

Vertical Brand Portfolio Management: The Planning Process



Cosmin TĂNASE

ABSTRACT

The goals that a brand manufacturer sets for the outcome of Vertical Brand Portfolio Management (VBPM) acts as the leading guidelines for the implementation of the strategy. They 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 etc.) 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.

KEYWORDS: Brands, private labels, planning process, strategic analysis, decisions, marketing

objectives, brand architecture

JEL Classification: L20, L81; M31

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 private label (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. 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

The more specific 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.

Four-Step Planning Process for Vertical Brand Portfolio Management

The planning process will start with an in-depth analysis covering the following areas: x the manufacturer's brand architecture and brand management capabilities x the brand manufacturer's vertical marketing capabilities x market, category, and product characteristics, and x 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. The planning profits from the benefits of sequential planning. 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.

Overall, the strategic analysis and the consequent decisions need to take an organisation's higher-level mission, objectives, and policies into account. 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. 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.

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. This step is mainly necessary to enable the integration of (private label)-brands into the portfolio in an informed 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 suited 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. 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. Hence these abilities and capabilities have to be assessed and evaluated.

Step 2: Understanding Market and Product Category Characteristics

The brands of the supplier's portfolio belong to a product category and a market. 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.

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 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.

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.

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. The organisation of the brand portfolio reflects the type of market segmentation chosen by the company and 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.

Conclusions

In summary, the goal of the planning process is to enable a well informed and best possible integration of private labels 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.

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