, quality impacts market shares for either PLs or manufacturer brands. How quality affects consumer choice in particular categories has been shown earlier as well. Knowledge on quality will effect positioning and segmentation issues of the manufacturer portfolio brands and within VBPM also impact the PL in question.

The number of brands in a product category will indicate the competitive nature of the category. More brands results in more product variety and new product development activity which in turn has the potential to limit the prosperity and market share of PLs (Banerji and Hoch, 1993). Product proliferation can be used in certain categories, such as the ready-to-eat cereal market, to make PL entry less profitable (Putsis Jr, 1997, Cotterill, 1999). A high number of already existing cereal brands with many different varieties leaves no space for new product development in lower interest PL products. Manufacturer brand proliferation can be measured by the number of unique store keeping units (SKUs) offered by the particular retailer in a category during a specific time period (Gielens, 2012). In addition the Private Label SKUs will indicate the ratio between manufacturer brands.

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[86] A quality promise is generally associated with manufacturer brands.

Research has confirmed that manufacturer brand advertising expenditures and PL market share are inversely correlated (Banerji and Hoch, 1993, Dhar and Hoch, 1997, Scott Morton and Zettelmeyer, 2004). Increases in manufacturer promotion efforts, such as advertising, in-store display, and sales promotions all slow PL growth (Hoch et al., 2006). On the other hand, when retailers actively promote their own brands in their stores, PLs gain in share (ibid.). For the VBPM audit, the communication expenditures for the category are of relevance. The audit should compile the promotion expenditures of all relevant brands in the category on a per brand basis. In a time series analysis the promotion budgets can be correlated with brand market shares. This analysis should include the PL movements and will inform the planner of the promotional dynamics within the category and its impacts on market shares of the category brands and PLs. This knowledge will also be useful during the strategy implementation when planning for promotional activity of the portfolio brands – in this case with the added PL brand. If the actual advertising spending figures of all brands and products are not available, the advertising intensity in a category, which is measured as perceived by consumers, can be called upon (Steenkamp et al., 2010).

In addition to the above mentioned three main category factors of quality, number of manufacturer brands, and advertising expenditure, there are other valuable category figures that the VBPM auditor should collect. For instance, the size of the category in terms of sales can mean PL success. Success for PL programs are highest in large categories that also have high gross profit margins associated with them (Banerji and Hoch, 1993). The retailer's PL presence in a category should also be evaluated. How does the retailer currently manage its own PL program in the category? Does he maintain a multi-tiered PL portfolio, for example? These questions will be subject of analysis in the next step of the VBPM audit again, when the retailer will be evaluated. The category related nature of these questions still makes the topic partially relevant at this stage. Finally, category growth and PL growth can be operationalized as the yearly rate of change in category volume sales and PL volume sales at the retailer (ter Braak, 2012, p. 93). For example on a global scale, cosmetics and pet food categories grew by 23% and 11% respectively in 2005 whereas diapers and feminine hygiene actually shrunk by 1% (Nishikawa and Perrin, 2005a, p. 4). On a retailer basis, individual product category growth rates can be an interesting insight for the VBPM audit. In a recent study, the Dutch "Plus" supermarket chain's standard PL sales in the "salty biscuits" category quadrupled (growth rate = 4.28%), while category growth was only at 1.2% (ter Braak, 2012, p. 93). In VBPM it has to be judged how many brands a category can accommodate sustainably. On the other hand manufacturers can grow market share when PLs gain against the general category trend. In summary, the product category audit will deliver several useful insights for the planning stage of VBPM strategy and for the strategy formulation later on.

Table 22 lists market variables including category related factors that may be relevant during the VBPM audit and allocates each variable with possible measurement items. In a third column the relevance of the variables and measurement items for VBPM is contrasted.

Market Variable	Measure	VBPM Relevance
Manufacturer power	Market share	When market share are high NBM can better negotiate terms and conditions When market shares are low, NBM can produce PL to take away share from competition
	Brand value Product innovations Cost structure	When entry barriers are high, PL production is questionable When entry barriers are low, PL production can be a means to beat competitors from market entry
Retailer power		
Economies of scale	Market share Number of stores	Overall retailer power can weaken the NBMs position in the vertical relationship
PL program	Commitment to quality Breadth of PL assortment Role of the store brand Existence of prem. PLs Share of PL sales	Sophisticated PL programs may result in retailer power Premium PLs often in direct comparison to manufacturer brands
Assortment depth	Number of SKUs	Deep assortments can increase retailer power
Category expertise	CDI	NBMs category expertise should be higher than that of the retailer to justify VBPM
Pricing policy	Discounting practices	Frequent discounting shows retailer power and can hurt manufacturer brand equity
Consumer		
Demographic	Gender, age, income, education, family size	The impacts of demographic factors on PL purchasing behaviour are manifold and have to be investigated individually per customer segment
Psychographic	Price sensitivity Willingness to pay price premium Perceived performance and financial risk Perceived quality differential/gap Brand imagery	Price sensitivity is not only related to income Perceived quality differentials and brand imagery can guide the positioning of the brands in VBPM
Behavioural	Purchase frequency	The purchase frequency for products influences the pricing policies

Market Variable	Measure	VBPM Relevance
Category		
PL quality	Perceived quality, PL quality variability	The better the quality of the PL, the higher their market share. Differences in quality of PLs have a negative effect on PL share
Number of brands	Number of SKUs per category. Number of PL SKUs per category	Brand proliferation can lead to PL crowding out
Advertising expenditures	Advertising spending Perceived advertising intensity	Manufacturer brand advertising expenditures and PL market share are inversely correlated
Category Size	Size in terms of total sales Category gross margins	PLs are successful in large categories that have high gross profit margins. Small categories may be avoided for VBPM
Category growth	Yearly rate of change in category volume sales	How many products can a category accommodate according to growth rate?
PL growth	Yearly rate of change in PL volume sales at the retailer	PLs can grow against general category trend. Participation by supplier can grow market share

Table 22: Market variables for VBPM external audit[87]

Step two of the VBPM audit has taken an analytic view at the external environment that included several market variables such as market power, competitors, consumers, and product categories. This part of the audit also takes a first look at retailers mainly from a competitive perspective. During the next step of the VBPM audit, the planner will take an explicit look at the retail environment. The purpose of this step is to gain an understanding of the retail environment in general and establish criteria to audit specific retailer resources and capabilities, which are important for VBPM strategy.

5 Step 3: Evaluate Retailer

The strategic nature of VBPM has called for an analysis of the firm's internal environment with the goal of linking the particular internal resources and capabilities with the strategy relevant external environment. This external environment firstly consists of the relevant

[87] Source: own.

market characteristics that were discussed in the previous section. The retail environment is the final external environmental factor that deserves particular attention by the VBPM planner. A first detailed look at the retail environment was taken in chapter 4.3, when specific retailer characteristics, such as retailer pricing policy, assortment depth, or PL programs, were reviewed to explain factors that can exert retailer power towards manufacturers. These insights competitive interaction are also a sub-area of the retailer assessment criteria that are part of this chapter.

As highlighted before, Grant (2005, pp. 12) views strategy as „forming a link between the firm and its external environment". Further, for a strategy to be successful, the firm's external environment has to be aligned with the firm's internal characteristics. Grant considers a successful alignment of environments with that of a 'strategic fit'. In VBPM, the retail environment will have the most significant relevance of all external environmental factors for the firm to reach such a strategic fit. There are several reasons for its significance. First of all, the retailer is at the focal point and outset of the strategy. The current or potential relationships of the manufacturer with retail partners will impact the strategy's implementation. Also, one of the aims of VBPM is to enhance the business relationships with retailers. The actual retailer environment – for example its PL branding strategy – will also significantly affect the strategy. Finally, the manufacturer has to convince the retail partner to collaborate in VBPM. Understanding the characteristics of the partner is a necessary prerequisite for persuasion. A successful collaboration would ultimately manifest a strategic fit among partners aiming to synergize within VBPM.

Step 2 of the VBPM planning process already assessed certain retailer characteristics from a horizontal, competitive perspective. Chapter 4.3 focused on retailer factors that can influence the competitive situation of the manufacturer in the channel relationship. These factors are also important for profiling the suitability of a particular retailer for VBPM. The following chapters will further clarify the assessable items of the retail environment that are important for the implementation of VBPM. The next section will first of all introduce the main types of retail formats that brand suppliers are generally faced with in general merchandise and food retailing. The discussion will then turn towards PL branding strategies of retailers and how they affect VBPM planning. The retailer audit will conclude with a review of ECR capabilities and relationship factors. VBPM is designed as an intense form of collaboration likely to eventuate between firms that have collaborated in the past and therefore can build on existing relationships. These past experiences and general knowledge of the retail landscape will automatically bring forward retailers, with whom VBPM may be suitable. The following section will establish the relevant criteria that shall serve as the planning process guidelines to further investigate potent retailers with a tailored assessment towards VBPM strategy.

5.1 Retailer Types and Characteristics

The type of retailer a brand manufacturer has to deal with in VBPM will influence the strategic layout of the strategy. For example, store types vary in the depth of assortment that they offer. Assortment depth in turn impacts the amount of brands that a retailer puts on the shelves including PL brands. How retail formats differ and how these particular retailer characteristics can impact VBPM strategy is subject of the following.

Brand manufacturers will already know certain characteristics of the trade partners they deal with. They will have gained experiences from on-going trade partnerships and should be able to generally rate the existing relationship. From past relations, they can judge personal dealings with counterparts, assess the payment morale of the trade partner, or should be able to evaluate the profitability of the account. Individual experience and knowledge on trade partners is essential when considering a partner for collaboration. Factual differences in retail types and their impact on collaborations may serve the VBPM planner to make better judgements on retail partners that are up for collaboration. While every industry is different with its own specific characteristics, a broad typologisation of retail institutions shall serve as a reference point for the assessment of the external retail environment.
A three-way classification method for retail institutions is common in the retail literature. Several authors distinguish between classification by ownership, classification by retail strategy , and non-traditional retailing (cf. Ogden and Ogden, 2005, pp. 89, Berman and Evans, 2007, pp. 104). The top three classifications for retail ownership are (1) independents, (2) chains, and (3) franchises (Ogden and Ogden, 2005, p. 90). The focus for VBPM will be mainly on chains as this ownership form has become important in the FMCG sector due to size and purchasing power factors (Apéria and Back, 2004, p. 263). However, franchises should not be left out of the discussion. Several large retailers go to market with mixed retail

formats that consists of company owned chain stores and outlets operated by independent retailers or franchisees (Bunte et al., 2011). Germany's "Edeka" grocery chain operates a large part of its business via independent store owners and franchisees (Edeka, 2013).
As mentioned above, retail stores can also be classified by the types of strategies they apply, in selling their goods and services. Ogden and Ogden (2005, pp. 97) divide two main strategic categories into 'general merchandise' retailers and 'food' retailers. Both categories also show different sub-forms. Selected sub-forms will be presented in the following section. The selection is based on how the marketing instruments of these retail formats are developed and how this can affect the execution of VBPM. The discussion will – where relevant – include retailer PL strategies.

General merchandise retailers can be classified as such:

Department stores carry broad assortments and offer more customer service than most other general merchandise retailers (Ogden and Ogden, 2005, p. 97). Products range from apparel and bedding to hard goods such as appliances and consumer electronics (Weitz and Whitfield, 2010, p. 91). A key to develop customer loyalty in department stores is the use of store brand names (Ogden and Ogden, 2005, p. 98). While department stores have globally lost market shares, there are some examples of successful formats, one of them being the Kohl's department stores in the US. Kohl's success is based on convenience and merchandise that consists of national brands and carefully selected PL products (Weitz and Whitfield, 2010, pp. 92). For example, Estee Lauder, a famous brand manufacturer for cosmetics, has developed three exclusive PL cosmetic lines for Kohl's (ibid.).

Full-line discount stores fall under the category of department stores but offer less service and generally price their products below that of department stores (Ogden and Ogden, 2005, pp. 98). Full-line discount stores have been pushed by the success of Wal-Mart that in the US alone comprises a full-line market share of over 58% (Weitz and Whitfield, 2010, p. 93). Wal-Mart's PL offering ranges from premium products under the "Sam's Choice" brand and a cheaper "Great Value" brand, as well as PLs like "Equate" over-the-counter non-prescription drugs, and "Ol' Roy" dog food (Kumar and Steenkamp, 2007, p. 23). Target, a fast growing discount store in the US, is offering fashionable merchandise at low prices in a pleasant shopping environment that includes exclusive PL lines developed by famous designers (Dunne and Lusch, 2008, p. 108).

Category specialists are discount stores that carry deep assortments of products in a particular product category such as books, toys, do-it-yourself, or sports equipment (Ogden and Ogden, 2005, p. 98). Offering a category at discount, these mainly as chains operating specialists can "kill" a category of merchandise for other retailers and therefore are often called *category killers*. Due to concentrating on one category or product area, category specialists have become innovative in product design in their own right. The French sports retailer "Decathlon" for example has become the world's fifth largest producer of sports goods that are sold exclusively in their stores (Kapferer, 2012, pp. 106). The PLs receive similar brand building attention like manufacturer brands normally do (ibid.). Decathlon has a dedicated PL brand for every product segment (e.g. tennis, golf, football). The products are managed as "passion brands" by autonomous business units that also invest in ingredient brands that lend credibility to the offer (ibid.). Overall, Decathlon's PLs make up 55% of the company's annual turnover of € 5.5 billion.

Food retailers come in several forms and may be classified along similar lines as general merchandise retailers:

Supermarkets are self-service stores with a focus on food products and limited range of non-food merchandise (Ahlert et al., 2010, p. 339). Supermarkets carry up to 40.000 products with significant PL shares (Ogden and Ogden, 2005, p. 103). For example, the Dutch supermarket market leader "Albert Heijn" has converted approx. 50% of its assortment into PL products that are offered in a multi-tiered portfolio covering all price segments (Planet Retail, 2013). The supermarket has developed a broad "Albert Heijn" private label range, including organic products, premium, and convenience foods and is aggressively targeting consumers of A-level brands (ibid.). The "AH" copycat PL of Albert Heijn is very successful in certain categories. For example, in the coffee category, AH commands a national market share of 15% holding only a 12% price gap to the national brand (Kumar and Steenkamp, 2007, p. 93).

Convenience stores carry limited lines of highly-demand daily necessities with a focus on gasoline, non-alcoholic beverages, cigarettes, grocery items, and non-food merchandise, which are offered for higher prices than in supermarkets and during longer opening hours (Ostrow, 2009, p. 88). Convenience stores generally only stock between 1.500-3.000 items (ibid.). Several large retail companies that operate supermarket chains have moved into the convenience sector. For example, "Tesco" in the UK operates approximately 1.200 "Tesco Express" convenience stores with about 2.500 products on offer, many of them under the Tesco store brand (Dawson, 2010, p. 76, The Telegraph, 2011).

Discount stores are also prevalent in food retailing and come in two forms: *hard discount* and *soft discount*. Discounters are generally characterized by efficient background systems enabling them to offer limited assortments at prices below the recognised market level (Ahlert, et a., 2010, p. 338, Ostrow, 2009, p. 121). To offer lower prices, discounters commonly use a 'no-frills' store format where the limited assortment is dominated by PLs which are sold straight out of boxes (Ogden and Ogden, 2010 p. 106). The hard discount format was pioneered by Germany's Aldi that typically offers a limited assortment of 700 SKU's in retail outlets with a size between 1.000 to 1.500 square meters (Kumar and Steenkamp, 2007, p. 62). PLs account for approximately 95% of sales for Aldi (Nishikawa and Perrin, 2005a). The products are branded following a house of brands strategy (Kumar and Steenkamp, 2007, p. 63). Soft discounters on the other hand offer a more extended range of products with up to 4.000 SKU's in a slightly more pleasant shopping environment with a focus on PLs but also a small portion of manufacturer brands (ter Braak, 2012, p. 12, IGD, 2012).

Superstores are self-service food retailers with larger surfaces than supermarkets of between 2.500 and 5.000 square meters (Ahlert et al., 2010, p. 339). Superstores carry up to 40.000 products and offer extended services in deli, bakery, seafood, and non-food sections which make up approx. 25% of sales (Ogden and Ogden, 2005, p. 103, Berman and Evans, 2007, p. 140). Superstores are most common in the USA where they have a combined retail share with Hypermarkets of 76% (Ahlert et al., 2010, p. 347). Superstores carry similar PL offerings like supermarkets in multi-tiered and multi-segmented portfolios.

Hypermarkets are combinations of discount stores and superstores with very large retailing facilities of up to 20.000 square meters (Ostrow, 2009, p. 196). In principle, hypermarkets offer a substantial amount of non-food items next to a complete food range. Services go beyond the normally expected in a food store and include insurances, travel agencies, and restaurants (ibid.). The concept was invented by the French retail giant "Carrefour" which carries up to 200.000 SKUs in its hypermarket outlets (Seth and Randall, 1999, p. 169, Dunne and Lusch, 2008, p. 445). Carrefour sells approx. 50% of its merchandise via a sophisticated PL portfolio that consists of generics such as the value line "No. 1" and several benefit based PL lines such as "Blue Sky" for televisions, and "Destination Saveurs" for international food products (Kumar and Steenkamp, 2007, p. 79, Kapferer, 2012, pp. 96). The company's PL range is known to be driven aggressively and the company has managed successfully to expand its brand franchise abroad (Seth and Randall, 1999, pp. 169).

The situation in trade channels that brand manufacturers are facing nowadays can be put in perspective with retailer success factors. Seth and Randall (1999, pp. 300) forecast retailer success with sufficient scales to achieve economies in buying, and in investments in IT, store, PL, and brand development. According to the authors, agile and strong distributors will also operate a range of formats from hypermarkets to convenience stores and expand their business internationally. A good example in retailing is the British retailer "Tesco" because the company combines most of the above mentioned success factors in its strategy. In the UK, it operates four different store formats: Tesco Extra, a hypermarket format; Tesco Superstore for weekly shopping with subbrands of Tesco Supermarket and Tesco Compact for smaller communities; Tesco Metro, a city centre supermarket targeted at walk in customers; and Tesco Express, which is a convenience store format (Dawson, 2010, p. 76). A key for Tesco's success are its twelve thousand PL product lines, which make up 60% of the company's revenue (Kumar and Steenkamp, 2007, p. 83, Kapferer, 2012, p. 101). The PL portfolio is positioned by all forms of segmentation[88]. The price-based PLs come in three tiers: "Tesco Value", "Tesco Standard", and "Tesco Finest"; there are seven benefit based Tesco subbrands such as "Tesco Carb Control", "Tesco Free From" and "Tesco Organic"; four category based brands target different segments for clothing such as "Florence and Fred" for office wear and "Cherokee" for low-cost casual wear for men and woman (Kumar and Steenkamp, 2007, p. 84, Finne and Sivonen, 2009, p. 182). According to Kumar and Steenkamp (2007, p. 86) the strategic use of its PL portfolio has been critical for Tesco to claim the number one spot in the UK market and has enabled the retailer to even charge a price premium for its Tesco Finest range in certain categories over manufacturer brands. This is also as a result of Tesco explicitly advertising the unique qualities of its PL products (Kapferer, 2012, p. 115). It is not surprising that Tesco is also a frontrunner in the implementation of ECR practices (Finne and Sivonen, 2009). According to the "Interbrand Retail Brands 2012" ranking, Tesco is the

[88] For the different PL segmentation strategies refer to chapter 2.1.3 of part A.

number 1 retail brand in the UK with nearly double the value than the number two ranking contender (Interbrand, 2012, p. 34). With an on-going retailer concentration, brand manufacturers are likely to face more powerful and strong retailers that run successful PL programs like the one from Tesco. For the VBPM audit the above discussion implies that the assessment should start with the factors of the type of retailer that go beyond the already existing knowledge. The classification can be centred on the marketing strategy of the retailer. Additional factors that are relevant for VBPM should be added to the audit. Among them are factors such as assortment depth, number of store formats applied, ratio between non-food and general merchandise, and internationalisation. An overview of retailer classifications and typical aspects for the VBPM audit is offered in table 23.

Type of Retailer	Merchandise	Prices	PL strategy
General Merchandise			
Department store	Extensive breadth and depth of assortment; average to good quality	Average to above average	Store brand name is important; Medium usage of PLs; frequent usage of exclusive brands
Full-line discount store	Extensive breadth and depth of assortment; average to good quality	Competitive; below department stores	Broad PL offerings; multi-segmented
Category specialist	Very narrow breadth and extensive depth of assortment; average to good quality	Competitive; below average	Firm specific; ranges from medium to large PL offer
Food-oriented			
Supermarket	Extensive breadth and depth of assortment	Competitive	Focus on manufacturer brands; multi-tiered PL portfolios; multi segmented
Convenience store	Medium breadth and low depth of assortment	Average to above average	Medium PL usage when part of multi-type operating retailer (e.g. Tesco)
Hard discount	Low breadth and depth of assortment; few perishables; few national brands	Very low	Multi-tiered and segmented PL portfolios. PL share up to 95%
Soft discount	Moderate breadth and depth of assortment; moderate national brands	Medium to very low	Multi-tiered and segmented PL portfolios. Focus on PL.
Superstore	Full supermarket assortment; selected general merchandise	Competitive	Multi-tiered and segmented PL portfolios
Hypermarket	Full supermarket assortment; up to equal amounts of general merchandise	Competitive	Multi-tiered and segmented PL portfolios. PL share up to 50%

Table 23: Retailer classifications[89]

The next section will focus on the two key retailer characteristics for VBPM: retailer PL strategy and ECR capabilities. Both factors are important for VBPM. First of all, they mirror the main items of assessment of step 1 of the VBPM audit where the brand manufacturer's brand architecture and ECR capabilities were the main focus. The above-mentioned "strategic fit" may become literal during the assessment, when the two branding strategies of the

[89] Source: own, adapted from Berman and Evans (2007, pp. 137).

collaborators will be contrasted. The PL strategy discussion in the above section will serve as a starting point of the assessment of the retailers PL branding strategy. Additionally, determined retailer ECR capabilities will proof or disapprove this important success factor for VBPM and indicate the relationship abilities by the retailer. The assessment of the two main retailer characteristics can be aided by modifying the resource-capability check-list that was developed for the audit of the manufacturer's internal environment in chapter 3.1.4.

5.2 Retailer PL Branding Strategy

The PL branding strategy of a potential retail partner for VBPM has to be thoroughly assessed for two main reasons: 1) to gain an understanding of the retailer's marketing strategy towards its PL assortment, and 2) to understand the branding consequences that will derive from the retailer's PL portfolio in a VBPM strategy.

A comprehension of the retailer's marketing strategy towards its PLs is essential for a VBPM strategy initiation. For instance, the strategic PL dimensions of "positioning" and "segmentation" imply specific retailer strategies that will be insightful for the VBPM planner. Furthermore, a generic PL positioning by supermarket chains is generally directed by the store to match the competitive pricing of hard discount merchandise (Kumar and Steenkamp, 2007, p. 30). Copycat PLs on the other hand serve retailers to mimic leading manufacturer brands in order to make consumers believe the PL is identical to the leading brand (Kapferer, 2008, p. 78). Well known manufacturers have taken legal actions against such retailer conducts which speaks volumes of the status of the relationship with the retailer in such cases (Marriner, 2011). The next section will identify all assessable items of a retailer's PL marketing strategy. It has to be mentioned at this stage that assessing a company's overt operations may not necessarily lead to or reveal the true strategic intentions of that company. However, the analysis of the external environment, as suggested for VBPM, relies on multiple external factors. Bringing them into a common context is the best possible process that could lead to the desired information.

Secondly, an encountered PL brand strategy, i.e. the retailer's PL brand architecture, will have a direct effect on the tactical implementation of VBPM. The audit will have the goal of gaining an understanding of the retailer's PL brand architecture and its impact on VBPM. The auditor will take a close view on the role that the store brand plays within the retailer's product strategy.

As a first step of the retailer PL branding strategy audit, the framework for branding PL portfolios that was developed in chapter 2.1 of part B will be called upon. The framework structures PL branding strategies along the four strategic PL dimensions of (1) brand breadth, (2) positioning, (3) segmentation, and (4) relationship with the store brand[90].

To illustrate the application of the framework in an audit, the "Ja!" PL product range from the German REWE supermarket chain will be brought back for discussion[91]. "Ja!" is Germany's most recognised PL brand with a 92% brand awareness rating (Mulch, 2009). Examining the **brand breadth** – the first strategic dimension - of the label will shed light on the amount of products that belong to a PL brand. Retailers can choose from four types of brands: individual brand, family brand, generic, and store brand. REWE's "Ja!" brand can be classified as a generic brand which means that a large number of products are sold under the label. In REWE's "Ja!" case, 750 products over 17 diverse product categories carry the generic's name. Next to the number of products under the label the categories over which a PL brand is spread has implications. A PL brand like "Ja!" has to serve as the roof for product categories as diverse as paper products such as toilet paper to food items like smoked ham. Stretching a brand this far is generally not advisable but makes sense for a generic PL, where the low price is the main benefit. For VBPM, brand breadth has the implication that the wider a PL offer is spread, the least suitable it is for strategy implementation in its current form. This conclusion has to be put in the perspective of the manufacturer's environment and expertise. First of all, no brand manufacturer is generally offering broad product portfolios that are combined under the roof of most generics. Brand manufacturers typically hold expertise in one or several product categories but at no means would be able to match the 17 diverse product categories of a generic PL such as "Ja!". Secondly, due to the likely lack of expertise in certain product categories, brand manufacturers would not qualify to manage a PL that has wide brand breadth.

Nevertheless, managing a single product category that is part of wide spread PL brand should still remain a possible option in VBPM for brand manufacturers. The primary requirement in this context is the type of product category in question. Certain product categories may possess particular characteristics that would make their management feasible and attractive for brand manufacturers. For example, the Dutch supermarket chain Albert Heijn brings the

[90] For the definitions and a detailed discussion of these strategic dimensions refer to chapters 2.1.1-2.1.4, part B.

[91] The complete REWE PL brand portfolio was discussed in chapter 2.2.2, part B.

"AH" copycat store brand across 19 consumer packaged goods categories to market (Kumar and Steenkamp, 2007, p 93). As mentioned earlier, the PL is very successful in several categories, e.g. the coffee segment, where it holds a national market share of 15%. Looking at the market share figures, coffee brand manufacturers may likely be inclined to at least produce the PL for Albert Heijn[92]. Even though the PL bears the name of the retailer's store brand, the category 'coffee' would certainly justify brand management attention by the particular brand manufacturer in a VBPM cooperation. For example, product categories like coffee hold branding potential, in areas of innovation and packaging, where the management by a national brand supplier could bring benefits. This is in contrast with most "trimmed-down" generics that would not need much management in the first place needless to say the lack of association any reputable name brand would intend to have with it under circumstances that would seek to preserve reputation. The management of a single product category out of a multiple PL offer would logically not include the management of some of the brand's identity elements. For example, the name of the products would remain untouched. Another alternative for managing a product category out of a wide PL range is to isolate the category from the PL brand and apply different branding strategies to it[93].

The **positioning** strategy – the second PL dimension under review - of "Ja!" falls under the "generic" positioning type[94]. Generic positioning entails a simple product conception that is generally priced well below the leading national brands. Often retailers deploy a generic positioning to match the competitively priced product offer from hard discounters. In REWE's case, on the company's webpage "Ja!" is advertised as a "clever" alternative in terms of price and choice that saves the trouble of making an extra trip to the discount supermarket (Rewe, 2013). This direct reference towards its competitive environment and the focus on price leads towards the **segmentation** strategy of "Ja!" within REWE's PL portfolio. "Ja!" is part of the multi-tiered price-based segmented REWE PL portfolio. It represents the entry-level product range targeted at price-sensitive consumers. Finally, the last dimension "**relationship with the store brand**" can be denied in Ja's case. Unlike several other PL

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[92] The consideration of company specific factors such as production capabilities are left out of the discussion at this stage.

[93] This discussion goes beyond the scope of this chapter as it includes VBPM strategy elements. However, a brief discourse at this stage is necessary to comprehend the significance and the implications that derive from assessment elements such as the one under discussion above.

brands in the REWE PL portfolio, “Ja!” is designated as an individual brand that has practicably no obvious connection with the REWE store brand. Retailers often choose this strategy when the added value of the PL is so little so that it could reflect negatively on the reputation of store brand (Kapferer, 2012, p. 98).

When assessing a retailer’s PL portfolio, the complete PL offer has to be audited along the four strategic PL dimensions. This will enable the planner to gain an understanding of the retailer’s PL portfolio scope within the given framework. It will quantify the breadth of the retailer products and uncover every brand’s positioning strategy and targeted segments. It will also reveal each label’s contribution to the PL-line-up of the retailer in question and will allow drawing conclusions on the retailer’s overall PL portfolio strategy. In REWE’s case, the “Ja!” brand constitutes the entry-level value choice among several other medium and premium segmented PL brands. Due to the importance of the fourth dimension “relationship with the store brand” for VBPM, the discussion will be taken up again in chapter 7.2.

In conclusion, assessing the retailer’s PL portfolio along the four strategic dimensions will enable the planner to make a significant step towards VBPM strategy formulation. Having reached this stage of the planning process, both branding strategies are assessed and determined. PL positioning and segmentation strategies can be contrasted and matched with the manufacturer’s portfolio situation. It should be possible to determine whether or not consumer segments are untapped by the own portfolio brands and if portfolio roles can still be filled by the PL at hand[95].

The final area of assessment – the cooperativeness of the retailer – is still outstanding at this point of the audit. This discussion will be subject of the next section.

5.3 Assessing the Retailer’s ECR Capabilities and Cooperativeness

It has been established before, that the ECR business practice is considered a key strategic management concept on which the principles of VBPM are based. ECR as a cooperative strategy between manufacturers and retailers is characterised by success factors that are also

[95] The assignment of portfolio roles for the PL is part of step 4 of the VBPM planning process.

critical for the implementation and long-term success of VBPM[96]. During the audit of the internal environment of the brand manufacturer, ECR capabilities were identified and assessed as important elements for the manufacturer to conduct a VBPM cooperation. On the other hand, commanding ECR abilities in a way similar to brand manufacturers is also important for the retailer. This is owed to the intensive nature of VBPM that will require a cross-departmental cooperation between retailer and manufacturer. Therefore, it can be assumed that retailers will more likely engage in VBPM when the cooperation is based on an existing and trustworthy ECR relationship[97]. It is this relationship that the brand manufacturer as initiator of the strategy has to evaluate prior to starting VBPM. First, this assessment will consider the ECR capabilities of the retailer on which the working relationship is based.

Assessing a retailer's ECR capabilities can be aided by applying the ECR capability checklist, which was developed for the internal audit of the manufacturer's ECR skills[98]. The same factors also account for ECR skills on the retailer's end and are therefore also applicable for the trade partner[99]. Five ECR capabilities were established as critical ECR success factors. At this stage two additional factors will be added to the retailer's ECR checklist. Unlike the manufacturer's audit, that was influenced by a resource/capability perspective "soft" success factors have to be added to the retailer audit. These factors open a broader perspective on the relationship between the collaborators and achieved successes from ECR projects. The first additional success factor is "mutual trust". Several studies and ECR experts have confirmed that trust among ECR collaborators has a large and continuously growing impact on the success of ECR cooperations (Seifert, 2006, p.281). It is therefore crucial for effective ECR cooperations to find a partner with whom a positive relationship has already been established (Schröder et al., 2000b). Soft factors like "trust" or "relationship quality" are difficult to measure. Nevertheless, they are equally important for the implementation of ECR and therefore also for VBPM. The VBPM auditor can determine trust and relationship quality by qualitative evidence from the manufacturer's ECR staff. The second additional factor for the

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[96] See chapter 3.4.2.

[97] This criterion is of course also important for the brand manufacturer who would only engage and invest in an existing and working relationship.

[98] See table 19.

[99] The strategic ECR success factors were adapted from a study by Seifert (2001) who equally extracted the factors from the perspectives of grocery consumer goods producers and grocery retailers. Additional input for the study came from selected marketing scholars and consultancy firms.

retailer audit will relate to “success of past ECR projects”. As mentioned above, VBPM will likely be based on an existing relationship with ECR collaborators. Whether or not such projects were successful has also been determined as a strategic success factor for the implementation of ECR practices (Seifert, 2001). Hence, it is relevant for the VBPM audit to assess the track record of past ECR projects with the retailer in question. Such past projects can be measured by economical results and again in reference to the relationship with the retailer. In summary, the following nine ECR factors and capabilities will be included in the retailer audit:

1. Top management involvement
2. ECR measurement
3. Category Management capabilities
4. IT capabilities
5. Organisational change
6. Trust
7. Success of past ECR projects

This audit will be succinct and lower in depth than that of the manufacturer’s’. It is not necessary to measure all items. Instead the VBPM planner should focus first on the trust element and relationship quality. These factors are important requirements for cooperation as designed in VBPM. However, the importance of substantial or “hard” ECR capabilities on the retailer’s side should not be underestimated. For example, VBPM equally needs top management support by the retailer. Moreover, Category Management and its sub practices are an essential success factor due to their marketing relevance. The assessable items of the ECR audit and the PL branding strategy of the retailer will be combined in a check-list in the next section.

5.4 Assessing the Retailer Using the VBPM Resource-Capability Check-list

The resource-capability check-list was designed as a template for the application in the VBPM audit. It first served as a check-list for the manufacturer’s internal environment. Entry points are the most crucial resources and capabilities for the implementation of VBPM. In line with S.W.O.T. analysis, each item should be rated as a strength or a weakness and the importance of it for VBPM can be noted in a three scale rating. The assessment items for the retailer audit will include the retailer's PL branding strategy expressed by the four strategic PL. Important relationship items will mainly stem from on-going ECR cooperations with the respective retailer. For that purpose, similar ECR capabilities, which were also assessed on behalf of the manufacturer, will complete the retailer's area of appraisal. Table 24 lists auditable retailer items. The list is expendable depending on the particular situation and the resulting relationship.

Assessment Items	**Importance** Hi/Med/Low	**Performance** Strength/Weakness	**Comments**
PL Portfolio			
-Brand Breadth	High		
-Positioning	High		
-Segmentation	High		
-Relationship with the store brand	High		
ECR Capabilities			
-Top management support	High		
-ECR Measurement	Med		
-CM capabilities	High		
-IT capabilities	Med		
-Organisational change	Med		
-Trust	High		
-Success of past ECR projects	High		

Table 24: Retailer resource-capability check-list[100]

At this point of the VBPM planning process the planner has gained a detailed understanding of the internal and external environmental factors that impact VBPM. The decision criteria to put the strategy into practice should now be available. Firstly, the planner should fully understand the organisation's resources and capabilities and is able to relate them to the relevant market and retailer characteristics. From the internal perspective the need or necessity to engage in VBPM should be laid out. Understanding the market variables will have helped to narrow the perspective on product categories where an involvement as planned in VBPM is reasonable. Lastly, the audit of the retailer is intended to close the gap between

[100] Source: own, adapted from Seifert (2001).

the firm’s internal and external environments. All assessed items should now lead to the before mentioned ‘strategic fit’.

The necessary assessment for VBPM is now complete with step 3 of the four-step planning process. Before the development of the actual Vertical Brand Portfolio Management strategy can commence relevant data from the previous three steps can flow into a S.W.O.T analysis to illustrate and reflect upon the strategic situation of the firm at the outset of VBPM.

6 S.W.O.T. Analysis for VBPM

The strategic analytical tool of S.W.O.T. analysis was introduced in 3.1.3 as a framework to assess the factors which are highly important to the firm’s future and that are summarised with the acronym S.W.O.T., standing for Strengths, Weaknesses, Opportunities, and Threats” (Wheelen and Hunger, 1990, p. 11). Strengths and weaknesses relate to the internal environment; opportunities and threats relate to the external environment of the firm. S.W.O.T. analysis can be used to examine how established strengths and weaknesses of the company can be deployed into market opportunities (Meffert et al., 2008, p. 237). The aim is to narrow down the decision fields for the strategist by matching market opportunities with available resources and capabilities of the firm.

Step 1 of the VBPM planning process produced a detailed assessment of the brand manufacturer’s environment. Mainly the identified strengths and weaknesses of the company’s branded assets and the organisation’s capabilities to manage these assets will impact the strategic outset of the planned VBPM collaboration. For instance, the structure of the manufacturer’s brand architecture will likely point to certain market constellations, in which VBPM can successfully be implemented. On the other hand, step 2 and step 3 of the VBPM planning process mandated a thorough assessment of the external environment that is of concern for the planned collaboration. The main purpose of this assessment was to establish product category, consumer, and retailer related insights. S.W.O.T. analysis often brings together a multitude of detailed information and data. In the case of VBPM planning, the internal data may consist of positioning statements of portfolio brands, defined portfolio roles, brand extension strategy planning, and et cetera. External data may be composed of category specifics, PL market shares, assortment depths of retailers, relationship quality with retailers, consumer trends, and et cetera). S.W.O.T. analysis does not have to include every single facet uncovered in the market situation (Hoffman et al., p. 57). Therefore, it will be up to the VBPM strategist to filter the information and identify explicit strengths, weaknesses, opportunities, and threats that are most relevant for VBPM. This task goes beyond the before mentioned 'strategic fit', as it also identifies threats in the particular context. For illustration, a typical and simplified S.W.O.T. analysis for a hypothetical brand manufacturer going through VBPM planning may result in the following:

Strengths:

- The company maintains a product brand architecture with several product lines each possessing distinct positionings
- The company has the abilities and resources to bring forward strong brands. This is also reflected by a strong brand building reputation in the market
- The company enjoys high levels of distribution with its products across most retail format types
- Experience as category captain in CM partnerships with the trade

Weaknesses:

- The brand portfolio is blown up and requires pruning
- The firm is going through a phase of change due to the reorganisation of the marketing department. Employee turnover is high
- Production capacities are not fully exploited

Opportunities:

- Retailer A is expanding his PL portfolio to a multi-tiered PL structure
- Consumers are becoming increasingly value-conscious due to the financial economic crisis

Threats:

- Special PL suppliers are aggressively competing with PL product innovation
- More suppliers are touting for retailer attention
- Retailer A is forcing suppliers to strict category management practices

The above mentioned S.W.O.T. items may flow into a strategy grid where strengths match to opportunities (SO strategies) and to threats (ST strategies). Additional strategies can be considered to overcome weaknesses by taking advantage of opportunities (WO strategies) or minimise threats that result from external factors (WT strategies) (Hoffman et al., 2005, p. 58). Figure 21 illustrates how the above stated results from S.W.O.T. analysis can be formulated into VBPM opportunities in response to external environmental factors by building on internal resources and capabilities of the firm.

External environment of the firm / **Internal environment of the firm**	**Opportunities** O_1 O_2 O_3 . . O_n	**Threats** T_1 T_2 T_3 . . T_n
Strengths S_1 S_2 S_3 . . S_n	*SO strategies that use the firm's strengths to take advantage of opportunities in the marketplace* VBPM: Use brand architecture for verticalisation into retailer A's multi-tiered PL portfolio Provide retailer and consumer with complete category incl. premium and value PL	*ST strategies that use the firm's strengths to offset threats in the marketplace* VBPM: Offer retailer A to take over category captainship
Weaknesses W_1 W_2 W_3 . . W_n	*WO strategies that offset the firm's weaknesses by taking advantage of marketplace opportunities* VBPM: Re-position weak brands from the portfolio into PLs for retailer A	*WT strategies that offset the firm's weaknesses and counter threats in the marketplace* VBPM: Fill idle production capacities with PL manufacturing Hire new category management experienced personnel

Figure 21: Formulating VBPM strategies on the basis of S.W.O.T. analysis[101]

First of all, the key resource of the manufacturer can be considered his brand architecture that follows a product brand strategy. This strength allows for most marketing freedom for all brands involved and the risks from possible spillover effects to and from the PLs can be minimised. The manufacturer is experienced in positioning his brands and will have to find room in his portfolio to fill untapped segments with the PLs. Offering a complete category

[101] Source: adapted from Hoffman et al. (2005, p. 59).

will tie-in the retailer and meet consumer demand. The weakness of brand proliferation in his own portfolio can be offset by re-positioning some of these brands into PLs. This can save the manufacturer product development costs for the PL and contribute to the necessary portfolio pruning. The threat opposed by retailer having to practice category management stringently can be countered by proposing to act as category captain. This will underline the supplier's branding and category management reputation and increase retailer dependence. At the same time the manufacturer may be able to gain more control over the category. Filling-up production capacities with PL production has the benefit of possibly running a more profitable business and partially using the newly generated funds to invest in product innovation. These investments can benefit the entire portfolio including PLs. The internal transition in the company's organisation is the last weakness that is particularly relevant in the planned collaboration with the retailer. VBPM calls for competent brand managers that ideally possess category management experience. The organisation, and in particular the marketing department, may be geared towards a category management perspective which includes hiring new personnel, that meets specific job profiles.

The above case is constructed and based on ideal circumstances. For example, possible shortages in qualified personnel may slow down the organisational change and the availability of experienced category managers at short notice. Another bottleneck could occur by quickly having to re-position portfolio brands, which normally requires longer lead-up time. Nevertheless, S.W.O.T. analysis has the ability to aid the planner in identifying rare opportunities, for which the specific resources and capabilities of the company are best suited. The merits of S.W.O.T. analysis during the course of VBPM planning spring less from an empirical perspective. Instead, the analysis is more of a conceptual nature that has the potential to unveil opportunities and threats that can be matched with resources and capabilities that are unique to the organisation.

7 Step 4: Developing Vertical Brand Portfolio Management Strategy

The provisions for the strategy design are complete, when the manufacturer has accomplished the audit of the internal and external environment. The detailed assessment of the manufacturer's resources and capabilities is the starting point of VBPM and will guide the nature and design of the strategy. Goals of VBPM have been determined prior to the start of

VBPM planning. Reaching these goals will receive significant impact by the company's brand architecture and its components as key resources for the strategy. In principal, the VBPM planner has to first of all prioritize what is best for the firm's brand portfolio. At the same time, the cooperative nature of VBPM implies that the retailer perspective has to be accounted for. While the brand portfolio's success should be paramount to the manufacturer, the retailer will foremost strive for overall category performance. Both perspectives may be catered for by viewing VBPM from a broader Category Management (CM) standpoint. Additional goals for the manufacturer, such as channel relationship goals, will also have to be accounted for in the strategy's configuration. All of this will be impacted by the integration and management of a PL – the strategy's main focal point. The final and fourth step of the VBPM planning process will therefore provide the planner with a goal oriented procedure to integrate a retailer's PL in the company's brand portfolio management.
VBPM will primarily be influenced by firm-specific situations of the brand manufacturer and particular market contexts. Not all such situational variations can be provided. Therefore a general procedure will be proposed that will offer the VBPM planner the indispensable tasks to plan for VBPM. Most of the input for the strategic planning will be given by the results of the prior three steps of the VBPM planning process. The results of an optional S.W.O.T. analysis may also highlight opportunities for the strategy and contribute approaches for overcoming internal weaknesses and external threats.

Nonetheless, the first step of the audit that assessed the brand manufacturer's brand architecture will foremost guide the strategy development phase. The established branding status quo of the firm will serve as the foundation for the implementation of the strategy and will set criteria that the potential PL is required to meet to become part of the brand manufacturer's brand portfolio. The following discussion will include all relevant requirement criteria for the PL that stem from the manufacturer's brand architecture and additionally will contain segmentation and positioning criteria as separate requirement items. The two latter mentioned factors will be covered first. When covered segments and the brands' positioning are understood, preparing the integration of the PL into the brand portfolio can commence. This is mainly concerned with streamlining the applied brand architectures of the brand manufacturer and the retailer. The required information will derive from step 1 and step 3 of the VBPM planning stage. Whether or not brands will be extended within VBPM is subject of the next planning stage. Here, brand-product relationships will be put into context. Product-defining roles and how to use them is the next consecutive step in the strategy development phase. Particularly the product-defining role of co-branding will find its relevance in the discussion. As the final step in the content related VBPM strategy planning, portfolio roles will have to be awarded or re-shuffled based on the new portfolio composition that includes the PL. The discussion will focus on each item's characteristics for VBPM and point out requirement criteria that the PL has to meet for the particular area. The last phase of VBPM planning will contain contractual strategy elements which find their origin from vertical marketing principles. Related likely cooperation problems will be discussed in a principal-agent relationship context.

7.1 Segmentation and Positioning Criteria

While every situation is dependent on the particular circumstances of the firm, the outcome of the brand architecture audit and the answers to the audit questions (see chapter 3.3) will have touched upon all relevant and important branding areas of the firm. The focus for the PL requirement criteria first lie on segmentation and positioning issues. It is imperative for the PL to serve a market segment that no offering of the brand manufacturer is currently covering. If no such gap was identified during the brand architecture audit, it has to be decided, whether or not a new segment should be served. In chapter 1.4, part B, seven types of segmentation were identified that can be linked to brand portfolio strategy, namely: socio-demographic, psychographic, benefit, attitude, channel, occasion, and price. Segmentations do not have to come in a pure form. The earlier discussion highlighted that segments are sometimes combined for various reasons. In the VBPM discussion, combining segments from a business-to-business (channel) and business-to-consumer (e.g. benefit) perspective is the norm. VBPM is a Vertical Marketing strategy that is targeted at retailers. Including the retailer as a segment is therefore advised. For instance, Danone Waters targets different consumer benefit segments and provides channel partners with PL products to meet their segmentation demands[102]. Additionally, the retailer audit has brought forward retailer insights that can support channel segmentation as a likely segmentation strategy for VBPM. Particularly retailer type and related retailer marketing strategies can impact these decisions. For example, hard discount

[102] The Danone case was discussed in detail in chapter 1.4.3, part B. An overview of the Danone Water brand portfolio and the covered market segments is also shown in table 2.

grocery retailers are characterized by an assortment that is mainly comprised of PLs. Therefore, collaborating with hard discount retailers would result in channel segmentation to start with. Next to the retailer audit, results from the market audit can be used to further determine the segments. The market audit brought forward three broad consumer variables that can mainly be related to PL purchasing behaviour. For example, demographic factors, such as gender, age, and income can impact the consumer purchasing behaviour of PLs on a per segment basis. Therefore, the VBPM planner has to compare these outcomes with the socio-demographic factors of the company's existing covered segments. Knowledge about these demographic factors can enable the planner to conclude on likely PL purchasing patterns among its customer base. This information is also important when portfolio roles of the entire brand portfolio are subject of the discussion. Similarly, psychographic variables measured in the market audit can be used when segmentation issues are of concern. For example the determined psychographic variable "price sensitivity" will support the planner in the strategy implementation phase, if price is the company's chosen segmentation strategy. Assigning a price and quality territory to each brand is the purpose of the price segmentation strategy in a multi brand portfolio (Kapferer, 2008, p. 400). If a company's brand portfolio lacks the presence of, for example, a value brand, the integration of a value PL could close the gap and synergise with the other brands of the portfolio.

To avoid cannibalisation among the portfolio brands, differentiated positioning strategies – also for the PL - should be applied. Differentiated positioning dictates to clearly identify different benefit segments within markets and then to focus on providing what these segments wish for (Hooley et al., 2004, p. 575). Price positioning for example generally asks for a price-sensitive customer segment which most markets can cater for (ibid.). Directly related to price-sensitivity is the 'quality positioning strategy' which should ensure and deliver benefits in products for customers that are less price-sensitive. Every brand's positioning strategy was evaluated during the internal audit. Especially price, quality, and differentiation are important positioning strategies for consideration and evaluation in VBPM. The price element was illustrated above in the context of price-sensitivity. Quality is an important variable in national brand versus PL competition. The market audit has shown that PL quality has a positive effect on PL shares. Assessing the current quality of the PL and assigning a definite quality level to it within a VBPM strategy context is therefore imperative. Another assessed category variable during the market audit is "number of brands", which can be measured by the number of SKU's per category. In this context the VBPM planner may identify all competitors' positioning strategies as well which can support positioning decisions of the PL. Chan Choi and Coughlin (2006) found that a PL's optimal positioning strategy depends on the nature of the national brands' competition and its own quality. The authors argue that "when the national brands are differentiated, a high quality private label should position closer to a stronger national brand, and a low quality private label should position closer to a weaker national brand". There are several other variables that can impact the positioning decisions. For example, the market audit clarified, that price premiums are a result of brand strength and brand imagery. Possessing strong brands will naturally allow charging higher price premiums over PL brands. In VBPM, this can directly be related to the positioning of the retailer brand. Furthermore, consumer behavioural factors, such as purchase frequency, may also influence the store brand's positioning. The previous market audit established, that consumers are willing to pay higher price premiums for branded products that they purchase less frequent. On the other hand, the price gap between manufacturer brands and PLs is generally smaller in product categories that are purchased more frequently. Another important factor of consideration is the composition of the product category and the strength or weakness of the other competing national brands in the category. Copycat PLs tend to imitate the leading national brand by copying its looks and at the same time offering comparable quality at a lower price. Sayman et al. (2002) argue, that there are scenarios, where targeting the leading national brand may not be the optimal PL positioning[103]. For example, when the secondary national brand provides a much lower margin than the leader, the retailer may be better off by positioning the PL closer to the secondary brand which should divert the sales of the secondary national brand to the PL. Following this strategy in VBPM would result in an optimal outcome for both the manufacturer of the leading brand and the retailer. The share of the secondary national brand would shrink which strengthens the position of the leading national brand. The retailer would gain from higher profit margins and shares of both the leading brand and the PL.

The interaction of the several variables mentioned above illustrates the complex decision making of the VBPM planner in positioning the PL within the portfolio and market context. All in all, the positioning of the PL has to be viewed from a portfolio perspective by the

[103] At this point it has to be noted that a copycat strategy will be an unlikely PL strategy sustainable in a VBPM collaboration. It is illogical for the brand manufacturer to position the PL as an imitation of its own brand.

VBPM planner. The challenge however will lie in streamlining the interests of the manufacturer with those of the retailer. Whereas brand manufacturers position their products to maximise profits from their own portfolio brands, the retailer will aim at making the most profits from the entire product category, including profits from the PL and the manufacturer's brand[104] (Hoch and Lodish, 1998). For VBPM being a Vertical Marketing strategy, the concept's foundation lies within Category Management principles that prescribe the retailer's category perspective also to the brand manufacturer. Consequently, the positioning of the PL has to account for an optimal category performance. At the same time, the positioning of the PL still has to be embedded in the manufacturer's portfolio positioning structure. With all the information at hand and in accordance with the retailer, it is finally up to the VBPM planner to place the PL in the right segment and position it within the other portfolio brands. The information of the relevant factors and variables should be drawn from the results of the previous audits during the VBPM planning process.

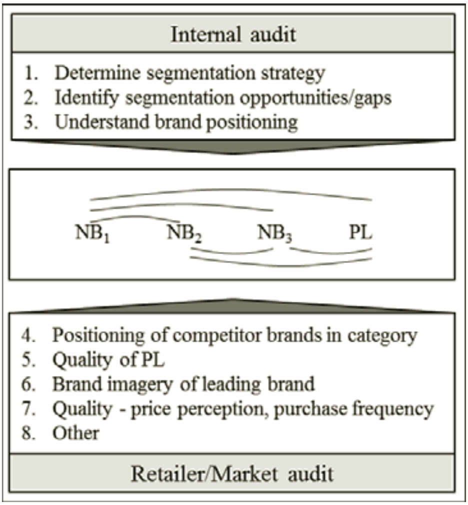

Figure 22: Segmentation and positioning decisions in VBPM[105,106]

[104] The impacts of the retailer PL brand architecture are not accounted for in this discussion. The topic will be dealt with in the following section.

[105] The portrayed product category consists of three national brands (NB) and one private label (PL). One or more national brands can belong to the brand manufacturer in question.

Figure 22 illustrates the sequential segmentation and positioning considerations that the VBPM planner should account for. Clarification on the own environment comes from steps 1-3. This will first of all identify potential segmentation gaps in the manufacturer's portfolio. The PL positioning is then a function resulting from one or several positioning criteria in relation to all category brands. This can be, for example, the PL's relative quality distance to the other category brands.

7.2 Architecture Fit – Private Label Criteria in Response to Brand Architecture

One of the purposes for the retailer audit during step 3 of the VBPM planning process was to assess the PL offering of the retail collaboration partner. This included a determination of the retailer PL branding strategy along the four strategic PL dimensions of (1) brand breadth, (2) positioning, (3), segmentation and (4) relationship with the store brand. At this stage, the planner has gained an understanding of the product depth and breadth of each label. Furthermore, positioning strategies are clear, whether the labels are positioned as generic, copycat, or premium. Moreover, segmentation strategies are determined and can range from price-based, to category-based, to benefit-based segmentations, or a combination of them. The dedicated PL for VBPM was then under more detailed assessment during the first part of VBPM strategy formulation, when variables such as quality, price, and category specific parameters were related to the segmentation and positioning requirements of the brand manufacturer (see previous section). A particular focus shall be put to the fourth strategic dimension which is closely associated with the PLs relationships with the store brand. This dimension relates to the role of the store brand and its relevance in the brand architecture of the retailer's PL portfolio.
How a retailer makes use of the store brand in its own PL branding strategy can be compared to the discussion of brand hierarchy that took place within the brand architecture discussion during the first step of the VBPM planning process (see chapter 3.2). 'Brand hierarchy' is defined as the way to put a firm's branding strategy into a hierarchical order and to assign each brand with the level of managerial responsibility (Keller, 2008, p. 447). Within brand hierarchy the corporate brand earns the highest brand level spot and generally its responsibility lies with the top management. In brand architectures where the corporate brand

[106] Source: own, adapted from Sayman et al. (2002).

plays a leading role all product brands underneath the corporate umbrella bear its name and leverage its brand equity. Consequently, following such a branding strategy allows for the least marketing freedom among its product brands. This is for instance the case with a Masterbrand Strategy. In contrast, Product Brand strategies, allow for the most marketing freedom of all brand architectures and the corporate brand plays an insignificant role. Retailers can be faced with the same discussion when considering brand architecture and brand hierarchy for their PL brands. The strategic PL dimension of "relationship with the store name" distinguishes whether the label is connected to the store brand name or not. When using the store brand name for PLs, ownership of the label is obvious to consumers and brand equity transfer to the PL and vice versa is possible. Similarly, following this strategy allows for the least marketing independence among the PL brands. The brand breadth for these labels is often large. Many PLs bear the store name or maintain subbrands of it. REWE for example relates to three of its PLs with the store name: the premium-lite "REWE" label, the premium-price "REWE Bio" food subbrand, and the premium-price "REWE Feine Welt" subbrand[107]. The three labels have their own positioning strategy and target distinctive segments. In all three cases however, the REWE corporate name is visually most prominent via the brand logos on all products.

Newly created names are often used for individual brands and category-segmented PLs. This strategy is comparable to the product brand strategy that allows for most marketing freedom with differentiated positioning and where no relationship to the store brand is visible. Hard discount stores often apply this branding strategy by giving the relatively small assortment individual brand names that have no relationship with the store brand. This is supposed to give the shopper the impression of choice despite the limited product range and strong focus on PLs (Kumar and Steenkamp, 2007, p. 62). REWE supermarkets only brand the "Wilhelm Brandenburg" category segmented label with a name that has no relationship to the store brand. However, in the same product category of packaged meat products, REWE's hard discount subsidiary "Penny" has seven different individual brands in its portfolio: "Bauer's", "Grafenwälder", "Line", "Heinz Wille", "Delicata", "Mühlenhof", and "Meisterklasse".

[107] See chapter 2.2.2 of part B for a detailed discussion of REWE's PL brand portfolio and an overview of its branding strategy.

Determining the role of the store brand together with the brand breadth dimension[108] has informed the VBPM planner of the retailer's PL brand architecture during the retailer audit. The results of this audit will also enable the planner now to compare the company's own brand architecture with that of the retailer. From a brand management point of view each architecture's role of the corporate/store brand and respectively the independence in the use of the marketing mix of the brands can now be related to each other. When both architectures follow a product brand/individual brand strategy the implementation of VBPM is the least influenced by brand architecture factors. Product brands in the manufacturer's brand line including PLs could co-exist next to each other without any visible relation. When either brand architecture is more corporate brand dominant than a typical product brand strategy the VBPM planner has to judge over the implications this has on the strategy. This concerns foremost the brand manufacturer's brand architecture and the effects by it on portfolio growth (for a detailed discussion on the effects of brand architecture and brand portfolio growth see chapter 3.2.4). Obviously, the retailer's PL architecture has considerable relevance for the strategy but it remains of secondary importance over the brand manufacturer's branding strategy. The brand manufacturer is the initiator of VBPM and the planning will first of all be directed from its own perspective before taking externalities into account. Therefore, is the corporate brand or an umbrella brand dominant in the manufacturer's portfolio or particular category the main imposed danger is to create negative spill over effects by a new portfolio entrant. When corporate brand reputation is paramount to the firm and this reputation risks to be jeopardised by the PL, the PL might not be able to join the prescribed architecture. Taking this decision could be aided by conducting consumer research seeking approval or dismissal of corporate brand endorsement to the PL. But as it was established in chapter 3.2.4, that current brand architectures do not have to be prescribed to a new portfolio entrant per se. Instead, the VBPM planner has to decide whether or not it is feasible to include a portfolio entrant underneath the brand's umbrella. Protecting brand equity and brand strength of the manufacturer's branded assets has been established as a prerogative. Similarly, the retailer's decision criteria will be centred on protecting the own brand portfolio from external harm as

[108] „Brand breadth" depends on the amount of products that belong to a brand. This strategic dimension has a strong relation to brand architecture as it also defines the type of brand that the retailer can apply to its products. Among these types are" individual brands" (one product category) and „family brands" for several related product categories.

well. Whether or not an association with the manufacturer's corporate or umbrella brand can negatively influence the retailer's store brands in question has to be decided by the retailer individually. While these are important factors for the implementation of the strategy, at this stage of the planning, the VBPM planner should first contrast the retailer's PL brand architecture with its own brand architecture. Figure 23 illustrates this mirroring of brand architectures. The goal should be to reach an optimal integration of the new brand into the supplier's brand portfolio. Whether or not this entails an inclusion of the brand underneath the manufacturer's brands will have to be decided upon mutual consent between the collaborators. The decision should be guided by reaching greatest synergies by the vertical portfolio without running the risks of negative spill overs.

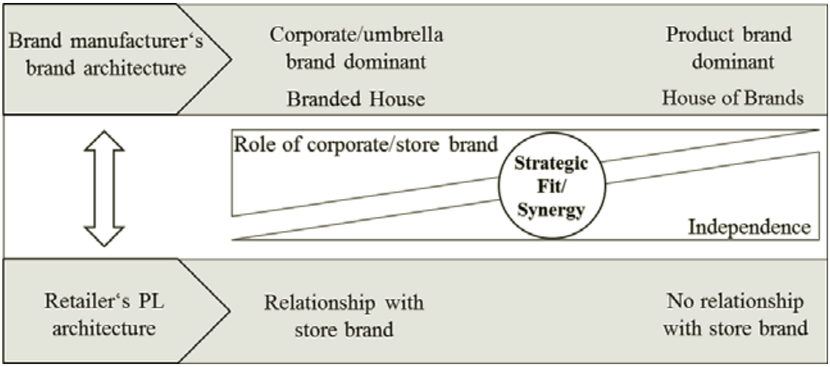

Figure 23: Contrasting brand architectures[109]

Alternatively, the outcome of the strategic fit between brand architectures may be in moving away from corporate brand/store brand dominated architectures. The discussion of brand architectures in chapter 3.2.2 resulted in six types of brand architecture that can be applied in VBPM strategy. Each architecture type can be related to the role that the corporate or umbrella brand plays for the amount of products underneath. The VBPM planner may prescribe a different branding strategy to the PL towards weaker forms of endorsement or no endorsement at all. Obviously, the product brand strategy would allow for greater marketing freedom of the PL and the integration would interfere the least with the architecture. In this case, PL requirement criteria can be reduced to segmentation and positioning issues. When

[109] Source: own, adapted from Esch et al. (2004, p. 760).

growing vertically, Pierce and Mouskanas (2002) suggest to apply individual product brands that can be positioned more precisely particularly in highly segmented markets. This is in line with Laforet and Saunders' (2007) view on the rise in market fragmentations towards a trend of more individual product brands in brand portfolios nowadays.

In any of the above mentioned cases, the brand manufacturer's brand architecture remains the strategy's point of direction and the PL has to align with it. A strategic fit of brand architectures will either be a natural effect of the two existing architectures or has to precipitated by modifying branding strategy.

7.3 Brand-Product Relationships in VBPM

Chapter 3.2.6 dealt with taking an inventory of the brand manufacturer's brands by applying Keller's brand-product matrix (Keller, 2008, p. 434). The brand-product matrix provides the planner with a graphical representation of all product brands put to market in a category. The model also aids the planner in determining the relationships between the brands and products of the assessed product category. A row of the matrix (brand line) consists of all products and product variants sold under one brand name. The relationships of the brand with the products are the *brand-product relationships* and constitute the brand's extension strategy. Brand extension strategy is the next focus of the VBPM strategy implementation.

After completing the brand inventory and having gained an overview of the manufacturer's brands and their products in the category, the planner can consider the strategic option of brand extension for the PL. Extending a brand means using an established brand name to launch new products (Völlkner and Sattler, 2006). The products can be in the same category for a new target segment (line extension) or the brand name can be used for extensions into other product categories (category extension) (Keller, 2008, p. 491). Several authors have highlighted the importance and frequent use of brand extension strategy when launching new products (Green and Krieger, 1987, Aaker and Keller, 1990, Kim and Lavack, 1996). Brand extension strategy is also a possible branding tactic for the application in VBPM. It is a cost efficient way of introducing new products and increases the probability of gaining distribution (Keller, 2008, pp. 495). Both advantages are particularly relevant for VBPM. Firstly, PLs principally receive less marketing support due to their smaller margins and therefore have to be marketed efficiently. Furthermore, gaining or keeping distribution has been one of the key arguments in favour of the collaboration.

For the VBPM planner, the effects of brand extensions on brand architecture have to be examined first. Keller (2008, p. 491) offers some definitional explanations in this context: when a new brand is combined with an existing brand, the brand extension can be a *subbrand*; the existing brand that gives birth to the brand extension is called the *parent brand*; when the parent brand is already associated with more products through brand extensions, then it can also be considered a *family or umbrella brand*. The six introduced brand architecture types in chapter 3.2.2 can all be related to their abilities and advantages towards brand extensions. For example, line brands are characterised by reinforced brand equity and reduced launch costs via extensions (see table 3.2.2.2). Consequently, the brand manufacturer's current brand architecture will impact the suitability and benefits of brand extensions for VBPM. On the other hand, the applied brand architecture also impacts spill-over effects, whether they are of positive or negative nature. Brand extensions can hurt or support the image of the parent brand. When a product brand architecture is at hand, a negative spillover only affects one brand, whereas in source brand and umbrella brand strategies, the master or corporate brand is much more vulnerable due to its large exposure. Evaluating brand extensions in regards to brand architecture should therefore foremost be an assessment of the extension's likelihood to hurt or support the parent brand's image. This assessment is related to the internal environment of the brand manufacturer and constitutes the first step in the evaluation of a possible brand extension in VBPM.

If the VBPM can approve a brand extension for strategy implementation the tactical management of the extension has to be planned. These decision criteria are manifold and specific to the particular situation of the firm. However, for illustration, some important factors related to the market audit that took place in step 2 of the VBPM planning process shall be discussed as they are key for the evaluation and planning of successful brand extensions.

Firstly, if the PL is supposed to have a direct association with the parent brand as a result of a brand extension, the requirement criteria for the PL have to be geared towards factors that would indicate the acceptance of a brand extension by the target market. The extant literature has mainly highlighted the similarity or "fit" between the parent brand and the extended brand in this context (Martinez and Pina, 2003). Beside the fit, a nearly infinite number of other variables that have an influence on the acceptance of extensions have been studied (ibid.). Numerous studies have emphasized the perceived quality of the brand as another key factor for consideration (Aaker and Keller, 1990, Sunde and Brodie, 1993, Bottomley and Doyle, 1996). The (perceived) quality measure was also a key market variable during the market audit for both consumers (perceived quality differential between manufacturer brand and PL) and in a category context (PL quality and quality variability). Within VBPM, brand extension strategy should be first of all viewed from a product quality perspective. This can be related to the quality differential between the parent brand and the PL extension and perceived quality dimensions by the target market. Quality levels between the two products have to be at an acceptable level for consumers. Whether or not a similarity (fit) between the parent brand, i.e. the manufacturer brand, and the PL is sensible has to be judged by the VBPM planner in the particular case. A prominent example of a strong fit between the parent brand and a line extension in the form of a PL-like product comes from the Kraft Foods Vegemite brand franchise. Vegemite bread spread is one of Australia's most iconic brands ranking fourth among the 100 most popular brands in Australia (Addington, 2012). The Vegemite brand line consists of five products, all in different sizes (see table 25). Four of the products are offered in traditional jars ranging from 150 grams to 600 grams per container. The fifth Vegemite product is a line extension targeted at travellers and comes in a handy tube. The 280g jar is an odd size that sticks out of the ordinary size progression. The package indicates "only at Woolworth". According to Kumar and Steenkamp (2007, pp. 158) such "Custom SKUs" are an effective manufacturer strategy to cooperate with retailers according to their particular needs and strategies. Due to the fact that the "only at Woolworths"-Vegemite is exclusively available at this retailer, one can argue that the product has very similar characteristics to a PL. Vegemite is a national brand and the products are available throughout the entire Australian grocery retail landscape (national brand criterion *ubiquity*). However, the 280 gram jar is uniquely offered by Woolworths. This is made visible in large letters on the product's packaging leaving no doubt about the product's exclusivity for Woolworths. The retailer does not own the product (PL criterion of *brand ownership*) but it is made very clear that no other retailer has this product on offer. Lastly, the fit between the parent brand and the line extension is very strong. All brand elements are identical including the famous packaging. The product quality is also the same. Only the size of the container deviates from any other available Vegemite. This small difference still makes the "only at Woolworths"-Vegemite a line extension. Variations in size are one of the most common forms chosen for line extensions (Keller, 2008, p. 491).

Product size	600g	400g	280g	150g	Travel Pack Tube 145g
Price in AUD	$8.59	$6.83	$5.36	$3.49	$4.07
Price per 100g	$1.43/100g	$1.71/100g	$1.91/100g	$2.33/100g	$2.81/100g
Package					

Table 25: Vegemite brand line[110]

As the above case shows, on the executional level, the VBPM planner has to decide which brand elements and values can be forwarded to the line extension. The brand-product relationship in the Vegemite-Woolworths case is very close. Due to the appearance of the "Woolworths" store brand name, the new product also qualifies for the 'co-brand' product defining role (see next chapter). The co-brand is a good example for a VBPM-near collaboration between two reputable firms. It also illustrates the necessary "strategic fit" between the cooperation partners and the encountered brand architectures. Kraft's Vegemite is an endorser brand architecture with two brand levels. The top-level Kraft brand endorses the Vegemite product brand that has its own positioning. Woolworth on the other hand is a leading Australian grocery supermarket chain and known for its "Australia's fresh food people" positioning. On the packaging of the Vegemite product the retailer's store brand has a similar function to that of an endorser brand. The main role of course is to indicate the exclusive availability at Woolworths. The strategic fit is therefore a result of two brand architectures easily synergising in the form of a simple line extension that should not cause any harm to the brand names involved.

Due to the importance of price and quality in PL positioning the special form of "vertical brand extension" will be briefly introduced and its significance for VBPM discussed. In a vertical brand extension a new product is offered in the same product category at a different price point and with a higher or lower quality level than the parent brand (Keller and Aaker, 1992). Following the traditional lower quality/lower price positioning of PLs, a downward line extension may be a suitable option in VBPM. Obviously, a price-lowering downward

[110] Source: Woolworths, (2013).

extension risks the parent brand to loose existing customers and the brand image to dilute (Kapferer, 2008, p. 328). Kim and Lavack (1996) propose to use “distancing techniques” between the products in a vertical extension. According to the authors, “distancing techniques are the means through which the brand extension is positioned closer to, or farther away from the core brand by a variety of linguistic and graphical distancing techniques that can be used in advertising, sales promotion, and on packaging” (ibid.). Additionally the authors recommend to specify the features for every vertically extended product. For VBPM distancing techniques and product feature specifications can be considered in a possible vertical brand extension situation. If, for example, the vertical extension for the PL is downwards, the product should clearly have less or inferior features than the parent brand. The features can be of tangible or intangible nature which brings back the discussion of brand values in the latter case. While central values can stay with the extended product, certain peripheral values[111] from the parent brand could be left out to justify the downward stretch. Another tactic recommended for downward extensions is to use a subbrand for the extended product (Kapferer, 2008, p. 328). In conclusion, vertical extensions are risky particularly when the extension is into a lower price/quality segment. While representing an obvious strategic choice for a PL within the VBPM strategy, it has to be ensured, that the PL extension does not harm the parent brand.

Two additional market related factors that can impact the success rate of brand extensions will be brought up for debate. Nijssen (1999) proofs that line extensions are more likely to fail if competition in a product category is intense and when retailers have more power than the introducing firm. Both factors - retailer power and level of competition - already had relevance during the market audit. Within VBPM they may actually be offset when a line extension is introduced as PL, therefore increasing the success rate of the extension. This is mainly owed to the guaranteed distribution that the extension will receive at the retailer. One has to admit that the offset is only partially as the distribution is limited to the one specific retailer.

In summary, brand extension strategy is a viable option for VBPM. It should originate based on the internal audit of the brand inventory that established current brand-product

[111] Kapferer (2008, p. 274) distinguishes between ‘central’ values, i.e. values that are “non-negotiable”, and ‘peripheral’ values, which may or may not be present throughout a brand line (see chapter 3.2.8.1).

relationships. Despite the strategy's advantages, the parent brand image risks to be harmed particularly by a vertical extension. Kraft's Vegemite-Woolworths cooperation however illustrates, that the required strategic fit in VBPM can be reached by extending a brand.

7.4 PL Requirements towards Product-Defining Roles in VBPM

The audit of the manufacturer's brand portfolio required the assessment of product-defining roles. Product-defining roles reflect the external view and understanding of the brands in a portfolio from the customer's perspective (Aaker, 2004, p. 18). At this stage of strategy formulation, the planner has to determine the product-defining roles from the portfolio that the PL can be associated with. Eight product-defining roles were introduced earlier[112]. Partially, the topic overlaps with brand architecture issues. For example, corporate brand associations via endorser brands concerns both areas and has been dealt with during the architecture fit discussion. Therefore, in this section, the discussion will primarily deal with the descriptor, branded differentiator, and brand alliance roles. The role's' operational and tactical relevance for VBPM will be in the main focus of this section. The debate will commence with the product-defining role of "descriptor" and the role's suitability for use in VBPM.

Descriptors are used to specify an offering and indicate the offering's product category membership. In VBPM, the functionality of a particular product and the branding importance of the descriptor will have an influence, whether or not the PL can make use of descriptors that are specific to portfolio brands of the manufacturer. For example, "Toppits steam bags" is a brand name "Toppits" combined with a generic functional descriptor "steam bags", which mainly describes and specifies the offering. Here the descriptor has no branding function and could likely be transferred to a home brand. In contrast, certain descriptors can add uniqueness to an offering and are company specific. As highlighted before, P&G's washing detergent range applies the same descriptors for all of its portfolio brands. "Powder" and "Tablets" for example offer no branding potential. That is different for the portmanteau word "Liquitabs" which is solely used by P&G across its diversified detergent portfolio[113]. The

[112]In chapter 3.2.8.2, the following product-defining roles were established: master brand, endorser brand, subbrand, descriptor, product brand, umbrella brand, branded differentiator, brand alliance.

[113] For a detailed review of Procter & Gamble's detergent portfolio refer to chapter 3.2.7.

term is not trademarked but uniquely summarizes the product's functionalities of tablets in liquid form in one word. Overall the main requirement criteria by a PL to use a descriptor in a VBPM cooperation should be reviewed in relation to the other portfolio brands. The planner has to determine how significant the descriptor's role for the portfolio brands is and whether or not the PL's use would have the potential to dilute the descriptor's equity for the other brands. Ultimately, that decision could be guided by consumer research granting approval or disapproval. Nevertheless, if it is customary to apply specific descriptors in a product category the PL should not be excluded from its use. Overall, VBPM calls for an active management of descriptors.

The transfer of "branded differentiators" to PLs should be handled more stringently than the use of descriptors. These are brands or subbrands that describe a feature, ingredient, service, or program. Due to their branded nature they have the potential to uplift an offer and add differentiation. Turning the attention back to the P&G detergent brand portfolio, it is apparent that only the Ariel product brand line deploys the trademarked "Actilift" technology. This branded differentiator serves Ariel in several ways[114]. The other portfolio brands, e.g. Daz and Bold 2in1, do not profit from the technology. In VBPM the planner has to decide on an individual basis, whether or not potential branded differentiators can be transferred to the PL. The decision should depend on the PL's role for the portfolio, its positioning and the benefit features of it. For example, the status of any brand in the portfolio, e.g. its strategic importance to the firm, should decide foremost as to which brands should be given priority in leveraging branded differentiators. This would likely imply a prioritisation of strategic brands over e.g. cash cows and PLs.

Finally, the product-defining role of "brand alliance" or "co-branding" can be treated as a special case in the matter of VBPM. As per definition, co-branding[115] brings together two brands either from two different organisations or two brands from the same firm (Aaker, 2004, p.161). In VBPM, a co-branding strategy is a likely outcome when the collaboration is

[114] For further information refer to chapter 3.2.7.

[115] The terms "co-branding" and "brand alliance" are used synonymously (Esch et al., 2006).

faced with a retailer brand architecture that has a relationship with the store brand name[116]. To illustrate the significance of co-branding in VBPM, a hypothetical case between an existing manufacturer brand and an actual PL that has a relationship to the store brand name shall be constructed:

> "Nespresso" is a coffee capsule technology produced by the Swiss food giant "Nestlé". The brand is the world market leader in the so-called "super-premium coffee brewing" category with annual sales in 2011 of over US$ 1.5 billion (Euromonitor, 2012). "REWE Feine Welt", on the other hand, is a gourmet food label from the German supermarket REWE. The label can be considered a premium PL range in the price-based segmented REWE PL portfolio. The PL also contains benefit-based segmentation elements such as taste and indulgence[117]. Among a variety of products, the PL range also contains organic and fair traded coffees with the "REWE Feine Welt" subbrands "Incahuasi Espresso" and "Incahuasi Crema" (Rewe, 2012a). "Nespresso", that sells its technology and coffee capsules exclusively in "Nespresso" stores and via its online store, could allow "REWE Feine Welt"-coffees to sell coffee capsules that are compatible with "Nespresso" coffee machines. This would make "Nespresso" an ingredient brand (or branded technology) for "REWE's Feine Welt"-coffees and manifest a brand alliance between the two products. "Nespresso" would first of all benefit from a broadened but still limited distribution coverage without risking a dilution of its exclusive distribution strategy. For example, the shopping environment at the REWE point of sale could be tailored in a shop-in-shop system to match the special "Nespresso" atmosphere. Overall, the "Nespresso" ingredient brand would take a driver role for the retailer's coffee label but only from a "back seat". The "REWE Feine Welt" coffee would still remain the primary brand that receives an enhancement by "Nespresso". The alliance has the potential to constitute a strategic fit between two brands that are similarly positioned at a high-end level. The built in "Nespresso" technology implies a benefit and feeling of confidence for "REWE Feine Welt" consumers. At the same time the price for the new "feine Welt capsules" should be equal to Nespresso capsules of similar quality. The

[116] PL brand lines with an endorsement from the store brand are common among retailers. For a determination of retailer PL branding strategies refer to chapter 2.1, part B. Co-branding as a strategic option for VBPM was discussed in chapter 7.4.

[117] For an overview of REWE's PL portfolio see table 6, chapter 2.2.2, part B.

production and management of the co-brand should naturally stay with Nestlé due to the existing expertise in this technology by the brand manufacturer.

The hypothetical case above demonstrates, that a PL can profit from a name brand within a VBPM cooperation by applying brand portfolio strategy – in this case by the product-defining role of co-branding. A premium PL receives an ingredient technology from the leading manufacturer brand in this category. The manufacturer in turn may gain by broadening its availability through "teaming-up" with a similarly positioned PL. The fit between two premium brands – despite the PL status of "REWE Feine Welt" – is justifiable.

Using national brands as ingredients for PLs has also been recommended by Vaidyanathan and Aggarwal (2000). In an experiment, the researchers show that a PL containing a name brand ingredient was evaluated more positively and the evaluation of the manufacturer brand was not weakened by the association. In the event of applying co-branding in VBPM, the effects of a PL's planned association with the manufacturer brand image may have to be researched prior to implementation.

In conclusion, the product-defining roles of descriptor, branded differentiator, and brand alliance are particularly relevant for VBPM. Transferring descriptors and branded differentiators to a PL has to be evaluated on a per case basis. Brand alliances can be an effective way to bring together the two collaborators.

7.5 Leveraging Brand Portfolio Roles in VBPM

Portfolio roles represent the company's point of view on its brands (Aaker, 2004, p. 23). Brand portfolio roles are of strategic nature and strategic relevance to the firm. Within VBPM, the PL will eventually participate in the company's brand role play and will likely influence the portfolio's balance. Portfolio role options and requirements for the PL will be discussed in this section.

The following eight portfolio roles have been subject of the brand portfolio audit in step 1 of the planning process[118]:

1. strategic brand
2. branded energiser
3. silver bullet brand

[118] For a detailed discussion on the roles refer to chapter 3.2.8.4.

4. cash cow brand
5. flanker brand
6. low-end entry level brand
7. high-end prestige brand
8. increase retailer shelf presence and retailer dependence

During the brand portfolio audit, the VBPM planner has already determined which of the roles have been adopted in the portfolio on a per brand basis. The occupied roles will naturally impact the type of role that the PL is going to play in the company's brand portfolio. First of all, roles should not be duplicated. Furthermore, a new role for the PL should satisfy overall portfolio goals and may eventually lead towards increased market coverage. This outcome is a requirement that was established previously in the context of market segmentation. In this chapter, the discussion will focus on possible and likely role play outcomes for the PL.

The main requirement for the PL is to deliver a new or necessary portfolio role to the brand manufacturer's portfolio. It is unlikely that the PL will take on the roles of strategic brand, branded energiser, silver bullet brand, cash cow brand, or high-end prestige brand. While every organisation's situation is different, it can be assumed that these roles are foremost typical for the brands in the manufacturer's portfolio. For example, the nature of power brands (one form of strategic brands) is reflected by the brand's high sales and profit contribution to the company[119]. This role is rather unlikely for a PL within VBPM. The focus of this discussion will therefore be on the remaining portfolio roles, i.e. 'flanker brand', 'low-end entry level brand' and 'increase retailer shelf presence and retailer dependence'.

In an often cited article, Hoch (1996) discusses strategic options for national brand manufacturers to respond to PLs[120]. Among others, the author discusses the possible option of introducing value flankers in response to private labels. Such a value flanker has the purpose to compete with a PL in a value segment in order to prevent the main brand from doing. Value flankers have to come at a discount compared to the main brand. They compete head-on with retailer brands which has the potential to hurt the bilateral relationship with the trade

[119] For a detailed discussion on all portfolio roles refer to Chapter 3.2.8.4.

[120] Google Scholar indicates 314 citations of Hoch's article "How should national brands think about private labels?". Source: Google Scholar (2012).

partner (Verhoef et al., 2002). When introduced to the trade, the new brand would generally induce listing fees by retailers. All of these circumstances make the value flanker strategy cost intensive and risky for the brand manufacturer. From a VBPM point of view however, considering a PL to take on a value flanker role in the manufacturer's brand portfolio can be a feasible option. In the following it will be argued, that this strategy can be beneficial for the manufacturer and the retailer at the same time. Furthermore, it will be shown, that the PL can take on other portfolio roles, namely that of low-end entry level brand, increased shelf presence, and retailer dependence. The discussion will first combine the value flanker option with the low-end entry level brand role.

The first step in preparing for these roles is to determine a value segment for both options. As shown before, this can be considered a likely outcome as value segments are a common PL-buyer destination. Obviously, that segment has to be vacant in the manufacturer's portfolio. Secondly, the impact of brand architecture has to be assessed. If the PL is facing an architecture that allows an association to the manufacturer brand, the PL can take on the role of low-end entry level brand. Low-end entry level brands are mainly line extensions at a low price and quality point with the aim to attract first-time customers to a brand franchise (Keller et al., 2012, p. 579). Under the same circumstances as above but without an association to the manufacturer brand the PL also qualifies for the portfolio role of flanker brand[121]. Like a "regular" flanker brand, the PL should come with a price discount compared to the portfolio's leading manufacturer brand. If managed for that purpose, the PL could defend the main brand versus other value brands in the category and prevent competitors from entering the market with a value brand. Dunne and Narasimhan (1999) illustrate in the following scenario how providing a PL as flanker brand can provide economic protection to the brand manufacturer:

> *"Company A and company B are competing in the frozen vegetable category, and both offer popular brands. A is the leader, and it wants to raise the price on its brand. If there's no private-label alternative, brand B is likely to gain the brand A consumers who resist the price increase. But if A produces a private label, especially one formulated to resemble its branded product, then some of A's consumers will migrate*

[121] The role of flanker brand can only be considered as partially taken. PL brands are exclusively distributed by one retailer and therefore lack ubiquitous distribution which is a criterion for national brands. On the other hand it can be stated that a newly established flanker brand is a new product introduction which would have to find distribution from scratch. Hence, ubiquity for new products is more a goal than a given condition.

to the private label instead of to B. Private labels can therefore reduce the financial risk of a price increase and make the difference between a successful increase and one that actually lowers profits." (Dunne & Narasimhan, 1999)

Table 26 further illustrates how this circumstantial value flanker strategy can increase overall profits for the brand manufacturer. If the company increased prices on its main brand without the introduction of the PL it could see profits decrease because of consumers moving away to brand B. But if it introduced a premium PL instead, many of those consumers would switch to the PL as opposed to brand B, and company A would yield a higher total profit. In addition, if it were to admit an outside manufacturer to enter the market with the premium PL, it would lose protection and face a new rival in the category. This example is based on a category that does not yet have a PL on offer which represents the case's limitation. Nevertheless, the market audit in VBPM may reveal similar situations that justify such measures. On the other hand, an existing PL could be transferred in this role for the brand manufacturer. Certainly, the case is insightful and revealing for brand manufacturers who may fear to produce PLs in the first place. For VBPM, it serves to support the strategy's brand portfolio perspective. Moreover, it highlights the strategy's potential ability to react to broader market related threats, such as competitive behaviour. Steiner (2004) reports a case in the US snack food industry where a leading manufacturer has been able to enlist PLs "*as a kind of "fighting brand" to attack rival manufacturers' brands*" via its category captaincy. The incident is discussed in an antitrust context but shows more support for the value flanker strategy as proposed above.

	Retail Price $ per unit	Sales Millions of units	Margins $ per unit	Profits $ thousands	
Status Quo					
Brand A	1.49	9	0.12	1,080	
Brand B	1.49	5	0,12	600	
Price Increase without PL					
Brand A	1.59	7	0.15	1,050	
Brand B	1.49	7	0.12	840	
Price increase with prem. PL					
Brand A	1.59	6.5	0.15	975	1.125
Private label	1.39	2.5	0.06	150	
Brand B	1.49	5	0.15	750	

Table 26: Controlling prices with private labels[122]

Both strategic options – that of PL as low end entry level brand and PL as flanker brand – have additional advantages for the brand manufacturer. First, as with all PLs in the VBPM context, the supply of PLs satisfies the roles of increased shelf presence and retailer dependence. Second, due to the PL-status, the new portfolio brand would not incur retailer slotting fees. This is a clear advantage for the flanker brand role as opposed to introducing a "regular" flanker brand, which would likely incur higher introduction costs. Third, the collaboration with either option would be expected to enhance the relationship with the retailer rather than hurting it. As mentioned before, the PL has to fill a potential segmentation gap in the manufacturer's brand portfolio. Therefore, broader market coverage is a benefit but also serves as a requirement criterion for the PL. The advantages for the retailer lie foremost in the area of category management. If the brand manufacturer manages to assemble a brand portfolio that covers more segments successfully, the overall category performance should improve for the retailer.

[122] Source: Dunne and Narasimhan (1999).

On the whole it can be shown that VBPM consequently reaches to all levels of branding strategy including the management of brand portfolio roles. Implementing some of the above mentioned roles requires imagination in the development stage by the planners of VBPM. Integrating PLs in the brand portfolio management and thus involving them in the brand role play may not seem obvious at first sight. But PLs will always play a role in the business strategy of brand manufacturers when product categories are viewed as a whole. The above constructed PL roles are the natural progression of thought in the VBPM strategy assessment and therefore represent an imminent objective of VBPM planning. Whether or not consumers accept these roles for a PL might have to be subject of consumer research in the individual case. For example, in a study that involved a leading national brand in the FMCG sector, a PL endorsed by the famous brand tested positive with consumers and the endorsement had no significant negative effect on the brand's image (Bakker and Nenycz-Thiel, 2011).

Figure 24 shows the sequential process in formulating PL requirement criteria. In a VBPM cooperation, these criteria represent a response to the particular brand portfolio strategy of the manufacturer. By best meeting these criteria, the PL should blend into the manufacturer's portfolio strategy and ensure to reach the set goals of VBPM strategy.

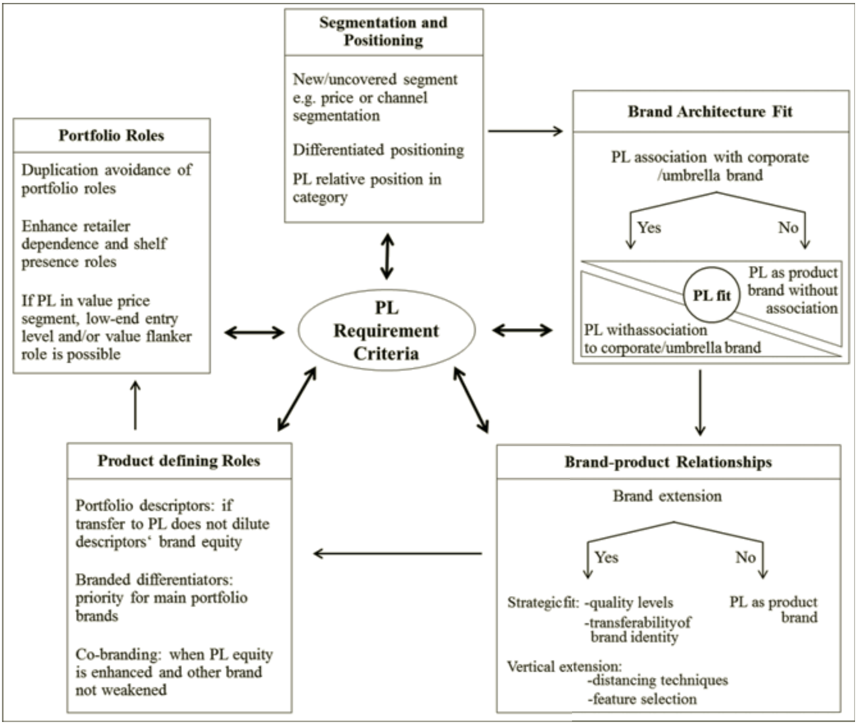

Figure 24: PL requirement criteria[123]

The next chapter will specify product category related issues for the inclusion into the planning for VBPM strategy. A particular focus will be dedicated towards the interaction of manufacturer brands and multi-tiered PL portfolios in a product category. This discussion shall invite the VBPM strategist to pay attention to overall category perspectives in VBPM that include the retailer's viewpoints.

7.6 Category Perspectives in VBPM

VBPM is directed at managing product categories as a whole and implements a category perspective into the own portfolio. Therefore, the VBPM planner is advised to include

[123] Source: own.

category related aspects into strategy development. The following chapter will clarify relevant category aspects for VBPM strategy.
The implementation of VBPM will be based on several factors. First of all, it will be assumed that the brand manufacturer will be the supplier of the PL. It can be considered as unlikely that a manufacturer will engage in VBPM when the PL is produced by a different company. The risk of information loss to a competitor would be too high. Secondly, the collaborators are expected to be experienced ECR practitioners with sufficient resources to invest in VBPM. Large firms which have access to the considerable required resources are generally more successful ECR adopters (Dobson Consulting, 1999, p. 184). It has been established before, that VBPM is closely related to Category Management. CM is a joint retailer-supplier initiative that aims at improving a retailer's overall performance in a product category (Basuroy et al., 2001, Seifert, 2006a, p. 147). CM can be executed solely by the retailer, who then manages the category on its own. Alternatively, the retailer can mandate a brand manufacturer with the management of the category who will then act as the "category captain" (Schröder, 2003). Category captains are responsible for the performance of the product category. Consequently, producing and managing a PL as provided for by VBPM strategy is very similar in intensity and to the tasks that a category captain has to fulfil in CM applications. It will therefore be possible, that the brand manufacturer can act as the category captain within the VBPM cooperation or at least has experience in category captainships. CM should provide for the interrelatedness of all products in a category and focuses on improving the entire category's performance rather than the performance of individual brands (Pepe, 2012). This can be considered an area of conflict between brand manufacturers and retailers (Kurnia and Johnston, 2001). Naturally, brand manufacturers will aim at maximising the performances of his own brands over the retailer's interests of maximised overall category performance. This traditional lack of goal congruence in the retailer-manufacturer relationship should at least be partially defused by the application of VBPM. Firstly, the PL will participate in the role play of the manufacturer's brand portfolio and such roles should contribute to the overall portfolio performance of the manufacturer. Furthermore, once introduced, the PL will have received some marketing investments which the brand manufacturer will want to see recovered. Also, as the initiator of VBPM, the brand manufacturer will have an interest vis-à-vis his partner that the cooperation is successful.

Consequently, VBPM represents a new form of portfolio management for the brand manufacturer in an unfamiliar setting. Especially the PL's inclusion into the supplier's daily marketing decision making will likely pose a challenge for him. Such settings can vary due to a broad amount of variables. For example, a particular situation in VBPM can depend and differ on several category related issues, such as the type of product category, the number of brands in the category, the nature of competition in the category, PL shares, the PL program of the retailer, and et cetera.

Therefore, for illustration, a typical grocery supermarket setting will be singled out. for discussion The example is taken from a recent study by Geyskens et al. (2010). The authors researched how the introduction of three-tiered PL programs[124] in two different product categories would affect the choice of mainstream-quality and premium-quality national brands and the choice of a retailer's current PL offering. This makes the case suitable for the discussion in category driven VBPM context. Although this example uses PL introductions as the main event, the chosen setting and resulting implications are very likely in most grocery product categories and therefore. Geyskens et al.'s (2010) choice set:

> "(…) *consists of three types of PLs - economy PLs, standard PLs, and premium PLs*[125] *- and two types of national brands (NBs) - premium-quality NBs and mainstream-quality NBs. These choice options vary along two dimensions: (1) brand type, in which we distinguish between NBs and PLs, and (2) quality tier, in which we distinguish between low-quality-tier, mid-quality-tier, and top-quality-tier products. The standard PL is "generally positioned as a mid quality/mid price alternative", at par with mainstream quality NBs. In contrast, premium PLs are classified as top-quality-tier products. Compared with mainstream-quality NBs, premium PLs are positioned as being of superior quality. They are at the top end of the market and are positioned as close substitutes to the premium-quality NBs. Finally, economy PLs are introduced to answer the hard discounter threat. They offer basic, acceptable quality at the best price and are lower in quality than*

[124] Three-tiered PL programs have become the norm for most supermarket operators (Kumar and Steenkamp, 2007, pp.41). For example, Royal Ahold, the third largest retailer worldwide, has introduced economy, standard, and premium quality PL lines in many of its markets around the globe (Planet Retail, 2013).

[125] This PL division is equivalent to the „generic-copycat-premium" positioning dimensions that were established for this thesis in chapter 2.1.2, part B.

the mainstream-quality NBs. Typically, economy PLs have no quality-equivalent NBs in the traditional supermarket assortment.“

Figure 25 depicts how the choice options are located on the two dimensions.

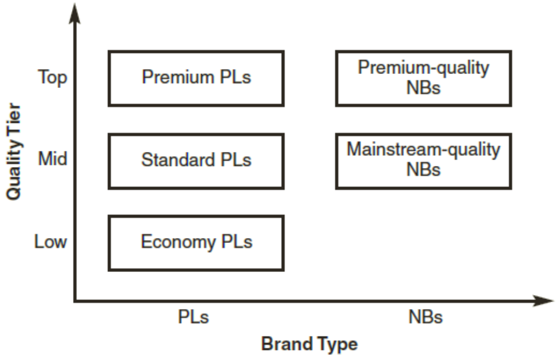

Figure 25: Positioning of choice-set along quality-tier and brand-type dimensions[126]

The authors find that both economy and premium PLs take away share from the incumbent PLs. On the other hand, economy PL introductions benefit mainstream-quality NBs because these NBs become a middle quality option in the retailer’s assortment. The effects of premium PL introductions on premium-quality NBs are twofold. Their share improves in two of four cases but decreases in two other cases. The implications of these findings are relevant for retailers and brand manufacturers alike. Retailers will learn that three-tiered PL portfolios may actually cause cannibalisation effects among the retailer’s brands. To avoid such effects Geyskens et al. (2010) recommend retailers to place their PLs in different shelf areas to make product comparisons more difficult. To further complicate product comparisons the authors also recommend retailers to consider branding PLs as individual brands instead of subbrands that have a relationship with the retailer brand name[127].

For brand manufacturers the results show that three-tiered PL portfolios may actually help their brands. The study’s authors recommend premium NB manufacturers to stress their

[126] Source: Geyskens et al. (2010).

[127] This recommendation constitutes the first limitation of the study which only researched PL portfolios that were branded as subbrands of the store brand. This and more limitations will be addressed later on also in an attempt to illustrate additional variables that may be considered.

brand’s focus on quality superiority and innovation. On the other hand, mainstream NB manufacturers should try to merchandise their products alongside premium and economy PLs to facilitate consumer product comparisons with more ease.

The results of the study and the recommendations by Geyskens et al. (2010) are revealing for the VBPM strategist. They mainly illustrate the individual effects between rivalling brands and PLs. In a VBPM cooperation, the challenge will be to make use of this knowledge and turn the intra-brand competition around for an optimal result of the entire set of brands. The above case demonstrates that the performance of a product category with manufacturer brands and PLs depends on measures that go beyond the classical competencies of brand manufacturers. For example, merchandising national brands and PLs is generally reserved to the retailer or the category captain in charge. Within VBPM, these tasks are combined with necessary positioning and segmentation decisions for the brands and the PLs. They are also all in the hands of the brand manufacturer. If executed properly, VBPM should ensure that all participating brands and PLs will be positioned apart and placed in-store in the right way. Whether or not PLs cannibalise each other is not crucial as long as the overall category performance is higher than without a vertically managed portfolio.

The limitations of the study open ground for further research and have VBPM relevance. First of all, the PL introductions were all subbrands of store brands. How the results would turn out with stand-alone brands has not been subject of academic research so far (Geyskens et al., 2010). The use of stand-alone PL brands within VBPM was introduced in this thesis as one of the key tactics to ensure differentiated positioning strategies in the vertical brand portfolio. Proposing this branding tactic for PL products may find even more support by the retailer based on these findings. Furthermore, the encountered retailer PL quality levels were unique to the stores of the study and may be different in other settings. Thus, the study’s results cannot be generalised and PL quality has to be determined when needed. Lastly, the strategic goals of the retailer following a multi-tiered PL approach have to be accounted for (Geyskens et al., 2010). For example, retailers often introduce economy PLs as direct competition to hard discount PLs. Therefore their purpose is primarily to take away share from these competitors. On the other hand, premium PLs are often understood to create higher gross margins and can therefore contribute effectively to the overall category performance. So despite cannibalisation effects by the introduction of more PL tiers, the retailer may still be following a smart strategy (ibid.).

The above discussion shows the complexity of VBPM as a cooperative strategy between brand manufacturer and retailer. The interests of both collaborators are manifold and divergent. Besides, two different kinds of brand types meet with the purpose to complement each other. What appears to be an impossible match-up can turn out to be a symbiotic relationship. This is mainly owed to the tools that the VBPM planner has at hand to design the role play. However, many additional factors have to be included in the decision making when planning for the strategy. This was shown partially in the presented case above. Merely looking at one's own brand portfolio will eventually leave out important factors that can be decisive for the strategy's success. These factors should be considered as a whole during the audit of the internal and external environments. While the objects of the internal environment may be obvious, all relevant factors of the market and retailer audit have to be taken into account when planning for VBPM. Although the manufacturer's brand portfolio performance is the basis for all decision making, the success of the retailer's product category in question will be the measure of all things in VBPM. To achieve this, the VBPM strategist has to account for the above mentioned externalities when planning for the strategy.

The next chapter will conclude the planning for VBPM by introducing 'contractual strategy'. This discussion will be guided by applying Principal-Agent Theory to the particular channel relationship between manufacturer and retailer.

7.7 Contractual Strategy in VBPM

In chapter 4 of part B, it was established that Vertical Brand Portfolio Management is an applied form of the Vertical Marketing (VM) concept. The strategy's origin and certain important principles derive from the VM concepts ECR and Category Management. ECR capabilities were also outlined as key success factors for VBPM and part of the internal audit of the brand manufacturer. Chapter 4.4.1, part B, outlined the three VM strategies as (1) selection strategy, (2) stimulation strategy, and (3) contractual strategy. This section will specify the application of contractual strategy for VBPM.

Brand manufacturers are advised to secure the returns from their efforts in VBPM by contract. This is common practice in VM cooperations where the initiator of the collaboration seeks to gain both quantitative and qualitative returns (Irrgang, 1989, pp. 63). It was introduced earlier, that an application of Agency Theory[128] will be advised. The theory's application is possible, because ECR-cooperations – and therefore VBPM partnerships as well – show attributes that are similar to that of principal-agent-relationships (Schröder, 2004, Rungtusanatham et al., 2007, Lietke, 2009, p. 50). In the following, the relationships between the firms involved in VBPM are interpreted as principal-agent-relationships. This presumption will allow to explain possible cooperation and coordination problems with Agency Theory that are likely to occur in VBPM partnerships. Based on these findings, potential solutions can be developed by the VBPM strategist to improve the initiation and execution of VBPM cooperations. These solutions are embedded in the contractual strategy of VBPM.

7.8 Aspects of Agency Theory in VBPM

Agency Theory (AT) is one of the key theories of New Institutional Economics and mainly deals with motivational problems between at least two parties in contractual agreements (Göbel, 2002, p. 60). A principal hires an agent to profit from the agent's expertise which the principal does not have or when it is more efficient for the principal to delegate the tasks. Problems in agency relationships arise when the parties have different levels of information (asymmetric information). Hidden information by the agent may lead to uncertainty by the principal who is unable to ensure that the agent is acting (hidden action) in the principal's best interest (Bergen et al., 1992). Moral hazard and conflict of interest can be the result when the agent acts to the principal's disadvantage (Kaas, 1992). The doubts of how and in what scope the agent is acting opportunistically can be reduced by the mechanisms that AT offers. The goal for the principal is to reach an agreement that maximises the returns under the given circumstances (Lietke, 2009, p. 51). Similarly, the agent seeks to minimise the efforts put into the tasks and to maximise the returns for them.

In a VBPM cooperation, the retailer (principal) delegates the management of a PL to the brand manufacturer (agent). The manufacturer has the expertise to manage brand portfolios and possesses detailed consumer knowledge. This constitutes the asymmetric information criterion that characterises agency relationships. Furthermore, both parties are dependent on each other and pursue goals, which do not always match the ones from the partner. Retailers for examples aim at the overall store success while suppliers put the focus on their own

[128] In literature, Principal-Agent theory is often referred to as „Agent-Theory". This will be the chosen term of reference throughout the following discussion.

brands. Dependency exists because manufacturers need resellers for their brands while most retailers make most of their profits by selling national manufacturer brands (Geyskens et al., 2010).

The agency-literature only argues from the principal's perspective (Eisenhardt, 1989), which constitutes the main limitation of AT. The assumption is that the principal is the dominant actor in the relationship (Bergen et al., 1992). As outlined before, VBPM is a Vertical Marketing initiative initiated by the brand manufacturer. Therefore, the contractual agreement will be driven by the initiator of the strategy which is the agent in this case. Although, the before mentioned recent power shift in channel relationships from manufacturers to retailers will likely result in powerful retailers, VBPM is designed as a strategy of equals. Due to the significant investments for both collaborators, it is assumed that only firms with sufficient means will likely engage in the strategy. VBPM is therefore generally meant for potent and powerful manufacturers. Similarly, advanced ECR expertise and mutual trust among the collaborators were introduced as requirements for the strategy. VBPM will consequently be the continuation of on-going and trusted partnerships. Hence, the VBPM contract will be the result of partners at "eye-level" that each make independent decisions and share the profits (Jeuland and Steven, 1983). Overall, the manufacturer is investing significantly into the cooperation and it will be common for him and possibly expected by the retailer to also drive the contract formulation. Besides, next to ensuring profits from the cooperation, the manufacturer will have an interest to implement measures that protect a knowledge transfer to the retailer. For example, the brand manufacturer will expose brand related knowledge and data to the retailer that could be protected by agreement (Tochtermann, 1997).
The tools, which AT offers to reach contractual agreements, are also mainly discussed in literature from the principal's perspective. It will be shown in the following section that these tools are equally applicable and useful for the agent when engaging in VBPM strategy. Mainly, the issues related to asymmetric information will be of relevance[129]. Furthermore, AT offers tools to overcome the issues, when information asymmetry changes between principal and agent. This means that at one time of the relationship the agent has more information than the principal and the other way around. For example, the manufacturer is dependent on

[129] The literature that deals with asymmetric information often speaks of "Information Economics" (Kreps (1992), Varian (1992)) or "New Information Economics" (Stiglitz, 1985).

information from the retailer such as category data or shopper scanner data. In this case, the retailer as principal has more information than the agent. AT provides mechanisms to overcome likely opportunistic behaviour on either side when information advantages oscillate (Schröder, 2003). This situation also implies that the roles in an agency relationship change to whoever has an information advantage of the partner (Bergen et al., 1992).

Overall, it can be stated that the application of AT is appropriate in selected areas for VBPM. Especially information advantages and how to overcome opportunistic behaviour on either side of the cooperation is of relevance. The characteristics of the manufacturer-retailer relationship are similar to other Vertical Marketing cooperations. As stated above, contractual agreements will likely be the result of mutual consent between principal and agent that collaborate as equal partners.

The next section will highlight the main agency problems and put them in a VBPM context. Then, the theory's tools will be introduced to overcome these issues. These tools will mainly focus on the questions related to asymmetric information.

7.9 Agency Problems

Principals typically face problems when they enter a relationship with an agent. To start with, agency problems are indeed issues that mainly principals can encounter with agents. The agent's perspective – and therefore the manufacturer's perspective in VBPM – is not the theory's main direction in this agency problem area. However, the brand manufacturer will be the driver of the cooperation and he may have to convince the retailer to participate in VBPM the first place. Therefore, knowing and anticipating likely problem areas will help the VBPM planner to pre-empt constraints and will possibly put him in a better position to negotiate the terms of the cooperation. At the same time the retailer will also have an interest to reach an optimal agreement. The next chapter will highlight agency problems, and it will be shown that not all problems caused are exclusive to the agent. Therefore the manufacturer as the agent will have to be aware of agency problems that can be caused by the retailer as principal.

7.9.1 Pre- and Post-Contractual Problems in Agency Relationships

There are two kinds of problem areas in a principal-agent relationship: pre-contractual problems arise before the start of a contractual agreement, and post-contractual problems occur after the parties have engaged in a relationship (Bergen et al., 1992).

Pre-contractual conflicts or problems arise because the agent may hold back information ("hidden information") (Arrow, 1985, p. 38). This information is not available or hard to identify for the principal and can be either "hidden characteristics" or "hidden intentions" of the agent (ibid.). This may lead to difficulties by the principal to select an agent ("adverse selection") (Richter and Furubotn, 2003, p. 175). In consequence, adverse selection potentially makes the principal select an agent that is unsuitable for the given task.

Once an agreement is reached, post-contractual problems can occur. The agent can for example exploit the principal who may have become dependent on the agent (Schröder, 2003). The principal then risks being in a "hold-up" when realised investments are irreversible[130] (Richter and Furubotn, 2003, pp. 155). Another post-contractual problem can arise when the principal is not able to monitor or judge the actions of the agent. Such "hidden actions" can result in "moral hazard" for the principal when the agent changes behaviour and does not perform to his best abilities or in the principal's best interest (Göbel, 2002, pp. 102). Table 27 lists the main agency problems and their causes and consequences for the principal.

Occurrence	Agency Problem	Cause	Consequence
Pre-contractual	Hidden Characteristics	Characteristics of the agent not observable or insufficiently known	Adverse Selection
	Hidden Intentions	Agent's actual intentions unknown	Hold-up
Post-contractual	Hidden Action	Agent's actions and efforts unknown or unobservable	Moral Hazard

Table 27: Cause and consequences of agency problems[131]

[130] Hold-up's can occur on both sides. For example, the principal can „rob" the agent once the agent is locked in the relationship and

[131] Source: Picot et al. (2005, p. 77), cited in Lietke (2009, p. 58).

7.9.2 Approaches to Solving Agency Problems

To overcome the hidden information problems before a formal agreement has been reached, the principal can screen ("screening") the potential agents or interpret "signals" from the agent (Bergen et al., 1992). Screening agents implies principals to proactively gather any available information on the quality traits of the potential agent. On the other hand, when the agent has an interest to lower information asymmetries, he will attempt to signal his characteristics and qualifications for the task in a true manner (Göbel, 2002, p. 111). It is then up to the principal to judge on these signals and to make a decision on the suitability of the agent for the given task.

Hidden actions by the agent can be countered in two ways. First, the principal can monitor the actions of the agent and reward the agent by the results of the observations. Alternatively, the principal can draft a contract that specifies the outcomes of the agent beforehand and include incentives to reach the outcomes that are compatible with the principal's goals (Bergen et al., 1992). The agent on the other hand may have an interest to make his actions transparent to the principal. This could become relevant, when the principal is unable to judge whether exogenous factors or the agent's actions are responsible for the results (Göbel, 2002, pp. 113). To avoid this, the agent could for example offer to install reporting systems or keep the principal up to date of his actions (ibid.).

7.9.3 Overcoming Agency Problems in VBPM Relationships

Asymmetric information enhances the possibilities of opportunistic behaviour. The lesser informed principal will attempt to lower risks while the better informed agent will be inclined to lower the risks for the partners if he is truly interested in the success of the partnership (Schröder, 2003). For the VBPM cooperation it is at hand to reduce the risks that derive from hidden characteristics, hidden intentions, and hidden action. The manufacturer can contribute to this mainly by using the tools of signalling, reporting, and agreeing to incentive and punishment schemes. The retailer on the other hand can screen the manufacturer, monitor the performance, and implement incentive and punishment schemes on the manufacturer (ibid.). Both perspectives – that of the brand manufacturer and the retailer – to lower agency risks will be introduced in the following section. The main focus of the discussion will be directed towards the manufacturer's perspective as the driver of the cooperation.

7.9.4 Signalling Measures by the Brand Manufacturer to Overcome Hidden Characteristics

Before the start of the cooperation, the manufacturer can show that no hidden characteristics are prevalent. Here the agency-tool of “signalling” is called for. Judging by the manufacturer’s “signals”, the retailer should be clear and convinced about the manufacturer’s abilities to perform VBPM. The result of the process should be that the retailer believes the manufacturer to have the skills that are necessary to successfully manage the PL on its behalf. During the initiation stage of VBPM, the strategist has several options for signalling. Here, the organisation’s resources and capabilities that are strategy relevant can be called upon. To start with, the strategist can highlight the firm’s experiences and expertise in practicing ECR. Analogous to the ECR capability audit, the level of competence in some main ECR key success factors can be communicated (signalled) to the retailer[132]. Alternatively, the manufacturer may be able to document ECR expertise by published materials[133]. Besides, the potential collaborators may be able to look back at recent cooperations between the two firms. Involved personnel on both sides may serve as testimonials to support the manufacturer’s reliability as a partner. As highlighted before, VBPM may for example be based on a recent ECR collaboration between the manufacturer and the retailer. Such experiences, if successful, will show additional proof of the manufacturer’s abilities to cooperate closely as it is planned in VBPM. Especially Category Management projects can serve as references. These projects have a direct marketing relevance and will involve personnel on both sides that may also interact in VBPM. Therefore, marketing employees, such as category managers on the retailer’s end and brand managers by the supplier, may be able to build on past projects. Consequently, involved marketing staff by the retailer could be instrumentalised by the supplier to lobby on its behalf. The relative importance of Category Management in the organisation is another signalling factor. Proctor & Gamble for example put an emphasis on CM and assigned category managers to all its categories (Keller et al., 2012, pp. 418). This is

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[132] Chapter 3.4.2 identified several ECR key success factors that were relevant during the internal audit of the manufacturer’s environment. Among them were factors such as staff development, Category Management capabilities, and top management support.

[133] Schröder (2003) recommends manufacturer’s, who attempt to signal to retailers their suitability to act as a category captain, to show the partner (principal) any form of published material that can support the firm’s cooperativeness. The author mentions relevant published studies on ECR best cases, speeches on ECR conferences, magazine articles, academic journal articles, or book chapters.

also meant to be one of the reasons for the close vertical relationship with the retailer Wal-Mart in the US (Steiner, 2001).

Another important source for overcoming hidden characteristics of the manufacturer lies in the firm's branded assets and their management. It has been highlighted throughout this thesis, that the manufacturer's brand portfolio is the key element and focal point of the strategy. Its structure and scope will mainly influence the direction of VBPM[134]. Similarly, the manufacturer's competencies in managing brands and brand portfolios were identified as key capabilities to successfully engage in VBPM. For the retailer, the manufacturer's brand management reputation will be a key screening element. The manufacturer can pre-empt this screening by highlighting the resources (brands and brand portfolio) and capabilities (brand portfolio management) of the firm. To start with, the VBPM strategist can build on the firm's reputation in these areas. First to mention is the strength of the brands in the manufacturer's portfolio. Strong brands will signal that the manufacturer is able to manage brands successfully. A brand's performance can be documented by the VBPM strategist in market share and panel data for instance. More variables, that can underpin the supplier's brand management capabilities, can be drawn from the assessment of the brand management capabilities during step one of the planning process. Six brand management capabilities were identified for this audit due to their impact on brand performance. These capabilities are the result of a brand manager's intangible capital and related organisational resources. The latter included the firm's methods and processes of managing its branded assets. Key resources for example are brand portfolio coordination systems, common brand building approaches, the implementation of an organisational brand building culture, and top management support. If such processes are implemented in the organisation, reporting on them to the retailer will show proof of the firm's professionalism in dealing with brands. This will also signal that the retailer's PL will receive comparable attention by the managers of the manufacturer. For example, it is commonly known that companies such as Procter & Gamble or Unilever have been pioneers in establishing organisational brand management systems (Keller et al., 2012, p. 452). These systems in turn have largely contributed to the companies' market leader positions. Likely intangible capital within the brand management team may also be used in support of the firm's brand management skills. Such capital was identified as human capital,

[134] See the next paragraph for the signalling aspects related to the manufacturer's brand architecture.

informational capital, and relational capital. When the two collaborators in VBPM have worked together before, then the relational capital, expressed in “relationship with key accounts/distribution channels” for instance, will be known among the involved staff of the retailer and automatically signal this as a strength when it was positive. Similarly, the retailer will then have experienced certain human capital skills among the manufacturer’s branding staff. Among them are networking- and verbal communication skills. Other brand management skills signals can come from training and development courses that terminate with a certificate of completion (Treis et al., 2002).

Next to the brand management related skills, the structure and composition of the manufacturer’s brand architecture offers many aspects for signalling towards the retailer. Brand value has been emphasised above as an expression of the firm’s brand management capabilities. The manufacturer’s brand architecture however will offer a more detailed and strategy specific perspective to clear up doubts by the retailer. Furthermore, it will offer a way for the negative effects of hidden intention. Both purposes will be discussed below.

The VBPM strategist can revert to the results of the brand architecture audit to offer the retailer an ex-ante view of the branding situation before the start of the cooperation. This will create transparency for the retailer in many aspects. First of all, the role that the corporate brand plays in the branding strategy of the brand manufacturer can be explained. This will clarify the marketing freedom for the brands – including the retailer’s PL – which the brand architecture will allow. As a result, the retailer will understand as to how the PL can and will be embedded within the manufacturer’s brand structure. It will also clarify possible spillovers on both ends. Hidden intentions by the brand manufacturer can be avoided with this level of transparency.

Presenting the retailer with the results of the brand inventory is another way for the planner to signal the value of the firm’s branded resources. Here the focus can lie on brand-product relationships and therefore the category brands’ extension potential. High potential for brand extensions among the manufacturer’s brands will once more signal brand strength and value to the retailer.

Moreover, specifying the product-defining roles of descriptors, branded differentiators and co-brands within the brand portfolio can signal the portfolio’s potential to spread these roles towards the PL of the retailer. Particularly co-branding was identified as a key product-defining role that is suitable for VBPM. Similarly, branded differentiators can add value to a brand and the willingness to extend such roles to PLs will signal the manufacturer's commitment to the cooperation.

Lastly, the portfolio roles in the manufacturer's brand portfolio can circumvent hidden intentions and hidden characteristics. The brand inventory should have identified all portfolio roles that the brands occupy in the manufacturer's brand portfolio. For the VBPM audit, eight portfolio roles were established. They represent the managerial perspective of the portfolio and are of strategic importance for the firm. Therefore, it would be unwise for the brand manufacturer to fully reveal the company's portfolio strategy. For instance, the roles of "increased retailer dependence and shelf presence" reflect the manufacturer's strategy towards the trade and therefore are for internal use only. The cash cow status of a brand should similarly not be revealed to third parties. Nevertheless, certain brands and their respective roles may not be suited for an involvement in VBPM. For example, "high-end prestige brands" should not be associated with a value PL offering as they target different consumer segments. Making this clear to the retailer will allow for transparency and outline the limits of VBPM. On the other hand, presenting vacant portfolio roles that also have potential for an implementation into VBPM can have several effects. For example, in chapter 7.5 the "flanker brand" role as a suitable role for a PL was proposed. Under certain circumstances, this portfolio role for the PL can be beneficial for both the manufacturer and the retailer. Firstly, hidden characteristics can be avoided when missing portfolio roles are revealed. Furthermore, presenting roles for the PL relates to the planning of VBPM and will explain decisions by the firm. This is important during the strategy formulation. However, the retailer is also able to judge on the appropriateness of the role for the manufacturer's portfolio and for the own strategy. This will mainly avoid hidden intentions as the allocation of roles is reasoned from a strategic perspective for both collaborators. Additionally, the retailer will be able to understand, that the manufacturer is not acting to his disadvantage, which will also circumvent hidden intentions.

7.9.5 Measures by the Manufacturer against Hidden Intentions and Hidden Actions

Overcoming hidden intentions by the agent can mainly be accomplished by signalling commitment to the principal (Milgrom and Roberts, 1992, p. 133). The strongest form to show commitment in a cooperation is to integrate the principal in the on-going processes (Schröder, 2003). This will be unavoidable in many aspects of VBPM. Managing the retailer's PL will imply a close cooperation in the first place. This will also be in the interest of the retailer. By integrating the retailer, he will gain overall transparency as to where resources are allocated and can intervene when decisions are not being taken in his interest. Therefore signalling commitment in such a way will be affective to avoid hidden intentions and hidden actions. On the other hand, it has to be noted that the manufacturer will lose flexibility, the more the retailer is involved in the day-to-day actions of the cooperation. This trade-off between retailer integration and loss of flexibility has to be carefully evaluated. Likewise, moral hazard-problems can be eliminated when irreversible investments are made by the agent (Göbel, 2002, p. 117). This can be concluded for VBPM in several aspects as well. Before the start of the cooperation, the planner will have audited all required aspects of the internal and external environment, which is a time consuming and costly activity. Furthermore, the manufacturer will make a significant investment when taking on the tasks to manage the PL on the retailer's behalf. Additionally, the PL will partially affect the manufacturer's portfolio structure. This will continue to signal the manufacturer's commitment. The PL's integration in the manufacturer's portfolio is also irreversible in the short term. Therefore, the agent is locked into the relationship offsetting some moral hazard-problems and vice versa.

Monitoring and control mechanisms can be used by the principal to reveal hidden actions by the principal (ibid, p. 112). Typical monitoring activities can be supported by the use of general control systems and accounting tools, that many companies work with (Picot et al., 1999, p. 93). By agreeing to such monitoring actions the agent will signal good-will to the principal which will once more counteract hidden intentions. In the VBPM cooperation, the manufacturer could for instance make panel data on the portfolio brands available to the retailer[135]. By doing so, the retailer is enabled to track and observe the performance of the PL, which is now under management of the manufacturer.

Further protection against moral hazard can be achieved by stimulating the agent with incentives or implementing punishment systems. Such agreements are aimed to affect the agent's performance in favour of the principal (Kaas, 1992, p. 893). Before the start of the cooperation, the agent could similarly agree to include performance related clauses in the

[135] Many FMCG producers track their brands by retail outlets and consumer choice via panel data service providers such as "The Nielsen Company". The company periodically tracks what shoppers purchase and is able to aggregate the data on a category and retail outlet basis (Nielsen, 2013).

contract (Göbel, 2002, p. 114). This would again signal the agent's commitment and potentially inhibit opportunistic behaviour. In VBPM the agent's commitment should be signalled efficiently by applying several of the above mentioned tools. Whether or not a penalty clause is necessary has to be determined individually. If the cooperation turns out to be unsuccessful, the lost investments by the manufacturer would arguably penalise him enough. Besides, cause and effect of the cooperation's failure may lie in factors outside of the manufacturer's responsibilities. For example, exogenous factors or even the retailer's actions may have contributed to the failure of a cooperation (Schröder, 2003). Table 28 summarises the measures and means by the manufacturer to overcome agency problems in a VBPM context.

Agency Problem	**Trust Building Means by Manufacturer**
Hidden Characteristics	ECR and CM experience and expertise
	Past ECR/CM projects with retailer
	Trusted personnel
	Brand (Portfolio) Management reputation and expertise
	Outcome of VBPM Brand Architecture audit
Hidden Intentions	Showing cooperation commitment
	Integrating the retailer into cooperation tasks
	Overall transparency
Hidden Action	Making of irreversible investments
	Agreeing to monitoring and control systems
	Allowing performance based processes

Table 28: Agency problems and trust building measures in VBPM cooperations[136]

7.9.6 The Importance of Trust in Channel Relationships

All of the above measures should lead to trust by the principal. This trust is geared towards selecting the right agent and trusting the actions of the agent during the cooperation. Trust functions as a governance mechanism between organisations (Heide, 1994). In a vertical channel-relationship situation, research has shown that trust will enhance levels of

[136] Source: own.

cooperation and trust in a supplier reduces the risks of conflict (Morgan, 1994, Anderson and Narus, 1990). Lastly, a firm that trusts its suppliers is more dedicated to the relationship and sees the relationship more long-term and intends to stay in the relationship (Anderson and Weitz, 1989). Similarly, research on trust in Category Management partnerships established trust being one of the key determinants for partnership selection, both from the supplier's and the retailer's perspectives (Schröder et al., 2000a). At the same time, Gruen and Shah (2000) established trust towards the manufacturer as one of the most important factors for retailers to implement Category Management projects.

This discussion on the importance of trust in channel relationships and cooperations like Category Management points out the relevance of this factor for VBPM. Trust by the retailer into the manufacturer will be important to start the collaboration. Only if the manufacturer is able to demonstrate and signal his competencies and track record in the relevant fields will the retailer be likely to employ the necessary trust. While the above discussion focused on the trust issues mainly seen from the retailer's perspective, trust has to be a mutual concept in VBPM cooperations. The manufacturer should only commit to VBPM in the intended way, if he has sufficient trust into the retailer. Next to the significant investments that the manufacturer will have to make, the cooperation will likely disclose important brand knowledge from the manufacturer. The manufacturer then risks losing his main competitive advantages. Trust in the retailer will be the main means to justify the risks involved in VBPM cooperations. As research shows, particularly manufacturer-retailer relationships that are characterised by strong levels of interdependence – certainly the case with VBPM – show highest levels of trust and satisfaction with the partner and score lowest in perceived conflict in the relationship (Kumar et al., 1995).

Part D Summary and Conclusion

The final chapter of this thesis will summarise the key points of this research by reviewing the central themes and key outcomes per section. The conclusive synopsis will be followed by a critical reflection on the management implications of VBPM strategy for brand manufacturers and retailers alike and will close with pointing out opportunities for further research.

1 Summary

The goal of this thesis was to conceptualise a strategy on how to manage **vertical brand portfolios.** The development of the strategy derives from the results of a sequential **planning process**. The process has the aim to test the feasibility for brand manufacturers to include private labels (PLs) in their brand portfolio strategy and prepare them to engage in a collaborative relationship with retailers. The proposed **Vertical Brand Portfolio Management** strategy is based on the principles of **vertical marketing theory** and its **Efficient Consumer Response** (ECR) applications. In particular the ECR concept of **Category Management** (CM) offers several insights for brand manufacturers to collaborate effectively with retailers in marketing related fields. Additionally, CM combines the management of entire product categories, which is a similar perspective in VBPM.

VBPM origins from the concern that PLs pose a threat to manufacturer brands and instead of fighting the retailer brands or focusing singularly on the success of the own brands, brand manufacturers can also consider the option of viewing PLs as an opportunity for the own brand's' forthcoming. This thought is based on several market related factors that were discussed in part B that describe the current situation of mainly fast moving consumer goods (fmcg) producers. First of all, most brand manufacturers rely heavily on retailers as distributors of their goods. Therefore they are dependent on retailers in several aspects. For instance, retailers take control of the price and point-of-sale marketing mix elements of manufacturer brands which leaves suppliers no choice but lose control over these elements. Furthermore, retailers have recently gained more power over brand manufacturers. Fewer and stronger retailers nowadays command larger portions of the overall market due to the on-going concentration in the retail sector. Meanwhile, retailers are continuously developing more sophisticated PL programs that give consumers attractive product options next to manufacturer brands. It are these broad ranging PL programs, which offer an opportunity for

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skilled brand manufacturers to take over tasks that have been exclusive to retailers. As pointed out in part A, retailers must sustain the overall success of the store brand, which typically involves the management of several hundred product categories. Within each of these categories, often multi-tiered PL ranges span the retailer's assortment. It is obvious, that retailers cannot invest in PL product innovation for so many categories as leading brand manufacturers do for their own brand lines. The opportunity arises, when brand manufacturers are able to convince retailers that by taking over the management of selected PL brands, the PL and the overall category performance can be improved for the retailer. For this scenario, the conception of an integrated portfolio management strategy between manufacturer brands and PLs constitutes the **research gap** identified in this thesis. Building on ECR principles, VBPM advances the cooperative strategy by a holistic approach of combining vertical marketing principles with brand portfolio management tasks. The initiation and management of the strategy will be guided by the principles of '**agency theory'**.

Based on the relevance for an integrated brand portfolio strategy for brand manufacturers, the development of a planning process was necessary. The planning process combined a corporate and brand strategic perspective together with market related environmental factors to show brand manufacturers an effective way of planning for VBPM. Prior to the planning process development, four central preparatory steps had to be accomplished to establish the central themes and theoretical foundations. The results of each step will be summarised in the following. The results of the four-step planning process will then follow suit.

Preparatory step 1 dealt with the perspectives of brand manufacturers over the factors that can support them to engage in managing vertical brand portfolios (see chapter 1 of part B).

1. '*Brand architecture'* was established as the main reference framework for the manufacturer's brand portfolio. Aaker and Joachimsthaler's (2000, p. 102) definition of brand architecture sets the strategic origin of VBPM with its internal and external perspectives: "*Brand architecture organises and structures the brand portfolio by specifying brand roles and the nature of relationships between brands and between different product-market contexts"*.
2. Two directions of brand architecture can be determined. On the one hand, *'house of brands'* architectures are comprised of individual brands that allow for easier segmentation and marketing freedom, on the other hand, '*branded house*'

architectures employ a corporate brand or umbrella brand on all products aiming to reach synergies and branding economies of scales between the company's products.

3. Maintaining multi-brand portfolios – associated with the 'house of brands' strategy has several advantages for the firm. Among them are: bigger market share opportunities, broader market coverage and segmentations, flexibility for reaching new markets and extending brands, creating entry barriers for competitors.
4. There is a distinct tie between brand portfolio strategy and market segmentation. Common forms of market segmentation were identified as price segmentation, channel segmentation, and benefit segmentation. Vertically aligned brand portfolios – called for in VBPM – can make use of these different kinds of market segmentations to cater for different consumer segments, meet market trends, and to offer retailers distinguished brand programs.
5. Seen from a portfolio point-of-view, VBPM can therefore be justified when there is a need for further market segmentation. Moreover in the portfolio context, VBPM can aid to create entry barriers for competitors. Lastly, the possibilities associated with leveraging brands vertically also falls under the justification of VBPM.

After the manufacturer's inbound discussion towards brand architecture and VBPM, **preparatory step 2** turned the focus on the retailer's environment and determined four strategic options for PLs that are suited as a PL branding framework for further application throughout this thesis (chapter 2, part B).

1. The first dimension is *Brand breadth* which is manifested by individual brands, family brands, generics, and store brands. Second comes *positioning*, consisting of generics, copycats, and premium lite or premium price PLs. The third dimension is *segmentation*, which can be price-based, category based, or benefit-based. Lastly, PLs can be put in *relation with the store brand name* or can exist without a relation to the store brand.
2. Retailers regularly mix and match their PL portfolios according to the four dimensions mentioned above. Successful retailers maintain sophisticated PL portfolios catering for different consumer needs.

3. Price remains the main positioning criteria for PLs. Retailers have responded to consumer needs and market trends by focusing more on benefit segments with their PL products. Also, premium PLs have proliferated recently.

Preparatory step 3 introduced the VM strategies of ECR and CM as beneficial ways for brand manufacturers to engage in cooperations with retailers (chapter 3, part B). VM and main aspects of ECR and CM applications are designated as borrowing theories for VBPM.

1. ECR can be divided into supply driven and demand driven strategies. Particularly the demand driven strategies subsumed under CM have an explicit marketing relevance.
2. CM deals mainly with efficient assortments, efficient promotions, and efficient new product introductions.
3. As cooperative strategies ECR and CM offer both brand manufacturers and retailers several benefits related to brand/retailer loyalty, profitability, and benefits related towards their bilateral relationship.
4. CM is a strategy that can also be applied by retailers. It includes the tasks involved in the management of a product category including determining the roles that PLs take on in the retailer's category at question. In that role-play, PL can take on numerous roles to fulfil retailer aims and goals. A main outcome of the discussion was that PLs have helped retailers to improve their bargaining power towards brand manufacturers.
5. PL management and support by retailers can determine the success of the products first hand. However, their forthcoming also depends on a variety of market related factors. Particularly the relationship in a category towards the other brands is of importance in this context. Brand manufacturers and retailers alike can take profit from adjusting their behaviour according to the characteristics of a product category.
6. Supplying PLs by brand manufacturers can be put into a CM context. The intensity of cooperation determines the kind of tasks that a brand manufacturer will fulfil on behalf of the retailer.
7. VBPM draws similarities to category captainships that include the management of entire categories on behalf of retailers. VBPM can be considered an advanced form of CM as it incorporates the inward perspective of the manufacturer represented by its own brand portfolio.

At this stage all main concepts and theories have been introduced and conceptualised.
Brand architecture and brand portfolio strategy deal with the brand manufacturer's environment and key strengths. The retailer's perspectives on product categories and PL branding strategy clarify the opposite standpoint vis-à-vis the brand manufacturer. The vertical marketing concepts of ECR and CM are introduced and supposed to serve as the connecting link between the two collaborators. Building on the principles of these cooperative strategies is imminent due to the diverging interests of the collaborators.
Due to the great significance and importance of vertical marketing theory for VBPM, **preparatory step 4** dealt with the theory's appropriateness as the leading "borrowing" theory for VBPM. For that purpose, a '**theory borrowing process'** (Murray and Evers, 1989) was applied in chapter 4 of part B to critically reflect on the appropriateness of VM as the main theory for VBPM.

1. Theory borrowing becomes necessary when a researcher attempts to take a theory or concept out of its original context or intends to change parts of a theory to form a new theory or concept. Particularly the latter is the case with the forming of VBPM.
2. Due to the interdisciplinary nature of marketing, it is common to borrow theories and concepts from other disciplines or contexts. However, to ensure compatibility, the borrowing theory's existential base has to be evaluated. This base consists of the theory's superstructure, the type of science applied, and the theory's social context, out of which it originally derived.
3. VM comprises the marketing efforts by manufacturers directed towards the trade. Irrgang's (1989) conceptualisation of VM was chosen as the model of reference and put under the theory borrowing process. The model consists of three main elements, namely 'goals', 'strategies', and 'style'. VBPM can borrow key criteria from VM. Goal elements can be referred to task allocation criteria. In VBPM it is the goal to re-allocate the task of PL management towards the brand manufacturer. The strategies of VM fully apply to VBPM. Selection strategy refers to selecting the right retailer for strategy implementation. Stimulation strategy includes the retailer motivation to engage in VBPM. Contractual strategy is imminent to avoid post- and ex-ante related collaboration issues. Lastly, the style of collaboration in VBPM may shift between a style of dominance or peace seeking conflict reduction.

4. The theory borrowing process concluded that most VM's key elements and propositions can be found in VBPM and without major changes. Both concepts involve identical players in the channel relationship. Lastly, the social context is comparable, as VBPM is designed within an environment that is characterised by similar factors as during VM's inception.

On the basis of the accomplished preparatory steps, a planning process was established in part C to initiate and formulate vertical brand portfolio strategies.

Summary of the Planning Process for Vertical Brand Portfolio Management

The established VBPM planning process is based on a broader corporate strategic scope that builds on the firm's higher-level goals and missions. Once explicit goals for VBPM have been formulated, the four-step VBPM planning process can be set in motion. The first three steps combine an environmental analysis of the brand manufacturer's internal and external environments. These environments are of vital importance for a successful testing and planning for VBPM. Based on the thematic scope in part B, mainly the resources and capabilities of the two VBPM protagonists, i.e. brand manufacturer and retailer, may proof suitable for a 'strategic fit'. The development of explicit private label criteria in response to the manufacturer's particular branding strategy is primarily subject of the fourth and final step of the planning process.

The content of the particular planning steps will be summarised in the following.

Step 1: Intra-Organisational Audit: based on a resource-capability perspective, a check-list template was developed first to enable the VBPM planner with a methodological process to assess the internal environment (chapter 3.1.4, part C).

1. The internal environment for the assessment consists foremost of the firms brand architecture as the main resource for VBPM. This resource as a whole is broken down into six main types of brand architecture by Kapferer (2008).
2. The main impact of brand architecture is the amount of marketing freedom it allows for its product brands and the role that the corporate brand plays for the portfolio.

These two factors will give a first and strong indication of where VBPM strategy may be heading upon implementation.

3. A brand inventory will visualise all relevant category brands along with brand-product and product-brand relationships. The brand-product relationships also constitute the brand's brand extension strategy which will be consulted again during VBPM strategy development.
4. Broken down to the brand level, the assessment on the individual basis will further focus on the asset's identity, i.e. brand identity. This valuation will foremost clarify brand elements and brand values which are important to distinguish when considering brand extension strategies – a possible key strategy for VBPM.
5. Product-defining roles represent the consumer's view on the roles brands play for them. For VBPM, three product-defining roles are of particular relevance, namely (1) descriptors, that describe an offering in a functional way, (2) branded differentiators, that describe a feature, ingredient, service, or program, and (3) brand alliance or co-brand, that combine two brands for a superior offering. The brand equity building potential of branded differentiators and brand alliances has to be carefully evaluated for the passing-on to PLs in VBPM.
6. Portfolio roles reflect the corporate perspective of the portfolio. Their management is concerned with the role-play of the brands among each other and each role's contribution to achieve corporate goals. The VBPM audit can determine eight portfolio roles as such: strategic brand, branded energiser, silver bullet brand, flanker brand, cash cow brand, low-end entry level brand, high-end prestige brand, and the role of 'increase shelf presence and retailer dependence'. The VBPM planner is advised to determine every company brand's portfolio role so that taken roles are clear and vacant roles can be assigned. For the PL, particularly the roles of flanker brand, low-end entry level brand, and the role of 'increase shelf presence and retailer dependence' are particularly relevant.

Relevant internal capabilities for assessment during step 1 are foremost **brand management** and **vertical marketing** (VM) related task (see chapter 3.4, part C).

7. At the organisational level, the VBPM planner is advised to assess the overall provisions that are in place to support strong brand building. These are mainly represented by organisational brand (portfolio) management processes and the

significance of brands as a whole for the organisation. Brand management capabilities may also be rated by a brand's value and the firm's reputation as a brand building organisation.

8. Explicit vertical marketing skills can be considered as prerequisites for VBPM cooperations. Established ECR success factors can be consulted as VM capability indicators in the firm.

Step 2 of the VBPM planning process turns the attention of the VBPM planner towards the external environment (refer to chapter 4 of part C). The audit is concerned with an assessment of market related factors and applies similar decision criteria that suppliers should take when deciding whether or not to produce PLs.

1. The first criterion of concern is reflected by 'market power' of the manufacturer and within the channel relationship. Market power, mainly a result of market share, can positively influence the manufacturer's position towards the retailer and the relative position in the competitive field.
2. Several market aspects may support or inhibit the production of PLs. Main criteria of consideration are 'entry barriers for competitors' and 'market shares relative to competitors'.
3. Retailer power can be a result of retailer specific factors such as retailer PL programs, assortment depth, retailer pricing policy, category expertise, and retailer economies of scale. Retailers being a manufacturer's vertical competitor, such factors are part of the external environmental analysis of step 2.
4. Consumer characteristics in PL purchase situations are manifold and have to be investigated on a per case basis. 'Perceived quality differential' between manufacturer brands and PLs, 'brand imagery' and 'brand strength' are key consumer purchase decision criteria and knowledge about them can aid the VBPM planner to position and manage the category.
5. Category data is necessary to understand the particular variables of the product category which is bound for VBPM implementation or dismissal. Facts about PL quality and growth, number of brands in the category, overall advertising expenditures, category size and growth can inform the planner about a category's attractiveness and dynamics in a VBPM context.

Step 3 of the VBPM planning process entails the establishment of relevant criteria to evaluate and eventually determine a retailer for the cooperation (chapter 5, part C). The discussion focusses on retailer resources and capabilities that are strategy relevant and that may lead up to reaching congruence with the manufacturer's environment.

1. Main retail formats of concern for VBPM are either 'general merchandise' or 'food' retailers. Retailer selection criteria related towards store formats are concerned with as to how retailers make use of their marketing instruments. In particular, these marketing instruments include the kind and breadth of merchandise, pricing strategy (e.g. discount vs. general merchandise), and PL strategies.
2. As part of retailer PL strategy, the retailer's explicit PL branding strategy will be assessed in order to gain an understanding of the retailer's marketing strategy towards its PL assortment, and to understand the branding consequences that will derive from the retailer's PL portfolio for the planned VBPM strategy.
3. The established PL branding framework from chapter 2, part B along the four strategic PL dimensions of (1) brand breadth, (2) positioning, (3) segmentation, and (4) relationship with the store brand, will be applied in the audit.
4. The determination of PL branding strategy will lay the ground for a 'strategic fit' between the retailer's and the manufacturer's branding strategy. Positioning and segmentation strategies of the respected portfolios will unveil potential portfolio role gaps.
5. Analogous with the VM capability assessment of the manufacturer, the VBPM planner will assess the same ECR capability success factors along the retailer's organisation. Additional assessment criteria are 'trust' with the potential collaborator and 'success of past ECR projects'.

When all relevant data of the internal and external environmental analysis is collected, selected data entries can flow into a **conceptual S.W.O.T. analysis** which will enable the planner to reflect upon the strategic situation before the start of VBPM planning (refer to chapter 6 of part C).

Step 4 of the VBPM planning process provides the planner with a goal oriented procedure to cater for the integration of the retailer's PL into the company's brand portfolio (chapter 7, part

C). The established branding status quo of the firm from step 1 of the planning process will serve as the foundation for the implementation VBPM strategy. The main outcome of step 4 is the establishment of requirement criteria that the potential PL should fulfil to become part of the brand manufacturer's brand portfolio.

1. Positioning and segmentation criteria of all category brands have to be put into a relational context. Factors mainly include price, quality, and imagery dimensions of the brands, or consumer related factors such as price perceptions or purchase frequency.
2. The manufacturer's brand architecture acts as the strategy's point of direction and the PL is obliged to align with it. A strategic fit between brand architectures will either be a natural effect of the two existing architectures or may need to be brought about by modifying (the PLs) branding strategy.
3. Brand-product relationships – expressed in brand extension strategy – are similarly impacted by the brand manufacturer's brand architecture. If the likely option of extending a manufacturer brand to the PL is viable, then spillover effects on the extending brand have to be forecasted and relevant distancing techniques have to be applied in a vertical extension. PL as a product brand remains the branding option if brand extension strategy is not feasible.
4. The product-defining roles of 'descriptor', 'branded differentiator', and 'co-branding' are particularly relevant for VBPM strategy. All roles should be given manufacturer brand priority but also can be leveraged towards the PL if brand portfolio strategy allows. A potential co-branding alliance must be beneficial for both the manufacturer brand and the PL.
5. PL will be assigned with a portfolio role as a result of the firm's overall portfolio strategy and the segmentation and positioning requirements established earlier. Role duplication has to be avoided. The roles of 'increase shelf presence and retailer dependence', low-end entry level brand', and 'value flanker brand' are matters of special importance for VBPM.

The last aspect of VBPM strategy development concerns **contractual strategies**. VBPM can be referred to important aspects of **Principal-Agent theory (AT)**. The theory is therefore applied to govern the initiation and execution of VBPM strategy contractually. Analogous to

AT's application in ECR relationships, the retailer occupies the role of 'principal' and the brand manufacturer of 'agent'. AT is mainly applied to overcome typical relationship phenomenons such as **asymmetric information**, **hidden information**, and **hidden action** (chapter 7.9, part C).

1. **Pre-contractual** conflicts or problems arise because the agent may have or hold back information. Also, characteristics of the agent may be difficult to access by the principal (hidden characteristics).
2. **Post-contractual** problems occur after the cooperation is under way. The principal then risks to be exploited by the agent ('hold-up') or is unable to observe the actions by the agent ('moral hazard').
3. In a VBPM pre-contractual phase, the manufacturer can proactively **signal** his suitability as "agent" by several trust building actions and characteristics. Among other factors, this can be manifested by experiences from past ECR projects with the retailer, or outcomes of the own brand architecture assessment which can be shared. The retailer can also be **screening** for information and check on the overall brand management reputation of the manufacturer, for example.
4. The manufacturer can counter post-contractual problems mainly by showing cooperation commitment and by actively integrating the retailer into the cooperation. Similarly, the manufacturer can agree to allow **monitoring** and **control systems** by the retailer to overcome hidden actions.
5. Most measures by the manufacturer have the purpose to create **trust** with the retailer to engage and commit to VBPM. Nevertheless, high amounts of mutual trust among the collaborators will be necessary prerequisites to put VBPM on solid grounds.

2 Conclusion

This thesis has the goal to conceptualise a strategy for brand manufacturers to engage in managing vertical brand portfolios as a response alternative to the private label threat. The study attempts to close a scientific gap in marketing theory by combining vertical marketing principles with brand portfolio management when dealing with PLs. So far, strategic reactions for brand manufacturers towards PLs focused on a unilateral perspective. Embedding branding strategy into vertical marketing cooperations is a proposition to solve the issues bilaterally. Thereby it shall be attempted to align the goals of two adversaries and create synergies between the collaborators.

The PL threat is ever present. PL market shares continue to rise globally. Overall shares of 50% and higher have been reached in certain markets while others are catching-up steadily. At the same time, retailers are becoming even more powerful. Concentration tendencies in the retail sector continue globally and bring forth even stronger organisations. Retailers also put bigger efforts into the development of their PL portfolios. Multi-tiered PL assortments can nowadays cover the whole quality range of products and premium PLs have become serious competitors for some of the leading manufacturer brands. Adding to the dilemma of brand manufacturers is the upcoming of specialised PL manufacturers. These firms also grow in size and professionalism and it can be predicted that in the short term they will be able to offer retailers a whole range of marketing programs for their PLs.

With the above current situation in mind and given the advantages that cooperative strategies with retailers offer to brand manufacturers it should be expected that the presented VBPM strategy can find acceptance among national brand manufacturers. The strategy can be particularly relevant for suppliers that have a valuable brand building culture and who possess a long-term vision towards channel-relationships. Strong brands will remain the key threshold for brand manufacturers to defend their power status. But making a commitment on top by engaging in a close cooperation with the trade has the potential to further strengthen the position of such brand manufacturers. The **management implications** are significant. Applying VBPM will require a system change for many **national brand manufacturers** who are used to primarily focus single-mindedly on their own brands' success. The strategy will also force these firms to unveil some of their sacred skills and competencies to an external entity. A potential brand management knowledge transfer must be avoided so that brand manufacturers can reassure and preserve their competitive advantages when it comes to building and managing brands. Additionally, the trade-off in giving up flexibility will have to be balanced with the potential gains of the cooperation. **Retailers** on the other hand will risk losing power by giving up control over parts of their assortment. They will have to weigh this against the fact that they will not be able to manage the labels of hundreds of product categories as effectively as a VBPM cooperation may enable them to. Furthermore, it can be assumed that such adversarial relationships will experience opportunistic behaviour on each partner's end. Two profit oriented entities will naturally seek the best outcome for themselves first. This "fact of life" may only be mitigated by relying on the necessary trust that should have led up- and that may remain throughout the cooperation. Consequently, each party will have to evaluate the collaboration by their own terms. Next to the obvious return-on-investment key figures, the collaborators are advised to factor in relational motives in their assessments. With VBPM they will be in for the "long run".

Finally, the **practical relevance** and **future research opportunities** shall be pointed out.
The integration of case studies and the detailed description of the planning steps, assigns this research a distinct business applicability. Regarding the 4-step VBPM planning process, at this stage it can be stated that the implementation of the process will pose a demanding challenge for the applying strategist. The proposed assessment will be broad in scope (reaching from intra-organisational aspects to external factors), detail oriented (meticulous investigation of countless aspects), and multi-dimensional (alignment of company-, retailer-, and market characteristics). The process is therefore understood as a proposal to solve these complex tasks and it will have to stand the test once implemented in practice.
The envisioned amalgamation of brand management principles with vertical marketing theory in VBPM strategy could be interpreted as an advancement of category management practices. Furthermore, the developed comprehensive brand architecture audit methodology may be suited for other brand portfolio related assessment tasks. Both aspects may now be taken up in the academic discussion. Additionally, the study leaves room for further research. The direction of thought for VBPM has come from the perspectives of fmcg producers and supermarket retailers. It would be desirable to extend the scope towards other sectors and industries. Lastly, it would be desirable if this research was taken as a starting point for further experimental and confirmatory analysis.

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