

## Brand management as a culture clash

-brand relations with retailers under pressure-

It's evening near the close of the 20th century. The members of the board at a brand-name group have invited the owner of a retail chain and his wife out to an exquisite dinner at an excellent restaurant. After all, he is a 'major customer'. The dress code is coat and tie. The only one not obeying the code is the outlet owner. He turns up in a leather jacket and open-collar shirt, cracks jokes and loves the irritation his lack of decorum produces in other guests. There is no risk for him and his booming business. It's the others who, out of fear for their sales revenues, think they have to quietly let him get away with his affront.

Fifty years before, this story would have been completely unthinkable. In the post WW II years, the factory owners set the tone and laid down the law in the consumer goods market. Their brands had secured their reputation over many decades and established a customer base that believed in their brands. Persil, Coca-Cola, Nivea, Alcina, Dr. Oetker, Maggi, Schauma, Odol, Lindt & Sprüngli – to name but a few. Their creators were inventors. They broke rules and made incredible achievements. Their products solved problems that had previously been regarded as insoluble (such as doing the laundry without any mechanical help) and conjured up categories which had not previously existed (such as dry powdered soup). The products set new standards for quality and reliability.

The 'name-brand articles' outshone the nameless and mostly only functionally packaged merchants' goods, particularly in their elaborate, graphically artistic packaging. The trademarks had many medals to their name, garnered at world expositions, and could boast of having gained recognition in the highest circles of society. There was an air of internationality about them, sold by merchants as something special. This was reflected in the difference in price. And, of course, the consumer price was determined by the factory.

The traders and merchants, at that time truly sole traders, were flattered if the captains of industry honoured their store premises with a visit. They strove to make their business and clientele appear to be particularly suitable for 'this article'. For they knew the impression they made was pivotal in whether they would be chosen. In order to wrap up the deal, new merchants had to prove their credit-worthiness: "In opening new accounts, satisfactory references are required, or value of invoice must be pre-covered" (from a seven-language price list at Wolff & Son, 1903).

There were also strict rules related to dealing with these products. Not only did they have to keep them in stock through well-organised ordering procedures, but they had to be kept fresh as well. "This contract business is required to sell factory-fresh

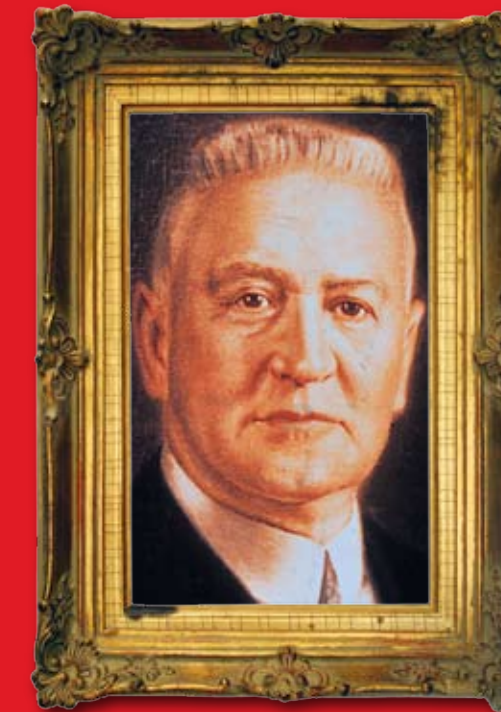
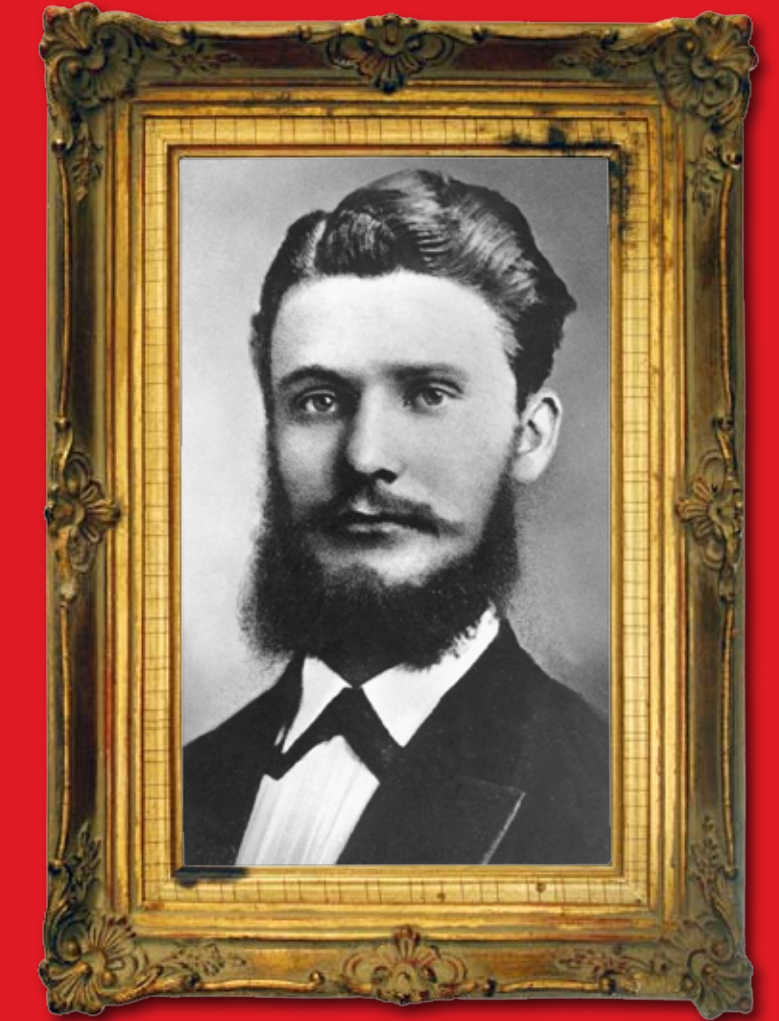
Ernte 23 brand cigarettes" announces a sign at the door of a tobacconist. Retail trade was licensed, authorised and inspected by the name brand supplier. This generated business with purchasers of name-brand products, which was beneficial to all parties involved. Complete design authority and brand management obviously lay entirely and apparently through a law of nature in the hands of the owners. Domineering though it was, dealing with the 'worthy' trade partners nevertheless remained cultivated and was designed to 'achieve a good profit' from the ideas and productive efforts of the manufacturers.

In this way, descendants of the bourgeoisie developed into the nobility of the consumer world. Not noble birth but inventiveness and entrepreneurial spirit allowed them to become part of the most privileged circles in society. The trademarks of the Henkels, Reemtsmas, Schwarzkopfs and Nestlés took their place alongside the aristocracy's family coats-of-arms. Festooned with these emblems, the representatives swarmed out, set up field sales outlets in remote areas and engaged traders as their 'proconsuls'. The extension of their rule was not dictated by hereditary estates and not laid down by decree of any government. It was defined by powers of reason, to use the words of Hans Domizlaff in 1936: "a monopoly of the consumer's psyche".

This is why territorial and other material consequences of two world wars did not lead to the downfall of brand-name products and those producing them. Factories that were destroyed were quickly rebuilt. And it was not long before advertisements declared that the product was once again available at the usual level of quality. It was easy to enter into old business relations again. Merchants were pleased to receive their supplies. Customers were happy. Memory and trust had outlasted death and expulsion in the soul of the masses. However, the happy state of a market culture created and directed by factory owners did not continue.

An energetic young native of Switzerland had challenged the 'bosses of the trust' of the name-brand industry, fought for a 'reduction' in their profits, denounced the senseless expansion of brands for the same products and demanded 'informative and enlightening advertising' - Gottlieb Duttweiler. His Migros started up with stores mounted on Model T trucks that covered people's daily needs at low prices. The Unilevers, Nestlés and Geigys of the world turned a cold shoulder on the advocate of the man on the street. He obtained his goods from small Swiss suppliers with whom he made long-term, mostly verbal agreements. Industrialists and politicians tried to ignore him, then to stop him, but were unsuccessful. The people had already made Gottlieb Duttweiler their hero.

The 'movement' only gained its most important political victory after long, bitter skirmishes: vertical price controls were abolished in Switzerland in 1967. This clears



the way for Migros. A cooperative consisting of producers, sales staff, consumer consultants and customers who clearly oppose the established brand name industry. The sales prices are now determined by retailers. The strongest lever against the 'industrial superpower' was found. The abolishment of price controls in Germany six years later allows its second hand to take action. The legislature seals the overthrow regulation in the same year with the principle of non-discrimination: widely known brands must not exclude shop owners from their supplies; especially on the grounds of their own sales price structuring. The people's representatives choose the side of the consumers—and of the retail stores. As does the EU legislation. EU law vigorously promotes low prices and attempts to banish all disciplinary action on the part of manufacturers. It is no longer the producers of brand-name goods but instead the lowest-priced merchant who is considered the 'trustee of the consumer'.

It is not long also before retailers begin to use their new scope of freedom strategically. Industry representatives sense a new atmosphere when visiting retailers. They are no longer able to manage skilfully the end of the value chain, the interface to the customer's wallet. The "MSRP" (manufacturer's suggested retail price) is introduced as a rough guideline. Manufacturers are dependent on retailers and dealerships like never before, and they are conspicuously being called 'partners' increasingly. Meetings for setting supply prices are held with both sides more often acting as equals.

Yet these dealings, which are still very friendly and courteous, turn out to be only a transition. For now, retailers have discovered the instrument of high purchasing volumes. They band together or establish branch outlets in order to be able to negotiate with industry in ever-larger quantities. They obtain their first high volume discounts and finally most name brands succumb to the fascination of large quantities. Their accountants jump to their aid with 'Economy of Scale'. When, on account of the increasing emphasis on sales, it finally comes down to securing survival level quantities in a single sales meeting, all shame vanishes. Credits for up to 10 months, discounts and commissions are allowed that the law does not allow. However, because nobody complains about the misuse of buying power by the large retailers and no witnesses can be found among suppliers when complaints are made to the Monopolies Commission, a special code of silence comes into being. (Two years ago, a hearing before the Monopolies Commission in Austria had to be abandoned due to a lack of witnesses.)

The changed, now stabilising relationship between brands and retailers did not make itself felt only in ever-bigger financial concessions from the manufacturers. Almost worse was the culture shock in how they dealt with each other. As though they wanted revenge for decades of tameness, retailers now behaved in a pointedly boorish manner. When the manufacturer's representative came by, he was made to wait in a demonstrative manner. Buyers no longer took their feet off the table, they

scarcely bothered to look up from their work and practised psychological warfare. The change of style took the elegant representatives of the brands completely by surprise. When representatives came into a supermarket they were forced to cut open the cartons of their own products themselves, to fill the shelves and even wipe them clean. Soon the intended effect occurred: The gentlemen stopped coming in suits but instead dressed for humble work, in pullover and gym shoes. The list of humiliating measures grew longer and longer. It included the purchasing representative who acts so dim-wittedly that nobody can talk reason with him, or the PA-system microphone in the waiting room of regional purchasing offices where the mic is positioned so low that industry representatives, in this case managing directors and members of the board, have to bow down to announce who they are.

Sobered by this, the brand name industry drew their conclusions and developed new strategies of cooperation. The representatives visiting supermarkets and other markets were discontinued. So-called drop-shipment business came to a standstill. Management board members in charge of sales got two birds with one stone: they spared their staff any further humiliation while announcing the reduction in personnel internally as a rationalisation measure.

Since then, brand-name products have been exposed fully to shelf space directives from headquarters or the arbitrary decisions of store managers. Not only was pricing out of control, so was the presentation. The brand-name manufacturers came up with a new instrument to represent their interests to trade—the key account manager. 'Key accounts' made the irresistible offer which people felt was an opportunity not to be passed up—annual negotiations. It has now become the meeting on which everyone focuses and in which everything is decided.

But the playing field has been transformed: the retail trade purchasing agent mutates into a seller by offering his shelf space and sales campaign rooms. Distributors, who have stopped calling themselves 'sales' anyway, likewise undergo a permutation, becoming the buyer of shelf and sales campaign space. Negotiations hinge on the issue of whether the manufacturer is willing to pay for these 'retail store services.' If the contribution of the manufacturer is too low, retail store owners have been known to feel personally insulted and break off negotiations. At some point, agreement is reached however, normally at the expense of the manufacturer. Sales and distribution make an increasing effort to be 'customer-friendly' and, under the guise of this euphemism, carry the retailer's demands into their own company. Central purchasing staff birthdays with a zero at the end turn into never-ending parade marches. The retail trade is quite happy playing the part of customer, even if retailers are notorious complainers and always asking for more and more payment for what they do. For, after all, retail businesses need the money for the price wars being provoked everywhere.

The thought of stocking this brand or another because it is irreplaceable in the eyes of consumers remains dissatisfying even to the largest retail groups. The strategic lever used to solve the problem consists of pure psychology; by constantly telling the brand-name manufacturers that they could do without their products without any difficulty because there are enough other products around - and that consumers wouldn't bother looking for another store no matter how wonderful the brand. Reproaches of this kind take their toll, even affecting product management, where at the beginning of a product briefing the 'interchange ability' of their own range is mentioned without hesitation. Having one or two irreplaceable brands nevertheless remains the objective of many manufacturers. This is even being welcomed by retailers. The board member responsible for purchasing at major German wholesaler Metro once put it this way: "We always purchase the 'A' brands, the premium brands, directly from brand name manufacturers. For all other categories - B, C, D, etc. - it is only a matter of time or our willingness to produce it ourselves without the brand-name mark-up."

The more material, strategic lever for turning the creatively evoked interchange ability into reality was found in the form of generic products. Powerful suppliers, including more and more brand-name manufacturers, have been standing in line for a long time. They want to utilise fully their production capacity. In reality, this means more and more identical products are reaching retail stores under different names. Pure interchange ability. The CEO of Austria's Spar supermarket chain took advantage of this fact for a provocative coup: He told TV viewers in a commercial that the only thing distinguishing generic brands from name brands in some product categories was the price. Dumbstruck by the first attack of this kind, the Austrian Brands Association has responded in the meantime by introducing a requirement for unique product formulas and recipes: Any party offering identical products under different names for sale on the market is banned from membership. After much in-fighting, the German Brands Association has imposed a more lenient requirement: "It is in line with how the Brands Association perceives itself that, compared to other, so-called private labels, their products distinguish themselves in terms of quality and features." (Preamble to the Brands Association Rules, 30 June 2004)

There is no end to the arms race, at least no happy one. The makers of brand-name goods respond to the strategy of worldwide retail trade concentration by consolidating their industries, by snapping up brands, i.e., by responding with size. Brand portfolios valued in the billions such as the one created by Procter & Gamble through its acquisition of Gillette are supposed to strengthen their position in dealing with retailers. The rationale: It is easier to negotiate if you cover more of the market and the retailer's product range. Then the stakes would be high for the retailers, too. Much like a hare-and-tortoise race, the clever retailing opponents have already found a response to this move. They constantly expand the range of articles offered

so that even the largest supplier has only a small share of their total merchandise. They never again want to slip into the dependency they were made to feel during the first decades of brand-name articles. Major customers feel like the new kings and want to be treated appropriately and be able to act like one in the future.

The warring parties would not admit that a David still has a chance against a Goliath in situations like this. But suddenly one of them who feels betrayed and sold down the river by one of the new all-powerful stands up and defends himself. The small Dutch baked goods manufacturer Peijnenburg has long been a supplier of brand-name goods as well as unbranded merchandise to the retail giant Albert Heijn. The firm makes a quarter of its turnover through this customer.

But recently, it stopped supplying Albert Heijn with the universally popular breakfast pastries. And, defying all laws, claims that Albert Heijn is ruining the product and the small company by offering bargain-basement prices. Confident of victory, King Albert goes to court to force his supplier to deliver. His claims are rejected on 10 February 2006. The reasons given for the judgement are cause for hope: the manufacturer convincingly presented the argument that the pricing policy of the retailer would be the financial ruin of the company. Such an important finding could undermine the principle of non-discrimination and the ban on vertical price controls. The retail managers are left standing there embarrassed and shocked. However, they will not contest the finding and immediately announced to the press: "Albert Heijn does not fear that not appealing the case will encourage other producers to stop deliveries." Should the tiny Peijnenburg not show the way?

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**Die original Sentenz von Dr. Klaus Brandmeyer: (core Philosophie)**

"Eine starke Marke erkennt man daran, dass sie ihren Willen auch auf dem Territorium des Handels durchsetzt; dass sie gutes Geld verdient; dass ihre Produkte in den Augen der Konsumenten unaustauschbar sind."