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

[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).

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