Beyond Private Label

– The Strategic View on Distributor Own Brands

Per Håkansson

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Stockholm 23 April 2000

Per Håkansson

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1. DISTRIBUTOR OWN BRANDS

"Retailers have now recognised that a supermarket need not be just a place to buy a selection of brands. Instead the shop itself, its location, its atmosphere, the service it offers, the range of goods and prices, can become the brand and retailers can begin to extract the benefits which investment in branding can bring. The value which the store name acquires can be transferred to a range of goods which themselves reinforce the image of the store."

Terry Lehay (1992)

"Having own brands means that we can sell equivalent products for a lower price and still have better margins... In addition, we have control over the products. We decide on their content and it is we who handle their marketing, not the manufacturers." (Author's translation)

Per Möller, head of KF's brand department (Dagens Industri 97-05-17)

1.1. INTRODUCTION

The aim of this study is to investigate how an array of organisational and market related factors are perceived by distributor organisations, and how this is expressed in the organisations' own brand strategies.[1] Starting

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[1] As will be discussed later, strategy can be used to denote both deliberate plans and the observed behaviour (which may, or may not, be the outcome of these plans). To separate these two aspects of strategy in this study, the behavioural aspect of branding is denoted "brand/DOB operations", while "brand/DOB strategy" is used for denoting the organisations' plans. "Brand/DOB development" is used when making a more general characterisation of the development of sales volumes, etc., while "Brand/DOB penetration" is used for denoting this development in terms of national, or category, brand shares.

with a more general presentation of the distributor own brand (DOB) phenomenon and some data on the European development, we will turn to different factors that have been proposed as determinants of DOB operations and penetration. The point of departure of the study is that the literature on distributor branding is theoretically weak with respect to its lack of consideration of organisational decision-making and brand strategy in studies of these factors' relation to DOB operations and penetration. A presentation of the purpose and scope of the study conclude this chapter.

"THE NEW COMPETITION"

During the 1980s and 1990s it has become increasingly clear that something fundamental is happening to the relationship between manufacturers and distributor organisations in many European countries. Within a number of product markets, both food and non-food, distributors[2] launch their own products that force manufacturing companies to compete with the owner of the shelf space in addition to the "traditional" competition with other manufacturers.

There is, however, a significant variation between different chains within Europe in terms of their focus on private label, and while consumers will search in vain for manufacturer brands in chains like Marks & Spencer or IKEA, other chains' like German Edeka or Spar only have moderate private label shares. All in all, though, private label sales have expanded

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[2] The reader should note that the term "Distributor" is used both for wholesaling and retailing organisations throughout this study. The reason for this is that wholesaling and retailing functions may be performed by separate organisations, or by the same organisation, on different markets, why it becomes difficult to differentiate between wholesaler and retailer brands.

markedly on the major European markets generating a total of 247,440 US$ million in 1995. (Euromonitor 1996)

Private label is, however, not a new phenomenon if one defines it just as retailer controlled or manufactured products:

> *"Although own brands have been a major buzzword in European retailing really only since the 1970's, the history of own brands is actually almost as long as the history of retailing itself. The first own label products were with tailors, shoemakers and bakers, who sold goods they made under their own name. However, in Europe the large scale launch of own brands is closely linked to the rise of the co-operative movement. As co-operatives wanted to sell good quality products to their members at low prices, it vas necessary for them to break manufacturers' monopoly by starting their own manufacturing... In order to control their product mix more freely, other retailers followed suit and started to buy and pack staple commodities such as flour, sugar, salt, coffee and tea which were mainly sold on price and they were constrained only by being able to employ simple production process."*
>
> (Laaksonen 1994, p 9)

As this development has progressed, private label products have become increasingly sophisticated in many countries, and while the first generation's generics were rather simplistic in nature, later generations have – as in the case of the UK – proved to match or even supersede the quality of the manufacturers' products. Quantitatively, private label share of assortment has actually diminished in organisations such as the Swedish consumer co-operation. However, if we look at the qualitative aspects of private labels, i.e., the development from labelling cheap commodity products to launching brands with a well communicated brand personality in direct competition with manufacturer brands, we can better understand why this phenomenon has become the focus of so much attention.

This development has not only received much attention, but also generated a plethora of names and definitions. While some authors use the term *private label*, others prefer words like *own brands*, *retailer brands*, *wholesaler brands*, or *Distributor Own Brands*, to stress the fact that these products today are branded in the same way that the manufacturers' products are. In some cases, however, the act of "branding" is still limited to placing a name on a product without aspirations of creating more than a means of consumer recognition, why private label seems to be an adequate choice of word.

Who, then, are the winners and losers in this development? According to Euromonitor's publication *European Private Label Directory* the situation can be described as follows:

> *"While it is possible for retailers, consumers and manufacturers to all benefit from the advent of private label, the prospect of this effectively diminishes as the private label cycle unfolds...* Consumers *do not win or lose, as the new collection of products effectively mimics what was already available as traditional branded products.* Manufacturers *lose out by suffering the disadvantage of being increasingly beholden to retailers as private label penetration increases. This undermines sales of the manufacturer's brands and squeezes their margins...* Retailers *are effectively the winners having the advantage that throughout the cycle they are increasing their control, particularly over manufacturers and by extension, their margins."*
>
> (Euromonitor 1996)

It is, thus, not surprising that *private label* in some cases is used with negative undertones when manufacturers use the term to indicate that a brand should be defined by its owner, not its function, i.e., manufacturers sell brands, distributors sell labels. The success of distributors' "private labels" is, according to these manufacturers, not the result of brand competition but rather of these organisations "shielding" their products by giving them an unjust amount of shelf-space in the store while depriving the manufacturers' brands of their "rightful" proportion of the shelves.

DOB DEVELOPMENT IN EUROPE

In a European framework, the DOB - or private label - development exploded in the early 1980's. The indices in Table 1 (calculated as private label sales in 1995 divided with private label sales in 1990) show a positive trend in private label development during the period: total private label sales for the 15 major markets has increased with 44 percent. As could be expected, smaller countries - with limited private label sales in the beginning of the period - have experienced a more drastic development than the larger markets. Still, the three largest economies within Europe display an increase of between 21 and 59 percent.

Country	1990	1991	1992	1993	1994	1995	Index 95/90
Germany	45342	53637	59261	63408	67204	71908	159
France	38544	42798	44844	43861	44964	46509	121
UK	46701	49963	53089	58043	62138	63832	137
Italy	5907	6265	7458	8353	8949	9307	158
Spain	5765	7189	8974	9875	11314	10062	175
Netherlands	7698	7743	7776	7814	7847	8004	104
Switzerland	11239	11999	12836	13716	14647	15541	138
Belgium	4313	4703	4945	5048	5263	5543	129
Austria	1475	1879	2198	2436	2820	3101	210
Finland	93	210	257	362	453	525	565
Sweden	992	1089	1200	1316	1440	1600	161
Denmark	1405	1550	1729	1946	2198	2541	181
Greece	13	26	45	80	162	357	2746
Norway	1617	1725	1975	2029	2080	2246	139
Hungary	3	4	5	9	12	18	600
Turkey	253	425	786	1505	1407	2026	801
Cz. Rep.	1	4	8	8	14	18	1800
Portugal	441	616	804	1154	1291	1578	358
Ireland	208	350	493	636	674	722	347
Total	172008	192176	208683	221598	234878	247440	144

Table 1 Private Label Sales: Major National Markets 1990-1995 (US$ million) (Euromonitor 1996)

This development must, however, be related to the development of total retail sales, which is presented in Table 2. Again, the indices have been calculated as the ratio between the sales in 1995 and 1990. Looking at the development on the major European retail markets we find that all markets but Sweden have increased in terms of retail sales. Comparing the indices in Table 1 and Table 2 we find that private label sales have grown faster than retail sales as a whole on all major European markets except in the Netherlands.

Country	1990	1991	1992	1993	1994	1995	Index 95/90
Germany	391908	483786	500939	506704	499112	489130	125
France	323502	337125	341820	348200	356908	360536	111
UK	196200	205604	213332	225493	235639	239969	122
Italy	215380	232205	245449	246523	247597	238648	111
Spain	113954	120927	130311	127994	135603	132551	116
Netherlands	72697	74545	77009	77625	78858	80671	111
Switzerland	61986	64946	65792	66214	67397	68745	111
Belgium	60102	63191	64217	62336	62648	62993	105
Austria	34319	37022	38654	39619	41356	43673	127
Finland	31066	36132	36656	39544	41274	32830	106
Sweden	34298	34028	34835	33221	32280	32538	95
Denmark	27203	27744	28644	29546	30446	31359	115
Greece	19124	21132	24197	26058	26057	26002	136
Norway	20215	21567	21957	22533	23119	23651	117
Hungary	8450	10460	12362	15545	17058	20487	242
Turkey	2626	4124	7412	13651	14137	19567	745
Cz. Rep.	9344	10403	12386	14487	16631	18611	199
Portugal	14804	15463	16028	16508	16102	15781	107
Ireland	10337	10791	11440	11751	12127	13328	129
Total	**1647514**	**1811196**	**1883441**	**1923555**	**1954349**	**1951068**	**118**

Table 2 Total Retail Sales: Major National Markets 1990-1995 (US$ million) (Euromonitor 1996)

While the total European market for private label has grown from approximately 172,000 US$ million in 1990 to 247,440 US$ million in 1995, there are significant differences – both in terms of private label share of total sales and in terms of the relative growth - between different countries.

Country	1990	1991	1992	1993	1994	1995	Index 95/90
Germany	11,6	11,1	11,8	12,5	13,5	14,7	127
France	11,9	12,7	13,1	12,6	12,6	12,9	108
UK	23,8	24,3	24,9	25,7	26,4	26,6	112
Italy	2,6	2,7	3,0	3,4	3,6	3,9	150
Spain	5,1	5,9	6,9	7,7	8,3	9,1	178
Netherlands	10,6	10,3	10,2	10,1	10,0	9,9	93
Switzerland	18,1	18,5	19,5	20,7	21,7	22,6	125
Belgium	7,2	7,4	7,7	8,1	8,4	8,8	122
Austria	4,3	5,1	5,7	6,1	6,8	7,1	165
Finland	0,2	1,5	0,7	1,0	1,5	1,6	800
Sweden	2,9	3,2	3,4	4,0	4,5	4,9	169
Denmark	5,2	5,6	6,1	6,6	7,2	8,1	156
Norway	8,0	8,0	9,0	9,0	9,0	9,5	119
Hungary	-	0,1	0,1	0,1	0,1	0,1	100
Turkey	9,6	10,3	10,6	11	9,6	10,4	108
Cz. Rep.	-	0,1	0,1	0,1	0,1	0,1	100
Portugal	3,0	4,0	5,0	7,0	8,0	10,0	333
Ireland	2,0	3,3	4,3	5,4	5,5	5,4	270

Table 3 Private Label Sales as a Proportion of Total Retail Sales: Major National Markets 1990-1995 (Euromonitor 1996)

Country	1990	1991	1992	1993	1994	1995
Germany	100	18,3	10,5	7,0	6,0	7,0
France	100	11,0	4,8	-2,2	2,5	3,4
UK	100	7,0	6,3	9,3	7,1	2,7
Italy	100	6,1	19,0	12,0	7,1	4,0
Spain	100	24,7	24,8	10,0	14,6	-11,1
Netherlands	100	0,6	0,4	0,5	0,4	2,0
Switzerland	100	6,8	7,0	6,9	6,8	6,1
Belgium	100	9,0	5,1	2,1	4,3	5,3
Austria	100	27,4	17,0	10,8	15,8	10,0
Finland	100	125,8	22,4	40,9	25,1	15,9
Sweden	100	9,8	10,2	9,7	9,4	11,1
Denmark	100	10,3	11,5	12,6	12,9	15,6
Greece	100	100,0	73,1	77,8	102,5	120,4
Norway	100	6,7	14,5	2,7	2,5	8,0
Hungary	100	33,3	25,0	80,0	33,3	50,0
Turkey	100	68,0	84,9	91,5	-6,5	44,0
Cz. Rep.	100	300,0	100,0	0,0	75,0	28,6
Portugal	100	39,7	30,5	43,5	11,9	22,2
Ireland	100	68,3	40,9	29,0	6,0	7,1

Table 4 Annual Growth Trends in Private Label by Country 1990-1995 (Euromonitor 1996)

Table 3 shows that the proportion of private label sales has increased in all countries except in the Netherlands during the period. Looking at Table 4, however, we find diminishing - and in some cases, negative - numbers suggesting that the development has already peaked, at least in the largest markets.

Grocery Retail Sales and DOB Penetration

The above tables have presented the total development of private label in a number of European countries and we will now turn to the private label development within the grocery sector. In Table 5 we find the development of grocery private label sales during the period 1990-1995.

Country	1990	1991	1992	1993	1994	1995	Index 95/90
Germany	42985	50628	51796	53611	56595	60043	140
France	25362	29617	30879	29656	30839	31858	126
UK	21912	24773	27674	30769	33661	34725	158
Italy	3639	4296	5429	6205	6742	6934	191
Spain	3040	3868	4752	5581	6554	6875	226
Switzerland	9778	10438	11039	11796	12450	13210	135
Belgium	2897	3209	3411	3568	3783	4045	140
Austria	658	658	739	833	913	1101	167
Finland	58	128	154	214	262	300	517
Sweden	744	807	888	961	1036	1136	153
Denmark	1053	1147	1279	1420	1582	1804	171
Greece	13	25	43	73	144	314	2415
Norway	1230	1294	1472	1542	1581	1719	140
Hungary	3	4	5	9	12	18	600
Turkey	30	53	112	209	209	367	1223
Cz. Rep.	1	4	8	8	14	18	1800
Portugal	393	549	699	992	1097	1341	341
Ireland	105	175	246	322	344	362	345
Total	**113901**	**131671**	**140626**	**147769**	**157818**	**166170**	**146**

Table 5 Grocery Private Label Sales: Major National Markets 1990-1995 (US$ million) (Euromonitor 1996)

On average, grocery private label sales constitute approximately 70 percent of the European private label sales during the period. The indices show that grocery private label sales have increased more than total private label sales during the period: in the two largest markets – the UK and Germany – this increase is 40 and 58 percent respectively.

Table 6 presents the annual growth rates in grocery private label. The table indicates a mixed picture of the development of grocery private label: grocery private label sales grow faster than total private label sales some years, while the opposite is true other years. Among the top three countries we find that grocery private label has developed more slowly than total private label during the whole period on the German market, more rapidly on the UK market, and both slower and faster depending on year on the French market.

Country	1991	1992	1993	1994	1995
Germany	17,8	2,3	3,5	5,6	6,1
France	16,8	4,3	-4,0	4,0	3,3
UK	13,1	11,7	11,2	9,4	3,2
Italy	18,1	26,4	14,3	8,7	2,8
Spain	27,2	22,9	17,4	17,4	4,9
Switzerland	6,7	5,8	6,9	5,5	6,1
Belgium	10,8	6,3	4,6	6,0	6,9
Austria	0,0	12,3	12,7	9,6	20,6
Finland	120,7	20,3	39,0	22,4	14,5
Sweden	8,5	10,0	8,2	7,8	9,7
Denmark	8,9	11,5	11,0	11,4	14,0
Greece	92,3	72,0	69,8	97,3	118,1
Norway	5,2	13,8	4,8	2,5	8,7
Hungary	33,3	25,0	80,0	33,3	50,0
Turkey	76,7	111,3	86,6	0,0	75,6
Cz. Rep.	300,0	100,0	0,0	75,0	28,6
Portugal	39,7	27,3	41,9	10,6	22,2
Ireland	66,7	40,6	30,9	6,8	5,2

Table 6 Annual Growth Trends in Grocery Private Label by Country 1990-1995 (Euromonitor 1996)

DOB Penetration in Different Product Categories

Table 7 shows private label penetration in different product categories in terms of shares of category sales. Of the sixteen listed countries, eight have the smallest private label shares in *Personal Care*, while seven have their lowest shares in *Soft Drinks* and one (Switzerland) in *Savoury Snacks*. Seven of the countries have the highest private label shares in *Chilled Foods*, seven in *Disposable Paper* (Ireland and Norway have equal shares in the two categories), one (Belgium) in *Packaged Groceries*, two (Greece and Portugal) in *Household Cleaning*, and one (Austria) in *Hot Drinks*.

Country	*Personal Care*	*Soft Drinks*	*Savoury Snacks*	*Hot Drinks*	*Househol d Cleaning*	*Frozen Foods*	*Packaged Groceries*	*Dairy Products*	*Disposable Paper*	*Chilled Foods*
Germany	3	7	12	11	7	15	25	34	24	55
France	7	12	31	18	13	24	12	21	35	22
UK	20	15	17	21	21	40	37	30	35	80
Italy	4	21	19	13	14	13	27	19	33	23
Spain	3	11	7	14	12	10	14	12	26	21
Netherlands	15	2	16	17	12	38	30	25	18	60
Switzerland	25	29	12	50	27	45	40	32	40	60
Belgium	7	24	25	19	15	18	41	20	35	21
Austria	2	4	5	23	7	15	7	10	12	12
Finland	8	2	3	2	8	5	3	8	20	10
Sweden	11	2		10	21	20	20	29	26	40
Denmark	9	3	8	8	18	15	13	23	85	30
Greece	2	2	3	6	15	7	6	5	10	4
Norway	5	1	9	4	10	5	5	10	15	15
Portugal	3	7	6	5	33	5	8	7	15	7
Ireland	7	5	8	15	12	12	16	25	30	30
Total	8	9	12	15	15	18	19	19	29	31

Table 7 Private Label Penetration in Different Product Categories (Euromonitor 1996)

There is, apparently, distinctive differences between countries not only in terms of shares of private label of total sales, and in terms of private label development, but also in terms of the product categories in which private labels have been launched and reached higher or lower degrees of penetration.

DETERMINANTS OF DOB PENETRATION?

DOB penetration will depend on two factors: if there is a will and if there is a way. While *will* is contingent on the benefits perceived by the distributor organisation, the *way* will depend on a number of opportunities and limitations that may affect the organisation's brand strategy. In this section we will look at some examples of how different authors attempt to define these determining factors of DOB penetration.

> *"However, in other sectors (most notably, grocery), the consolidation of retailers into large chains has made possible the growth of private labels, which has enabled differentiation of the retailer's product offer."*
>
> Michael Jary and Andrew Wileman in (Hart and Murphy 1998, p 154)

> *"However, it is often the case that private label has the highest penetration, or concentration, in retail markets that are themselves highly concentrated in the hands of a few retailers. This is certainly the case in the UK. The process of private label development for retailers can be seen as a continuance of their process of consolidation, where horizontal growth within their sector is complemented by a process of vertical integration, so they can control (and hence maximise the profitability of) the whole process, from manufacture to point of sale."*
>
> (Euromonitor 1996, p 10)

> *"These questions have come to the fore because of the dramatic rise of retailer concentration, and the consequent increase in retailers' brands as a proportion of many markets; this has been reinforced by the changing role of retailers' brands from merely being cheap copies to achieving parity of quality with manufacturer' brands in some fields."*
>
> (Randall 1994, p 43)

These quotes reflect a notion that seems to be common in the literature on DOB's, namely that a development towards a high retail concentration is the main reason for DOB penetration. A development towards fewer and larger distributors will reduce the number of alternative distribution channels for the manufacturer, why each distributor will become more important for the manufacturer. As will be discussed later in this study, this may, in turn, result in a shift of power that enables the distributor to obtain advantages, e.g., better margins and more promotion support from the manufacturer. The distributor can then use these revenues for investments in own brand operations, thus enhancing the organisation's position vis-à-vis the manufacturers. Furthermore, by being large, the distributor organisation will be able to control the shelf-space necessary to expose these brands to a larger consumer audience.

However, a comparison of European national markets in terms of retailer concentration, as presented in Figure 1, shows that the connection between retail concentration and DOB penetration may be less than clear cut.

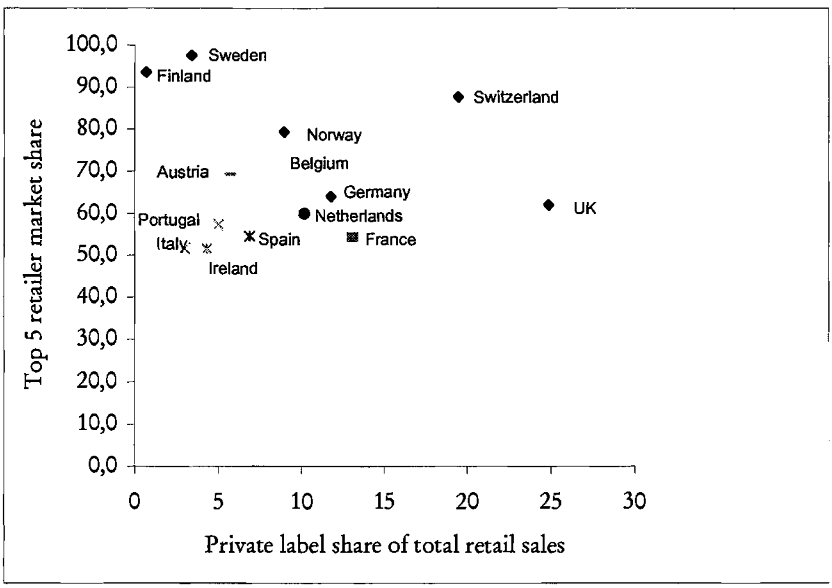

Figure 1 Retail concentration vs. private label penetration

As shown by the above figures and tables, the Swedish fmcg market - displaying the largest degree of wholesaler and retailer concentration in Europe - is lagging behind less concentrated fmcg markets like the UK, Germany, and France with respect to DOB penetration. It is thus likely that though retail concentration may be a necessary condition for a positive DOB development, it is not a sufficient one. Furthermore, the national degree of retailer concentration does not explain the differences between product categories in terms of DOB penetration.

When discussing private label development in the UK, and the relationship between retail concentration and DOB penetration, Laaksonen points to the importance of taking the changing nature of retailing and distribution into account when analysing DOB development:

> *"In the UK the cornerstone for own brand development was increased retail concentration. The huge buying power of the major multiples shifted the control from the hands of manufacturers to the hands of retailers. Retail concentration is rapidly increasing also in the other European countries. However, it is not the retailer size alone which has facilitated own brand growth. Instead, size together with the change in the core principles of retailing has had the biggest impact. From the 1960's to the 1980's retailers moved from 'selling what you buy' to 'buying what you sell' and that has made retailers seize the initiative and control of the markets"*
>
> (Laaksonen 1994, p 9)

Another way to approach the determinants of DOB penetration is to take consumer perceptions of product category characteristics into account. This notion is illustrated by the following quote:

"Own-label products have developed more in some markets than in others, and certain market characteristics make it easier for own-label to assume a dominating position. There are exceptions, but broadly speaking the markets where own-label has developed greatest are food and drinks markets. Arguably, this is because there is little risk for consumers trying an own-label food or drink product (since products within these sectors are generally low-priced and frequently purchased), and it is also relatively easy for consumers to assess the value of the product since taste will be the key factor – consumers can easily decide for themselves whether they like the product or not. Own-label has not developed so strongly in those markets where the purchase carries a greater risk (such as a higher price or infrequent purchase), and it is not so easy for a consumer to assess how good the product is."

Justin Sargent, Nielsen Analytical Services in Admap, March 1996

This is, naturally, not stating that degree of retailer concentration is unimportant, but rather that there may be additional determinants of DOB penetration within the various product categories that constitute a national market.

In a report from the Canadian Centre for Marketing Information Technologies, the following factors are suggested to affect private label performance[3] in different product categories: 1) *Umbrella pricing*, 2) *High category profit margin*, 3) *High advertising levels*, 4) *High penetration/frequency*, 5) *High level of price knowledge*, 6) *Low innovation*, 7) *Low information need*, 8) *Discernible performance*, 9) *Image*, 10) *High quality*, 11) *Delivery systems*, 12) *Large number of SKU's (Stock Keeping Units)*, 13) *Major players do not produce private label*, 14) *Overcapacity in the industry*, 15) *Market structure*, 16) *Retailer margin*, 17) *General economic conditions*. Since the report only encompasses six pages, these

[3] "Performance" is not defined in the report. However, looking at the list of factors, it is fair to assume that this measure should be interpreted as a combination of presence and profitability of distributor own brands.

seventeen factors are discussed very briefly and are "out of context" since no empirical results are presented. They do, however, point to some interesting implications for DOB strategy, why they are further elaborated upon in Chapter Three.

Other authors have attempted to make empirical investigations of determinants of DOB penetration. Hoch and Banerji (1992) present a study on private label success factors based on data obtained from secondary sources and from a questionnaire answered by 25 quality assurance managers sampled from the 50 largest US supermarket chains and wholesalers. The nine factors were:

- *Quality of the best private label* (measured as the respondents' assessment of how the quality of the best private label supplier compared to the leading national brands in the focal product category)
- *Quality variability of the private label* (measured as the respondents assessment of how much total variability there was in the quality of the private labels in the focal category compared to other categories)
- *Category retail sales*
- *Category gross margin*
- *Level of price discount of private labels of national brands*
- *Number of national manufacturers in the category*
- *Amount of national advertising per manufacturer*
- *Item proliferation*
- *Promotion intensity*

The results showed that six of the factors (*product quality*, *quality consistency*, *category retail sales*, *category gross margin*, *number of national manufacturers in the category*, and *amount of national advertising per manufacturer*) explained more than 70 percent of the cross-category variation in aggregate private label market share. The first four of these factors had a positive relationship to private label market share, while the two remaining (*number of national manufacturers in the category*, and *amount of national advertising per manufacturer)* had a negative relationship to this share.

The literature, thus, offers us a number of explanations of the differences between both national markets and product categories in terms of DOB penetration. However, when looking at this literature, it is striking that much of it is deterministic in its approach: DOB penetration is often seen as a direct consequence of different market conditions, rather than being affected by the strategy formation within the distributor organisations competing on the market. If the retailer/distributor is at all considered as one of the players that will affect DOB penetration, the organisation's role in this process is often seen as limited and its motivations as rather rationalistic. An example of this is Hoch and Banerji's report from 1992, in which the retailer is seen as one of three players (along with manufacturers and consumers). The description of the retailer's role in this process is, however, limited to a discussion of how investments in private label lead to retailers trying to recover these costs by allocating resources to categories with the highest potential.

To some extent, the literature on DOB's can, therefore, be characterised as lacking in consideration of the fact that DOB's are launched by organisations that may form their own strategies based on their perceptions of their competitive environment. DOB penetration within any product category, and thus on the market as a whole, is – by definition – a result of both *supply*, i.e., brand/product launches by the individual distributor organisations operating on the market and *demand*, i.e., the consumers reactions to these launches. As any brand-managing organisation, the distributor organisation cannot exercise direct control over the demand side. The supply side, i.e., the expression of DOB strategies, will be a consequence of organisational processes involving a number of decision-makers and the perceptions of an array of interrelated market related and organisational factors that may both hinder and stimulate DOB operations.

1.2. PURPOSE

The aim of this study is to investigate how an array of organisational and market related factors are perceived by distributor organisations, and how this is expressed in the organisations' own brand strategies.

To investigate this research problem, a theoretical framework that explicitly takes distributor own brand strategy into consideration when examining proposed determinants of DOB penetration will be developed.

The empirical study is mainly based on interviews with decision-makers within the central organisations of the two largest distributors within Swedish fmcg distribution: the ICA federation and the consumer co-operation KF. These organisations together have a share of fmcg retail sales of approximately 55 percent, which makes them the major alternatives for manufacturers that want to distribute and market their brands, both with respect to size and with respect to national coverage. The dominating logic between the two organisations differs significantly in terms of vertical integration. With the exception of the smaller integrated Rimi chain, ICA operates as a federation of individual retailers. With the exception of the wholesaling operations for a smaller number of individual co-ops, KF operates through its own, fully integrated, chains. Furthermore, these organisations' brands together constituted some 90 percent of the total fmcg DOB sales in 1998, why their DOB strategies can be hypothesised to have a large impact on the total development of these brands within Swedish fmcg distribution.

Manufacturers, consumers, competitors, and individual retailers are approached indirectly and according to the decision-makers' perceptions of their respective influence on DOB operations.

1.3. THEORETICAL AND PRACTICAL CONTRIBUTIONS

The available literature on branding can, roughly, be divided into two categories. One the one hand we find a well-developed branding literature that focus on the manufacturing company's marketing situation and on the organisation's choice of different brand strategies to attain various goals. On the other hand we find literature on distributor own branding which treats brand development as a direct consequence of structural determinants without consideration of the branding organisation's strategy formation. A study of how distributors' brand strategies are shaped and deployed should thus enhance our ability to analyse these organisations' behaviour, and also our understanding of the past, present, and future development of distributor own brands. In other words, the approach used in this study is proposed to give us an opportunity to enrich the relatively deterministic research on distributor own branding with the more elaborate view on strategy that is for granted in many other circumstances.

The proposed practical contribution of this study can be said to follow from the theoretical: for producer and distributor companies to understand the development which is taken place within most European markets, they need to access other models than those provided by the literature today. One specific contribution is, thus, to offer decision-makers within distributor organisations a more elaborate framework when forming brand strategies. Another specific contribution is to provide the manufacturing companies that operate within the Swedish fmcg sector with an understanding of how their customers – or intermediaries – regard the development of distributor own brands. Will these brands constitute a marginal phenomenon in the future, or is the aim to fill the stores' assortments with these brands? What benefits do these distributors perceive can be derived from the use of manufacturer brands, and how do these benefits relate to the ones that can be derived from distributor own brands?

On a more general level, the study aims yield both a theoretical and practical value by shedding some light on how strategy is formed and carried out within complex, multilevel, organisations like KF and ICA.

1.4. STRUCTURE OF THE STUDY

In the second and third chapters, a theoretical framework is introduced together with a proposed research model. The fourth chapter is concerned with methodological issues and with the data material used in the analyses. The fifth chapter is devoted to results and interpretations based on the theoretical framework. In the sixth chapter, a discussion of the results is presented. The last chapter presents some suggestions for further research.

A WORD OF ADVICE...

Although this study follows the traditional format of research reports – i.e., theory, method, results & analyses, discussion, and suggestions for further research – a number of alternative approaches that can be used when reading it. Readers who want to increase their understanding of strategy, branding issues, and distributor branding, are advised to start with Chapter Two in which these concepts are discussed. More experienced readers may start with the discussions that conclude each section in Chapter Five – using the interpretations presented in the tables and the corresponding section in Chapter Three to gain further understanding – and then to go on to the discussion in Chapter Six.

Irrespective of the approach chosen, the reader will find – apart from the more general discussion on strategy, branding and distributor brand strategy – the following information on each of the subject areas:

1. Chapter Two: a presentation of the strategy concept, of brand strategy in general, and of distributor own branding.

2. Chapter Three: a theoretical discussion focusing on the subject area.

3. Chapter Five: two charts (one for each organisation) presenting the author's interpretations of the interview material concerning the subject area, comments pertaining to each of the charts, and a discussion that sums up the findings.

4. Chapter Six: a discussion of distributor branding within the Swedish fmcg sector based on the findings in Chapter Five.

In Chapter Four, the reader can find information of how the results presented can be assessed in terms of their quality or trustworthiness.

2. STRATEGIES, BRANDING, AND DOB APPROACHES

"Theory is a set of propositions which are consistent among themselves and which are relevant to some aspect of the factual world."

Wroe Alderson

2.1. INTRODUCTION

The problem identified in the introduction is that the literature on DOB's is rather deterministic in its approach: DOB development is often seen as a direct consequence of different market conditions, rather than being affected by the strategy formation within the distributor organisations competing on the market.

When using a deterministic approach, one set of variables - the determinants - are included in our models while others, i.e., variables pertaining to the formation of strategic responses, are omitted. If this latter group of variables should turn out to affect the actual development of DOB's on a market, we will end up with biased models. The use of such models will increase the risk of erroneous research results and, consequently, of presenting unrealistic, and too limited, models to decision-makers within companies.

CONTINGENCIES AND STRATEGY FORMATION

Hambrick and Lei (1985) assert that one difficulty when studying business-level strategy is that two identical strategic settings never occur, a problem that has given rise to three primary approaches to studying organisational strategy:

1) *The situation-specific view* (i.e., strategy is an artful alignment of environmental opportunities and threats, internal strengths and weaknesses, and managerial values),

2) *The universal laws view* (i.e., universal laws of strategy exist and hold to some extent in all settings), and

3) *The contingency view* (i.e., the appropriateness of different strategies depends on different classes of settings for which strategic generalisations can be made).

Examples of the last group are product life cycle stages, degree of industrial concentration, and exposure to international competition. These contingencies are thought to exist when there are major differences in the associations between strategic attributes and performance in differing circumstances.

When reviewing the literature on structure-contingency models (i.e., models based on the assumption that an organisation's *structure* will be a result of contingencies such as technology, size, and environment) – Bobbitt and Ford (1980) conclude that the results presented in this literature are far from conclusive. The authors describe the majority of the research within this field as static, cross-sectional, and bivariate (e.g., technology-structure, size-structure, or environment-structure).

Structure-contingency models also fail to give consideration to those who have the power to direct organisations, and thus fail to explain the processes by which contingencies are translated into structure by viewing the linkage between context and structure as logical, direct, and necessary. Bobbitt and Ford suggest that the analytical framework of current structure-contingency models needs to be expanded to include the decision-makers' views as a determinant of structure:

> *"Rather than treating structural variability as the result of a deterministic process, one should view such variability as the outcome of a process related to those with the power to design organizations... Which of the context variables, or combinations thereof, are determinants of structure will depend on which variables the decisions maker(s) consider(s) salient and on which relationship between context and structure, if any, they consider effective."*
>
> Bobbitt and Ford (1980)

Furthermore, organisations may themselves affect the context in which they operate. When making a review and evaluation of empirical and case studies on the determinants of organisational performance, Lenz (1981) concludes that summary measures of prevailing environmental conditions (e.g., concentration ratios) seem to have little power in themselves to predict organisational performance. Lenz makes the reflection that:

> *"First, it would be misleading to conclude that organizations, except during rather brief interval of time are purely products of their environment. On the contrary, there is sufficient evidence to suggest that organizations are themselves agents of environmental change. Organizations create substantial portions of their environment by investment decisions, lobbying, and employing other tactics that influence the rate of technological change, access to raw materials and markets, government regulations, and entry barriers."*
>
> Lenz (1981)

The author's conclusion is that due to mutual causality and interdependence, it is difficult to reconcile major portions of theories that essentially advocate environmental determinism.

Based on these reviews, then, one may conclude that the relationship between an organisation's strategies and its surrounding context will both depend on the mutual effects between organisation and context, e.g., outcomes of organisational strategies, and on the organisation's perceptions of this context. Consequently, there is reason to question theories that attempt to explain DOB development without considering the strategy formation based on perceptions within the distributor organisations. There is furthermore, reason to question theories based on the assumption of unidirectional relationships between contingency factors such as retail concentration and manufacturer advertising levels, and organisational conduct. In other words: it is likely that a distributor organisation's brand strategies will be a result of the perceptions within the organisation of the context in which the organisation operates and that these strategies, in turn, will affect this context. We would, thus, expect differences in how different distributor organisations perceive the relative importance of different potential determinants, and we would also expect that these organisations would choose between alternative strategies when responding to these determinants. Proposed determinants of DOB development should, thus, rather be seen as an input to organisational strategy formation than laws of nature yielding predictable results.

ORGANISATION OF THE CHAPTER

The remainder of this chapter will be devoted to a discussion of the strategy concept, a number of general branding issues, and to distributor own brand approaches. As stated in the first chapter, the purpose of this discussion is to create a framework that can help us to better understand the nature of distributor branding and its relations to manufacturer branding and to other determinants of DOB strategy.

2.2. THE STRATEGY CONCEPT

WHAT IS A STRATEGY?

We will start this chapter by looking into the various conceptualisations of strategy, its role for the organisation, and the way strategy is used in this study. Mintzberg (1987) advocates an eclectic approach to the strategy concept rather than attempting to find one, comprehensive definition:

> *"Human nature insists on a definition for every concept. The field of strategic management cannot afford to rely on a single definition of strategy, indeed the word has long been used implicitly in different ways even if it has traditionally been defined formally in only one."*
>
> Mintzberg (1987)

According to Mintzberg, the strategy concept may be divided into five different definitions: strategy as *plan*, as *ploy*, as *pattern*, as *position*, and as *perspective*.

Strategy as Plan

In this case strategy is defined as some sort of consciously intended course of action, a guideline (or set of guidelines) to deal with a situation. By this definition, strategies are made in advance of the actions to which they apply, and they are developed consciously and purposefully.

Strategy as Ploy

As a plan, a strategy may be a ploy, i.e., a specific "manoeuvre" intended to outwit an opponent or competitor. Unlike a strategy that aims at a specific action, or series of actions, the aim of these strategies is the threat of action rather than action itself.

Strategy as Pattern

In this case, strategy is defined as a pattern in a stream of actions. Strategy is, thus, seen as consistency in behaviour, whether or not intended. By this definition, strategy is - like art - in the eye of the beholder:

> *"The point is that every time a journalist imputes a strategy to a corporation or to a government, and every time a manager does the same thing to a competitor or even to the senior management of his own firm, they are implicitly defining strategy as pattern in action - that is, inferring consistency in behavior and labelling it strategy. They may, of course, go further and impute intention to that consistency - that is, assume there is a plan behind the pattern, but that is an assumption, which may prove false."*
>
> (Mintzberg 1987, p 13)

The two definitions of strategy - as plan and as pattern - may thus be quite independent of another: plans do not always result in patterns of action, and these patterns are - in turn - not always the result of plans or preconceptions.

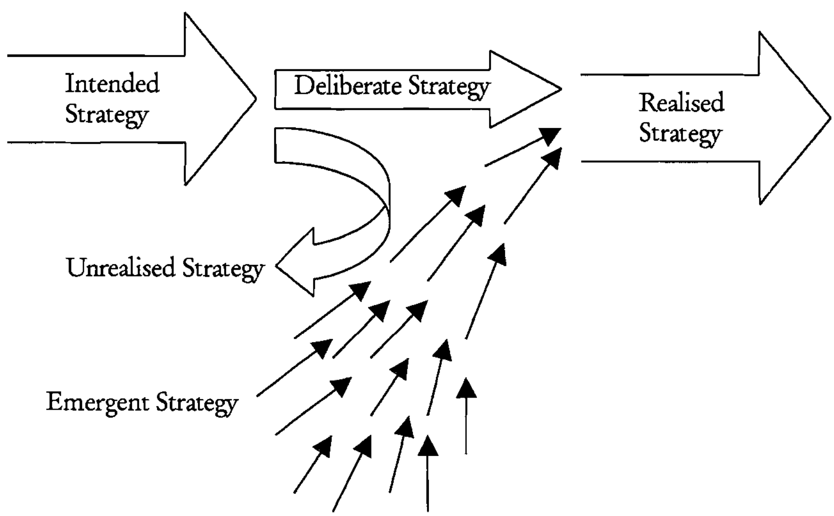

Figure 2: Deliberate and Emergent Strategies (from Mintzberg, 1987, p 14)

As depicted in Figure 2, Mintzberg labels these two cases *intended strategy* and *realised strategy*, which leads to a distinction between *deliberate strategies* (where intentions that existed previously are realised) and *emergent strategies* (where patterns develop in the absence of intention, or despite them).

Drawing on the distinction between intended and realised strategy, Pettigrew (1985, p 438) asserts that, operationally, strategy can be defined as that which is realised in practice through consistency in a stream of actions and decisions over time. The context in which strategy must be defined, according to Pettigrew, is partly temporal in its nature (i.e., past strategies will affect present, and present strategies will, in turn, affect the organisation's future strategies), partly external (e.g., social, economic, political, and business environment), and partly internal in nature (e.g., structures and systems, leadership arrangements and processes, organisational culture, control and power, all of which mediate what is seen and acted upon in the way of environmental change). As Luehrman expresses this notion:

> *"In financial terms, a business strategy is much more like a series of options than a series of static cash flows. Executing a strategy almost always involves making a* sequence *of major decisions. Some actions are taken immediately, while others are deliberately deferred, so managers can optimize as circumstances evolve. The strategy sets the framework within which future decisions will be made, but at the same time it leaves room for learning from ongoing developments and for discretion to act based on what is learned."*
>
> (Luehrman 1998)

Over time, strategy formation within an organisation should, thus, be seen as a continuos stream of decisions that affect, and is affected by, the organisation's external and internal environment.

Strategy as Position

The fourth definition is that strategy is a position – a means of locating an organisation in its environment, either to specific competitors or to markets or an environment at large. By this definition, strategy becomes the mediating force, or match, between organisation and environment, i.e., between the internal and external context. As pointed out by Mintzberg (1987), this definition of strategy can be compatible with either (or all) of the preceding ones: a position can be pre-selected and aspired to through a plan (or ploy) and/or it can be reached, perhaps even found, through a pattern of behaviour.

Strategy as Perspective

The fifth, and last, of the definitions suggested by Mintzberg is strategy as perspective:

> *"While the fourth definition of strategy looks out, seeking to locate the organization in the external environment, the fifth looks inside the organization, indeed inside the heads of the collective strategist. Here,* strategy is a perspective, *its content consisting not just of a chosen position, but of an ingrained way of perceiving the world. ... Strategy in this respect is to the organization what personality is to the individual."*
>
> Mintzberg (1987, p 16)

This definition of strategy points to the notion that strategy is a concept, i.e., strategies are abstractions which exist only in the minds of interested parties – those who pursue them, are influenced by that pursuit, or care to observe others doing so. This perspective is *shared* by the members of an organisation through their intentions and/or by their actions. Mintzberg asserts that while plans and positions may be dispensable, perspectives are immutable. Once they are established, perspectives may become so deeply ingrained in the behaviour of an organisation that the associated beliefs can become subconscious in the minds of its members, and strategy can be found more in the consistency of behaviours than in the articulation of intentions.

In another article, (1987), Mintzberg suggests that even if these shared views of the organisation may be dysfunctional to the extent that they over-simplifies a complex organisation, the enthusiasm generated by a clear strategy – a clear sense of mission – can produce a host of positive benefits. Furthermore:

> *"Strategy is needed to reduce uncertainty and provide consistency (however arbitrary that may be), in order to aid cognition, to satisfy intrinsic needs for order, and to promote efficiency under conditions of stability (by concentrating resources and exploiting past learning). ... Strategy is not about adaptability in behavior but about regularity in behaviour, not about discontinuity but about consistency.*
>
> (Mintzberg 1987)

In this way, strategies are used to *set* direction, *focus* effort, and *define* the organisation. The consistency created by strategy enables the organisation to concentrate its resources, exploit its opportunities, and utilise its skills and knowledge to the fullest. In this way, energy can be directed to performing operations rather than debating them. However, while this focus is a prerequisite for efficiency (i.e., doing things right), it is far from certain that, in a changing environment, it leads to effectiveness (i.e., doing the right things).

In Summation...

In studies of organisational strategy the subject of investigation can vary depending on perspective. We may study intentions or plans within an organisation, this irrespective of the extent to which these intentions/plans are realised; we may study patterns of behaviour, this irrespective of preceding plans/intentions; we may choose to analyse the dominating conceptions in the organisation of what the organisation is about, and how it is related to a wider context, e.g., in terms of competitors and consumers.

The answer to the question posed in the headline of this section – what is a strategy – is, consequently, that a strategy can be seen as both talk, perceptions and action. When we study an organisation's strategies we should, thus, take a number of dimensions into consideration. Firstly, we should study the intended strategies that are articulated by the organisation, i.e., its plans. Secondly, we should study what the organisation actually *does* in terms of the resulting pattern of action, i.e., its realised strategies. Thirdly, we should study the more general perceptions of the organisation and its relations to its surrounding context, i.e., position and perspective.

In this study we will focus on these aspects of strategy: the communicated plans (i.e., strategy as plan), brand operations (i.e., strategy as pattern of actions), and perceptions (i.e., strategy as perception and position). For reasons of simplicity, the term DOB/Brand strategy is used for the first of these aspects.

2.3. BRANDS AND BRAND STRATEGIES

WHAT IS A BRAND?

After this discussion of the strategy concept, we will now look further into the concept of a brand. To define what we mean by a brand, the best starting point may be to state what a brand is not. A brand is not a *patent*, nor is it a *design* or a *copyright*. Patent protection is concerned with inventions, design protection with features of shape and configuration, and copyright is concerned with "physical expression of creative effort" (Graham and Peroff 1992, p 33) - a brand may encompass these things but should not be confused with them.

In the literature, definitions of the brand stretch from a purely technical level, e.g., the brand as a differentiating device, to a psychological level, e.g., the brand used by the consumer as a mental short–cut or as a means of expressing attitudes. An attempt to give an exhaustive summary of the various definitions of brands in the literature would be futile, but here are some examples of definitions, beginning with one given by Philip Kotler:

> *"A name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors"*
>
> (Kotler 1994, p 442)

Kotler's definition is surely suitable for branding as a means of legal protection, or of differentiation, but a brand may encompass more functions than this:

"To distinguish the goods and services of the enterprise from those of another; to indicate the source or origin of the goods or services; to represent the goodwill of the trademark owner and to serve as an indication of the quality of his goods or services."

(Graham and Peroff 1992, p 32)

By adding goodwill to the definition of the brand Graham & Peroff bring in the psychological aspect: the brand is more than a differentiating device – it is also a way of communicating to, and between, consumers. Some researchers carry this psychological aspect of the brand even further:

"... When consumers buy brands they are not just concerned with their functional capabilities. They are also interested in the brand's personality which they may consider appropriate for certain situations. They look to brands to enable them to communicate something about themselves and also to better understand the people around them"

(de Chernatony and McDonald 1992, p 137)

The point made is thus that a brand is not merely a combination of letters and images. A brand can also communicate an image of ourselves to others (and to ourselves), e.g., by wearing a Rolex watch we use the brand to show others that we want quality, and, that we have the money to get it.

Based on their perceptions of the brand's characteristic, consumers will form a *brand image*, i.e., an overall characterisation of the brand. These perceptions, in turn, can be gauged by the associations that consumers hold in their memories. The different types of brand associations can be grouped according to their level of abstraction; the amount of information held; whether they are product-related or non-product-related; and whether they refer to attributes considered essential by consumers. (de Chernatony and McDonald 1998, p 406) In cases where the brand has emotional and self-expressive values, e.g., brands with minor physical variations and conspicuously consumed brands, the term "brand personality" is used as a metaphor for the relationship between consumer and brand (see, e.g., Blackston 1992).

As suggested by Håkansson (1996), consumers seek different benefits from brands depending on situation and product category, why definitions of the brand as a means of differentiation or as a means of self expression will be more or less appropriate depending on context. On a more general level, however, we may define a brand as suggested by de Chernatony and McDonald:

> *"A successful brand is an identifiable product, service, person or place, augmented in such a way that the buyer or user perceives relevant unique added values which match their needs most closely. Furthermore its success results from being able to sustain these added values in the face of competition"*
>
> (de Chernatony and McDonald 1992, p 18)

In a discussion of brand planning, de Chernatony and McDonald (1998) advocate the use of statements of the brands' values to create consistency in brand management over time:

> *"There needs to be a mechanism in place whereby any marketing plans for the brand are carefully considered against the statement of core values to ensure that none of the core values are adversely affected by any planned activity. [...] A further advantage of having a statement of brand values is that it enables managers to check their interpretation of the brand against the agreed view. By so doing they can then evaluate the appropriateness of their planned actions."*
>
> De Chernatony and McDonald (1998)

In this way, the use of statements of the brand's core values can be used as Mintzberg's definition of strategy as perspective (see p 28), i.e., a shared view that can guide the members of an organisation towards consistency.

De Chernatony and McDonald (1998, p 369) do, however, issue a warning directed to brand managers against becoming too focused on considering their brand in terms of its individual values. Brands should be seen as holistic entities in which individual values are integrated into a whole whose strength comes from interlinking parts. The authors use a model developed by the branding consultancy "Brand Positioning Services" as an example of this holistic approach to brand positioning (Ibid., p 369). Brand Positioning Services conceptualise the brand as being composed of three components: the functional, the psychological, and the evaluative component. The first of these components - *the functional component* - characterises what the product or service does, while *the psychological component* describes which of the user's motivational, situational or role needs the products or service meets. The third component - *the evaluative component* - considers how the brand can be judged. For an integrated brand, the functional and psychological components must work together - be regarded as bridged - and the brand owner should be able to use a single word to describe the benefit that both these components satisfy. To succeed, the brand owner needs to persuade consumers not only that the brand is better than its competitors to deliver the benefit, it also has to convince consumers that the benefit is of importance. This is done by combining the bridged psychological and functional components with the evaluative component, thereby suggesting evaluation between competing brands along a dimension that the brand excels on.

"A unique two-word statement for each brand – the valuator plus the bridged need – not only defines the brand's positioning but also enables managers to consider their brand as a holistic entity. While it is laudable to understand the core values constituting the essence of the brands so that they can be protected over time, these need to be integrated to produce a holistic brand."

De Chernatony and McDonald (1998, p 370)

In summation: when defining a brand we thus need to take both the means of recognition (e.g., trademark, logotype, or label) and the associations that are evoked by this recognition. By this reasoning, a company may own a trademark or a label, but it can never fully own a brand since an integral part of the brand is built of consumer associations. By the same token: when going from labelling to branding, a distributor needs to employ strategies aiming at building favourable consumer associations to its brands and to the benefits offered by them. Furthermore, the organisation needs to position their brands by integrating and communicating these benefits as a meaningful whole in such a way as to convince the consumers to buy the branded products or services. The extent to which these positive associations leads to purchase – or even to brand loyalty – will, in turn, be affected by the consumer's perception of risk, and of their perception of the brand as a relevant way of reducing this risk.

RISK-AVOIDANCE AND LOYALTY

As suggested by de Chernatony and McDonald (1998, p 104) consumers that evaluate competing brands, apart from their overall evaluation of the risk connected to the brand purchase, also form a judgement about why the brand is a risky purchase. The authors suggest that this is done initially by evaluating which dimensions of perceived risk that cause them the most concern. Examples of such risks are (Ibid., p 104):

- *Financial risk*: the risk of money being lost when buying an unfamiliar brand.
- *Performance risk*: the risk of something being wrong with the unfamiliar brand.
- *Social risk*: the risk that the unfamiliar brand might not meet the approval of a respected peer group.
- *Psychological risk*: the risk that an unfamiliar brand might not fit in well with one's self image.
- *Time risk*: the risk of having to waste further time replacing the brand.

Based on these perceptions of risk, the conversion model – as adopted by Rossiter and Percy (1997, p 93) – classify brand buyers into:

1. *Available*: consumers who perceive low risk in switching and rate competing brands as approximately equal. These buyers are, typically, actual or potential favourable brand switchers.

2. *Comfortable*: consumers who perceive low risk in switching from the brand but rate other brands as inferior. These buyers are brand loyals but, if a competing brand could improve its attitude rating sufficiently, they are likely to switch to it.

3. *Entrapped*: consumers who perceive high risk in switching from a brand but rate other brands as superior. These buyers are "pseudo brand loyals", i.e., locked in to the brand by such factors as service contracts, remote availability of better brands, or by fear of trying what is for them a new brand.

4. *Entrenched*: consumers who perceive high risk in switching and rate another brand or brands as inferior. These buyers are defined as true brand loyals.

One possible consumer use of a brand is thus as a *risk-reduction strategy* (Mitchell and McGoldrick 1996). The consumer's perceived risk can be defined as the outcome of the consumer's perceptions of uncertainty when making the decision and the consequences of this decision. In a situation where the consumer has a high degree of perceived risk, he or she may choose a number of risk-reduction strategies of which the use of a familiar brand is one. This way of using the brand is also discussed by de Chernatony and McDonald:

> *"Many marketers believe that buying should be regarded as a process whereby buyers attempt to reduce the risk of a purchase decision. ... To make buying more acceptable, buyers seek methods for reducing risk by, for example, always buying the same brand, searching for more information, only buying the smallest size, etc. Research has shown that one of the more popular methods employed by buyers to reduce risk is reliance upon reputable brands"*
>
> (de Chernatony and McDonald 1992, p 38)

In a situation where the consumer is knowledgeable of the product category and/or perceives that an erroneous choice does not pose any, e.g., financial, physical, or social threats, and trusts the brand to deliver the expected benefits, the involvement in the next purchase decision will be low. In this context, thus, involvement can be defined as the inverse effect of the consumer's confidence when buying a specific brand from a specific product category, this based on the experiences of prior purchase decisions. When the consumer is confident, problem solving may be a matter of routine and the brand may be used as a simple choice-heuristic (Jacoby, Speller et al. 1974; Jacoby, Szybillo et al. 1977). In purchase situations characterised by low involvement and routine decision-making, consumer may quickly retrieve the associations connected to the brand from their long-term memory when making their purchase decisions (Woodside and Trappey 1992). In this way, consumers form certain associations to the brand based on factors like advertising, previous product testing, recommendations from others, enabling them to create choice heuristics when choosing between products.

A consumer's inclination to favour a given brand in his/her purchase decisions is often referred to as brand loyalty, a much-debated concept.[4] Jacoby and Chestnut (1978) criticise the use of behavioural measures of brand loyalty and make a conceptual definition of brand loyalty from a marketing point that encompasses both attitudinal and behavioural components. According to the authors brand loyalty can be defined as: (1) the biased (i.e., non-random), (2) behavioural response (i.e., purchase), (3) expressed over time, (4) by some decision-making unit, (5) with respect to one or more alternative brands out of a set of such brands, and (6) is a function of psychological (decision-making, evaluative) processes. These six conditions are suggested to be both necessary and collectively sufficient. Loyalty, by this definition, thus becomes a concept that involves both a repetitive behaviour and an underlying psychological mechanism that leads to this behaviour.

In an examination of the literature on brand loyalty, Fournier and Yao (1997) suggest that while most students of brand loyalty would subscribe to Jacoby and Chestnut's conceptual definition of brand loyalty, there is a lack of articulation of the nuances of the concept. Furthermore, variations of the meaning of brand loyalty have been obscured in definitions that are too general to have any diagnostic value, and are static in nature. As pointed out by Elrod (1988), from a practitioner's view, behavioural data from scanner panels is widely available for low-priced frequently purchased goods, while attitudinal data is not. Elrod argues that the benefit/cost relationship between attitudinal and behavioural data therefore will continue to promote the use of the behavioural data for the foreseeable future.

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[4] An extensive discussion of this subject is presented by Mägi (1999).

In the literature, brand loyalty can thus be based on attitude, behaviour, or a combination of both. From a marketer's point of view, however, one could argue that we need the combination of attitude and behaviour if this notion of loyalty is to be of interest. If we do not take attitude into consideration, loyalty cannot be affected by marketing efforts; if we do not take behaviour into consideration, there is nothing to gain by creating this loyalty. By this reasoning, a prerequisite for brand loyalty is therefore that the consumer uses the brand on a regular basis, and that this behaviour is based on brand awareness and favourable brand attitudes. Alternatively, that the consumer's use of the brand is a consequence of the perceived risk of switching to another brand being too high in relation to the benefits that such a switch would lead to.

To further complicate the concept of brand loyalty, some researchers suggest that consumers may include more than one brand in their choice-heuristics. Roberts and Lattin (1991) suggest that for a given consumer, the brands available on the market usually are divided into brands of which the consumer is aware and those of which he or she is not aware. This awareness set is divided further into brands the consumer would consider purchasing – evoked set or consideration set – and those that are not considered. The purchase decision is restricted to the brands in the consideration set. The notion of a consideration set, thus, suggests that the consumers are not only loyal to one brand but to several, and that rather than discussing brand loyalty we should discuss multi-brand loyalty. According to the consumer's perceived benefits he or she will, over time, include and omit brands from this set (see, e.g., Huber and Puto 1983; Roberts and Lattin 1991; Lehmann and Pan 1994) and choose different brands when making purchase decisions depending on e.g., price-cuts and rebates. (Hauser and Wernerfelt 1989). In some cases these sets will be rather stable over time, in other cases consideration sets may be altered when consumers enter longer or shorter periods of variety-seeking behaviour.

Although a number of studies have shown the existence of consideration sets for consumer durable goods and packaged goods (Roberts and Lattin 1991), there are disconfirming results as to whether these sets are present in many consumer nondurable goods categories. In an empirical investigation of the presence of evoked sets, Petrof and Daghfous (1996) conclude that there appears to be a significant evoked set for only seven of 28 consumer nondurable product categories: soft drinks, laundry detergent, beer and wine, cereals, vegetable juice, ketchup and dishwasher detergent. For such product categories as cheese, yoghurt, margarine, coffee, and paper products, the results suggest that consumers lack brand preferences and do not form evoked sets. The authors' conclusion is that though no one would argue that consumers do not have memories, a fond memory or knowledge or a certain brand is not a necessary step in making a purchase.

One possible explanation for these results is that consumers classify consumer durable goods as posing a greater risk than nondurable goods, and that most consumers perceive a higher degree of differentiation in product categories such as wine or laundry detergents than they do in, e.g., cheese or paper categories. Given the above discussion, a reasonable hypothesis would be that the extent to which consumers have a tendency to be loyal to one brand, or a limited number of brands, will be affected by both perceived risk when making a purchase decision and perceived differences between competing brands.

THE RELATION BETWEEN BRAND VALUE AND STRENGTH

The above discussion points to the fact that the relative importance of product benefits and ability to reduce risk will depend on type of purchase decision. A general observation is, however, that a brand can only survive if it is able to provide both. From the brand owner's standpoint, creating and maintaining brand *strength*[5] is thus contingent on the ability to communicate to the consumers that the brand provides *a reliable source of information of a given ratio between benefits and price.* (Håkansson and Wahlund 1996)

In the literature, we can find a number of attempts to translate this strength into *brand value.* Keller (1993) proposes a measure based on the differential effect of brand knowledge on consumer response to marketing activities. In this view, a brand's value is defined as the degree to which consumers react more favourably to an element of the marketing mix for the brand than they do when its attributed to a fictitiously named or unnamed version of the product or service. Brand value occurs when the consumer is familiar with the brand (i.e., brand awareness) and holds some favourable, strong, and unique brand associations in memory (i.e., brand attitude).

Park and Srinivasan (1994) make a distinction between attribute and nonattribute-based components as sources of a brand's equity. By their definition, brand equity is the value that is added by the brand to the product. The authors suggest the use of a survey-based method for assessing brand equity where respondents are asked to rank brands and

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[5] The literature on brands offers a plethora of definitions and terms when discussing the value of a brand. By some authors, for example, brand equity is defined as the customer's valuation of a brand, while other use the term to denote company related measures. In this study, *brand strength* will be used when discussing the brand's relation to the consumer, *brand value* when discussing the operational effects of this strength for the brand owner, and *brand equity* when discussing the monetary effects of this value for the brand owner. The reader should, however, note that the original terms are used when citing articles on the subject.

then report the price-premium that he/she would be willing to pay for the most preferred brand over the second least preferred brand. In this vein, Swait *et al.* (1993) advocate a method involving designed choice experiments that account for brand name, product attributes, brand image and consumer heterogeneity effects for quantifying the Equalisation Price (EP), a measure of the implicit value to the individual consumer of the brand. Crimmins (1992) also uses price differences as a means of defining customer-based brand strength. Unlike Swait *et al.*, Crimmins takes this measure beyond the experimental context by defining it as the price premium that the brand can support on a market without loosing market shares.

A measure that is related to Keller's notion of the effects of changes in the marketing mix as a measure of strength is the relative effects that price changes have on brand sales, i.e., the brand's price elasticity. Monroe (1976) suggests that changes in brand preferences are asymmetric, i.e., brand preferences increased faster when a brand's price was decreasing than did their preferences decrease when its price was increasing. Allenby and Rossi (1991) present results that suggest that consumers are more likely to respond to price promotions by switching up to high quality brands than switching down to lower quality brands. When the consumer's budget constraint shifts out, the consumer will favour quality in relation to price, and the optimal solution shifts away from the inferior to the superior brand. As superior brands become relatively cheaper, the substitution effect will induce some consumers to switch up from inferior brands and the income effect will increase the relative marginal utility of superior brands which will induce even more switching.

Bronnenberg and Wathieu (1996) suggest that the relative effects of price promotions on high and low quality brands may be analysed in terms of *position advantage* (i.e., the degree to which the brands are overpriced or under-priced) and *brand distance* (i.e., the price/quality distance between the brands). The authors find that there is an asymmetric promotion effect in favour of the higher quality/price brands if the quality gap between the brands is sufficiently large in comparison with the price gap. When considering a switch from a higher quality brand to a lower quality brand, the consumers must balance a loss in quality against a gain in price. A price reduction of the lower quality brand can help to induce switching down from a higher quality brand, but only if the size of this discount is large enough compared to the quality difference between the two brands. A consumer who considers to switch up from a lower quality brand to a higher quality brand balances the gain in quality against the loss in price. In this case, consumers may be attracted by a relatively small discount if the quality difference is large enough, while a larger discount is needed to induce brand switching if the quality gap is small. In other words: for a given price difference, a relatively large quality difference favours the promotions offered by higher quality brands, while it threatens the success of promotions offered by lower quality brands. Conversely, a small enough quality difference will reverse the asymmetry, in favour of lower quality brands. (Ibid., p 380)
Kahn and Raju (1990) present results indicating that, for a minor brand, price discounts have a relatively larger effect for the consumers seeking reinforcement, i.e., who have a tendency to favour the brand last purchased in their purchase decisions[6] than for the variety-seeking

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[6] In the article, reinforcement behaviour is operationalised as choice behaviour in which the probability of repeat purchase is higher than the probability of

segment. Conversely, for a major brand, price discounts have a relatively larger effect for the variety-seeking consumers than for the reinforcement consumers.

This notion of price elasticity is used as a measure of brand strength by William T. Moran (in Rossiter and Percy 1997, p 28). Moran separates a brand's price[7] elasticity into *upside elasticity*, i.e., how much the brand's sales go up in response to a price cut by the brand, and *downside elasticity*, i.e., how much the brand's sales go down in response to a price increase by the brand. A brand's medium-run or "dynamic" brand equity can be measured in terms of the ratio of its upside elasticity to its downside elasticity, i.e., a strong brand should have a high number in the numerator and a low number in the denominator.

Krishnamurthi and Raj (1991) argue that when analysing the relationship between consumer brand preference or loyalty and price elasticity in purchase behaviour, this behaviour should be analysed as both a brand choice decision and a purchase quantity decision. The authors present results from analyses on BURKE and IRI (coffee) data, supporting their hypotheses that brand loyal consumers will continue buying the brand regardless of price, while they will adjust their purchase quantity to take advantage of the prices. Non-loyal consumers, on the other hand, will be more sensitive to the price of the brand in the choice decision, but since they are not loyal to the brand they will not increase their purchase quantities when the price is decreased. The brand's price elasticity – both

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repurchasing the same brand under a zero-order process, this regardless of whether the brand was the most preferred brand.

[7] Moran defines the brand's price as the brand's selling price relative to average selling price of all brands in the category.

in terms of brand choice and in terms of purchase quantity - will thus differ between brand loyal consumers and non-loyal consumers.

One of the more acknowledged attempts to translate brand strength into brand value is a composite measure developed by RHM and Interbrand. In this measure, brand value can be defined by investigating seven key factors (Murphy 1992, p 192 ff.):

- *Leadership*: A brand that leads its market sector is a more stable and valuable property than a brand lower down the order.
- *Market*: Brands in markets such as food and drinks are intrinsically more valuable than brands in, for example, high tech. or clothing areas, as these latter markets are more vulnerable to technological or fashion changes.
- *Stability*: Long established brands that command consumer loyalty and have become part of the "fabric" of their markets are particularly valuable.
- *Internationality*: Brands which are international are inherently more valuable than national or regional brands.
- *Trend*: The overall long-term trend of the brand is an important measure of its ability to remain contemporary and relevant to consumers and hence of its value.
- *Support*: Those brand names which have received consistent investment and focused support must be regarded as more valuable than those which have not. While the amount spent in supporting a brand is important the quality of this support is equally significant.
- *Protection*: A registered trademark is a statuary monopoly in a name device or in a combination of these two. Other protection may exist in common law, at least in certain countries. The strength and breadth of the brand's protection is critical in assessing its worth.

According to this view, an assessment of brand value is not only a question of calculating the amount of money that has been put into the brand, nor is it merely a question of price premium, a criterion sometimes used in analyses of brand equity (e.g., Crimmins 1992; Swait, Erdem et al. 1993). An increased margin will have a positive effect on a firm's revenues, but one must also appreciate that a stable demand generated by loyal – or at least partially loyal – customers may have an impact by reducing costs, e.g., costs for stock-outs, for excessive production capacity, and administrative costs. *Internationality*, *market* and *trend* may be seen as measuring other dimensions of a strong brand, while *protection* gives other dimensions of the company's brand management. By this view a brand must be evaluated with respect to a number of criteria involving current goodwill, revenues and margins as well as potential possibilities for line or brand extensions.

> *"Interestingly, this ranking was produced not from simple facts like sales, profit or market share, but from a combination of qualitative criteria which give an idea of what a strong brand can deliver for a company: market leadership, a stable or sustainable competitive advantage, international reach, a platform from which to expand activities, and of course long-term profit"*
>
> (Arnold 1992, p 13)

This dynamic view on brand value is shared by Loden (1992, p 8) who presents three perspectives that may be used when evaluating a brand. Firstly, one has to consider the present value of the price premium the brand name commands in the marketplace. Secondly, the future value of a large, stable, franchise. Thirdly, the opportunities such a franchise will provide for line extensions in the future.

EXTENDING THE BRAND

The potential of a strong brand is thus not confined to promoting existing products in competition with others: one way of leveraging the franchise of a strong brand is to use it when launching new products, or to licence the brand to another company. In a licensing agreement, the company may outsource parts of its operations or a defined concept, e.g., franchising, but it may also license the use of the brand to market the licensee's products or services. The latter strategy may take two forms (Bereskin):

- *Brand extension licensing*: products are natural or logical extensions of a well known and trusted core brand, e.g., SUNKIST® soft drinks, CARTIER® eyeglass frames.

- *Collateral Licensing*: products that have little or no apparent connection with the core brand, e.g., BUDWEISER® T-shirts, PORSCHE® sunglasses or HARLEY-DAVIDSON® cologne.

Apart from licensing, the company may – itself – use the brand for new products in the category (or categories) in which the brand is already established (line extension), or it may use the brand for launching products in new product categories, i.e., brand extension.

The result of the company's brand strategies, the brand portfolio, may be characterised as an architecture with five hierarchical levels (Macrae 1996, p 180):

1. *Corporate or banner brands* (e.g., Heinz, Gillette, Sony, L'Oreal, McDonald's, Nestlé)
2. *Sub-umbrella of a corporate brand* (e.g., 'Series' of Gillette, 'Studioline' of L'Oreal)
3. *Product sub-brand* (e.g., 'Sensor' of Gillette, 'Big Mac or McNuggets' of McDonald's, 'Kit Kat' of Nestlé)
4. *Umbrella but stand-alone* (e.g., Timotei)
5. *Stand-alone brand* (e.g., Snickers)

Another way to dichotomise brands is presented by LaForet and Saunders (1994) as depicted in Figure 3.

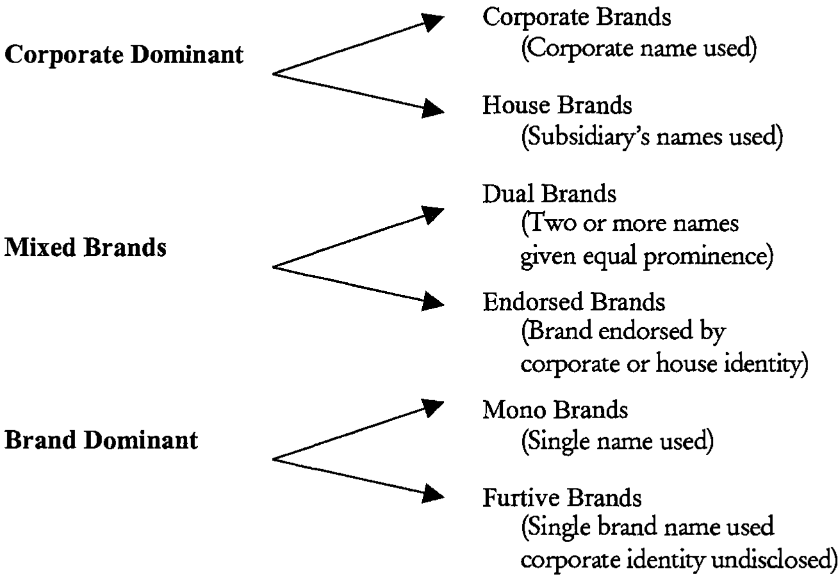

Figure 3 Brand Hierarchy (LaForet and Saunders 1994, p 68)

Based on a content analysis of brand packaging and semistructured personal interviews with senior marketing managers from Britain's 20 top suppliers to Tesco and Sainsbury, the authors suggest that the reasons behind the different branding strategies may vary. Their results suggest that *corporate brands* are used when the company operates in a tightly defined market. For these companies there is a clear advantage in the promotion of the related products supporting another. *House branding* occurs when a diversified company has divisions that operate in tightly defined markets, or when acquisitions are made and a subsidiary is given some independence. *Mixed brands* occur for corporate and marketing reasons, and even when branding is consumer driven, corporate history showed to have a great influence. The use of a corporate, house, or family brand name eases the new product's acceptance by consumers and the trade. *Mono brands* occur when companies are diversified and products are marketed similarly but are viewed differently by consumers. The use of mono brands also allows companies to target different target markets, differentiate brands, and gives consumers the perception of wide choice.

With exception from mono brands and furtive brands, all these branding strategies are, thus, the result of extensions of brands to encompass more than one product in one or more product categories. We will now turn to the incentives, limitations and potential pitfalls of an extension strategy.

Extending the Brand: Incentives

According to Veit (1991, p 21) there are a number of reasons for a company to extend a brand:

1. Brand operations and brand launches draw large financial and managerial resources, especially considering the internationalisation of consumer marketing.

2. The use of a well-known and established brand name reduces the risk for an unsuccessful product launch since the consumer associates the brand with a – hopefully – positive experience of other products sold under the same brand.

3. A common market appearance generates marketing synergies: advertising costs may be reduced and promotion of one group of products will create positive spill over to the other.

4. The creation of new brand names becomes increasingly difficult, especially considering the fact that the brand must be possible to protect on a European, or even global, market.

5. The market size of the original product becomes smaller and the demand pattern becomes more fragmented through a more differentiated output structure with new product categories. Diversification into new market segments becomes necessary for the company if it wishes to maintain its market position. Using an established brand reduces the risk of failure.

6. The formulation of a new product and brand positioning becomes increasingly difficult. The consumer has developed both trust and preferences for established brands and has accepted their positions. Using new brands means an initial insecurity for the consumer that he, or she, has to overcome.

As in the cases of brand extension licensing and collateral licensing, *brand*, or *line*, extension is built on the assumption that the consumer will infer a given quality on the new product when recognising the brand.[8]

> *"Brand extension allows consumers to make inferences about an extension based on their knowledge of other products affiliated with the brand. In essence, a consumer's knowledge of other products affiliated with a brand serves as a surrogate for knowledge of the extension, thus reducing uncertainty"*
>
> (Smith 1992, p 12)

According to Aaker (1990), the consumer's purchase decisions are often based on a limited number of product attributes. Since it can be difficult to create and maintain a trustworthy difference vis-à-vis the competitors'

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[8] The difference between brand and line extension is contingent on how the target audience perceives both the brand (new brand or same brand) and the product category (same category or new category), why the below discussion of brand extensions to a large extent is applicable on line extensions as well.

product attributes, the company can – by using an extension that exploits the consumers' recognition and positive attitude towards the brand – create:

- *Brand associations*: the brand offers a number of existing associations that can be used by the consumer to classify the extension.
- *Quality associations*: if the consumers find it difficult to evaluate the quality of products, the quality associations that have already been built into the brand can be used to create an impression that the product is, or should be, of a high quality compared to the competitors.
- *Recognition and Presence*: recognition of a brand may directly influence purchases of low involvement products and may also decide whether the brand is perceived as a candidate when buying high involvement product, e.g., cars or computers. Creating this recognition may be extremely expensive, why the use of a well-known brand that is automatically recognised may limit marketing communication to connecting the brand to a new product category. The brand may also benefit from spillover effects from advertising of other products, in other product categories, under the same brand. This notion is also supported by empirical findings (Smith 1992; Smith and Park 1992) indicating that the A/S ratio (advertising divided by sales) for a product launch using an established brand is only half of that of a launch using a new brand. This efficiency is, however, affected by a number of factors attributable to the product, the firm's marketing strategy and marketplace characteristics.
- *Facilitation of trial-purchase*: a well-known brand on a new product reduces the perceived risk for a potential buyer. The brand

communicates that it is a established company that produces the product, that the company will continue to support the product with service, and that it would be unlikely to market an inferior product. In cases where the consumer perceives a risk connected to the purchase (e.g., social and economic), this risk-reduction may affect the consumer's willingness to try the product.

A brand extension, thus, aims to benefit from the consumer's propensity to transfer recognition and positive brand attitudes generated by previous products to the extension. By doing this transfer, the consumer categorises the new product based on previous experiences. One way of approaching the mechanisms behind an extension – and by this the limitations and potential pitfalls of the strategy – is to look into the processes that underlie the consumer's categorisation of products.

Extending the Brand: Limitations and Potential Pitfalls

Mervis and Rosh (in Boush and Loken 1991, p16) define the existence of a category as "when two or more identifiable objects are treated in the same way." In connection to extensions it is, however, of interest to measure the degree of association between products and *brand category*, i.e., the category encompassing the products that are sold under a common brand. According to the authors, members of natural categories are perceived as more or less typical for these categories. A robin is thus perceived as more typical for the bird category than an ostrich. Non-members of the category may vary in degree of non-membership: a chair is to a larger extent perceived as a non-member of the bird category than is a butterfly. These degrees of category membership are denoted *graded structure*. A new product may, accordingly, be perceived as belonging to a brand category to a larger or smaller extent. In other words: the consumer will decide to what extent a new product fits the brand associations that he or she has.

Another aspect of brand knowledge that may affect the consumer's attitudes to the extension is the breadth of the brand, i.e., the span of products that are sold under the brand. A brand that is used for a number of different products will, in the eyes of the consumer, constitute a broad brand category, while an organisation that has used its brand to launch similar products will create a narrow brand category.

The result of these two factors is that a consumer will assess a brand extension in terms of the relation between product and brand. This assessment will be based on how narrow or broad the brand category is, and on the degree to which the consumer perceives that the new product fits this category.

The outcome of this assessment will also determine whether the consumer feels that his/her brand knowledge is relevant for assessing the new product. If the consumer feels that there is too large a "gap" between brand and product, the brand will no longer provide relevant information and thus be reduced to a means of consumer recognition. Since the extension fails to capitalise on brand associations, the extension's advantages over a new brand will be reduced.

To attain a direct consumer acceptance an extension must, thus, fit the brand so that the consumers perceive considerable similarities between the brand and the product. Should this fit be vague, the brand owner must provide the consumer with the arguments necessary for him or her to place the product in the brand category, i.e., to use qualities of the brand when judging the product.

Experimental results presented by Boush and Loken (1991) suggest a number of connections between extension and brand category. Firstly, both the extent to which the extension was perceived to be typical for the brand category and the breadth of this category affected the subjects evaluation processes and the result of these processes. Secondly, the degree to which positive or negative brand associations are transferred to the extension will depend on how well the extension fits the brand category. In those cases were the subjects could not see the connection between the product and the brand, attitudes were neutral or mildly positive to the new product. Thirdly, the breadth of the brand category interacted with the perceived typicality of the extension. In comparison with a brand category that encompassed similar products, subjects considered an extension similar to one or more products within the brand category as less typical of the category when the category encompassed a large variation of products. There were, however, a positive association between the breadth of the category and the probability that the subject would perceive even moderately similar products as typical for the brand.

This suggests that a “narrow” brand has a larger potential for extensions that are typical for the brand category, while broader brands have a better chance of achieving consumer acceptance for extensions that are moderately similar to the brand category. In other words: consumers are more likely to accept the inclusion of new, dissimilar, products under the brand if this brand is already used for dissimilar products. Fourthly, associations to the brand category were, to a larger extent, used if the extension was similar to other products in the brand category. Extensions that were moderately similar to the other products resulted in longer evaluation processes using more information.

Boush and Loken's results, thus, suggest that consumers' evaluation of brand extensions will depend on both the breadth of the brand and the typicality of the extension. When the products sold under the brand are similar (i.e., an homogenous brand category), an extension that fits this brand category will be assessed quickly by the consumers and also to a large extent be able to capitalise on positive consumer associations to the brand. When dissimilar products are sold under the brand, the consumers will more readily accept extensions that are moderately similar to other products in the brand category than when the brand category is narrow.

In a report by Broniarczyk (1994) experimental data is presented that shows that brand specific associations may have the largest impact on the consumer's assessment of the similarity between brand and category, especially when the consumer is knowledgeable of the brand. The extent to which brand associations and attitudes are transferred to new categories will be limited by the relationship between brand and context: extensions of brands that are strongly associated to specific product categories or to specific consumer benefits are likely to fail.

Unsuccessful brand extensions may, apart from failing to support the new product also have repercussions on the brand that has been extended:

> *"A brand name can fail to help an extension or, worse, can create subtle (or sometimes not so subtle) associations that hurt the extension. Worse still, the extension can succeed, or at least survive, and damage the original brand by weakening existing associations or adding new, undesirable ones"*
>
> *(Aaker 1990, p 47)*

The risk of an extension is thus twofold. Firstly, badwill from the original product may stymie a successful launch through the brand, should there be a product failure. Secondly, an unsuccessful launch or an “unnatural“ extension to a new product, e.g., a LaCoste car or a Volvo perfume, can render both the “old“ and the “new“ product badwill. Irrespective of the quality of the products such unrelated extensions may fail to support the new products and may also hurt the brand. (Aaker 1990).

Sunde and Brodie (1993) suggest that consumer acceptance of an extension will be higher if: 1) the perceived quality of the brand is high, 2) there is a perceived fit between the two product categories, especially in terms of the transferability of the skills and the complementarity of the two products, and 3) the extension is in a category which is difficult to make.

David Arnold (1992) divides the effects between brand and extension into five scenarios:

1. *Enhancement*: both brand and extension profits on the association.
2. *Extension*: the extension profits on the association to the brand and develops much faster than would have been possible if a new brand had been used.
3. *Neutral*: the extension does not profit on its association with the brand. This is unusual since an extension will draw attention to the brand why some kind of reaction is inevitable.
4. *Conflict*: the extension is in conflict with the brand's positioning or values, which will lead to consumer confusion.
5. *Damage on the brand*: the extension does not only fail, it also destroys the brand's positioning. Since it deviates from what the brand stands for, the extension alters the consumers' opinions of the value or personality of the brand.

The Cannibalisation Problem

Extending a brand may have its drawbacks when it comes to product or brand associations, but there are other hazards too: what happens if the consumer puts too much emphasis on the brand and disregards other features that the manufacturer is trying to communicate? A "new", or reformulated, product in a product category can acquire its sales revenues from three different sources (Kerin, Harvey et al. 1978, p 26):

- New consumers who were not previously buyers of products within the product category.
- Consumers of competitive brands
- Consumers of an existing company brand who switch to the new, or reformulated, brand or product.

In the last of these cases the manufacturer faces the problem of *cannibalisation*: the new product is too closely identified with the firm's existing products, and the new product launch is mere a redistribution of revenue within the firm's product portfolio. (Kerin, Harvey et al. 1978; Wind 1982; Traylor 1986) Copulsky (1976, p 105) takes on a consumer oriented view on cannibalisation and defines it as a result of too close an identification between a firm's new and old products, i.e., as being caused by product interdependencies in the minds of consumers.

For the brand owner, this may result in a competition between a firm's own products where two different kinds of cannibalisation could occur: inter-brand cannibalisation, i.e., between different company brands, and intra-brand cannibalisation, when products are launched under the same brand. Since the very idea behind a brand extension is to use the brand for creating a connection between present and new products, we should thus expect cannibalisation effects to be enhanced by this strategy.

The Advantage of a Fresh Start...

Another disadvantage with brand extensions is that the company cannot reap the benefits that can be derived from creating a new brand with its own unique associations that may provide a platform for future extensions:

> *"On the one hand, the brand owner foresees the possibility of endowing a new product with some or all the qualities of an existing brand. He can thus enter a market more cheaply, establish his new product more quickly and increase the overall support and exposure of the brand. On the other hand, the brand owner faces the possibility that by extending the brand to cover a new product all he is really doing is diluting the appeal of his existing brand. [...] Such a new brand would perhaps have taken greater effort and investment to establish in the market place, but it would have preserved the integrity of the existing brand. Furthermore, by developing portfolios of power brands, as opposed to extending a single brand, more ready divestment is possible of activities which have become inappropriate."*
>
> (Murphy 1992, p 5)

As in the case of licensing the brand, the company will lose full control over its brand if it has been extended to product lines that are sold to other companies. In this way, extensions may limit the possibilities of selling off product lines that may lead to a situation where the buying company's performance will have direct effects on the brand.

Making extensions is, in a way, to exploit the brand's history, but sometimes this history can be more of a liability and less of an advantage. If the consumers do not consider the brand as naturally linked to the product category, it may be a better strategy to launch a new brand with a better perceived fit.

2.4. DISTRIBUTOR OWN BRAND STRATEGY

The preceding discussion can be summarised as follows: brands derive their strength – and thereby their value – from positive consumer associations triggered by brand recall and/or recognition. This, in turn, leads to an increased propensity to by products sold under the brand. These associations constitute both the brand's potential and its limitations when it is to be used for product launches within, or outside, existing product categories.

These fundamental mechanisms must be considered by any brand manager or brand owning company, and distributors that launch their own brands are no different. Although both consumer recognition and recall can – at least partly – be created in the organisation's own stores, DOB's must battle for consumer acceptance and loyalty in the same way as manufacturer brands: by creating and sustaining positive consumer associations. DOB management must, consequently, obey the same "laws" as any brand management, why the advice given in the literature about brand management is directly applicable to distributor branding. Furthermore, like any organisation, a distributor must answer a number of questions before launching a brand, e.g., "Do we have the know-how and other resources necessary to launch the brand?", "Can we achieve consumer acceptance?", "Are there any profitable positions within the product category that we can aim for?".

We will now look further into DOB strategy, both in terms of its aims (i.e., strategy as plan) and in terms of its approaches (i.e., strategy as a pattern of actions).

DISTRIBUTOR OWN BRAND AIMS

To understand the formation of a DOB strategy as a plan, we need to understand what benefits a distributor - at least theoretically - can accrue from launching its own brands. Laaksonen (1994) points to benefits such as *differentiation* and *store image*, *control* over products and product range, and *profitability*. Leahy (1992) group the benefits of own brands for the distributor under six headings:

1. *Market planning*: DOB's can be used to ensure co-ordinated range development by filling in gaps left by brands or by covering a market in its entirety,
2. *Control*: the control over the DOB enables the retailer to respond quickly to demand changes,
3. *Innovation*: since the retailer does not have to buy distribution, launch costs for DOB's are lower which enables the retailer to take the risks connected to product innovation,
4. *Choice*: DOB's are an alternative to manufacturer brands and thus increase the consumers' choice in the store,
5. *Loyalty*: DOB's may create positive associations to the store, and, furthermore, the consumer cannot find the brand elsewhere,
6. *Cost*: if the retailer uses the store name for its products, brand image has already been created and advertising and promotions can be kept at a minimum.

Looking at this list we can conclude that the first three types of benefits (i.e., market planning, control, and innovation) can be seen as specific for distributors. In other words, these organisations do not need to buy distribution (at least to the extent that they can control the organisation's stores), and they can - at least potentially - benefit from their proximity to the consumer market when developing new products. Furthermore, as suggested under "market planning", distributors can identify brand/product positions within a specific store concept's assortments rather than on a whole market, which enables them to find niches not readily identifiable to manufacturers. The last two types of benefits - loyalty and cost - are similar to the driving forces behind brand extensions: associations are transferred between store and brand, and between brands in different product categories, thereby reducing advertising and promotions costs.

Given these benefits, it is possible to identify a number of strategic aims of distributor branding. Glémet and Mira (1993) distinguish between three major roles of DOB's: vindictive, margin booster and marketing differentiation. As presented in Table 8, these roles differ with respect to objectives, keys and operational guidelines.

	Vindictive	Margin booster	Marketing differentiation
Objective of private label	• Reduce power of manufacturers by reducing their volume and brand franchise • Eliminate small competitors	• Enhance category margins (private label can deliver 5-10 margin points more than brands)	• Provide a differentiated product to build retailer's image • Private label not just a means of cutting prices
Key	• Price value	• Price value	• Value and quality
Operational guidelines	• Cost cutting • Periodic auctions	• Cost cutting • Periodic auctions • Usually non-store label	• Retailer needs marketing and technical skills • Strong long-term relationship between retailer and manufacturer • Usually store label

Table 8 Roles of private label for retailers (adapted from Glémet and Mira 1993)

The above taxonomies point to different but related dimensions of DOB aims: reduction of costs, differentiation from competitors, enhancement of assortment attractiveness, and creation of alternatives to manufacturer brands, or in Glémet and Mira's terms: vindication, margin boosting and marketing differentiation. These dimensions need not be contradictory: a gap in the assortment can be filled by a DOB that may reduce costs, enhance the attractiveness of the assortment, work as an alternative to manufacturer brands and create differentiation in the marketplace. An organisation may, on the other hand, perceive some aims as being more important than others, e.g., the organisation may focus on its margins on manufacturer brands and use the threat of a brand launch to enhance these margins when negotiating with a manufacturer. Furthermore, an organisation focusing on profitability aspects may launch brands that are profitable and that enhance the assortment without creating any direct associations to the store or to the distributor organisation. As Glémet and Mira express this:

> *"Such strategies are shaped by differences not only in the objectives of individual retailers, but also in manufacturers' behavior, consumer perception, and the extent of trade development in each country."*

DOB strategy may, as will be discussed in the next chapter, be affected by a number of factors, e.g., manufacturer brands and product category idiosyncrasies, but the extent to which they do so may vary between organisations and situations. We will now turn to the various branding approaches that the organisation may use to attain its goals.

DISTRIBUTOR OWN BRAND APPROACHES

If we regard DOB strategy as a pattern, we can identify a number of different branding approaches that will yield different types of brands with respect to name structure and to positioning vis-à-vis manufacturer brands. In terms of name structure, Randall (1994, appendix 1), divides these approaches into:

1. *Store name brands*
2. *Retailer-controlled name brands*
3. *Designer labels*
4. *Licensed names*
5. *Generics*

Another, related, categorisation of DOB's is made by Laaksonen (1994) as:

1. *Generics*: unnamed, inexpensive and basic commodity lines.
2. *Store brands*: using retailer's name.
3. *Non-store brands*: using different name.
4. *Exclusive or private brands*: either manufacturer's brand or other retailer's own brand exclusively sold by one particular retailer.

A third categorisation is offered by Stern & El-Ansary (1992):

1. *Store identification programs* (products bear the retailer's store name or logo),
2. *Retailers' own brand name identity program* (a brand image independent of the store name which is available in only that company's stores),
3. *Designer exclusive programs* (merchandise designed and sold under a designer's name in an exclusive arrangement with the retailer),
4. *Other exclusive licensed name programs* (celebrity-endorsed lines or other signature or character label lines developed under exclusive arrangements with the retailer),
5. *Generic programs* (goods that are essentially unbranded).

Looking at the different taxonomies presented by the authors, one may conclude that there are four main dimensions that can be used to group DOB approaches: *ownership*, *breadth*, *exclusiveness* and *distributor identification*. In terms of the preceding discussion of brand hierarchies (see p. 48), we may classify non-store brands as a brand dominant strategy and store brands as a corporate dominant or mixed brand strategy. Exclusive or private brands may be either strategy, while generic brands constitute a non-brand strategy.

If we relate these different approaches to the incentives behind DOB operations we may conclude that there – at least theoretically – should be a strong connection between what the organisation wants to achieve and the branding strategy that can be employed to attain this. An organisation that wants to differentiate itself from its competitors can do so either with own brand identity programs or with other licensed brands that are exclusive for the organisation's stores. An organisation that wants to create loyalty and positive associations to its stores should use store identification programs, while an organisation aiming at enhancing profits through cost reduction or better manufacturer brand margins could use either strategy, including generics.

Glémet and Mira (1993) offer a taxonomy of brands based on their strategic role for the distributor organisation as presented in Table 9. When looking at the three dimensions *ownership, breadth* and *distributor identification*, we may identify several limitations to the distributor's branding strategies. If the brand is owned and controlled by the distributor, and if it is used over several product categories, the organisation will face the same type of extension limitations as any other brand owner. The key question here becomes whether the brand should encompass homogenous products/product categories or if the brand should be used for a large variety of products. Economies of scale, consumer recognition and attitudes will suggest the use of a house brand or a corporate brand for endorsed branding. On the other hand, a strategy built on extension may lead to brand dilution, consumer confusion and even damage to the core brand.

Type of private label		Characteristics
Generic • Unsophisticated products without brand	• Simple package	• Dependent on the value proposition (usually the lowest price) • Lowest price for acceptable quality
Effective (or store brand name) • Same brand for all products • Brand name is that of chain	• Horizontal strategy: same package type (colour, design) for all product categories • Vertical strategy: specific package type by product category	• Communications synergies; but difficult to maintain different positioning by product category • Usually in food products • A way of furthering store's image
"Brand killer" • Different brand for each product or even subproduct category	• Horizontal versus vertical packaging choice	• Each private label may be positioned at different price level according to industry structure and product category
Assortment • Same brand for all products • Brand name is different from that of chain		• Retailer entirely responsible for the marketing of the brands • Easy to convince clients to try the brand (not necessarily related to retailer) • Both food and non-food products • Flexibility to launch and withdraw brands

Table 9 Brand name strategy in private label (Adapted from Glémet and Mira 1993)

When discussing brand extensions it was pointed out that a "broad" brand may suffer less from product launches that are dissimilar to existing products, but that such a brand will give less support for the extension than a "narrow" brand. The use of a house brand/corporate brand for endorsed branding, or a product brand in more than one product category, requires considerations of how the consumer's perceive the fit between the different product categories that the brand is used within. As noted by Quelch and Harding (1996), stretching a store name - just like a manufacturer name - over too many product categories muddles the image. Consumers may find it hard to believe that a store can provide the same excellent quality for products across the assortment.

Another, related, problem is the fit between the core brand and the product categories. A distributor that wants to use a high degree of distributor identification in its branding approaches must consider the consumer's associations to the company brand. As pointed out in the introduction, DOB penetration varies between product categories, a fact that can, at least partially, be explained by the degree to which consumers perceive the distributor as a trustworthy or appropriate actor within the product category.

A third problem, as pointed out when discussing brand extensions, is that the use of the distributor's name for corporate/house branding or the use of a product brand in extension may lead to negative spillover, should one of the products fail to meet the expectations of the consumers. A product failure may, thus, damage other products sold under the brand as well as the brand owner's own reputation.

DOB GENERATIONS

Another way to group different branding approaches and their objectives is to divide them into different generations as presented in Table 10.

Looking at the four generations presented in Table 10, we can see that both form and function of DOB's have changed between the first and fourth generations, and that the term "private label" may apply to the first and second generations, but not to the later ones.

	1st generation	2nd generation	3rd generation	4th generation
Type of brand	• generic • no name • brand free • unbranded	• "quasi-brand" • own label	• own brand	• extended own brand, i.e., segmented own brands
Strategy	• generics	• cheapest price	• me-too	• value-added
Objective	• increase margins • provide choice in pricing	• increase margins • reduce manufacturers' power by setting the entry price • Provide better value product (quality/price)	• enhance category margins expand product • expand product assortment, i.e., customer choice • build retailer's image among consumers	• increase and retain the client base • enhance category margins • improve image further • differentiation
Product	• basic and functional products	• one-off staple lines with a large volume	• big category products	• image-forming product groups • large number of products with small volume (niche)
Technology	• simple production process and basic technology lagging behind market leader	• technology still lagging behind market leaders	• close to the brand leader	• innovative technology
Quality/ Image	• lower quality and inferior image compared to the manufacturers' brands	• medium quality but still perceived as lower than leading manufacturers' brands • secondary brand alongside the leading manufacturers' brand	• comparable to the brand leaders	• same or better than brand leader • innovative and different products from brand leaders
Approximate pricing	• 20% or more below the brand leader	• 10-20% below	• 5-10% below	• equal or higher than known brand
Consumers' motivation to buy	• price is the main criterion for buying	• price is still important	• both quality and price, i.e., value for money	• better an unique products
Supplier	• national, not specialised	• national, partly specialising to own label manufacturing	• national, mostly specialising for own brand manufacturing	• international, manufacturing mostly own brands

Table 10 Evolution of own brands (Laaksonen 1994) [9]

As discussed earlier, the approaches may vary with incentives: the more the distributor organisation focuses on differentiation and creation of consumer value, the more sophisticated the brands launched. While the first generation's rather simple generics are suitable for increase of margins and spread of category prices, the organisation has to access innovative technology to be able to launch fourth-generation brands. If

[9] The characterisation is based on material from Boston Consulting Group/Markant (1992), de Chernatony "Prospects for Grocery Brands in the Single European Market" (1991), Glémet and Mira "The Brand Leader's Dilemma" McKinsey Quarterly no. 2 (1993), and Ramsay "The Decline and Fall of Manufacturer Branding", paper presented at a ESOMAR seminar in Brussels (1992).

one compares these generations with manufacturer brands, it is apparent that the third generation is competing directly with the brands that are not category leaders, using a "me-too" strategy, while the fourth generation is no longer concerned with copying but with innovative brand operations aimed at the category leader. Each of these generations, thus, increases the organisation's need for branding experience, as well as for e.g., R&D and production know-how. We will return to these demands on the organisation in the next chapter.

IN SUMMATION...

We have now discussed retailer brand strategies both in terms of the benefits sought and the possible approaches that can be used. Given that different marketing systems show different characteristics with respect to competitive situation and power distribution, different benefits should be perceived as more or less important by the distributor organisation, and thus the incentives should vary. Furthermore, as is the case with any brand-owning organisation, the perceived ability to launch DOB's of different generations will depend on perceptions of the distributor organisation's resources in terms of production, R&D, and brand management know-how. This, in turn, should lead to brand approaches that will differ with respect to the dimensions discussed (ownership, exclusiveness and distributor identification). We would, therefore, expect that the overall DOB strategies - both as plans and as patterns of actions - will vary with the benefits perceived important by the distributor organisation, and with the perceptions pertaining to brand related resources that the organisation can develop or acquire.

3. THE FORMATION OF DOB STRATEGY

3.1. INTRODUCTION

We will now turn to factors that have been proposed in the literature to affect DOB strategy and thus DOB development within a marketing system. As stated in the introduction, much of the literature on the determinants of DOB development treats these factors as a given, rather than relating them to the formation of brand strategy within the individual retail organisation.

The aim of this chapter is to develop a theoretical model that explicitly takes DOB strategy into consideration when examining proposed determinants of DOB development. A number of potential determinants derived from the literature are discussed together with possible effects on the distributor organisation's brand strategies. In addition to external factors that may influence DOB strategies, the organisational mode of the distributor organisation will be discussed. The reason for this is that the degree of control that the central organisation has over the individual retailers in terms of assortment composition and promotion activities may have a direct import on the organisation's ability to secure the distribution and promotion activities necessary to market its own brands.

The factors are divided into those pertaining to: 1) *Presence of Strong Manufacturer Brands*, 2) *Level of Advertising and Promotions*, 3) *Consumer Perceptions of DOB's*, 4) *Market Concentration and Internationalisation*, 5)

Manufacturer Response to DOB's, 6) *Assortment Planning*, and 7) *The Organisation of Wholesaling and Retailing Operations.*

As will be discussed in the conclusion of this chapter, these seven factors are interrelated and are therefore not ordered according to some notion of their importance for DOB development. For each of these factors, a number of *question areas* are presented. As discussed in the next chapter, these question areas have been used as a framework when making the interviews that are analysed in the study. Given the method chosen in the study - interpretations of interview data - it is important for the reader to understand the conceptual framework that has been used when approaching the interview material presented in Chapter Five. This chapter should, thus, also be seen as an attempt to explicate the ideas and notions that underlie the interpretations and discussions in the study. The chapter is concluded by a presentation of the theoretical framework that is used in the interviews and analyses.

3.2. PRESENCE OF STRONG MANUFACTURER BRANDS

A factor that has been suggested to affect DOB development is the presence of strong manufacturer brands with a high degree of consumer loyalty (Laaksonen 1994). We will now look further into what effect this may have on the distributor's brand strategies.

The foundation for a manufacturing company's position in a marketing channel is derived from its ability to control the demand side of other channel members' operations:

> *"The potential channel management role of manufacturers appears to hinge on the strength of their products, brands, and services as viewed by ultimate consumers, both at the household and industrial levels. In other words, manufacturers' power relative to other channel members is derived primarily from the marketplace."*
>
> (Stern and El-Ansary 1992, p 437)

As pointed out earlier, the ability to control consumer demand is, in turn, dependent on the behavioural outcomes of brand loyalty, i.e., the degree to which consumers favour the brand in their purchase decisions. Rao and Monroe (1989) present results from a meta-analysis of experimental investigations of the influence of price, brand name, and/or store name on buyers' evaluations of product quality. Rao and Monroe find that, for consumer products, the relationships between price and perceived quality and between brand name and perceived quality are positive and statistically significant, while the positive relationship between store name and perceived quality is small and not statistically significant. In an investigation of consumer risk-perception and brand vs. store reputation, Taylor and Rao (1982) find support for their hypotheses that: 1) consumers rely more upon brand reputation than store reputation as a risk reducing factor when purchasing nondurable goods, and 2) greater confidence is perceived when purchasing well-known brands in less-known stores than when purchasing less-known brands in well-known stores. In other words, these results support the view that reputable manufacturer brands may have an inherent value for consumers that can be translated into influence over the distribution channel. Given that consumers have a number of brands that they choose between, the extent to which this brand strength translates into influence depends on whether the consumer will choose another brand from his/her consideration set, or leave the store if the brand cannot be found in the shelves:

> *"A brand is only a source of ultimate power for the manufacturer if the shopper feels obliged to leave a retailer's premises if the brand is not on sale. Once alternatives exist to the brand that the shopper is happy to switch to, the manufacturer's power reduces."*
>
> (Davies 1993, p 208)

A brand may, thus, constitute a substantial market resource for its owner when negotiating with other members of the marketing channel: the owner of a reputable brand may, at least to an extent, control consumer demand. A de-listing of such a brand would result in lost sales for wholesalers and retailers, and by this the brand owner controls the demand side, and thereby profits, of the retailer' and wholesaler's business. This consumer demand will, in turn, create an opportunity for the brand owner to exert influence on other members of the channel in terms of for example margins and distribution.

> *"Branding represents one source of manufacturer power because it creates a demand at the end of the supply chain, the so-called demand/pull effect, that retailers feel obliged to meet to ensure shoppers patronise their stores."*
>
> (Davies 1993, p 51)

Farris *et al.* (1988) suggest that there may be feedback mechanisms in the distribution system that will favour larger brands in competition with smaller brands. According to the authors, as higher levels of distribution coverage are reached, market share will be positively affected by increases in distribution depth in the form of additional SKU's[10], a larger share of shelf, or special displays/positioning. As market share increases, distribution breadth increases more than proportionately, reflecting the trade's tendency to stock those brands which sell well – and also the tendency to give those brands a larger share of shelf space and to stock more SKU's. Conversely, as distribution is increased, the greater availability of the product, combined with the trade support for it, results in larger-than-proportional increases in market share.

> *"Unavailability of a smaller brand, either because of stock-outs or restricted distribution, benefits larger brands more than smaller ones. This result is implicit in the stocking behaviour of retailers: Given the choice between a large brand and a small brand (and given equal levels of trade support), retailers will preferentially choose the brand for which there is greater demand – and consequently the one with the larger market share."*
>
> (Farris, Olver et al. 1988)

There are, however, limitations of this control. The brand must appeal to a large enough share of wholesale and retail sales, but the extent to which a share is "large enough" will be context dependent. A given sales volume may be large for an individual retailer on his/her local market, but at the same time only constitute a fraction of the whole distributor organisation's sales volume. The degree to which a brand's strength can be exploited as a source of influence in the relations with other members

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[10] *Stock-keeping Units.*

of the marketing channel thus depends on what level purchase decisions are made within these organisations.

Furthermore, as suggested by Pellegrini (1989), the retailer may use the brand bias created by the manufacturer to market its own brands. The author divides brands into class A and class B goods. The former category encompasses reputable manufacturer brands that the consumer has made plans to buy before entering the store, the latter category consists of less known brands that the consumer may choose when *in* the store. Given that the consumer will compare price levels between stores, he/she will make these comparisons based on type A brands when choosing which store to patronise, why it is important for the retailer to use these brands to attract customers. The problem for the retailer is, of course, that type A brands often will yield the lowest margins. A strategy for the retailer in this situation, according to Pellegrini, is to attract consumers with type A brands, and then use prices and exposure within the store to persuade them to choose type B brands, with higher margins, instead. Given that we define DOB's as belonging to the type B brands, this is a strategy that can be used irrespective of DOB generation.

POSSIBLE EFFECTS ON DOB STRATEGY

We have now seen how the presence of strong manufacturer brands may affect the relations between the manufacturer and the distributor, and thus the distributor's brand strategies.

Manufacturers that can control a large portion of product category sales through brand loyalty may be difficult to attack with DOB's. Firstly, these brands may be necessary for the distributor organisation's survival by their ability to generate consumer demand. Secondly, consumer segments favouring these brands may not be the easiest ones to induce brand switching within. Thirdly, the owners of these brands are probably organisations that have the motivation, financial resources, and brand management capabilities to defend themselves against new entrants in the product category, including DOB's.

On the other hand, the consumer appeal of strong manufacturer brands may, as pointed out by Pellegrini, be used as a means of attracting consumers to the organisation's stores and use shelf-space allocation and promotions to persuade them to buy DOB's. In this way, attractive prices on well-known brands can be used as a way to position the organisation's brands against other distributor organisations' brands.

Furthermore, in product categories dominated by a few large brands, these brands may drive category development and volume, thus making it profitable for the distributor to launch brands that capture niches not covered by the leading brands.

Question Areas

A. Perceptions of if, and if so why, manufacturer brands are needed in the assortment when competing for consumers.
B. Perceptions of the relationship between manufacturer brand strength and the ability to launch and maintain DOB's within a product category.

3.3. LEVEL OF ADVERTISING AND PROMOTIONS

Another factor that has been suggested to affect DOB development (e.g., Hoch and Banerji 1993; CCMIT 1994; Laaksonen 1994) is the level of manufacturer advertising. A high level of manufacturer advertising would, according to these authors, enhance the brand's differentiation from other manufacturer brands and DOB's by creating/maintaining consumer recognition/recall and brand attitudes. In this section we will look at some of the research findings that may support this view, but also at some factors that may reduce the impact of manufacturer advertising. We will, however, start with a more general discussion of the relative roles of adverting and promotional activities in brand marketing.

THE ROLES OF ADVERTISING AND PROMOTIONS

When it comes to consumer marketing, brand strength is built and maintained through advertising and promotional activities, which may be seen as distinctly different but interrelated means for a marketer to create consumer brand awareness, brand attitude, and sales. The differences between the two may be derived from the respective terms' Latin roots: *advertere*, which means to turn toward, and *promovere*, which means move toward or advance. As discussed by Rossiter and Percy (1997, p 4), using the Latin roots when conceptualising the two, advertising can be defined as a process of more or less indirect persuasion based on information about product benefits, which is aimed at creating favourable mental impressions that *turn the mind toward* purchase. Promotion, according to the authors, may be defined as a more direct form of persuasion, often based on external incentives, e.g., price, rather than inherent product benefits aimed at stimulating immediate purchase and to *move sales forward* more rapidly.

Advertising can, however, never be more than an attempt to persuade consumers to buy the brand, why the manufacturer's control over the distributors demand side is never discretionary. This, of course, makes necessary the use of additional means to persuade the consumer to actually choose the brand in the store. While advertising is aimed at creating brand awareness and attitude, promotional activities often focus on price, thereby increasing choice probability. In contrast to advertising, promotional activities must be local, giving distributors a high degree of control over the activities.

Rossiter and Percy (1997) divide the marketing firm's communication goals into *category need*, *brand awareness*, *brand attitude*, *brand purchase intention*, and *purchase facilitation*. In Figure 4 we can see the relative communication strengths of advertising and promotional activities for these goals. As seen in the figure, advertising usually has its greatest impact on brand awareness and brand attitude, a smaller effect on brand purchase intention, and the least effect on purchase facilitation. Promotion, like advertising, usually has a large impact on brand awareness (this through the display of the brand in the store), but has a larger effect than advertising on brand purchase intention and on purchase facilitation. In practise, a brand owner will often use a mix of advertising and promotional activities when marketing a brand, but, as pointed out by Rossiter and Percy, the best promotional activities are those that contribute to brand attitude through consumer franchise building. Furthermore, promotion can, alone, create all five necessary communication effects, which opens an avenue for distributor branding.

Another reflection that can be made when looking at Figure 4 is that neither advertising nor promotions are efficient means of creating category need. The reason for this, according to Rossiter and Percy, is that "selling" the category is more a matter of suggesting it as a solution to an already reasonable strong buyer motivation, and that advertising or promotions only rarely can create this motivation as such.

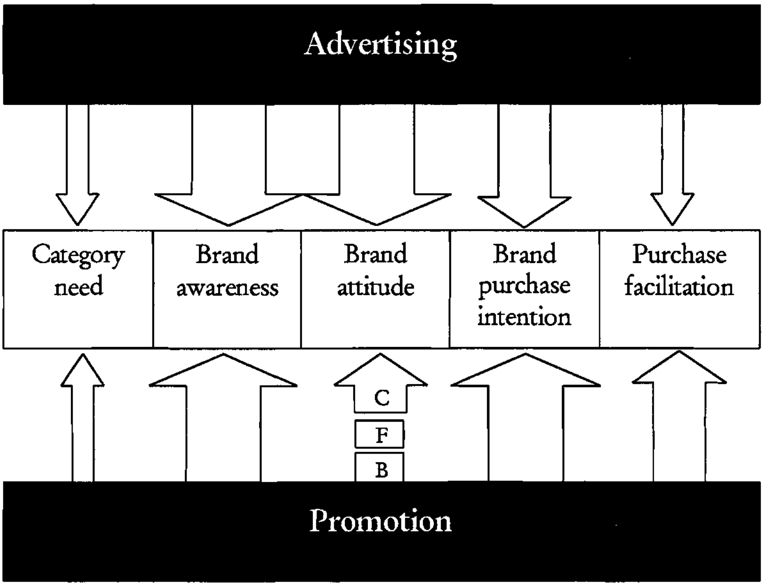

Figure 4 Relative roles of advertising and promotion (Rossiter and Percy 1997, p 325)

The only market communication measure that is directly controlled by the manufacturer is its consumer advertising. This advertising may, as discussed, have a direct effect by generating consumer demand through brand loyalty, but also an indirect effect by being an argument when persuading the distributors to stock and expose the branded products in the stores (see, e.g., Alderson 1957; Mattsson 1971). In this way, manufacturer advertising may create a demand-pull from consumers and also a supply push by its effects on distributors.

MANUFACTURER ADVERTISING AND DOB SHARES

As depicted in (Figure 5), Glémet and Mira (1993) suggest an inverse relationship between manufacturer advertising investment and DOB penetration, this based on a study of eleven product categories in the UK.

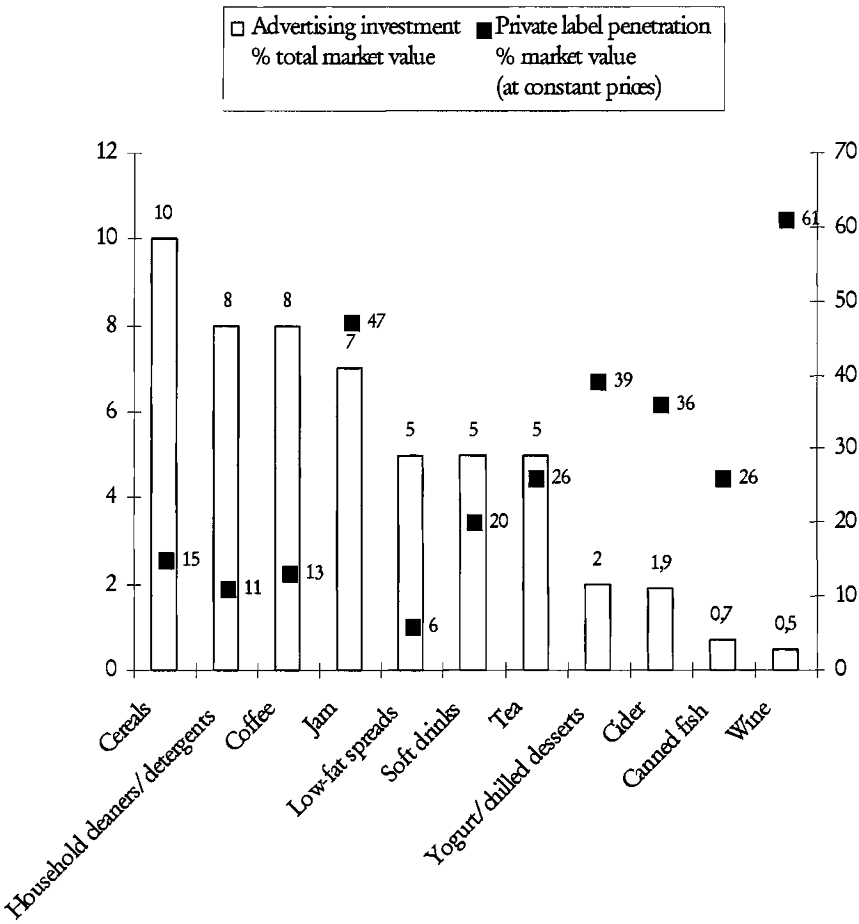

Figure 5 Advertising expenditure and private label penetration (average percent for 1987-90 in the UK) (Adapted from Glémet and Mira 1993)

Hoch and Banerji (1993) support this notion of manufacturer advertising as a means of safeguarding against DOB success:

> *"The traditional formula for building brands – to solve a consumer problem with a high-quality product and communicate it through advertising – has not lost relevance in creating differentiation and insulating manufacturers from price competition"*
>
> (Hoch and Banerji 1993)

Ashley (1998) presents results suggesting that it is manufacturer advertising *quality* and *quantity* (measured as Persuasive Rating Points) rather than advertising media weight (measured as GRP) that may have an overall effect on DOB share change. The results further suggests that decreases in DOB share are not due to direct effects of manufacturer advertising on DOB development but rather due to an increase in branded product volume (and total category volume), resulting in smaller relative product category shares for DOB's.

THE RELATIVE IMPACT OF ADVERTISING AND PROMOTIONS

There are, however, factors that may affect the degree to which advertising may be used as a means of safeguarding the brand against DOB's. Firstly, the relative impact of advertising and promotions will be influenced by the product category's degree of maturity. As shown in Table 11, advertising will have its largest impact during the introduction stage of the product life cycle. This impact may be maintained during the growth and maturity stages if the brand is a leader within its category or is differentiated in the growth stage, and if there is a high degree of brand loyalty in the maturity stage. Promotional activities have their largest impact during the introduction stage, during the growth stage (if the brand is used for a "me-too" product), and in the maturity stage (if there is a low degree of brand loyalty). In the decline stage, advertising does not have an impact, whereas trade promotion may have at least a low impact on sales. This notion of a changing advertising elasticity over the product life cycle is also supported by research finding presented by Parsons (1975) suggesting that this elasticity is larger in the early years of the cycle than in the maturity and saturation stages.

Within most fmcg categories the products can, on the whole, be characterised as having reached a mature stage, which points to the fact that the distributor may have a high degree of influence on consumer sales by controlling promotional activities. The manufacturer may avoid this by positive differentiation to enhance brand loyalty, but should it be unsuccessful in doing so, it will have to find means of persuading the distributor to promote the brand in its stores. This, of course, may lead to the distributors exercising a high degree of influence over the manufacturer's sales during all stages of the product life cycle.

PLC Stage	Advertising	Promotion
1. Introduction	High	High
2. Growth (a) Leader or differentiated (b) Me-too product	 High Low	 Low High
Maturity (a) High brand loyalty (b) Low brand loyalty	 High Low	 Low High
4. Decline	None	Low (trade)

Table 11 Relative roles of advertising and promotion according to product life cycle. stages (R.A Strang, "the Promotional Planning Process", New York, Praeger, 1980, in (Rossiter and Percy 1997, p 10)

A prerequisite for manufacturer influence is, thus, that the manufacturer can create positive differentiation in the eyes of the consumers, abstaining from "me-too" products, and that it can communicate this through advertising.

Secondly, a high level of advertising for the major brand may be a two-edged sword. On the benefit side, it enhances the brand name and image and adds to consumer confidence when buying/using the product. It also provides the consumer with product and usage information that reinforces the consumer confidence level. However, as the consumer becomes more educated, perceived risk diminishes, which, in turn, may result in brand switching based on relative prices.

Thirdly, the emergence of new media and an increasing fragmentation of audiences may reduce the impact of advertising. In a discussion of the challenges that brand managers must face, de Chernatony (1996) asserts that advertising's role in brand building is likely to change over the coming years due to e.g., an increasing number of television channels and the growing penetration of household PC's. Randall (1994) points out that, apart from a media cost inflation in many countries, the development of satellites, cable television, pay-as-you-view, video recorders, etc., has led some commentators to believe that these changes will make it increasingly difficult to reach a mass market though traditional campaigns. In the same vein, Pieters (1993) suggests that in the last decade, many European countries have experienced a development where the number of television channels has increased, leading to audiences being increasingly fragmented. Joachimsthaler and Aaker (1997) assert that media options for European manufacturers, as compared to US manufacturers, historically have been limited and relatively ineffective due to fewer commercial television stations and a bundling of advertisements to avoid programme interruptions. Furthermore, the addition of new cable and satellite television channels in European countries has not led to declining costs, this due to new brands adding to the demand and due to large distributors engaging in corporate and own brand advertising.

POSSIBLE EFFECTS ON DOB STRATEGY

As we have seen in this section, high levels of advertising may harness a manufacturer brand from both manufacturer and DOB competition as suggested by a number of authors. This would, thus, have a hampering effect on DOB strategy.

A high level of advertising aimed at brand building may thus reduce the distributor's ability to launch brands since consumers will rely less on price and more on brand related benefits when making their purchase decisions. However, as the consumer becomes educated, he/she can gain enough knowledge and confidence to make a more value-oriented buying decision, which opens an avenue for DOB's.

Furthermore, given the increasing difficulties of reaching large audiences with brand advertising, it is likely that this strategy is limited to the leading brands in the product category. As discussed in the previous section, these brands may not be the primary targets for DOB launches, why the adverse effects of advertising on DOB strategy may be reduced as long as these launches are positioned against minor brands.

Brands that are not category leaders will, furthermore, suffer the most from product maturity effects on advertising efficiency, and given that most fmcg categories have reached this stage, there should be an opportunity for the distributor to use the increased relative impact of sales promotions to launch its own brands.

Question Areas

A. Perceptions of the effects of manufacturer advertising and promotion on, e.g., consumer knowledge, attitudes and choice on both the product category and brand levels.
B. Perceptions of the effects of own promotion and advertising.

3.4. CONSUMER PERCEPTIONS OF DISTRIBUTOR OWN BRANDS

We have now discussed the impact of manufacturer brand strength and level of advertising and promotions on DOB development and strategy. In this discussion it was suggested that a distributor may not easily de-list a manufacturer brand with a large enough share of loyal consumers, and that manufacturer advertising and promotions may enhance brand strength. Whether or not a manufacturer brand will be able to defend its position in the assortment will, thus, to a great extent depend on its ability to attract consumers that the distributor may risk losing if the brand is de-listed. Conversely, DOB strategy and penetration will be contingent on whether these brands are accepted and bought by the consumers, thus making them an alternative to manufacturer brands in the shelves. In the two following sections we will look further into the issues of how we may characterise DOB prone customers, and how consumer perceptions of DOB's may vary with product category.

DOB PRONE CONSUMERS

Do DOB prone consumers differ from those who are loyal to manufacturer brands? In an overview of the literature on generics, Szymanski and Bush (1987) conclude that there are strong relationships of perceived product quality and price to the propensity to buy generic products. The results from the meta-analysis suggest that the most effective means for distributors to promote generic products is to position them as a solid value in comparison with branded products. According to the authors, distributors would, thus, benefit from an emphasis on the price differential between generics and national brands. Their analysis does, however, show a weak relationship between propensity to buy generics and demographic, psychographic, and shopping behaviour variables.

When developing a measure of consumers' attitude toward DOB's some ten years later, Burton *et al.* (1998) find a positive relationship between DOB attitude and value consciousness and deal proneness (especially deals involving price reductions), and a negative relationship to brand loyalty and price-quality perceptions. Interestingly enough, although the relationship between DOB *attitude* and sale purchases was positive, the authors found a negative relationship between DOB *purchases* and sale purchases. This would suggest that price deals on national brands would be an effective (but probably expensive) way to compete with DOB's, given that the consumers perceive the promoted national brand to be of sufficiently higher quality to offset the increase in price once the promotion is removed. The authors also found positive relationships between DOB attitude and reliance on internal reference prices (i.e., mentally stored prices), and smart-shopper self-perceptions, and a negative relationship was found between DOB attitude and impulsiveness.

This notion of socio-economic and behavioural differences is also supported by Omar's (1996) comparison of British consumers' shopping habits for national and DOB's. Omar's results propose that the typical DOB shopper tends to fit the "higher thrift" and adventurous buyer orientation, regards in-store information sources quite highly, shops frequently and longer, and is oriented towards best price and value for money. The author further finds that the DOB shopper's socio-economic status is somewhat low based in terms of housing patterns, occupation and education.

When discussing consumers' perceptions of DOB's, Laaksonen (1994) claims that consumers' attitudes towards these brands have changed over time as both consumers and distributors have become more sophisticated.

> *"Up to the early 1980's own labels were just seen as cheaper alternatives to manufacturers' brands. Initially consumers purchased own labels as a reaction against high prices of manufacturers' brands. Buying decisions were made either as a rational choice or because of economic need. Later in the 1980's, due to increasing prosperity, consumers dismissed generics as reminiscent of recession. Price alone was no longer enough to motivate consumers to buy."*
>
> (Laaksonen 1994, p 22)

In summation, these research findings draw a rather mixed picture of the socio-economic and behaviour correlates to DOB proneness. While much of the earlier research has focused on DOB's as generics, it is likely that both behavioural and socio-economic differences between distributor and manufacturer brand prone consumers may diminish as DOB's become increasingly sophisticated and increasingly similar to manufacturer brands.

DOB ATTITUDE IN DIFFERENT PRODUCT CATEGORIES

As noted in the introduction, DOB success may be affected by product category idiosyncrasies as suggested in Table 7. Laaksonen (1994) asserts that under the overall attitude to DOB's, consumers' perceptions of these brands may vary from one product category to another. Furthermore, the perceptions of DOB's in different categories may also vary between national markets.

Irrespective of the socio-economic and behavioural traits of DOB shoppers in general, then, we would expect these brands to perform differently in different product categories. As suggested by, e.g., Quelch and Harding (1996), Hoch and Banerji (1993), and Hoch (1996), DOB penetration will be affected by the consumers' perception of DOB product quality, and thereby their confidence in choosing these products. This confidence is, however, contingent on the consumers' perceived ability to make quality assessments when buying from a product category, and on products being inexpensive and not posing any risk. This would, thus suggest that DOB's should do well in product categories in which consumers feel confident to assess product quality and where there is a low degree of perceived risk when making purchase decisions. This can be compared with the conversion model discussed on page 36 that suggests that consumers' propensity to switch between brands will be a result of their perceptions of the risk connected to switching and their perceptions of differences between competing brands. According to this model, the ability of DOB's – as for any brand – to compete for customers will be contingent on both the perceived risk of brand switching in the product category and the degree to which the brand can present itself as a better alternative than its competitors.

As discussed earlier, consumer confidence may result in brand switching, why manufacturers may find it increasingly difficult to abstain from price promotion to maintain sales volumes and to maintain a price-premium. As suggested by Bronnenberg and Wathieu (see p 43) the extent to which promotional activities will be effective for well-known brands may depend on the perceived quality differences between brands in the product category. According to this theory, for a given price difference, large quality differences will favour promotions offered by higher quality brands, while small quality differences may favour the lower quality brands.

The perceived ability to assess relative quality may be furthered by the possibility to make direct comparisons of manufacturer brands and DOB's that offer a consistent quality that is deemed high and improving compared to manufacturer brands. As the product category matures, decreased manufacturer investments in product innovations, leading to decreased differentiation, may thus lower the barriers to entry for new entrants including DOB's:

> *"A mature product category, where the level of product innovation is low, provides an opportunity for private label to flourish, because it is easier for private label to define its value in comparison with the major brands. Also, as the category matures, the major brands tend to be "milked" for higher margins, in part to reap the benefits of past investments (especially in advertising) and in part to fund new product stars."*
>
> (CCMIT 1994, p 3)

This notion is supported by Glémet and Mira's (1993) research findings indicating a strong negative relationship between innovation rate and DOB penetration (Figure 6).

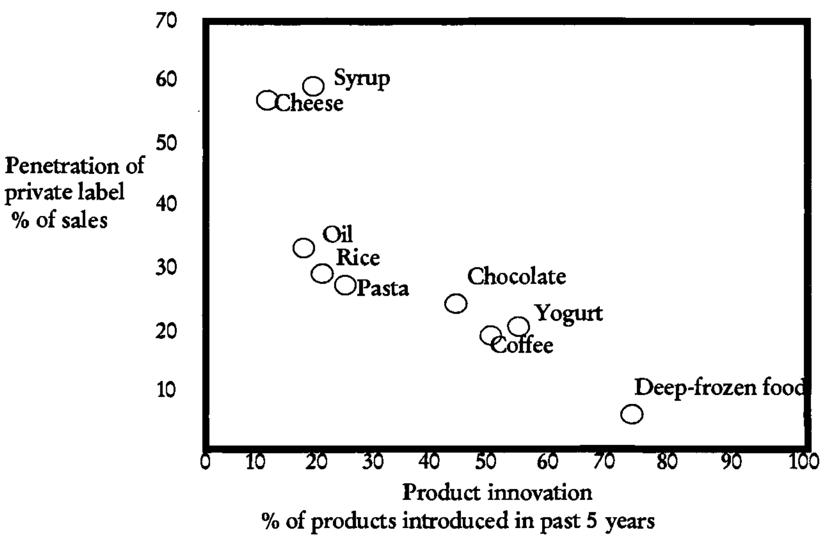

Figure 6 Penetration and innovation (adapted from Glémet and Mira 1993)

DOB's should thus have a better opportunity to succeed in product categories where the product innovation rate is moderate or low, thus enabling the distributor to launch products of the same or superior quality as the manufacturers, and where the consumer can assess this quality. Where quality/performance is more imperceptible, DOB's should, according to the CCMIT report (1994) have a more difficult time:

> *"The private label quality must match or exceed major brands in blind taste or usage tests. Inferior brand performance, even when consumer expectations of performance are fluid, result in higher consumer expectations of deeper price discounts versus the major brands."*

According to Richardson *et al.* (1994), DOB's may, however, have a quality liability as compared to manufacturer brands. The authors assert that an inherent problem in measuring consumers' quality assessments is that they may use product positioning and price as cue to quality. The DOB's' alleged inferiority in much of the literature on the subject may, thus, be due to them being positioned as inexpensive alternatives to national brands. This notion is supported by findings presented by Fowler (1982) indicating a relationship between perceived quality and price in situations where the consumers do not have a direct experience with the product. Based on their experimental findings, Dodds *et al.* (1991), found that when price was the only extrinsic cue available, the subjects clearly perceived quality to be related positively to price, but when other extrinsic information was available the results were inconclusive.

Richardson *et al.*'s results indicate that the extent to which consumers react unfavourable to DOB grocery items could be a result of their propensity to rely on extrinsic (e.g., price, brand name, and packaging) rather than intrinsic (e.g., ingredients and physical properties of the product) cues. Regardless of the product category or real ingredient differences manipulated, ingredients disclosed to be of national manufactures received significantly more favourable quality assessment than ingredients disclosed to be of DOB origin.

According to the authors, these results would suggest that manufacturers would be wise to enhance and maintain brand image in addition to maintaining a high level of intrinsic product quality. If the brand is not supported by an effective communications strategy, it may not enjoy any advantages compared to DOB's. Distributors, on the other hand, should note that although a value-for-money approach may avoid direct comparisons with manufacturer brands, this strategy will probably signal "lower quality for lower prices" than "very good quality for lower prices", thus preserving the consumer perception of these brands being of an inferior quality.

As discussed earlier, consumers' perceptions of a DOB may be affected by the perceived fit between the different product categories that the brand is used within, as well as the brand's fit to the individual product categories. Furthermore, stretching a brand over too many product categories may lead to a situation where consumers find it hard to believe that a distributor/chain can provide the same excellent quality for products across the assortment. Consumers' perceptions of DOB's will thus be affected both on their overall evaluations of the brand, of the appropriateness of the brand in the specific product category, and on the correspondence between the product categories in which the brand is represented.

POSSIBLE EFFECTS ON DOB STRATEGY

This section has discussed research of how consumers may perceive DOB's and how these perceptions may be affected by socio-economic and behavioural traits, and by product category traits.

While much of the success of early DOB's can be attributed to economic recessions in a number of countries, this relationship may – as pointed out by Laaksonen – become less clear as DOB's become increasingly sophisticated and thereby accepted by a variety of consumer groups. However, it is likely that DOB strategy – in terms of expected profitability and positioning – may vary with the perceptions that the distributor organisations has of different consumer segments and their overall DOB proneness.

Besides this overall DOB proneness, consumers may find it more or less appropriate to choose DOB's – and feel more or less confident to do so – depending on product category. Consequently, DOB's should do well in product categories from which consumers feel confident to assess product quality and there is a low degree of perceived risk when making purchase decisions. As suggested by, e.g., CCMIT, and Glémet and Mira, decreased manufacturer investments may lead to an opportunity for distributors to launch products that are of equal quality as the manufacturer brand products. The results presented by Richardson *et al.*, further suggest that if brand support is low, manufacturers may not enjoy the advantage of higher perceived product quality as compared to DOB's.

The previous discussion on brand extendibility indicates that consumers' perceptions of a DOB may be affected by the perceived fit between the brand and the chain's image, between the different product categories that the brand is used within, as well as the brand's fit to the individual product categories. It was also suggested that extending a brand over many product categories might lead to consumers finding it hard to believe that the brand can provide the same excellent quality for products across the assortment.

Question Areas

A. Perceptions of different consumer segments and their overall DOB proneness.
B. Perceptions of opportunities/ difficulties for DOB's in different product categories in terms of, e.g., innovation rates, consumers' perceived risk in making their purchase decisions, their ability to make quality assessments, appropriateness of the DOB(s) in the category, the degree to which DOB's can offer adequate and consistent product quality.
C. Perceptions of how consumers perceive the organisation's brands and the fit between these brands and chain image.
D. Perceptions of how consumers perceive the fit between, and number of, product categories in which the DOB's are used.

3.5. MARKET CONCENTRATION AND INTERNATIONALISATION

As stated in the introduction of this study, much research on DOB's have been directed to the relationship between retailer concentration and DOB development. In the literature, increased market concentration is suggested to lead to fewer and larger organisations that can amass the resources necessary to develop their own brands.

> *"Let us summarize first the main trends in retailing which may affect our relationship with our customers. The issue of power has been covered and can be summarized as: in virtually all markets, in most countries, the trend is towards greater concentration in retailing, and therefore the balance of power is swinging towards retailers."*
>
> Randall (1994)

According to Randall, the shift in power through concentration has led to distributors becoming more sophisticated in their buying operations, an increased intellectual and managerial quality of the management, and to more sophisticated management and better information systems. Segal-Horn and McGee (1989) suggest that distributors exert discriminatory buying power over manufacturers, and that these organisations have taken over many of the traditional functions of the suppliers, e.g., advertising, branding, physical distribution, and product design and development. When analysing the situation in the US, Borghesani *et al.* (1998) conclude that the traditional "manufacturer push" situation has, in the US, changed into a "hybrid market", including both "power buyers" operating under a consumer pull approach and smaller distributors continuing to operate under the older manufacturer-push matrix. Furthermore, the gap between large and smaller distributors may be widened due to the former group's ability to perform many of the operations offered by the manufacturers, while the smaller distributors lack this ability to spread inventory and distribution across the entire customer base. This, in turn, raises marginal inventory and distributions cost factors for smaller customers while minimising the costs for power buyers. Borghesani *et al.* conclude that leading retailer dominance is further enhanced through an increasing use of information technology to make production, distribution, and product delivery to the consumer more efficient; increasing retailer knowledge of the market and consumer behaviour; changing retail format; and the growth of private label production.

How then is concentration and size translated into DOB development? According to de Chernatony and McDonald (1992), the trend towards larger supermarkets and warehouse chains in many European countries during the last 25 years has led to a situation where the manufacturers' ability to maintain high levels of own brand support has decreased due to increasing demands for discounts from powerful retailers. The development of successful DOB's has, during the last three decades, thus developed into a double jeopardy for weak manufacturers in many countries. According to the authors, given an excess manufacturing capacity, many manufacturers stoop to a self defying strategy by supplying unbranded goods that are used to defeat them on the retailer's shelves. Cullen (1997) describes this as "The Trapped Brand Phenomenon", i.e., a loss of shares through key retailers will result in an imbalance in the brand's national distribution profile, why advertising expenditure becomes uneconomic. According to Cullen, brands that are under the threat from influential retailers are, furthermore, likely to spend an increasing share of their budgets on trade promotions to secure their access to distribution. This *circulus vitiosus* is illustrated in Figure 7.

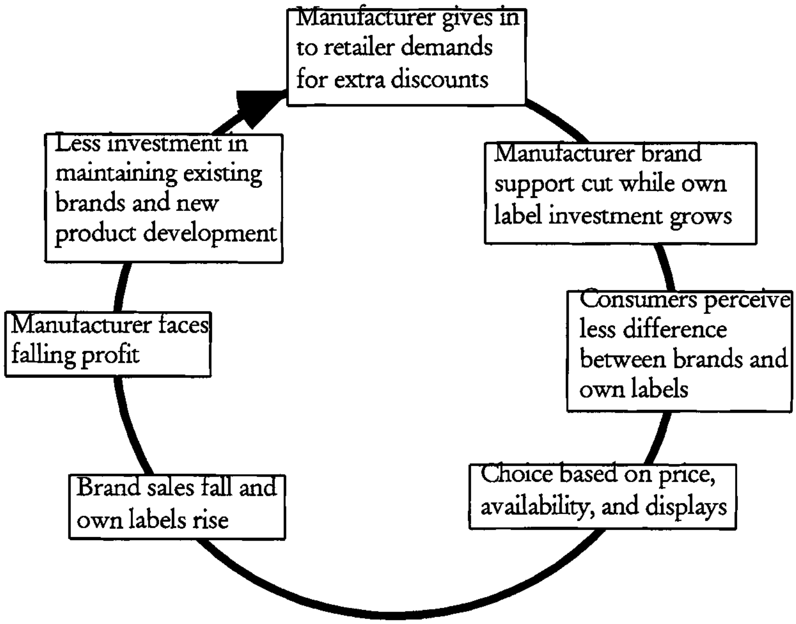

Figure 7 The vicious circle of private labels (de Chernatony and McDonald 1992, p 192)

A possible bias in these studies is that they are predominantly based on large markets such as the fmcg sector in the US and the UK. The effect of this possible bias is that some of the effects of market concentration that are analysed may be due to the emergence of large organisations in absolute terms rather than in relation to other actors on the market. In other words, a high degree of concentration on a large market will yield a different distribution of organisations in terms of absolute sizes than what would be the case on a smaller market.

How, then, can we approach the connection between market concentration and DOB development from a more general point of view? Mattsson (1973, p 2) lists a number of factors that may affect the dependencies between a manufacturer and a distributor[11]:

1. α_{ij}= The share of manufacturer *i*'s sales that is bought by distributor *j*.

2. β_{ij}= The share of distributor *j*'s purchases that is bought from manufacturer *i*.

3. A_i= The overall market share of manufacturer *i* in the relevant product group.

4. B_j= The overall market share of distributor *j* on the relevant retail market, e.g., the national retail grocery market.

5. ρ_i= The degree of ("positive") product differentiation of manufacturer *i*'s product. (This differentiation may be defined as the inverse of the price cross-elasticity between this and "all other products".)

A manufacturer will be more dependent on a specific distributor if α_{ij} and B_j is high and/or if ρ_i is low. In other words, the manufacturer's dependency on the distributor will be affected by the share of sales that goes through the distributor, the number of feasible distributors to sell through, and by the degree of positive product differentiation that the manufacturer is able to provide.

A distributor's dependency on a specific manufacturer will, in turn, increase the higher β_{ij}, A_i and ρ_i are. In other words, the manufacturer gains power if: 1) its products constitute a large share of the distributor's sales, 2) it has a strong position on the market leaving the distributor

[11] Mattsson uses the word retail decision unit in his report, but with reference to the discussion on wholesaler/retailer organisations, the term "distributor" is used in this presentation.

with few alternative suppliers, and 3) the manufacturer can create a high degree of positive differentiation which limits the distributor's ability to find alternative products.

How, then, are the relative dependencies between manufacturers and distributors affected by concentration on the national market and the degree of internationalisation? Given that we hold ρ_i constant, we may conclude that on a closed market, a high value on A_i will lead to a high value of β_{ij} while a high value of B_j will lead to a high value of α_{ij}. In other words, given that there is a connection between market share and alternatives available to the other party, the manufacturer's and the distributor's relative power will be affected by the relative distributor and manufacturer concentration on a closed market.

If we assume that both distributors and manufacturers operate internationally, the connection between national concentration (expressed as A_i and B_j) and dependency (expressed as α_{ij} and β_{ij}) may be mediated by the degree of internationalisation. For a manufacturer that operates on several markets, a distributor on a national market may have a large share on the national retail markets, but still only constitute a fraction of the manufacturer's total sales. Vice versa, a manufacturer may dominate the national production within a certain product group, and still be only one of several suppliers that the distributor can choose from on the international arena.

Given the discussion about distributor/manufacturer concentration, the hypotheses presented by Mattsson suggest that there should indeed be a relationship between concentration and power distribution among distributors and manufacturers. This relationship is, however, conditioned on the degree of internationalisation and on the size of the national market. In other words, a distributor that has a large share of a small national market could have less power than a distributor that has a smaller share of a large market. The distributor's influence will, thus, be conditioned on its relative importance for the manufacturer, rather than on the relative share on its national market.

A strategy that a distributor can use to increase its importance for, and thus influence over, a manufacturer is to form strategic alliances with other distributors. Robinson and Clarke-Hill (1994) divide these alliances into: trade associations, national buying clubs, co-marketing agreements, international alliances with central secretariats, equity participating alliances, joint ventures, partial acquisitions and equity participation, and full acquisition with retained identity. The degree to which these forms of alliances will yield an increased buying power differ, however, and the authors suggest that when this benefit is sought, national buying clubs and international alliances with central secretariats will be the predominant alliance types. There are, however, other DOB related benefits that can be accrued from national, or international, co-operation, e.g., brand and image transfer, trading format skills, procurement in specific product areas, promotional skills, financial investment, systems and technology skills, market entry into new product segments and trading formats, protection from market entry, protection from take over.

In a study of the European distributor co-operative alliance AMS (Associated Marketing Services), Kjellberg (1995) asserts that the extent to which these co-operative benefits can be reaped in reality is, however, conditioned on the co-operating distributors' positions on their respective markets, both vis-à-vis manufacturers and vis-à-vis consumers. In the case of second tier suppliers, the AMS members' positions were similar and strong. Generally, however, AMS displayed large differences in the relative positions of its members in their national markets, e.g., market shares varied from two percent to 40 percent on the national market; top three firm concentration rates varied from eleven to 90 percent. Since market shares and concentration rates also varied between national food producing industries, dominating distributors would receive better prices and lower costs nationally than was possible through the alliance. Furthermore, Kjellberg found that successful co-operation within the AMS either took place where national adaptation by the participants was possible, or in areas where consumer preferences were homogenous or international brands already had been established. The author's conclusion is that the usual problems with internationalisation are not circumvented by the formation of alliances, but rather becomes a part of the political process of the alliance.

POSSIBLE EFFECTS ON DOB STRATEGY

This section has dealt with the connection between distributor concentration and DOB development. As noted by a number of authors, an increased distributor concentration may lead to a situation where manufacturers are faced with increased demands for discounts that both force them to reduce own brand support and give the distributor the funding necessary to develop DOB's. In the discussion, it was suggested that this relationship between distributor concentration, influence, and DOB development might be mediated by the size of the national market - and thereby the retail sales in the product category - thus rendering distributors varying degrees of influence over manufacturers on smaller and larger national markets. It was also suggested that the extent to which the distributors engaged in international alliances with other distributors would affect their relative influence over both national and international manufacturers.

It was further suggested that, apart from enhancing the distributor's influence in relation to manufacturers, co-operative alliances may enable the distributor to accrue a number of other skills and resources that the organisation can use in its brand operations. The extent to which these co-operative benefits can be reaped is, however, affected by the participating organisations individual market positions and by the homogeneity of consumer preferences between these markets.

Question Areas

A. Perceptions of the organisation's relative influence over manufacturers operating different categories based on, e.g., size and share of – and control over – the national retail sales in the product category, influence through international alliances.
B. Perceptions of the DOB related benefits that can be accrued from international alliances.

3.6. MANUFACTURER RESPONSE TO DISTRIBUTOR OWN BRANDS

In the preceding discussion we discussed factors such as manufacturer brand strength, consumer perceptions of DOB's, and degree of market concentration and internationalisation and their relation to DOB development. These factors were hypothesised to affect the strategic choices of the distributor organisations, but apart from this they should also affect the strategies of the manufacturers selling through these organisations. Some manufacturers may attempt to stop, or at least hamper, the development of DOB's, while others may choose to increase their co-operative efforts towards the distributors and even offer production and product development resources for DOB's. Beginning with a more general discussion of how a manufacturer may approach the power shift from manufacturers to distributors, we will in the following paragraphs look at the strategies that may be employed by a manufacturer when approaching the issue of DOB's.

CO-OPERATION, ADJUSTMENT, OR COMPETITION?

According to Mattsson (1973) there are two major positions that a manufacturer may take with regard to its dependence on a distributor: *decreasing* the dependency on the other organisation or *adjusting* to the situation (i.e., a co-operative strategy).

Measures aimed at decreasing the dependence on a distributor include *horizontal and vertical integration* (e.g., mergers or co-operative alliances with other manufacturers or distributors); *change of market emphasis* from concentrated to less concentrated national markets; *product differentiation* and *diversification* e.g., by adding products that are sold through less concentrated channels. Measures aimed at adjusting to the situation include *production of DOB products*, *contributions to distributor activities*, *increase of product change rate*, *price reductions to distributors*, *increase in promotional marketing efforts*, and *increase of the research efforts*.

The manufacturer's ability to attain an independent position vis-à-vis the distributors is, as suggested by Mattsson, highly dependent on its own resources and the characteristics of the market on which it operates. Vertical and horizontal integration may be limited by the feasibility of buying other companies in the marketing channel; the ability to change market emphasis may be limited on concentrated retail markets; laws and regulations may prohibit abstaining from selling through certain channels; product differentiation places high demands on the company's ability to innovate; expansion to less concentrated geographical markets necessitates large production and marketing resources; measures aimed at increasing market shares through consumer advertising may be limited within mature product categories, and so on.

Furthermore, the attainability of both co-operative and independence-related strategies will depend on strategic response from the distributors. Dupuis and Tissier-Desbordes (1995) present a taxonomy (Figure 8) of manufacturer and distributor strategies based on the two dimensions *horizontal competition* (i.e., between distributors, or between manufacturers) and *vertical competition* (i.e., between manufacturers and distributors).

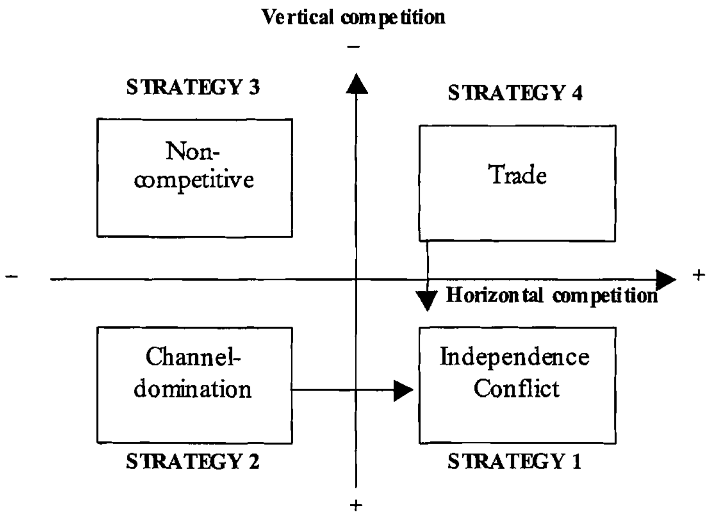

Figure 8 Manufacturer-distributor relationships (adapted from Dupuis and Tissier-Desbordes, 1995)

In the first strategy "*Conflictual independence*", each party retains independent movement and seeks the most favourable position on the vertical and horizontal axes. This initial position leads to a winning-losing strategy depending on the relative power relation within the channel. In the second strategy "*Channel domination*", one of the actors (manufacturer or distributor) tries to occupy a dominant position and impose its conditions on the other. In the third strategy "*Non-competition*", one of the actors - owing to position or size - cannot influence horizontal or vertical relations. In the fourth, and last, strategy "*Trade*", the actors favour horizontal competition over vertical competition.

On a more general level, then, the manufacturer may choose to compete or co-operate with the distributor, this depending on both the organisation's own resources and on the distributors choice of competitive strategy. In a situation where the manufacturer is more dependent on the distributor than the other way around, the manufacturer may choose between attempting to decrease the dependence or to adjust to it, i.e., by reducing its margins, or by increasing its co-operative efforts towards the distributor.

THE MANUFACTURER'S STRATEGIC RESPONSE TO DOB'S

The above discussion has dealt with the more general problem of how manufacturers may approach increasing distributor power. We will now turn to the more specific issue of the manufacturer's strategic response to the emergence of DOB's.

Hoch (1996) suggests a number of alternative strategies that a manufacturer may employ when faced with DOB competition. Firstly, the manufacturer may choose to wait and do noting. On markets characterised by high volatility or cyclity, manufacturers should avoid quick and aggressive reactions – especially if they require large, long-term investments that are not easily reversed. Secondly, the manufacturer may choose to increase the distance from private labels. By developing products and by enhancing quality, the manufacturer may increase prices or maintain prices while offering consumers added value products. Thirdly, the manufacturer can choose to reduce the price gap to private labels, a strategy that may be self-defying in the long run. Fourthly, the manufacturer may formulate a "Me Too" Strategy by, e.g., introducing a value flanker – a lower-priced, possibly lower-quality product – in direct competition with the private label. In categories where there are small differences in quality between brands, this strategy may, however, lead to cannibalisation-effects. Furthermore, introducing a new brand requires investments in advertising and trade promotions. The last strategy suggested by Hoch is to make regular or premium private label products that can be sold to substantially lower wholesale costs than the manufacturers branded products. Cost reductions can be achieved by reducing raw materials and/or processing costs, resulting in lower quality, or by reducing marketing costs associated with distribution, advertising, and sales promotions.

When approaching manufacturer strategies towards DOB's, Glémet and Mira (1993) suggest the alternatives presented in Table 12:

Strategy	Rationale	Environment specifics
Don't do it	Point-blank refusal to produce private label (traditional brand leader	Heavily branded markets where product distinctiveness is high and technological advantage can be maintained
Capacity filling	Private label used opportunistically to occupy spare capacity	
Market control	Brand-oriented producers supplying private label products on a long-term basis	High brand share of markets or segments where product distinctiveness is less marked
Competitive leverage	Private labels that copy leading brands in the attempt to win away volume and profit	
Chief source of business	Major focus (both turnover and management attention) on private label	Unbranded markets (or "number 3" type brands) that sustain some source of competitive advantage over private label
Dedicated producer	Private label producer with leading cost position in this market	

Table 12 Private label strategies (Glémet and Mira 1993)

The first alternative strategy is supported by Quelch and Harding (1996) who advise against DOB production as a way of using occasional excess capacity problems. The authors claim that a manufacturer that begins making DOB products to take up excess capacity may soon find itself taking orders for products in categories in where the market share of its own brand is weak. For many companies, this step may seem reasonable since it can increase cumulative experience and lower unit manufacturing and distribution costs. However, as pointed out by Quelch and Harding, the next step in the process may be to supply DOB products in categories that are the lifeblood of the manufacturer's branded sales:

> *"After all, the thinking goes, high-volume private-label orders placed well in advance of the required delivery dates can help smooth production and take less time and effort per unit to sell than the company's own branded goods. From that point, however, the results of those tactics are predictable: The company's strategy becomes confused; it starts to cannibalize its brand-name products; and it may even face financial disaster."*
>
> (Quelch and Harding 1996, p 103)

Furthermore, according to Quelch and Harding, there is no evidence that making DOB products enhances the manufacturer's trade relationships in the long run and results in preferential merchandising support for its own brands. On the contrary, manufacturing contracts may result in decreasing margins due to dependence on a few large accounts and an increased pressure to disclose cost structures and to share the latest product and process improvement with the distributor.

Randall (1994, p 49) takes on a less negative view on the issue and advice the manufacturer to approach the question on whether to manufacture DOB's in five consecutive steps:

1. *Do we have a choice?* To answer this question, the manufacturer needs to make a thorough analysis of the strengths and weaknesses of the brand portfolio.
2. *What is the capacity situation?* The manufacturer needs to analyse both its own, and the industry's capacity situation. According to Randall, there is already an over-capacity situation within many sectors in Europe, and in others where the financial and technological barriers to entry are relatively low. In this situation, the pressure to produce DOB's may become acute, both from retailers and from inside the company: "both accountants and production people hate to see idle capacity." (Randall 1994, p 49)

3. *What are the company mission and culture?* Some companies are, due to training and history, oriented towards brand manufacturing to such an extent that company culture poses insurmountable obstacles against manufacturing DOB's

4. *Do we have the skills to make retailers' brands?* Even though the company may have the capacity to manufacture DOB's, the question is whether this can be done at a profit. Manufacturing DOB's may necessitate different skills, priorities, and even managers as compared to manufacturing manufacturers' brands.

5. *If we do, what and for whom should we make?* The main options pointed out by Randall are: 1) work for only one, a preferred few, or any retailer, 2) work for a wholesaler or cash-and-carry group, or for a voluntary group, 3) make products identical to your existing brands (may be self defeating), 4) make products similar to, but slightly different from, the company's brands, 5) make products in the same field as the company's existing brands but different from anything the company makes now, 6) make new brands developed in collaboration with a retailer.

For a manufacturer, there are obviously a number of factors to take into consideration when deciding on the organisation's strategic response to DOB competition. The organisation may choose to fight this development by increasing its brand marketing efforts, or by reducing its dependence on the distributor. On the other hand, the manufacturer may find it more prudent to co-operate with the distributor, thus attempting to increase the bonds between the organisations. In line with these co-operative efforts, the manufacturer may even consider producing DOB products.

POSSIBLE EFFECTS ON DOB STRATEGY

In this section we have discussed how manufacturers may respond to an increasing distributor influence in general, and on DOB development. On a more general level, it was suggested that the manufacturer's choice between competing and co-operating with the distributor may depend on the organisation's own resources and on the distributors choice of competitive strategy. If the manufacturer is more dependent on the distributor than the other way around, the organisation may choose either to attempt to decrease the dependence or to adjust to it by adjusting its margins or by increasing its co-operative efforts towards the distributor. As one of the aims of DOB's, i.e., influence over manufacturers and margins, may be attained through increased manufacturer co-operation, we should thus expect DOB development within a product category to be affected by the manufacturers' choices of strategy.

When discussing the manufacturers' response to DOB competition, it was suggested that the alternative strategies ranged from "Wait and do nothing" to product development, price reductions, launches of value flankers, and even production for DOB's. The advice concerning DOB production, in turn, ranged from a blank refusal to becoming a dedicated producer, this depending on the manufacturer's assessment of the situation. Depending on the choice of strategy made by manufacturers, a distributor organisation may, thus, experience substantial differences between product categories in terms of manufacturer reactions and possibilities to access production capacity when launching DOB's.

Question Areas

A. Perceptions of the co-operative, adjusting, or competitive measures taken by the manufacturers operating in different product categories.
B. Perceptions of manufacturer's reactions to DOB's and of the availability of DOB production.

3.7. ASSORTMENT PLANNING

Given the relative strength of manufacturer brands and DOB's, the degree of concentration and internationalisation, and the strategic choices made by manufacturers, the distributor organisation is faced with the problem of designing both a wholesaler and a number of retailer assortments that are both cost effective and that meet the requirements of the consumers. Distributors must, thus, make a number of decisions concerning margin and inventory goals, choice of suppliers, assortments of merchandise to be carried, and customer services to be offered. Some of these decisions primarily concern financial dimensions, others are made to differentiate the stores from competitors.

EVALUATIVE CRITERIA, COSTS AND MARGINS

When adding products to a wholesale/retail assortment, the distributor must estimate to which extent the product can contribute to the attractiveness of the assortment and to store differentiation. Furthermore, should the product be added to increase the depth, i.e., the number of models or brands offered in each product category or breadth, i.e., number of product categories making up the product offer, of the assortment, or should it replace some existing product? If the product is added to the assortment, the distributor runs the risk of cannibalisation, i.e., the new product takes its sales volumes from other products in the assortment (Bultez, Naert et al. 1989). In this way, the cannibalising product generates additional costs without generating store traffic.[12] If, on the other hand, the product replaces another product in the assortment, the distributor runs the risk of losing customers who

[12] A more elaborated discussion of this phenomenon is presented in the report *Cannibalisation among Consumer Goods* (Håkansson and Södelund 1993)

demand the de-listed product. Alterations of the assortment, thus, are of key importance, both for the wholesaler and for the individual retailer who wants to remain competitive on his/her local market.

When choosing what brands/products to include or omit from the assortment, the distributor may use a number of evaluative criteria. In an overview of the various studies that have dealt with buying criteria employed by distributor organisations, Nilsson and Holst (in Davies 1993, p 67) present a list of the major categories that they decided best represented the 389 criteria mentioned in the literature.

- *Profitability and sales* (overall profit and sales volume)
- *Financial terms* (margins, allowances, advertising support)
- *Assortment* (relationship to existing lines, supply of DOB)
- *Consumer evaluation* (value, physical and psychological characteristics)
- *Supplier marketing* (launch campaign, continued support)
- *Supplier characteristics* (reputation, services, reliability)
- *Competitive considerations* (advantages over other retailers)
- *Distribution factors* (transport, ability to adapt to store needs)
- *Sales presentation* (quality of presentation, data)
- *Tactical consideration* (shorter-term issues)

As shown by list, the evaluative criteria include both consumer considerations, evaluations of consumer and distributor directed marketing efforts, factors pertaining to internal economy and operations, and considerations of differentiation from competitors. As discussed earlier, a possible incentive for DOB operations is the gains that can be made by assuming responsibility for a number of functions that the organisation must compensate the manufacturer for when buying its brands. On the other hand, these gains are contingent on the distributor organisation's ability to perform these functions in such a way as to reduce costs, or to compensate these costs with other gains from own brand marketing, e.g., differentiation from competitors. When launching a brand, the distributor organisation should, thus, balance financial, operative and competitive gains against the loss of services offered by the manufacturer, e.g., supplier marketing, sales/promotion assistance.

Apart from the manufacturer demands on compensation for the functions performed, distributor margins for manufacturer brands will also be affected by the degree to which the manufacturer can use a pronounced consumer loyalty for these brands in their negotiations with the distributor. Furthermore, consumers may be willing to pay a higher price for products sold under a well-known brand. As discussed earlier, the extent to which this is true will depend on product category and on the consumer, e.g., product category maturity may lead to consumers being more experienced and less willing to pay a price premium for reputable brands, which may lead an increased price competition.

According to a report from *Canadian Centre for Marketing Information Technologies* (CCMIT 1994), the normal rule of thumb based on several studies of DOB development is that a discount of 15% or more versus the major brands is necessary for DOB's to endure. A high product gross margin at the manufacturer level (generally greater than 7-8% after attributable overheads) for the major brands is, according to the report, usually an indication that the price/performance/value ratio is being stretched and that there is an opportunity for a competitor to offer better value. Brand margins need, however, not only be a result of pressure from manufacturers: often the distributor margin is low due to price war in the category, which can hamper margin opportunities for DOB's.

Margins can also be low due to retailer propensity to lower prices as loss leaders to build image and traffic in their store.

Another factor that may affect development of DOB's is the number of SKU's within the category. Where a category has a large number of SKU's, the high costs associated with such a wide range, e.g., safety stock for slow movers, high packaging costs for low-volume packs, high administration content, is spread over the entire range. In such a system, efficient packs may subsidise the inefficient ones. This opens a possibility for the distributor to launch its own brands with efficient high-volume packs, thereby opening up a margin opportunity. (CCMIT 1994)

THE USE OF INFORMATION AND MEASURES

When discussing the effects of distributor concentration and size, it was suggested that the use of information technology is one factor that may enhance distributor dominance over manufacturers. By using EDI (Electronic Data Interchange) and EPOS (Electronic Point of Sales) data, the distributor has enhanced its possibilities to control the supply chain and develop strong marketing capabilities:

> *"The current phrase is 'replacing inventory with information.' In other words, inventory is maintained to account for uncertainties in the timing of consumer purchases and the delivery of goods from the manufacturer or wholesaler. Real-time information reduces these uncertainties and reduces or eliminates the need for traditional inventory stockage. Moreover, just-in-time delivery of goods presents a cash-flow improvement for the retailer, since consumer purchase and payment is closer to or in advance of the retailer's payment to its supplier."*
>
> (Borghesani, De la Cruz et al. 1998)

The use of EPOS data for logistical purposes may, for example, provide the distributor with information on the demand cycle for a given product over time. This information can be used when negotiating deliveries with a manufacturer so as to minimise the distributor's cost for stocking products. Using EPOS data for analyses can further this potential information advantage over the manufacturer. By building a database containing EPOS data, the distributor can access more in-depth information about consumption (e.g., size and composition of consumer baskets, and effects of promotional activities) than is accessible to the manufacturer. These analyses can, in turn, be used for replacing rule-of-thumb decisions with space management systems and profitability analyses such as DPP (Direct Product Profitability) when planning the assortment and shelf allocation.[13]

> *"Retailers will now be able to measure precisely the effect on sales of a large number of variables – price, number of facings, shelf position, position in store, pack size, number of sizes and varieties, promotions, even advertising. Some of these will be more complicated and difficult to measure than others, but retailers will always be in a better position than manufacturers to attempt to quantify effects. When DPP measures are built in, the effects on contribution to store profits can be gauged, and may provide the retailer with arguments which the manufacturer will find very hard to meet."*
>
> (Randall 1994, p 59)

An increased use of EPOS data in combination with space management systems and DPP analyses may lead to a situation where manufacturer brands will be judged according to other criteria than the traditional use of gross margin. Randall (1994) points out that there is no correlation between DPP and gross margin, and that a number of supermarket products have a negative DPP despite their positive gross margins. An increased use of space management systems and DPP may thus affect

[13] A more elaborated discussion of the DPP measure is presented in Håkansson et al. (1995)

decisions on the stocking, store promotion and pricing of manufacturer brands, as well as on the terms demanded by customers, why some manufacturers are using these analyses pro-actively to help their customers as well as themselves. (Randall 1994, p 64)

The use of EPOS and EDI systems has also led to concepts such as the Efficient Consumer Response system, which has been introduced in a number of marketing channels. The ECR system, which can be compared to the Japanese just-in-time systems, joins distributors and manufacturers in a common system for assortment planning, replenishing, and ordering, this aimed at reducing stocks. The effect of this is partly that the distributor organisation can achieve higher assortment efficiency by reducing the number of products in stock, partly that the participating manufacturers can form stronger ties to the distributor organisations.

POSSIBLE EFFECTS ON DOB STRATEGY

In this section we have discussed the problems connected to assortment planning within a distributor organisation. It was suggested that the distributor must consider a number of factors when deciding on what products and manufacturers it should use in its wholesale/retail assortment. One of these factors, the potential risk of category cannibalisation, will have a direct import on DOB strategy since the aim of this strategy is to cannibalise on manufacturer brands in the assortment without cannibalising on other DOB's.

Another issue was the evaluative criteria employed when choosing manufacturer brands, and the transfer of functions from manufacturer to distributor that becomes a reality when DOB's replace manufacturer brands. It was suggested that when replacing a manufacturer brand with a DOB, the organisation should evaluate the financial, operative and competitive gains of this and compare it to the loss of services supplied by the manufacturer. Laaksonen's description of distributor branding as a development over different generations shows that both benefits, forms, and demands on the organisation's knowledge and branding experience will develop over time as more and more sophisticated brands are launched. As each of these generations places an increasing demand on e.g., branding experience and access to R&D and production capacity, DOB operations becomes contingent on the distributor organisation's ability to acquire both branding, product development, and production capabilities to go from generation to generation.

Other factors that were suggested to affect DOB development in this section were the level of manufacturer gross margins and the number of SKU's in the product category. The first factor would indicate if there is an opportunity for DOB launches in the product category due to high margins, while the other offers an opportunity to save costs by reducing the assortment and replacing inefficient manufacturer packs with DOB products.

The last part of this section suggested some effects of an increased use of EPOS data in combination with DPP analyses and space management systems. It was asserted that the availability of product and shopper data, in combination with increasingly sophisticated management tools, may enable the distributor to minimise logistics costs and to access consumer information that is not available to the manufacturer. These cost reductions and analyses may, in turn, supply the distributor with both resources and opportunities for brand operations. By using information on buying behaviour and promotional effects, the distributor may identify categories, and positions within these categories, that can serve as a base for launches of DOB's. The distributor may reduce costs for brand launches by concentrating on promotional activities instead of advertisements; by using EPOS data the distributor may identify those categories in which promotional effects have a large impact.

It was also suggested that the use of new profitability measures such as DPP may lead to a situation where manufacturer brand profitability is re-evaluated and where DOB's increase in attractiveness. Furthermore, new space management systems may enable the distributor to allocate shelf-space in such a way as to reduce, and/or reallocate, facings for manufacturer brands and at the same time promote DOB's.

Question Areas

A. Perceptions pertaining to assortment composition, e.g., the risk of cannibalisation among DOB products, the level of manufacturer margins, and the degree to which the number of SKU's can be reduced and partially replaced with DOB products.
B. Perceptions of the organisation's ability to perform brand operations, e.g., branding, procurement, production, in such a manner as to compensate the costs induced by DOB operations with other gains from DOB marketing.
C. Perceptions, and use, of EPOS data, profitability measures such as DPP and space management systems.

3.8. THE ORGANISATION OF WHOLESALING AND RETAILING OPERATIONS

In this last section, we will look into the issue of how wholesaling and retailing operations are organised in terms of integration and control.

A marketing channel may be described as an arrangement in which combinations of specialised institutions (manufacturing, wholesaling, retailing, and other areas) join forces to make a product or service available for industrial users or consumers. The role of the marketing channel is, however, not only to offer availability of products and services: it also has to stimulate demand through promotional activities. As discussed by Stern and El-Ansary (1992), marketing channels may be seen as "superorganisations", i.e., orchestrated networks of interdependent actors that strive for the common goal of creating value for the end-user by generating *form*, *possession*, *time*, and *place* utilities. This creation of end-user value is the *raison d'être* for the individual marketing channel, as it is for the distribution system as a whole, and organisations participating in the system must thus be able to offer this value either individually, or in co-operation with others.

The members of the marketing channel are, by definition, dependent on one another. In some cases these dependencies are handled through buyer-seller relationships, in some cases through strategic alliances, and in some cases through fully integrated retailing/wholesaling organisations. Arrangements of retailers and wholesalers may, thus, range from loose relationships to fully integrated organisations. As pointed out in the introduction, the word "distributor" is used throughout the study to denote retailing organisations, wholesaling organisations, as well as organisations integrating these two functions.

Distributor own branding, thus, is used for all branding in the marketing channel that is not performed by manufacturers, this irrespective of the form of wholesaling/retailing organisation.

This is, however, not to say that the organisation of distributive functions is unimportant for DOB strategy and operations: as will be discussed in this section, there are a number of possible effects of the organisation of wholesaling and retailing operations on both DOB strategy and DOB operations.

CONVENTIONAL AND VERTICALLY INTEGRATED CHANNELS

The degree to which a marketing channel, or parts of it, is structured can range from a pure market situation to a hierarchical ordering of different functions within the channel.

In Stern & El-Ansary (1992, p 323), more loosely structured channels are denoted "*conventional*" while vertically integrated systems are called *administered*, *contractual*, or *corporate*. In conventional channels, power is often diffused among members, while in vertically integrated systems, power is concentrated at one level through ownership, expert power, or legitimate power as in the case of the initiator of the legal agreements in a contractual system.

Various forms of vertical integration may also be found in *parts* of the channel, i.e., distributor organisations where wholesalers co-operate with wholly owned chains or with individual retailers. The first case may be exemplified by a contractual agreement between a wholesaler and a wholly owned chain that the wholesaler will provide the chain with distributive and other services, while the chain commits itself to buy from the wholesaler.

The co-operation between wholesalers and individual retailers may take many forms. By forming a *voluntary group* of independently owned retailers, a wholesaler can provide goods and support more economically than what would be the case if the retailers operated individually. An alternative association, the *retailer co-operative*, is also a voluntary form of co-operation, but with the difference that its impetus comes from the retailers themselves and not from the wholesaler. The retailers organise and operate their own wholesale company, which, in turn, performs services for its members. Retailer members are often refunded from the wholesale company based on their cumulative purchases from the co-operative.

In a *consumer co-operation*, a number of individual co-ops that own one or several stores, form a central organisation to manage for example wholesaling operations. The individual co-ops exercise influence over the central organisation through a democratic process with annual elections. The top management of this organisation will, in turn, assume an autonomous position when governing the consumer co-operation's operations once it has been appointed by the congress.

The *federative organisation* can be described as a combination of the voluntary group and the retailer co-operative. In this form, which is exemplified by Swedish ICA, the wholesaler issues shares to its retailers who become shareholders of a purchasing centre which is managed by retailers and wholesalers jointly. The retailers, in a federation, remain as self-owned enterprises, but are associated through their common ownership of the purchasing centre (and in ICA's case, through a retailer association) which provides centralised functions, e.g., purchasing, advertising, and distribution.

In theory, wholesaler-sponsored voluntary groups should be more effective competitors than retailer-sponsored co-operatives, this since a wholesaler can provide a strong leadership by representing the locus of power within the system. This notion is also supported by Elg and Johansson (1992) who assert that the wholesaler's dependence on the individual stores should be lesser than the stores' dependence on the wholesaler. According to the authors, the relationship between stores and wholesaler within a federation comprises more than just a buyer-seller relationship, why the wholesaler is prevented from using its position vis-à-vis the retailers in the same way as it may do vis-à-vis the manufacturers. In a retailer-sponsored co-operative, power is more evenly distributed, why role specification and resource allocation are more difficult to accomplish. Furthermore, in voluntary groups the retailers become dependent on specific wholesalers for expertise, while in retailer co-operatives the members may depend less strongly on a specific supply unit. (Stern and El-Ansary 1992, p 341)

> *"Except for ownership differences, wholesaler- and retailer-sponsored contractual systems operate in much the same ways. Members join with the understanding that they will purchase a substantial portion of their merchandise from the group and will standardize retail advertising, identification, and operating procedures as necessary to conform with those of the group to obtain economies and better impact."*
>
> (Stern and El-Ansary 1992, p 339)

Common for all these forms of organising the wholesaling and retailing functions, is that the resulting organisation must be able to provide its members with access to resources that compensate them for giving up some control to a centralised decision unit. The individual retailers must also accept the role as part of a distributor organisation with a common market identity (e.g., logotypes and assortments).

Based on an investigation of Swedish federative organisations, Swartz (1994) identifies seven distinct categories of co-operation benefits based on his interviews with a number of Swedish organisations:

- *Large scale benefits* (e.g., purchasing and information systems)
- *Market benefits* (e.g., ability to cover a larger market through co-operation, ability to offer customers co-ordinated operations between individual members, and joint marketing)
- *Financial benefits* (e.g., financing of individual members' operations, and acquisition of external capital through loans)
- *Competence benefits* (e.g., law, marketing, product development, financial management, and education)
- *Dealing with external dependency* (e.g., ability to influence competitors, politicians, and media)
- *Exchange of information and experience* (e.g., transfer of know-how acquired through successes and mistakes on individual member markets)
- *The reduction of complexity and transaction costs* (e.g., reduction of relationships between members through centralised, co-ordinating, organisational hub, and overview of general market conditions)

When analysing the relationships between franchisors and franchisees, Lewis and Lambert (1991) find that financial dependence is a determinant of performance as prescribed by the franchisor. Performance, in turn, leads to satisfaction with the franchisor's role performance, but the relation between satisfaction and performance seems to be moderated by the amount of credit or blame a franchisee attributes to the franchisor. The authors' advice to franchisors is to devise strategies to encourage financial dependence, which influences the franchisee to perform in accordance with the franchisor's objectives. Furthermore, the franchisor should also devise strategies that maximise the amount of credit they receive from franchisees that perform well, and conversely limit the amount of blame they receive when franchisees perform poorly.

This reasoning may also be applicable on federations, co-operative arrangements, and voluntary chains: the central unit needs to devise strategies that allow them to steer the individual retailers in such a fashion that the retailers perceive that the central organisation contributes to their competitive ability on local markets. In many cases this will, however, probably necessitate the use of a number of value-creating activities besides financial commitment. The benefit for the wholesaler, on the other hand, is that it can increase its negotiation power vis-à-vis the manufacturers, and that it can create retailer loyalty that leads to a more stable demand. The extent to which this is true will, in turn, depend on the wholesaler's ability to offer the retailers an attractive wholesale assortment.

PROVIDING A WHOLESALE ASSORTMENT...

As pointed out by Davis (1993) much is known about consumer and industrial buyer behaviour, while less attention has been directed towards retailer buying. The author continues (Ibid., p 64) to suggest that this lack of interest may be due to two factors. Firstly, much of retail buying used to be fragmented, and most, if not all, the decisions were made at the store level by the retail manager or his or her subordinates. Secondly, retailer buying was, and still is in many instances, a wholly reactive rather than a proactive process.

Depending on the form of the distributor organisation, purchasing will be more or less centralised. In a wholly owned chain, chain management will decide on the assortment carried by its stores, while in a voluntary chain, or in a federative or co-operative distributor organisation, the associated stores are expected to make at least a lion's part of their purchases from a common wholesale assortment. The assortment problems encountered by the individual retailers, thus, have consequences for assortment planning and procurement for the central unit of the distributor organisation. To service individual retailers with products, the distributor organisation must construct a wholesale assortment which, depending on the variability of local market characteristics, may be equal or broader/deeper than the assortments offered by the individual retailers. A wholly owned chain can, depending on strategy, use the same assortment in all stores, or choose to make adaptations according to local market characteristics.

In the voluntary chains, and in the federative or co-operative distributor organisations, this problem is emphasised by the individual retailers' control over their assortments. This means that they can choose to buy from other sources if the central unit cannot provide them with the products deemed necessary by the retailers. The central unit of the distributor organisation will, in this case, probably commit itself to offer an assortment that can satisfy the needs of a majority of its member retailers, or risk loosing sales to alternative suppliers. A broad/deep wholesale assortment will, however, generate both administrative and distributive costs. The distributor organisation has an incentive to achieve lower cost through large purchase volumes, and too broad a wholesale assortment may result in wholesale prices that are equal, or higher, than the ones that the individual retailer can obtain through alternative sources.

This can place the central unit in a Catch 22 situation: it must maintain a wholesale assortment broad/deep enough to supply its members with the products they demand, and at the same minimise this assortment to cut costs in order to maintain attractive prices. A homogeneous assortment can, furthermore, be considered valuable to maintain the uniformity of the chain in order to create a common market appearance. The task for the central unit is therefore, to balance what is beneficial for the chain as a whole, i.e., uniformity and cost efficiency, with what is beneficial for the individual retailer, i.e., local competitiveness.

POSSIBLE EFFECTS ON DOB STRATEGY

The form of the distributor organisation may have a number of consequences for DOB strategy and operations. As pointed out earlier, DOB's appear to be successful mainly in product categories where the products are relatively undifferentiated and where demand for them has already been established. One of the main advantages of DOB's is the cost reductions that can be made by not having to secure distribution through e.g., trade promotions and slotting fees. Integrated distributors would, therefore, have a greater ability to launch DOB's since they control both retailing and wholesaling functions within their organisation. A fully integrated organisation may furthermore have an advantage by being able to control both promotional activities and consumer prices of DOB's, thus avoiding dilution of its brands through retailers using the increased margins to cut prices and enter an internal price competition.

However, with reference to the previous discussion on distributor concentration and manufacturer strategy, a high degree of control over the retail market may result in the distributor organisation abstaining from own brand operations since it can reach agreements on margins that make it unnecessary to invest in these brands.

In the case of the federative distributor organisation, the central unit must have the ability to persuade the individual retailers to conform. In this case, the development of DOB's is contingent on the central unit's ability to persuade individual retailers to stock and market the brands. The distributor organisations must be able to satisfy the local needs of the individual retailers at the same time as the prerequisites for negotiation power are created. This, in turn, necessitates a balance between the value of increased margins offered by the DOB's and the stable demand generated by the manufacturers' brands – it requires a balance between what is advantageous for the distributor organisation and what is advantageous for the individual retailer.

Question Areas

A. Perceptions of the extent to which the central organisation can force, or persuade, individual retailers to include the DOB's in their assortments.

B. Perceptions of the extent to which DOB's can be priced and promoted in the stores so as to avoid brand dilution and price competition within or between the organisation's chains.

3.9. THE THEORETICAL FRAMEWORK

We have now gone through a number of factors that are suggested to affect – or even determine – DOB development. In the beginning of this study it was suggested that analyses of DOB development – both in terms of total sales and in terms of product category penetration – often treat this development as a result of market conditions rather than as the outcome of organisational strategy. It is from this perspective the factors presented in this chapter should be regarded: not as determining factors in their own right, but rather as factors that may influence decision-making within the distributor organisations.

WHAT FACTORS ARE THE MOST IMPORTANT?

A question that may arise at this stage is: "Which of the seven factors presented in this study can be hypothesised to be the most important when analysing DOB development?" As presented on page 15, the research by Hoch and Banerji (1993) would suggest that it is indeed possible to analyse the individual effects of factors such as product quality, quality consistency, category retail sales – on the private label share within a category, at least on a general level. In fact, the authors find that six factors – four with positive relationships and two with negative relationships – explain more than 70 percent of the cross-category variation in private label market share.

If we look at the underlying logic of the relationship between manufacturer and distributor, we could express the situation as a struggle between shelf space and mind space. The distributor's main source of power is the ability to affect the manufacturer's access to the market, while the manufacturer's main source of power is the ability to control the distributor's demand-side through consumer brand loyalty.

The seven factors that have been presented are all, in one way or the other, related to this basic mechanism and should, consequently, all affect strategy, operations and consequently DOB development. There are, however, a number of potential co-dependencies between these factors that make it difficult to formulate hypotheses concerning the relative strength of the individual factors. One example is the suggested interrelation between manufacturer brand strength and manufacturer advertising. Another example is the suggested effect on the manufacturers' choice of co-operative strategy of wholesaler-retailer integration and of manufacturer brand strength. Given these interrelations, we would expect the factors to affect DOB strategy collectively rather than in isolation.

ARE THE EFFECTS POSITIVE OR NEGATIVE?

While partly based on Hoch and Banerji's research, the framework presented in this study lacks hypothesises pertaining to positive/negative relationships between the factors and the dependent factor. The reason for this is, as discussed, that these factors' effects on DOB development are seen as interrelated and as mediated by the perceptions within the distributor organisation, and by the strategic responses that these perceptions lead to. Two examples will illustrate this notion:

Presence of strong manufacturer brands - built by, e.g., advertising - should have a large impact on DOB development, given the preceding discussion. These potential effects are, however, both positive and negative: a strong manufacturer brand is hard to de-list for a distributor due to the potential negative effects on store traffic. On the other hand, the advertising and product development that has been used to build this brand strength may expose and develop the product category in a way that the distributor can benefit from when launching second-tier DOB's.

A concentrated distributor can be hypothesised to give the distributors a strong position in negotiations with the manufacturers. This strength can, in turn, be used to force manufacturers to give the large distributors larger discounts that they can use to finance their DOB operations. On the other hand, a distributor that has the ability to force manufacturers to give large discounts may not perceive the need to develop DOB's to increase its power and enhance margin in the first place.

In summation: while Hoch and Banerji's model analyse DOB penetration as a direct link between stimulus and response, the model developed in this chapter is more concerned with the mediating factor constituted by the *organism*, i.e., the distributor organisation, in a Stimulus-Organism-Response chain. The organisation's strategies will define its response to the stimuli generated by various determinants, but – as suggested by Minzberg's notion of strategy as perspective – they will also define what the organisation perceives as relevant and irrelevant stimuli.

FACTORS AND QUESTION AREAS USED IN THE STUDY

The below factors and related question areas form the theoretical framework that will be used for organising and interpreting the interview data that makes up the results in this study.

1. Presence of Strong Manufacturer Brands

A. Perceptions of if, and if so why, manufacturer brands are needed in the assortment when competing for consumers.
B. Perceptions of the relationship between manufacturer brand strength and the ability to launch and maintain DOB's within a product category.

2. Level of Advertising and Promotions

A. Perceptions of the effects of manufacturer advertising and promotion on, e.g., consumer knowledge, attitudes and choice on both the product category and brand levels.

B. Perceptions of the effects of own promotion and advertising.

3. Consumer Perceptions of Distributor Own Brands

A. Perceptions of different consumer segments and their overall DOB proneness.

B. Perceptions of opportunities/ difficulties for DOB's in different product categories in terms of, e.g., innovation rates, consumers' perceived risk in making their purchase decisions, their ability to make quality assessments, appropriateness of the DOB(s) in the category, and the degree to which DOB's can offer adequate and consistent product quality.

C. Perceptions of how consumers perceive the organisation's brands and the fit between these brands and chain image.

D. Perceptions of how consumers perceive the fit between, and number of, product categories in which the DOB's are used.

4. Market Concentration and Internationalisation

A. Perceptions of the organisation's relative influence over manufacturers operating different categories based on, e.g., size and share of – and control over – the national retail sales in the product category, and influence through international alliances.

B. Perceptions of the DOB related benefits that can be accrued from international alliances.

5. Manufacturer Response to Distributor Own Brands

A. Perceptions of the co-operative, adjusting, or competitive measures taken by the manufacturers operating in different product categories.

B. Perceptions of manufacturer's reactions to DOB's and of the availability of DOB production.

6. Assortment Planning

A. Perceptions pertaining to assortment composition, e.g., the risk of cannibalisation among DOB products, the level of manufacturer margins, and the degree to which the number of SKU's can be reduced and partially replaced with DOB products.

B. Perceptions of the organisation's ability to perform brand operations, e.g., branding, procurement, production, in such a manner as to compensate the costs induced by DOB operations with other gains from DOB marketing.

C. Perceptions, and use, of EPOS data, profitability measures such as DPP and space management systems.

7. The Organisation of Wholesaling and Retailing Operations

A. Perceptions of the extent to which the central organisation can force, or persuade, individual retailers to include the DOB's in their assortments.

B. Perceptions of the extent to which DOB's can be priced and promoted in the stores so as to avoid brand dilution and price competition within or between the organisation's chains.

These seven question areas should be related to strategy as plan, i.e., what the distributor organisation wants to attain with its DOB's, why an additional question area is of interest:

8. DOB Strategy as Plan/Goals for DOB's

4. RESEARCH METHOD

"The diversity of physical arguments and opinions embraces all sorts of methods."

Chapter XIII. of Experience (Michael de Montaigne. 1533-1592)

4.1. THE CHOICE OF RESEARCH APPROACH

INTRODUCTION

As presented in Chapter One, the empirical study is mainly based on interviews with decision-makers within the central organisations of the two largest distributors within Swedish fmcg distribution: the ICA federation and the consumer co-operation KF. There are three main reasons for this choice:

1. **Concentration**: KF and ICA constitute the major alternatives for manufacturers that want to distribute and market their brands, both with respect to size and with respect to national coverage.

2. **Impact**: both organisations have developed modern DOB operations for nearly a decade and their brands together constituted some 90 percent of the total fmcg DOB sales in 1998.

3. **Vertical integration**: in terms of variation factors, the two organisations offer us two cases with significant differences in their dominating logic in terms of organisation of wholesaling and retailing operations.

Based on these two organisations, the aim is to *investigate how an array of organisational and market related factors are perceived by distributor organisations, and how this is expressed in the organisations' own brand strategies.* In the previous chapters, theories on strategy in general – and brand strategies in particular – were discussed together with a number of factors proposed to have an effect on DOB strategy, operations and development. From this a number of question areas were derived, i.e., those that pertain to the presence of strong manufacturer brands; to level of advertising and promotions; to consumer perceptions of DOB's; to market concentration and internationalisation; to manufacturer responses to DOB's; to assortment planning; and to organisation of wholesaling and retailing operations.

The phenomenon under investigation can, thus, be characterised as organisational processes involving a number of decision-makers influenced by information of an array of interrelated market and organisational factors, and of organisational strategies. Thomas V. Bonoma suggests that this situation, characterised by a complex phenomenon under investigation, is not uncommon within marketing:

> *"In terms of amenity to quantification, certain areas of interest to marketers simply defy counting approaches... Regardless of whether these context and quantification limitations are expressions of the current lack of understanding for certain marketing phenomena (poor theory development) or whether they represent limitations in measurement and analytic technology, much of what the marketing scholar might study requires a contextual sensitivity which cannot be achieved by methods that maximise data integrity."*
>
> (Bonoma 1985, p 202)

CHOICE OF METHOD FOR CAPTURING DATA

Given that the phenomenon under investigation is complex, it was decided to use an open form of data gathering. By interviewing people that are involved in DOB operations at different levels of the organisation, it is possible to form a picture of the processing of organisational and market related factors that underlie the way DOB strategy is formed and carried out by the two focal organisations.

Lundahl and Skärvad (1999, p 115) categorise interviews with reference to their degree of standardisation. In highly standardised interviews, both the specific questions and their order are predetermined by the interviewer to ensure that all respondents are investigated in a standardised way. In a non-standardised interview, the interviewer may vary both formulation and order of questions depending on interview situation. The main thing is that the questions asked yield answers that cover the information need. According to the authors, the main objective with a structured interview is to create the necessary conditions to allow for quantitative analyses of the material. The advantage with less standardised interviews is that the answers may become more exhaustive and capture more nuances. Furthermore, standardised interviews are more suited if the aim is to collect "hard" data, e.g., sales volumes, market shares, while less standardised interviews are more suitable for the collection of "soft" data, e.g., a person's diagnosis of a matter or perceptions and motives that underlie a certain measure. This, however, also limits the possibilities of a quantitative treatment of the data. The choice of standardisation, thus, often becomes a balance between the wish for nuances and the possibilities to make quantitative analyses.

Lundahl and Skärvad also make a distinction between interviews in terms of structure, a related but not synonymous concept. Standardised interviews are always structured, while non-standardised interviews may be both structured and non-structured. The structured interview is information oriented, while the non-structured interview is both information oriented and person oriented. In a structured interview, both purpose and expected results have been predefined by the interviewer, why all questions used during the interview have been designed to support a systematic treatment of all the areas that are of interest. By nature, the interview is focused and information oriented. In the non-structured interview, the purpose of the interview is not as narrowly defined, and the approach is broader and less focused. The interview aims not only at obtaining facts, but also at obtaining the respondent's evaluation of a situation, his/her views, attitudes and conceptions. In the non-structured interview, *dialog-developing* questions are used in addition to *information-seeking* questions to stimulate the respondent to develop his/her questions and thoughts.

CHOICE OF METHOD FOR ANALYSING DATA

It was decided to use semistructured interviews as the primary method for collecting data in this study, a form that seemed to be well suited for a situation where the subject of study is complex and where theory cannot provide a strong framework for analyses. As suggested by Bonoma:

> *"Where respondents cannot verbalize the underlying causes of their behavior reliably or where a phenomenon, because of its complexity or breadth, cannot be operationalized meaningfully in quantitative terms, clinical judgement based on qualitative data is required. Though data integrity will suffer somewhat, clinical approaches should not be discounted as 'unscientific'."*
>
> (Bonoma 1985, p 202)

. As suggested by Lundahl and Skärvad, this choice has consequences for the way that data can be analysed and interpreted. Given the non-standardised nature of the data gathering, the resulting material becomes unstructured and unwieldy, and there is a need to find a way of organising and analysing this data.

Finding concrete advice of how to perform a stringent analysis on data derived from semistructured interviews is, however, not an easy task. The marketing research literature tend to give brief descriptions of qualitative approaches as a very flexible and unstructured way of creating an understanding aimed at formulating hypotheses, or research questions, that can be tested or answered trough subsequent quantitative approaches. Advice on how to analyse this kind of material is scarce, or non-existent. The literature on qualitative research, on the other hand, has a tendency to focus on issues such as the individual researcher's ability in terms of creativity, story telling, and the relationship between the researcher and his/her material. Analysis of qualitative material is often seen as an art, rather than as a technique.

An attempt to offer a more stringent guide on how to analyse qualitative material is offered by Ritchie and Spencer (1994). The authors present an analytic approach – *Framework* – which key features are:

- *Grounded or generative*: it is heavily based in, and driven by, the original accounts and observations of the people it is about.
- *Dynamic*: it is open to change, addition and amendment throughout the analytic process.
- *Systematic*: it allows methodical treatment of all similar units of analysis.
- *Comprehensive*: it allows a full, and not partial or selective, review of the material collected.
- *Enables easy retrieval*: it allows access to, and retrieval of, the original textual material.

- *Allows between- and within-case analysis*: it enables comparisons between, and associations within, cases to be made.
- *Accessible to others*: the analytic process, and the interpretations derived from it, cant be viewed and judged by people other than the primary analyst.

According to the authors, although systematic and disciplined, *Framework* should not be seen as a purely mechanical process, but relying on the creative and conceptual ability of the analyst to determine meaning, salience and connections:

> *"The strength of an approach like 'Framework' is that by following a well-defined procedure, it is possible to reconsider and rework ideas precisely because the analytical process has been documented and is therefore accessible. The approach involves a systematic process of sifting, charting and sorting material according to key issues and themes."*
>
> (Ritchie and Spencer 1994, p 177)

The five key stages to qualitative data analysis involved in "Framework" are familiarisation, identifying a thematic framework, indexing, charting, and mapping and interpretation. These steps are presented below, and in the next section it will be discussed how they were integrated into the research process in this study.

Familiarisation

Before beginning the process of sifting and sorting data, the researcher must become familiar with their range and diversity and must gain an overview of the body of material that has been gathered. Familiarisation involves immersion in the data: listening to tapes, reading transcripts, and studying observational notes. During the familiarisation stage, the analyst listens to and reads through the material, while listing key ideas and recurrent themes.

Identifying a Thematic Framework

During the familiarisation stage, the analyst is not only gaining an overview of the richness, depth and diversity of the data, but also begins the process of abstraction and conceptualisation. While reviewing the material, the analyst makes notes, records the range of responses to questions, writes down recurrent themes and issues which emerge as important to respondents, etc. Once the selected material has been reviewed, the analyst returns to these research notes, and attempts to identify the key issues, concepts and themes according to which the data can be examined and referenced. When identifying and constructing this framework or index, the researcher will be using the priory issues given by the original research aims, emergent issues raised by the respondents themselves, and analytical themes arising from the recurrence or patterning of particular views or experiences.

> *"Devising and refining a thematic framework is not an automatic or mechanical process, but involves both logical and intuitive thinking. It involves making judgements about meaning, about the relevance and importance of issues, and about implicit connections between ideas."*
>
> (Ritchie and Spencer 1994, p 180)

Indexing

Indexes provide a mechanism for labelling data in manageable "bites" for subsequent retrieval and exploration and should therefore not be over-elaborated in detail at this stage as the analyst needs to retain an overview of all the categories.

Indexing is the process whereby the thematic framework or index is systematically applied to the data in its textual form. Indexing references are recorded on the margins of each transcript by a numerical system that links back to the index. For each passage, the analyst must infer and decide on its meaning, both as it stands and in the context of the interview as a whole, and must record the appropriate indexing reference. Single passages may contain a number of different themes, each of which needs to be referenced. Multiple indexing of this kind can often begin to highlight patterns of association within the data. By adopting a system of annotating the textual data, the process is made visible and accessible to others who can see for themselves how the data are being sifted and organised.

Charting

Having applied the thematic framework to individual transcripts, the analyst needs to build up a picture of the data as a whole, by considering the range of attitudes and experience for each issue or theme. Data are "lifted" from their original context and rearranged according to the appropriate thematic reference. Charts are constructed with headings and subheadings that may be drawn from the thematic framework, from a priori research questions, or according to considerations about how best to present the analyses. Where a thematic approach is adopted, charts are drawn up for each key subject area, and each of the respondents is entered in the same order for each subject chart. This ordering allows for reviews of the whole data set for each case.

> *"Whereas some methods of qualitative analysis rely on a 'cut and paste' approach, whereby 'chunks' of verbatim texts are regrouped according to their index reference, charting involves abstraction and synthesis. Each passage of text, which has been annotated with a particular reference, is studied and a distilled summary of the respondent's views or experiences is entered on the chart. The level of detail recorded varies between projects and between researchers, from lengthy descriptions to cryptic abbreviation for each entry."*
>
> (Ritchie and Spencer 1994, p 184)

In the charts, however, the original text is referenced to allow for tracing the source and examining and replicating the process of abstraction.

Mapping and Interpretation

When all the data have been sifted and charted according to core themes, the analyst begins to pull together key characteristics of the data, and to map and interpret the data set as a whole. Although emergent categories, associations and patterns will have been noted and recorded during the indexing and charting phases, a systematic detection now begins. This detection involves one or more of the key objectives of qualitative analysis, i.e., defining concepts, mapping range and nature of phenomena, creating typologies, finding associations, providing explanations, and developing strategies.

4.2. DESCRIPTION OF THE RESEARCH PROCESS IN THE STUDY

After having decided on approaches for capturing the data, i.e., semistructured interviews, and for analysing this data, i.e., the *Framework* approach, a number of steps were taken to complete the study. These steps are listed below in a sequential order. The reader should note that, as common within research processes, there have been several re-iterations when going trough these steps, and that the listing below should be seen as an emergent structure rather than as a pre-planned process.

FAMILIARISATION WITH THE AREA OF STUDY

At this stage, relevant empirical material concerning the development of DOB's in Sweden and in Europe was collected and compiled. In addition to this, an extensive search for relevant literature was made, and key issues within the literature on brands, strategy formation and DOB's were identified. After having collected and compiled this material, the problem area was adjusted and the theoretical framework in the study was constructed.

FAMILIARISATION WITH THE ORGANISATIONS

Apart from the more general empirical material, a collection and compilation of material pertaining to the organisations' current situation and history was made. The reason for this was that it was deemed necessary to become familiar with the organisations before conducting the interviews. This familiarisation indeed turned out to be very valuable when making the interviews since it led to increased rapport through a shared terminology, and trough an understanding of references made to historic and current phenomena made by the respondents. The historic analyses also proved valuable when interpreting the resulting material.

COMPILATION OF QUESTION AREAS

As discussed previously, the data material in the study is gathered through semistructured interviews based on a number of question areas from the model. At this stage, variables were re-examined and the respective question areas were broken down to a number of specific questions. These specific questions were then entered into an interview guide that was later used during the interviews. The aim of formulating specific questions was not to standardise the interview, but rather to provide the interviewer with a number of ready-made formulations that could be used as input in the discussion with the respondent. During the process of interviewing, these questions were subjected to constant re-formulation, and in some cases questions were added based on information received during previous interviews.

FIELDWORK

Preparations

The first step in the fieldwork was to decide who should be interviewed in the two organisations. To ensure that a relevant picture of the DOB operations within the organisations could be created, preliminary interviews were made with people from both ICA and KF to find out what functions and people were involved in these operations. Based on this information, a list of decision-makers at different levels within both organisations was compiled. Letters were then sent out with a presentation of the project and a request for an interview within a month's period. Specific time booking was then made trough telephone calls and email, and fortunately all prospect respondents were willing to participate in the study. By asking each of the respondents from this preliminary sample if there were others within the organisation that he/she thought should be interviewed, this preliminary sample was complemented with a number of additional interviews. This process of recommendations, contacting, and interviewing ended when the new interviews did not yield more than marginal contributions to the study.

The resulting group of respondents was composed as follows:

- ICA: Roland Fahlin (Managing Director), Stefan Elving (Marketing Director), Christian Wiechel (DOB Manager), four members of the category management organisation (of which two were interviewed together), and two members of the DOB organisation.

- KF: Lennart Hjalmarson (Executive Vice President), Per Möller (DOB Manager), one representative from KF Avtal (the central negotiations department), one representative from the distribution & logistics department, one representative from KF's industry Juvél, two representatives from KF's DOB department, and four representatives from the three concepts' (Gröna Konsum, KF Stormarknad, and Prix) category management organisations.

Results from all these interviews are presented in connection to the relevant section in the next chapter. In addition to these interviews, seven interviews were made with various managers within the "Third Block", i.e., the retailing and wholesaling operations connected to Swedish Dagab. The aim of these interviews was to gain an understanding of DOB operations within other Swedish retailing and wholesaling organisations, but also to acquire views on KF and ICA from managers outside these organisations. These external views, together with the views of retail chains that deliberately have chosen not to develop DOB's, were then used as an input when interviewing within

KF and ICA and also to contrast the material derived from these interviews. Interviews were also made with two retailers within KF. This was done with reference to the discussion of how KF carries out its strategies in its stores. One person, the author, made these interviews.

How the Interviews were Conducted

To be able to focus on the interaction between interviewer and respondent, a small tape recorder was used during the interviews. At the beginning of each interview the respondent was informed that all interviews were to be documented in this way, which all respondents accepted. The respondents were also informed that the resulting tape would be kept in a safe place, and that it would be transcribed into a protocol that he/she would have the opportunity to read, comment on, and approve, before any contents of the interview were publicised. A tape recorder could have the effect of making respondents cautious and unwilling to reveal their real opinions. Looking at the protocols, however, it is apparent that this effect is, if all, only detectable at the beginning of the interview, and when changing tape during the interview. The topic seemed to engage the majority of the respondents to the extent that they forgot the tape recorder most of the time. The interviewer also tried to reinforce this by deliberately not looking at the machine during the interviews, but instead keep as much eye contact as possible.

To avoid having to consult the interview guide more than necessarily during the interview, thus braking the flow of the conversation, all the questions in the guide were learnt by heart. While the questions in the interview guide worked as a framework for the interviews, respondents' answers were in many cases followed-up by tag questions used for clarifying answers, probing deeper into question areas, or to explore areas not addressed by the model. The typical interview could therefore be characterised more like a conversation between interviewer and respondent where the respondent was free to expand his/her thoughts on different topics or questions presented by the interviewer. This also meant that the order of questions would differ between different interviews due to topics being addressed in connection to the relevant answer rather than following a strict order. At the end of each interview, which would take approximately 1.5 hours, the interview guide was consulted to ensure that all relevant topics had been covered, and the respondent was also encouraged to suggest important areas that he/she felt had not been addressed during the interview.

This "conversation" way of conducting an interview, however, called for a deliberate balance between insight and naivety. According to Aaker and Day (1990, p 164), the major challenge when performing semistructured interviews is to establish rapport and credibility in the early moments of the interview and then maintain that atmosphere. *"There is no substitute for an informed, authoritative person who can relate to respondents on their own terms."* By displaying familiarity of issues pertaining to retailing and branding, and by using the same language and terms of the trade as the respondents, it was easier to create rapport with them and to create a more relaxed atmosphere. At the same time it was necessary not to fall in the trap of pretending to know more than one did, or to refrain from asking rather naïve questions concerning, for example, relationships to manufacturers and individual retailers. During the interviews, questions that had been answered in previous interviews were used to check the extent to which the respondents reported the same facts about their own organisation, e.g., division of roles when developing and launching distributor brands.

Documentation of the Interviews

The resulting tapes were transcribed as soon after the time for the interview as possible. The transcriptions were made verbatim, so as to reflect the contents of the tapes as closely as possible. This meant that pauses, incoherent sentences, and unfinished questions and answers were retained in the protocol for further analyses. The aim of the analyses was not to analyse *how* opinions were expressed during the interviews, but even so it was deemed valuable to retain both what was said and how it was said when approaching the written material. After having transcribed the tapes into written protocols, each protocol was checked against the respective tape to ensure that the transcription was accurate.

Quality Control of the Interviews

The protocols were sent to the respective respondent for proof-reading and approval. Respondents were informed that the protocol was verbatim, why language could be confusing, and that that any excerpts from the protocol used in the report would be translated into English. A few respondents wanted to omit specific parts of the text due to them containing sensitive information, but a majority of the respondents had few or no corrections that they wanted to make.

FAMILIARISATION WITH THE MATERIAL

After having got the approvals, all protocols were read through thoroughly and comments were jotted down in an analysis diary. These comments ranged from remarks on individual interviews to formulation of new concepts and, in some instances, conclusions. This read-through also led to the decision to add a number of constructs to the thematic framework, i.e., factors that have affected the development of DOB's during the 1990's, views on the future development of DOB's, the processes and organisation of KF's and ICA's DOB operations, views on competitors, and views on international inspiration.

COMPILATION

After this familiarisation with the material, the resulting constructs were merged with the question areas of the model into a thematic framework. With the five additions, the final thematic framework (presented in Appendix 1) contained 23 question areas. Many concepts pertaining to DOB operations and strategy are related to more than one of the question areas, why it was necessary to decide in which section different phenomenon should be addressed. The thematic framework was thus supplemented with examples of concepts for each variable to facilitate the indexing of the material.

INDEXING THE MATERIAL

The next step was to index the protocols using the thematic framework. In practise, this was a process of going through the protocols, marking each passage deemed relevant to the study, and annotating the passage with one or more index numbers in the margin. In Appendix 2, an example of the steps from protocol to chart is given. When indexing the material, it was decided that it was better to free than to convict, i.e., when uncertainties arose of whether a passage was relevant for a certain question area, the passage was indexed and the decision was made when compiling the charts.

CHARTING

Two charts – one for KF and one for ICA – were made for each question area, and relevant passages for each of the respondents were copied from the protocols to the respective charts. This was a deviation from the Framework method, which prescribes that a condensation of the material should be done directly. This intermediate step was, however, deemed necessary to retain the context of each of the passages before attempting to condense and translate them. Each of the passages was annotated with the relevant page number in the respective protocols.

The condensation proved to be difficult without having a general idea of what concepts would be defined in the next step, why preliminary concepts were defined after having read through the excerpts in each chart. This work also resulted in some rearrangements of the excerpts.

MAPPING AND INTERPRETATION

The final step in the analyses was to perform a systematic detection involving the key objectives of qualitative analysis, i.e., defining concepts, mapping range and nature of phenomena, creating typologies, finding associations, providing explanations, and developing strategies. The results from this work are presented in the coming two chapters: *Results and Interpretations*, and *Discussion*. The first of these two chapters will present the charts with comments and a discussion of each question area, while the other discusses the findings on a more general level in terms of themes.

4.3. THE QUALITY OF THE STUDY

OBJECTIVITY WITHIN THE SOCIAL SCIENCES

Before discussing the quality of this study in terms of it generating results that can be seen as trustworthy and reliable, we need to look into how the concepts of validity and reliability are treated within the literature on qualitative research. The first issues that we have to approach are objectivity and the external world within social science – do validity and reliability measures have a role within qualitative research?

According to Seidman (1998, p 17), some researchers within the social sciences oppose the idea of objectivity that underlies these notions. Some see validity as a question of "quality of craftsmanship" of the researchers as they make defensible knowledge claims. Others claim that knowledge can only be gained by the deepest intersubjectivity among researchers and that which they are researching. These views would suggest that neither validity, nor trustworthiness, is an adequate concept when approaching qualitative methods.

Kirk and Miller (1986), on the other hand, assert that the notion of validity and reliability can, and should, be used in the assessment of qualitative research. According to the authors, in response to the propensity of so many nonqualitative research traditions to use hidden positivist assumptions, some social scientists have tended to overreact by stressing the possibility of alternative interpretations of everything to the exclusion of any effort to choose among them.

> *"This extreme relativism ignores the other side of objectivity – that there is an external world at all. It ignores the important distinction between knowledge and opinion, and results in everyone having a separate insight that cannot be reconciled with anyone else's."*
>
> (Kirk and Miller 1986, p 15)

The authors suggest that reliability and validity should be seen as two components of this notion of objectivity:

> *"Objectivity, though the terms has been taken by some to suggest a naive and inhumane version of vulgar positivism, is the essential basis of all good research. Without it, the only reason the reader of the research might have for accepting the conclusions of the investigator would be an authoritarian respect for the person of the author. Objectivity is the simultaneous realization of as much reliability and validity as possible. Reliability is the degree to which the finding is independent of accidental circumstances of the research, and validity is the degree to which the finding is interpreted in the correct way... In the case of qualitative observations, the issue of validity is not a matter of methodological hair-splitting about the fifth decimal point, but a question of whether the researcher sees what he or she thinks he or she sees."*
>
> (Kirk and Miller 1986, p 20-21)

Holme and Sovang (1996, p 94) asserts that validity and reliability do not have the central roles within qualitative research as they do within quantitative research. The aim of qualitative studies is to gain a better understanding of certain factors, why statistical inferences are not in focus.

Seidman (1998, p 16 ff.) concludes that however disciplined and dedicated to keeping the interviews as the participants' meaning-making process, interviewers are also a part of that process, and that the interaction between the data gatherers and the participants is inherent in the nature of interviewing.

"How do we know that what the participant is telling us is true? And if it is true for this participant, is it true for anyone else? And if another person were doing the interview, would we get a different meaning? Or if we were to do the interview at a different time of year, would the participant reconstruct his or her experience differently? Or if we had picked different participants to interview, would we get an entirely dissimilar and perhaps contradictory sense of the issue at hand? These are some of the questions underlying the issues of validity, reliability, and genelizability that researchers confront."

(Seidman 1998, p 17)

The author's conclusion is that what are needed are not formulaic approaches to enhancing either validity or trustworthiness but understanding of and respect for the issues that underlie those terms.

We will now turn to the concepts of validity and reliability to so see how they can be approached within the context of qualitative research.

INTERNAL AND EXTERNAL VALIDITY

Validity is defined the absence of systematic measurement errors. This validity can be divided into internal and external validity. Internal validity *is a measure of the degree to which an instrument measures what it is supposed to measure.* External validity *is the degree to which the measures yielded by the instrument correspond with the phenomenon that the researcher is trying to assess. (Lundahl and Skärvad 1999, p 150-151)*

Kirk and Miller (1986, p 22-23) divide validity into three different, but related, concepts: apparent validity, instrumental validity, and theoretical validity. *Apparent validity* is based on the notion that the measuring instrument is so closely linked to the phenomena under observation that it is "obviously" providing valid data. This kind of validity is rarely found, and while conclusions of apparent validity are not entirely out of order, they can be illusory. A measurement procedure is said to have *instrumental validity* ("pragmatic" and "criterion" validity) if it can be shown that observations match those generated by an alternative procedure that is itself accepted as valid. Finally, measurement procedures are seen to exhibit *theoretical validity* ("construct validity") if there is substantial evidence that the theoretical paradigm rightly corresponds to observations. Theoretical validity underlies discussions of both apparent and instrumental validity:

> *"Thermometers are not ordinarily calibrated by comparison with a standard thermometer kept in the Bureau of Standards. Instead, they are calibrated by direct reference to the 'boiling point of water" – a notion heavily burdened with a theory that says that under controlled circumstances water boils at a constant temperature."*
>
> (Kirk and Miller 1986, p 23)

When approaching the validity issue within qualitative research, the authors conclude that theoretical validity is difficult to determine by methods other than qualitative research since testing hypotheses against explicit alternatives cannot guard against unanticipated sources of invalidity. According to the authors, the fieldworker, on the other hand, is continuously engaged in something very like hypothesis testing, but that effectively checks perceptions and understanding against the whole range of possible sources of error. He or she draws tentative conclusions from his or her current understanding of the situation as a whole, and acts upon them. Where, for unanticipated reasons, this understanding is invalid, the qualitative researcher will sooner or later find out about it.

Merriam (1988, p 176 ff.) asserts that if understanding is the major motive behind an investigation, there is a need to use totally different criteria for evaluating its results as compared to an investigation that aims at discovering a law of nature, or at testing a hypothesis. The author remarks that one of the assumptions that underlie qualitative research is that the reality is holistic, multidimensional, and in a state of constant change. There are no permanent or objective phenomena that are waiting to be discovered, observed, or measured. Assessing the degree to which there is a correspondence between the collected information and the "reality" from which it is collected is thus an inadequate way of assessing validity. If we regard reality as being constituted by multiple mental constructions of human beings – constructions that can be discussed with others – validity, or trustworthiness, becomes a question of whether the researcher has used a method that has reconstructed these mental constructions in a correct way. If reality is regarded in this way, qualitative methods should yield a high degree of internal validity since they are pre-occupied with the actual building blocks of this reality – the diversity of human perspectives.

Based on the experience derived from practical research, and from the literature on qualitative research, Merriam (Ibid., 179-180) suggests six ways of securing internal validity in qualitative research:

1. *Triangulation*: several researchers, sources of information, and methods are employed to confirm the results.
2. *Participant control*: the respondents that have provided the information have the opportunity to assess the descriptions and interpretations and also to decide whether the results seem to be trustworthy.
3. Observations during a longer period of time of the situation or context that is studied, or repeated observations of the same phenomenon.
4. Horizontal control and criticism of the results by colleagues.
5. *Participation by the objects of study*: the persons that are studied are involved in all phases of the research.

6. *Declaration of researcher biases*: explicit declaration of underlying assumptions, theoretical perspective, etc., when the investigation is commenced.

External validity is, according to the author (Ibid., p 183) meaningless within case research, which is defined by cases being selected based on usefulness rather than probability. Case research is chosen when a certain situation, person, or incident, is to be analysed in-depth, not when the aim is to make generalisations.

Holme and Sovang (1996, p 94) assert that the problem of obtaining valid information is generally smaller within qualitative than in quantitative research. In the qualitative investigation, there is a higher degree of closeness to the object, or subject, of study. The subject has, furthermore, the possibility to influence his/her degree of participation. This may pose a problem; the researcher's perception of the situation may be erroneous. He/she may not fully appreciate the subject's motives or signals, and it is difficult to know how better information should be gained. The closeness between researcher and subject of research may also create certain expectations, which will lead the subjects to behave in a way that they think is expected.

Bonoma (1985) claims that there is a trade-off between external and internal validity, i.e., precision in measurement is often obtained at the expense of the contextual richness, or currency, of the findings. Bonoma positions a number of research disciplines within a two dimensional space whose axes are defined in terms of two primary objectives of research: data integrity (i.e., characteristics of research that affect error and bias in research results), and currency (i.e., the generalisability of results).

As Figure 9 suggests, researchers must often trade one desideratum of research for the other:

> *"For example, the study which seeks a high degree of data integrity requires a precise operationalization of the research variables, a relatively large sample size and quantitative data for statistical power, and the ability to exercise control over persons, settings, and other factors to prevent causal contamination. In contrast, a study which seeks high currency typically demands situationally unconstrained operationalizations of variables to allow cross-setting generalisation, and observation within natural, ecologically valid settings – 'noisy' settings – where large samples, quantitative measures, and control are more difficult to achieve. Often the latter kind of study demands a greater use of subjective or, at best, clinical analysis."*
>
> (Bonoma 1985, p 200-201)

Bonoma continues to suggest that depending on research purpose, i.e., description, classification, comparison, measurement/estimation, establishing association, and determining cause and effect, different methods are more and less useful. When existing body of theory is well developed, and when the focal concerns are causal limits, quantification, and the attendant ability to attain measurable internal validity, statistical conclusion validity, and falsification, methods oriented toward the lower-right apex of the figure may be inefficient. These methods may also be ill-advised since these they risk measurement bias and error due to researcher subjectivity. However, when research is more oriented towards building theory, rather than verification or extension, the tasks of description, classification, and comparison become relevant, and the methods oriented toward the lower-right apex of the figure may be more efficient than others.

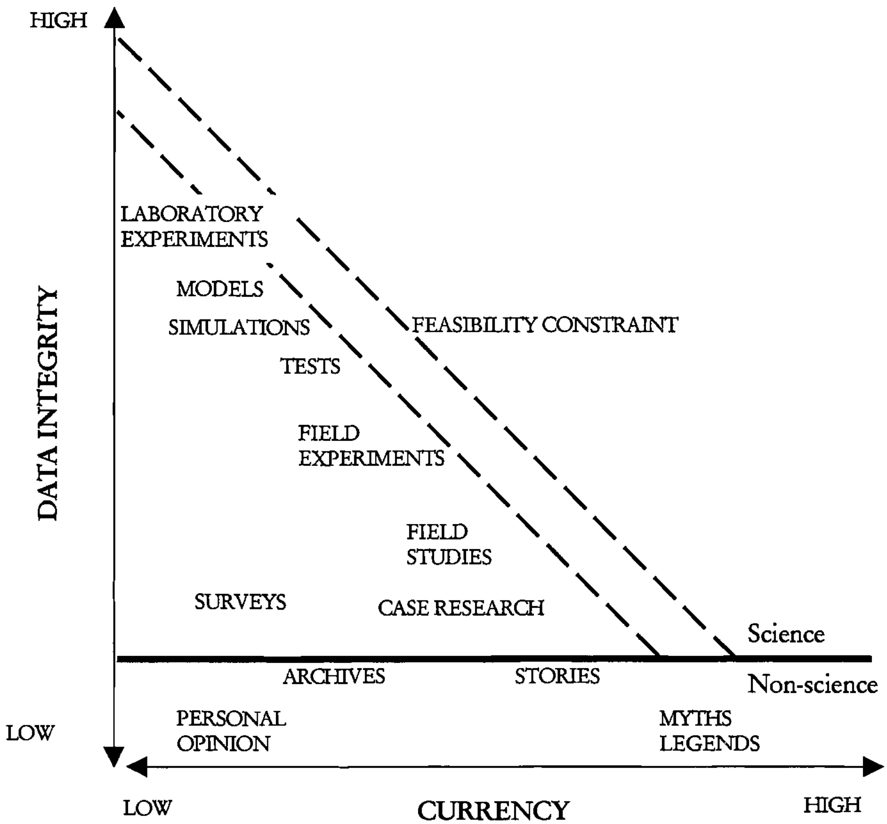

Figure 9 A knowledge-accrual triangle

RELIABILITY

Reliability is defined as the absence of stochastic measurement errors, i.e., the measurement is not affected by the person who conducts the measuring or the conditions in which the measurement is made. (Lundahl and Skärvad 1999, p 152)

Merriam (1988, p 180) concludes that reliability is a problematic concept within the social sciences, since human behaviour is not static, but in constant change. The reliability of a method is based on the assumption that there is one single reality that will yield the same results if studied repeated times using a method with a high reliability. Qualitative research does, however, not strive to isolate laws of human behaviour, but rather to describe and explain the world based on the perceptions of the humans that live in it. Enhancing reliability, then, becomes a question of the researcher "tuning" him-/herself through education and practice to better understand and capture the perceptions of the people that he/she studies.

Kirk and Miller (1986, p 41 ff.) suggest that reliability depends essentially on explicitly described observational procedures, and that it is useful to distinguish between three different kinds of reliability: quixotic reliability, diachronic reliability, and synchronic reliability. *Quixotic reliability* refers to the circumstances in which a single method of observation continually yields an unvarying measurement, a concept that the authors see as both trivial and misleading, e.g., a thermometer that is broken will yield the same - erroneous - result over and over again. *Diachronic reliability* refers to the stability of an observation through time. This type of reliability is conventionally demonstrated by similarity of measurements, or findings, taken at different times. The general applicability of this measure is, however, diminished since it is only appropriate to measurements or features and entities that remain unchanged. The use of this measure in the social sciences should, thus, be seen as extremely limited.[14] *Synchronic reliability* refers to the similarity of observations within the same time period. Unlike quixotic reliability, synchronic reliability rarely involves identical observations, but rather observations that are consistent with respect to the particular features of interest to the observer.

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[14] A possible exception from this would be historical research where observations of dates, events, etc. could be expected to remain unchanged over time.

Holme and Sovang (1996, p 94) assert that issues pertaining to the reliability of the information are not primarily related to the problem of reproducing the information. In a qualitative study, the subjects can assess the reliability of the gathered information themselves, but it is difficult to recreate the social process by which this information has been gathered. The authors (Ibid., p 95) advice to enhance the quality of the information is a continuous exchange between the researcher and the studied subjects which will yield a better, deeper, and richer perception of the studied phenomenon.

OVERALL ASSESSMENT OF THE APPROACH

As suggested by the previous sections, the literature on methodological issues within qualitative research offers various views on the respective roles of validity and reliability. The author's standpoint is in line with that taken by Kirk and Miller who suggest that objectivity is a necessary condition for producing research results that can be trusted by others. This objectivity, in turn, should be defined as the simultaneous realisation of as much reliability, i.e., the degree to which the finding is independent of accidental circumstances of the research, and validity, i.e., the degree to which the finding is interpreted in the correct way as possible. In this way, the objectivity of a study should be evaluated in terms of the measures that have been taken to ensure the quality of both data and the analyses of this data. The idiosyncrasies of a study aiming at understanding through interpretations of perceptions based on interviews, e.g., the object of study is not permanent or objective in itself, and results are not readily generalisable, call for careful considerations of how to collect, interpret and evaluate results. Nevertheless, the researcher should strive to enhance both validity and reliability as much as possible.

As suggested by Bonoma, the choice of research approach should be made with a deliberate consideration of the trade-off between external and internal validity, i.e., precision in measurement is often obtained at the expense of the contextual richness, or currency, of the findings.

Most authors seem to agree that the qualitative study has a number of strengths in terms of – at least – internal validity. As Kirk and Miller suggest, theoretical validity is difficult to determine by methods other than qualitative research since the fieldworker is continuously engaged in an activity that effectively checks perceptions and understanding against the whole range of possible sources of error. Interviewing is – of course – not equivalent with participant field work, but even so the interaction between interviewer and respondent during a semistructured interview offers ample opportunity to re-evaluate and adapt the theoretical constructs that form the basis for the investigation. This view is also supported by Holme and Solvang, who assert that the problem of obtaining valid information is generally smaller within qualitative than in quantitative research due to the higher degree of closeness to the object, or subject, of study. This closeness, however, may also lead to errors due to the researcher's erroneous perception of the situation, his/her inability to fully appreciate the subject's motives or signals, and due to the respondents' propensity to meet perceived expectations from the researcher.

The history of scientific discovery has presented enough examples of researchers who dismiss empirical findings that are inconsistent with their favourite theories to cast serious doubt over Kirk & Miller's notion that qualitative researchers would "sooner or later find out if their understanding is invalid." With this in mind, a number of measures have been taken to enhance the internal validity of the results in this study.

Firstly, the analyses in this study have been discussed with a number of researchers and practitioners. Apart from the interview material, secondary sources, and views from experts outside the two organisations, have been consulted when possible. This would, thus, fall under the headlines "Triangulation" and "Horizontal control and criticism" suggested by Merriam. *Secondly*, the protocols were sent to the respective respondent for proof-reading and approval. Thus, all the respondents have had the opportunity to assess the extent to which the interviews corresponded with their own views and perceptions. No attempts have been made to discuss the interpretations of these protocols with the respondents. However, during the completion of the study, the author has had the opportunity to give a number of lectures to manufacturer and distributor companies within the Swedish fmcg sector. During these lectures, there has been ample opportunity to discuss the author's perceptions of the subject of study, and also of presenting tentative conclusions based on the investigation. All in all, the suggested measure of "Participant control" is partly fulfilled. *Thirdly*, as suggested by Merriam, a number of interviews have been made within the two organisations to achieve repeated measures of the object of study, i.e., organisational perceptions and strategies. *Fourthly*, by writing the theory chapters before commencing the interviewing, and by devoting much effort to discuss the investigator's perceptions and assumptions pertaining to the object of study, the theoretical perspective of the investigator has been explicated. Merriam's sixth suggestion, "Participation by the objects of study", has not been met in the study due to limited access to the respondents.

When discussing the concept of reliability, Kirk and Miller suggest that *synchronic reliability*, i.e., the similarity of observations within the same time period, should be used within the social sciences. This reliability measure rarely involves identical observations, but rather observations that are consistent with respect to the particular features of interest to the observer. According to Merriam, to enhance reliability the researcher should "tune" him-/herself through education and practice to better understand and capture the perceptions of the people that he/she studies. Holme and Solvang suggest that in a qualitative study, the subjects can assess the reliability of the gathered information themselves, but it is difficult to recreate the social process by which this information has been gathered.

The measures for enhancing reliability, thus, are highly consistent with those for enhancing internal validity. Repeated measures have been made which should enhance synchronic reliability, which is suggested by Kirk and Miller to be most relevant for this type of study, and respondents have had the opportunity to assess reliability of the gathered information themselves. In terms of enhancing reliability through tuning the investigator, much effort has been devoted during the research process to familiarisation with DOB strategy in general, using empirical material concerning the development of DOB's in Sweden and in Europe, and relevant literature on brands, strategy formation and DOB's. Familiarisation with the respective organisations has been made using material pertaining to the organisations' current situation and history. As stated earlier, this familiarisation indeed turned out to be very valuable when making the interviews since it led to increased rapport through a shared terminology, and trough an understanding of references made to historic and current phenomena made by the respondents.

Apart from these measures, a majority of the respondents chosen for the study have been involved and affected the whole process under study, which should enhance the validity of the information. These respondents participate in common meetings why they may be considered as exponents of the strategy formation within the organisation. The aim of this study is not to investigate reality in itself, but rather the perceptions that the two organisations have of this reality. It is these perceptions that can explain their behaviour in terms of strategies. Ultimately, the validity and reliability of a qualitative study based on interviews will depend on the answers to the questions posed by Seidman:

- How do we know that what the participant is telling us is true? And if it is true for this participant, is it true for anyone else?
- If another person were doing the interview, would we get a different meaning?
- If we were to do the interview at a different time of year, would the participant reconstruct his or her experience differently?
- If we had picked different participants to interview, would we get an entirely dissimilar and perhaps contradictory sense of the issue at hand?

Hopefully, the above discussion of the measures that have been taken to enhance reliability and validity, and the way in which the data are presented in the subsequent chapter, can provide the reader with the necessary input to answer these questions when assessing the results of this study.

5. RESULTS AND INTERPRETATIONS

Men's thoughts are much according to their inclination, their discourse and speeches according to their learning and infused opinions.

Francis Bacon (1561-1626), "*Of Custom and Education*"

5.1. INTRODUCTION TO THE CHAPTER

In this chapter, the final step in the Framework analyses - the interpretation of the charts - will be presented and discussed together with additional information.

The chapter is organised as follows. We will start with a short presentation of the two organisations in terms of turnover, chain portfolios, and DOB portfolios. In the following section, views on internal and external factors that underlie DOB development during the 1990's are analysed. We will then turn to the goals that the two organisations attempt to attain with their DOB operations, i.e., strategy as plan. After having discussed these question areas, we will look at the organisation and process behind DOB operations, i.e., what are the steps between an identified need for a DOB product and the actual product launch, and what functions are involved in this process?

In the following sections, we will turn to the seven factors presented in the theoretical framework. As discussed in the previous chapter, the focus of this study is the two organisations' strategies and perceptions, while respondents are seen as exponents of these strategies and perceptions. Given this focus, the aim of the analyses is not to look for consistencies/inconsistencies between the individual respondent's answers, but rather to analyse the patterns of answers for each factor. Consequently, each factor is presented in the form of two charts - one for each organisation - where the interview material has been interpreted and condensed. The following abbreviations are used in the charts:

ICA	
Roland Fahlin, *Managing Director*	**MD**
Stefan Elving, *Marketing Director*	**MM**
Christian Wiechel, *DOB Manager*	**DM**
Category Managers	**CM**
Respondents from the *DOB Department*	**DOB**
KF	
Lennart Hjalmarson, *Executive Vice President*	**EVP**
Per Möller, *DOB Manager*	**DM**
Representative from *the Central Negotiations Department*	**KFA**
Respondent from the *Distribution & Logistics Department*	**D&L**
Respondent from *KF's Industry Juvél*	**KFI**
Category Managers	**CM**
Respondents from the *DOB Department*	**DOB**

Table 13: Respondent abbrevitaions used in the charts

It should be stressed that the information presented in the charts is the result of a process in which a selection of passages from the protocols have been condensed and translated from Swedish. This information should, thus, not be seen as quotes from the interviews, but as the result of an interpretative process.

After this, we will briefly discuss two additional factors that have emerged during the analyses – international inspiration, and views on the competitors – and the chapter is concluded with the organisations' views on the future development of DOB's.

5.2. THE TWO ORGANISATIONS: KF AND ICA

THE ICA FEDERATION

> *"ICA's vision is to become one of northern Europe's leading retailing companies with food as the main focus. The business idea is founded on being the customer's prominent choice by offering products with a good value for money and service with care in stores that are locally adapted to different markets."*
>
> ICA's Annual Report 1998, p 9

ICA AB was founded in 1939 by the four retailer-owned wholesalers Hakon, SV, Eol, and Nordsvenska köpmannabolaget. In 1940, ICA-Förbundet was formed as an association for the retailers within ICA. In 1964, the ICA logotype was introduced as a way of giving the associated retailers a common market appearance. In the late 1980's the group's operations included grocery retailing, wholesaling, food industry, single-line retailing, and mail-order operations. During the 1990's, ICA returned to its core business, fmcg retailing, by systematically selling off operations and by modernising the organisation. The last major reorganisation was made in 1995. In 1998, ICA had a turnover of SEK 40,008.7 m, and a share of the fmcg market of approximately 35 percent.

	ICA Nära	ICA Plus	Storbutik	Stormarknad	Rimi
Share of consumer sales	16.6%	39.3%	29.2%	10.3%	4.6%
Number of stores	1,257	611	151	27	71
Gross turnover (store)	<SEK 25 m	SEK 25-150 m	SEK 70-430 m	SEK 200-400 m	SEK 25-100 m
Number of SKU's	2,500- 4,500	5,000-10,000	7,000-12,000	15,000-20,000	2,500-3,000
Sell space (sqm)	100-400	400-1,500	800-4,000	4,500-	500-1,500
Gross turnover (group)	SEK 10.6 b	SEK 25.1 b	SEK 18.6 b	SEK 6.6 b	SEK 2.9 b

Table 14: ICA's store structure

ICA's stores are divided into two chains – ICA Handlarnas and Rimi – where the former chain encompasses a variety of stores ranging from small shops to hypermarkets. The division of stores made in Table 14 is based on ICA's new role organisation which was introduced in 1999, but gives a picture of the distribution of store sizes and shares of consumer sales.

> *"DOB's is a form of vertical integration backwards, where the grocery retail trade outsourcers manufacturing of products sold under an own brand. This reduces marketing and sales costs."*
>
> ICA's Annual Report 1998

ICA started to sell DOB's as early as in the 1940's, and today the DOB assortment consists of some 500 SKU's. ICA's DOB portfolio in 1998 is presented in Table 15.

DOB	No. products
ICA Handlarnas	158
ICA Färsk (perishables)	76
Sunda	74
Diva	70
Euroshopper	51
Skona	47
Lindbergs	8
Luxus	8
First Choice	6
Glory/Psst	4
Santos Coffee	4
Slotts	4
Roxy	3
BRA	2
Rico	2
Trophy	2
Lycka	1
Royal Baker	1
Total:	**521**
Increase 97-98:	**11%**
Share of store sales:	**6-7%**
Group share of market:	**35%**

Table 15: ICA's DOB portfolio (source: Supermarket no. 9 1998)

ICA has doubled the number of DOB products since 1995, but the assortment needs some 100 products to reach KF's level. (Supermarket, no. 9 1998, p 61) All store types within ICA sell DOB's, and ICA's DOB's are also sold within the Rimi chain to some extent. According to the organisation's annual report for 1998, ICA's goal is to increase the share of DOB's in its assortment from the current seven percent to at least ten percent within the ICA group. This increase will be achieved through developing DOB's within large-volume product categories. Apart from the development of DOB's within the ICA group, ICA has developed the low-price DOB Euroshopper in co-operation with Associated Marketing Services (AMS), where most of the large fmcg chains in Europe participate. Euroshopper has generated the strongest increase of number of products during 1998. (Supermarket, no. 9 1998, p 61) According to an article in DaglivaruAffärer (February 1998, p 16), the concentration on Euroshopper is expected to increase considerably within the next three years, from the current 30 articles to 100-200. So far, the DOB has been used for diapers, dog and cat food, lemonade, and chips.

In ICA's annual report (1998, p 11), the organisation states that its strategy is to co-ordinate its DOB's and to tie them to the chains in order to create fewer and better grouped DOB's.

KF – THE CONSUMER CO-OPERATION

> *"KF is today an organisation which focuses on food and food culture, diet and health, and the conservation of resources from an ecological perspective. Environmental and quality thinking is a significant part of consumer cooperative culture."*
>
> KF's annual report 1998, p 15

During the second half of the 19th century, hundreds of smaller consumer associations were founded in Sweden. Due to economic problems, the life-span of these co-ops was often limited, and it was not until the forming of the central organisation - KF - in 1899 that the Swedish consumer co-operative movement became more stabilised. KF commenced wholesale operations in 1904, and started own production in 1924. The expansion of KF Industry made KF a large distributor and producer of private label products. When the consumer co-operation was at its largest – in the late 1980's – its operations included fmcg retailing, single-line retailing, wholesaling, industrial production, real-estate, and finance operations.

In 1992, it was decided that KF was to return to its core business: retailing with a focus on fmcg. In order to do so, KF began a process of selling off a number of its operations and to modernise the organisation. These sales were completed in 1994, and the organisation has since then undergone a number of reorganisations.

KF currently operates about 65 per cent of the consumer co-operative retail outlets in Sweden, and the organisation's fmcg retailing operations are divided into three concept organisations: Gröna Konsum, KF Stormarknad (KF Hypermarkets), and Prix.

	Sales	Employees	Stores
Gröna Konsum	SEK 9,758 m	5,289	426
KF Hypermarkets (KF Stormarknad)	SEK 10,415 m	5,500	OBS!: 17 B&W: 9 Robin Hood: 18
Prix	SEK 1,172 m	468	29

Table 16 KF's store structure

In 1998, nine hypermarkets were modernised and some ten Gröna Konsum stores underwent more radical renewal and the chain continued its positive market development. The Prix chain acquired another twelve stores and showed strong growth. The hypermarket group stabilised its volumes after a decline of two years. The trend for the Group's overall FMCG sales is slightly under that of the market.

"In order to create a unique means of competition and to strengthen the image of the FMCG chains, KF has developed three own labels, Signum, Änglamark and Blåvitt (Blue-White). Controlling range development and being responsible for the requirements specification, starting from the demands and wishes of members and customers, gives KF full control over the properties and quality of its products. KF in this way has control over the entire chain from the requirements specification to the sale of its own branded goods. This means, among other things, lower prices than those of the market leaders, thereby benefiting members and customers."

KF's annual report 1998

KF's main DOB's are Signum, Blåvitt, and Änglamark. Signum - introduced in 1995 - is positioned as high-quality, tasty foods at a price well below that of the market leader. The consumer co-operation has, since 1995, practically doubled the number of DOB products. In 1998, the organisation has some 630 DOB products, which is more than any other Swedish distributor. The Signum assortment has experienced the most rapid growth - since 1995, the number of products has grown with more than 600 percent. (Supermarket, no. 9 1998, p 59) In 1998 about one hundred new articles were introduced, making a total of 280 for the existing number of goods in the Signum range. Änglamark is KF's brand for environmentally sound products. At present it consists of just under 170 food, washing and cleaning, hygiene and garden products. Blåvitt was introduced in 1979 as the consumer cooperative movement's generic DOB. Apart from these three brands, KF also has a low price brand - Rainbow - and a number of smaller formerly own-produced DOB's.

5.3. SWEDISH FMCG MARKET STATISTICS

MARKET DEVELOPMENT IN 1998

The Swedish economy continued to grow in 1998. GDP rose by 2.9 per cent, making the growth in the economy substantially higher than the average of OECD countries. In 1998 there was a shift in growth from exports to domestic demand. Private consumption increased by 3.0 per cent. This increase was bolstered by the greater disposable incomes of households as a result of increasing real wages, to which the very low rate of inflation contributed. Following a long period of stagnation during most of the 1990's, turnover in retailing began to increase during the end of 1996, and this trend continued in 1997 with an increase of 3.5 per cent. In 1998 overall retail trade amounted to SEK 298.5 billion. The FMCG market showed a price increase of 1.5 per cent and a volume increase of 0.2 per cent. (KF's annual report 1998)

DOB STATISTICS

In this section a number of figures describing the Swedish DOB market during the period between November 1996 and April 1999 will be presented. All figures are based on data supplied by GfK Sverige AB. The reader should note that all shares are calculated as share of value, i.e., price x volume.

DOB Shares of Sales

In Figure 10 DOB shares of the Swedish fmcg market, as well as the shares within ICA, KF, and the organisations' chains are presented. Since 1995, the total DOB assortment has grown with no less than 80 percent – from 1,080 to approximately 1,930 products. (Supermarket, no. 9 1998, p 58) During the period between November 1996 and April 1998, DOB shares of total fmcg sales increased from 6.2 to 6.6 percent in Sweden. In

ICA, the corresponding channel share increased from 5.9 to 6.3 percent, while this increase was 4.3 to 6.4 in ICA Maxi (hypermarkets), and 3.7 to 5.4 in the Rimi chain. These figures would, thus, suggest that ICA has a DOB share that is below that of the whole market. Furthermore, the DOB penetration is higher within the smaller ICA stores than within both Maxi and the discount chain Rimi, although both these chains display a market increase in DOB share during the period.

KF has a channel share of DOB's that increases from 11.0 to 12.2 percent during the period. This channel share – which is higher than the whole market's – is lower (8.7-10.5) within the hypermarkets (KF Stormarknad), than within Gröna Konsum where the share has increased from 12.0 to 13.2 percent. In Prix – which is only measured in the last of the periods – the share is 13.0 percent, which corresponds with the DOB share within Gröna Konsum. The group "Not Gröna Konsum " consists of stores that are controlled by the Swedish co-ops, i.e., that are outside the central organisation's immediate control.

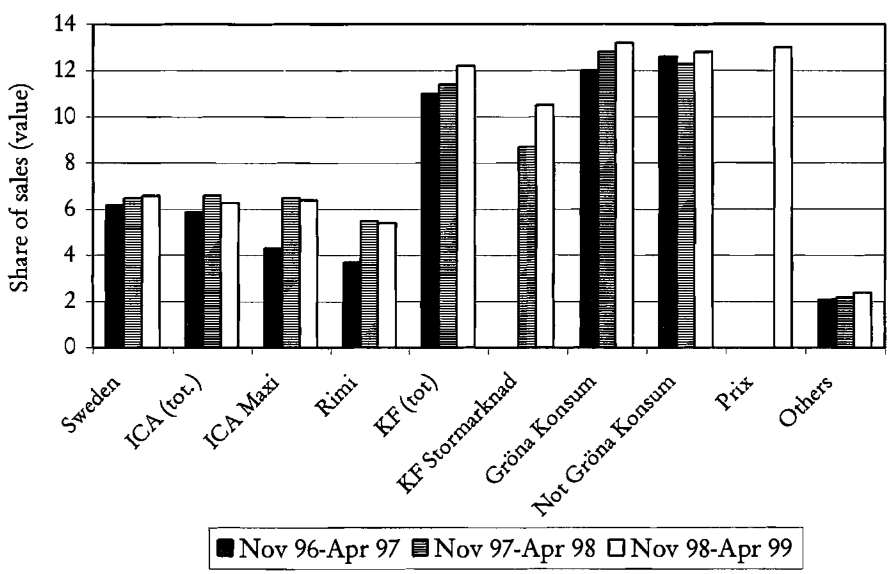

Figure 10: DOB share of packaged fmcg sales (value) (source: GfK Sverige)

Figure 10 also presents the DOB shares within the "third block", which constitutes the group of retailers formed around the distributors that do not belong to either KF or ICA, where the DOB share is between 2.1 and 2.4 percent during the measured period.

ICA's and KF's Share of DOB Sales in Sweden

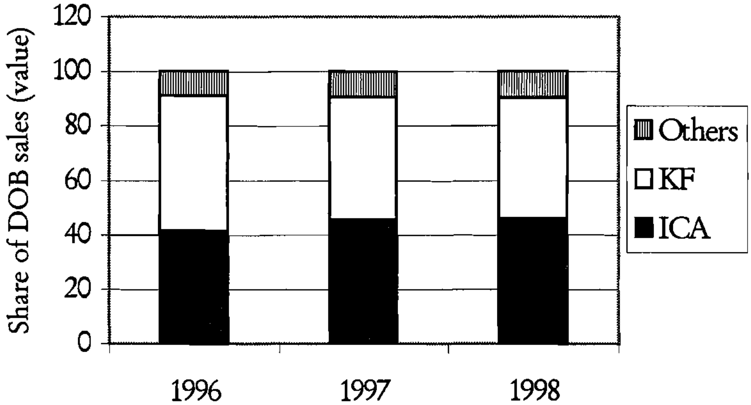

Figure 11: ICA's and KF's share of total DOB sales (value) (source: GfK Sverige)

Figure 11 presents ICA's, KF's and the other Swedish fmcg distributors' shares of total DOB sales. In the figure, we can see that ICA has increased its share of DOB sales from 41.7 to 46.1, thus rendering it the largest DOB distributor in Sweden in the last period. KF's share of DOB sales have been subjected to a corresponding decrease – from 49.6 to 44.4 percent – while the other distributors have increased their share of DOB sales from 8.7 to 9.6 percent during the period.

DOB Shares of Sales in Different Regions

Figure 12 presents the distribution of DOB shares in different regions – South, West, East, and North. In the figure we can see that there are some variation between the four regions in terms of DOB shares of total sales. Although the South and the East regions display similar DOB share, DOB penetration in the West region is considerably smaller, while the North region displays a considerably larger DOB penetration.

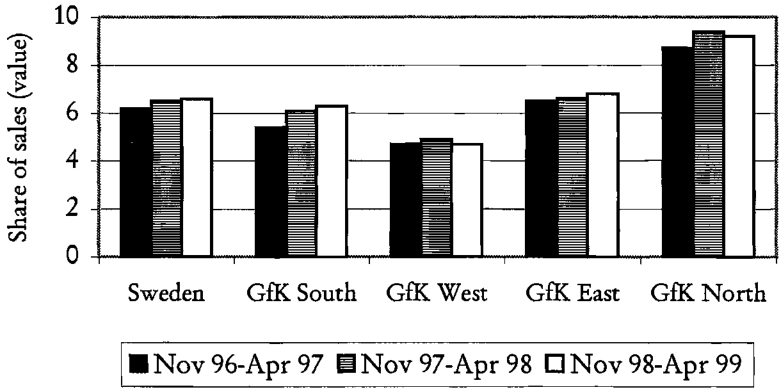

Figure 12: DOB share of packaged fmcg sales (value) in different regions (source: GfK Sverige)

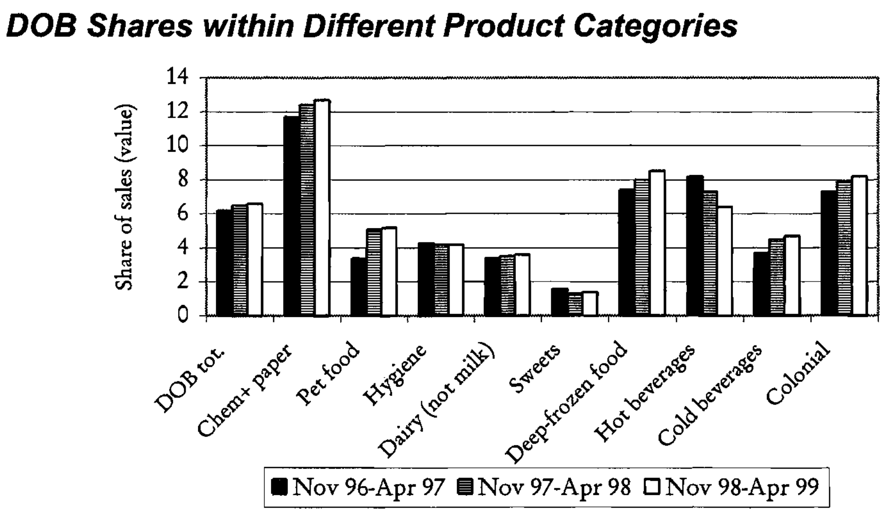

Figure 13: DOB share of sales in different product categories (value) (source: GfK Sverige)

Figure 13 presents the overall DOB penetration within different product categories. In the figure we can see that this penetration is above average

(6.2-6.6) in *household chemicals/paper* (11.7-12.7), *deep-frozen foods* (7.4-8.5), and the *colonial* (7.3-8.2) product categories. DOB penetration is lower than average in the *pet food* (3.4-5.2), *cold beverages* (3.7-4.7), *hygiene* (4.3-4.2), *dairy* (3.4-3.6), and *sweets* (1.6-1.4) product categories. In the *hot beverages* categories, DOB penetration has decreased so that the categories display a lower share than the average DOB penetration. All product categories - with exception for *sweets* and *hot beverages* - have either increased their DOB share or display constant shares.

DOB Launches vs. DOB Shares

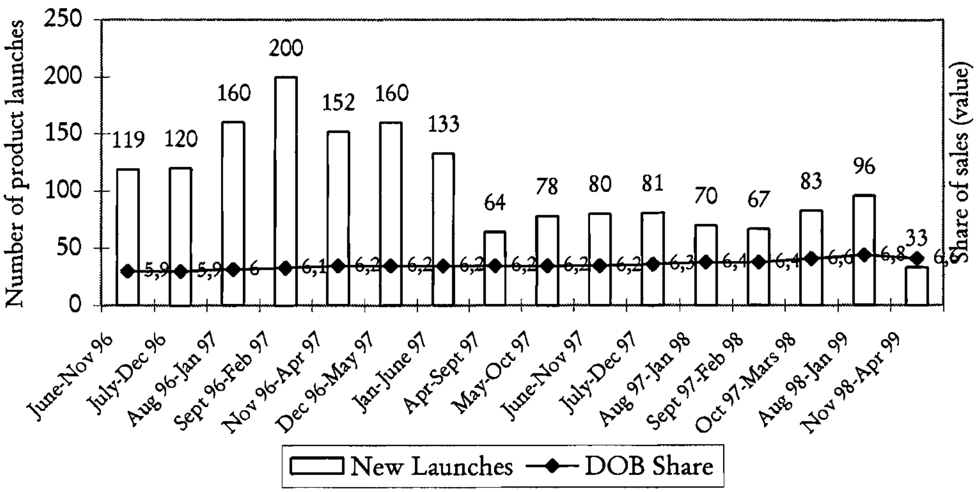

Figure 14: DOB share of total packaged fmcg sales (value) vs. product launches (source: GfK Sverige)

In Figure 14 new DOB product launches are related to the changes in DOB penetration. The reader should note that the time periods are overlapping. In the period June-November 1996, the 119 DOB launches constituted 19 percent of all new product launches on the Swedish fmcg market. In the period January-June 1997, the 133 DOB launches constituted 21.5 percent of all product launches. In the period August-January 1999, the 96 DOB launches constituted 16 percent of all new product launches. During the period from June 1996 to April 1999, overall DOB penetration increased from 5.9 percent to 6.6 percent with a peak in the period August 1998-January 1999 when DOB penetration reached 6.8 percent. In all, we can see that during periods when DOB launches have constituted approximately a fifth of all new fmcg product launches, DOB penetration has only increased slightly.

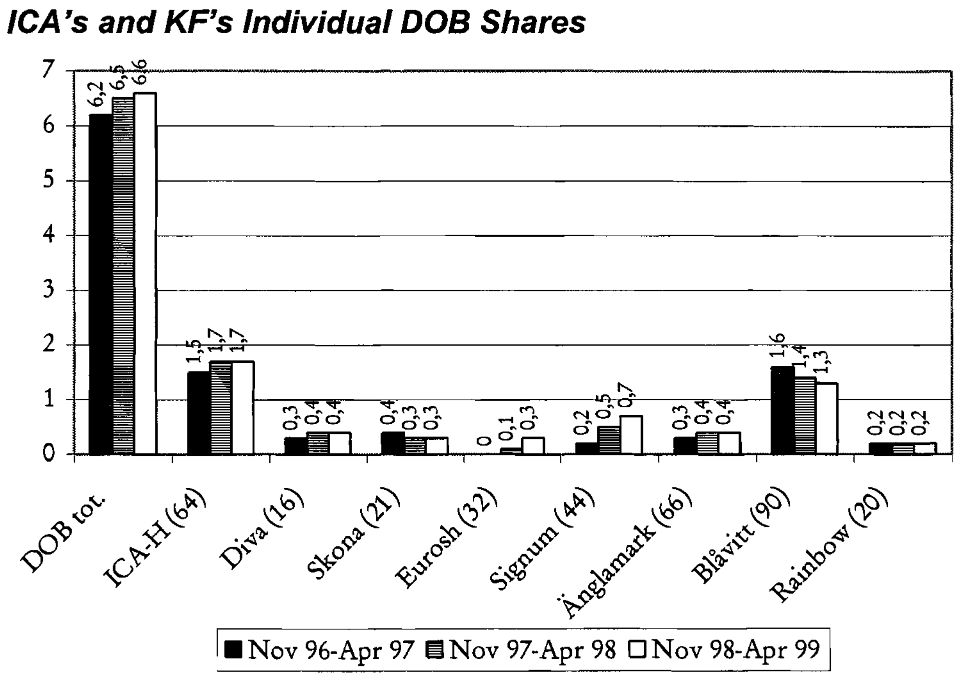

Figure 15: Individual DOB shares of total packaged fmcg sales (value) (source: GfK Sverige)

Figure 15 presents the market shares of the organisation's largest DOB's. The digits within parentheses denote the number of product categories that the respective DOB is used within. Looking at the figure, we can see that KF's low-price DOB *Blåvitt* has experienced a slight decrease (1.6-1.3) during the period, while ICA's house brand *ICA-Handlarnas* has increased its share of Swedish fmcg sales (1.5-1.7), making it the largest DOB on the Swedish fmcg market. The two ecological brands in Figure

15, Skona and Änglamark both have market shares of approximately 0.4 percent, while the discount brands *Diva*, *Euroshopper*, and *Rainbow* have 0.4, 0.3, and 0.2 percent in the last period. While both ICA's *Diva* and KF's *Rainbow* display constant market shares, ICA's *Euroshopper* increases its shares from 0 to 0.3 percent during the three periods. KF's *Signum* increases its shares from 0.2 to 0.7 percent during the periods.

In Summation...

The data from GfK show that although KF has the largest channel penetration of DOB's (foremost Blåvitt), ICA has the largest share of the DOB market within Swedish fmcg, this mainly generated by its house brand *ICA-Handlarnas*. When decomposing the national DOB shares into regions, we find that there are some geographical differences in terms of overall DOB penetration, i.e., the northern part of Sweden displays the highest penetration, the western part the lowest. (One possible explanation for this is that that both ICA and KF has strong market positions in northern parts of Sweden while being subjected to low-price competition in the western regions.) When decomposing overall DOB penetration into product categories, we find that the largest DOB shares can be found within non-food product categories, followed by deep-frozen foods and colonial product categories. The data also suggest that despite a large share of new fmcg product launches, DOB penetration has only increased marginally during the studied periods. One possible explanation for the relationship between new product launches and the relatively modest increase in DOB sales may be that a large part of these launches have been made at the old distributor labels' expense.

After this presentation of various aspects of DOB penetration, we will now turn to the interview data, starting with the respondents' perceptions of what factors underlie the development of DOB's during the 1990's.

5.4. DOB DEVELOPMENT DURING THE 1990's

ICA	
MM	• The increased interest for DOB's is an effect of a number of factors. One factor was the macro-economic situation, the other the recruitment of managers that had a competence within branding. In the late 1980's and early 1990's, there was a radical change in the macro-economic environment: Sweden turned into a low-inflation economy which diminished the inflation profits that could be made within distribution. Until the early 1990's, there were no price negotiations – list prices were just shifted up and the only thing that was negotiated was campaigns. The manufacturers could raise their regular prices and give larger temporary rebates. These rebates were given on a regular basis – a large share of the manufacturers' sales are on promotion – but the technique was to charge ten and give back eight, and this made room for increases in costs. Another factor was an increasingly marked tendency of decreasing growth combined with the new competition from non-traditional competitors, e.g., restaurants, fast-food, etc. Around 1990, the Rehnman commission was appointed in an attempt to decrease inflation. These factors forced ICA to think its long-term pricing strategy through. This was done with rather simple means, and the result has been that the manufacturers and the distributors have managed to break the enormous price-boom that had defined Swedish fmcg for many years. Prices are now lower than they were in the beginning of the 1990's, and both the distributors and the manufacturers have managed to adapt to this situation and have come out stronger and better equipped than before. Another factor has been the advent of commercial television that made the multinational companies shift from push to pull marketing, even though they had to maintain a lot of their push marketing. This has led to a situation where the strong manufacturer brands have become even stronger, a factor that has accentuated the need for DOB's. • Since everyone knew that DOB's had captured market shares exceeding 40 percent on some markets, ICA was pressured into stating what its goal was in terms of DOB shares, why the 10 percent goal was coined. This has become a truth in the organisation, but was never ICA's goal; it was a question of coming up with a number to calm the manufacturers.
MD	• In the USA, handling DOB's was a matter of basic know-how, e.g., how many percent cheaper DOB's should be relative the manufacturer brands, etc. It was in the 1960's when exposure and sales techniques began to be documented, and reports on, e.g., how to place products in the shelves, facings in relation to sales volume, etc. were presented. By this time, however, DOB strategy was intimately related to own production and had fairly little to do with the American view.

DM	• From the beginning, DOB's were not managed by a department but by category managers and a department responsible for imports. This resulted in uncoordinated efforts. Neither a coherent strategy, nor the creation of brand profiles, was achieved since the operations were handled by a number of people who were purchase officers, rather than brand managers. • In the beginning of the 1970's, DOB's had a 50 percent share of the assortment within KF. In ICA's case, the old brands - BOB, Svea, and Luxus - have been sold, and it was not until 1996 when ICA's new brand launches generated more sales than these brands. A couple of years ago, the DOB share was lower in both ICA and KF than it had been for many years. Historically, KF started the DOB operations in Sweden, and this was probably a result of their situation - KF had a difficult time getting the manufacturers to deliver goods. Either they did not want to deliver, or they were too expensive, and that is why KF started their own factories to get the right prices. In the 1980's they realised that their industry had become a problem for the organisation; they could not expand, they could not compete since the market was too small. They also realised that they were lagging behind in product development, and even if the factories were relatively competent the assortment was rather boring. ICA changed its strategy in the mid 1980's when KF started to include manufacturer brands in their assortment - the strategy to refrain from DOB's was only interesting if KF did the opposite. ICA started to pursue the same strategy as all other international chains, i.e., to launch its own DOB's, and, consequently, ICA-Handlarnas was introduced in 1989. The first DOB launches were merely a question of replacing the old logotypes with a new one on tinned food - it was a question of private *label*. Three new products were introduced: a chocolate drink, chips, and diapers. This led to nothing. In 1991, Stefan Elving - the market director - concluded ICA lacked a DOB programme despite the fact that all other distributors were making money on DOB's, why Wiechel was recruited to form a DOB organisation. This new organisation started with Skona, and continued to launch a number of increasingly sophisticated products.
CM	• In ICA's case, it was simply a matter of deciding to invest in DOB operations and to create an organisation for it. In 1993, a number of successful launches had been made, but the work was not organised in the effective way that it is now. Compared to the 1980', the market has changed during the 1990's; there has been a tremendous pressure on the market - on prices and costs - and compared to the 1980's, there has been a pronounced focus on DOB operations as a way of generating growth.
DOB	• Skona was the test for ICA when deciding whether it should make a new investment in DOB's. ICA had DOB's in the 1940's and 1950', but it is fair to say that the new development started in the late 1980's when the environment debate started to focus on the packaging hysteria within the fmcg trade. The debate also focused on the chemical industry's pollution.

	KF, Dagab, and ICA went to the society for the conservation of Nature and asked them to issue criteria for environment friendliness. In the same period, Adekema - a chemical company in Borås - approached ICA with a suggestion that they should manufacture detergents for DOB's. The result was the launch of Skona in 1991 as the first environment friendly detergent, and KF's Änglamark followed in 1992.
CM	• One explanation is that the Swedish distributors look at the rest of Europe and the USA. In Europe, there are chains that have a 60-70 percent DOB share. The reason for the rapid development of DOB's in the 1990's is the diminishing dissimilarities in terms of competition; all stores have the same supply of manufacturer brands, and this creates a need for finding means of being unique. One way of doing this is to use DOB's. Another factor is that the manufacturers - historically - have been very powerful and that they have controlled the distribution sector. This has been accepted as long as the distributors could raise their prices three times a year and as long as the consumers have had wage-raises that have enabled them to afford the price-raises, i.e., an inflation economy. Today's competition is much stiffer and this calls for other means of competition. When it is impossible to get one's way in negotiations with manufacturers, DOB's are an excellent means of pressuring them. KF's change of strategy - the pronounced inclusion of manufacturer brands in their assortments - have led to a situation where it is no longer an advantage to be devoted to manufacturer brands because everyone else is.
CM	• It is a circle: ICA has sold its own products for 25-30 years, but this has been a question of private label. It has been treated in a sparing way - labels have been placed on imported products. Consumers have become more educated and demanding, international competition has increased, knowledge of the situation on other international markets has increase - all this are factors that have affected this development.
DOB	

The interviews within ICA suggest that there are a number of reasons for the development of DOB's during the 1990's. Firstly, Sweden turned into a low-inflation economy which reduced the distributors' ability to make inflation profits on products in their inventories. Secondly, the pressure to maintain, or reduce, consumer prices led to a situation in which manufacturers and distributors were no longer able to shift up list prices and the result was increasingly tough price negotiations. Thirdly, growth decreased and new competition from non-traditional competitors, e.g., restaurants and fast-food, increased. Fourthly, the advent of commercial television in Sweden led to a shift from push to pull marketing by the multinational companies, which increased the strength of leading brands. Fifthly, dissimilarities in terms of competition diminished and KF' changed its strategy in terms of an increased inclusion of manufacturer brands in its assortment. Sixthly, examples from other European and North American markets showed that distributor profitability could be increased through DOB's. All these factors created a perceived need for developing DOB's within ICA, which was realised through a new DOB department and the recruitment of managers that had a competence within branding. The starting point for these DOB operations was the launch of Skona as a result of the multinational companies' unwillingness, or inability, to meet the increasing demands for environment friendly detergents.

	KF
EVP	• There has been a direct link between DOB's and own production, and that thought has remained in the organisation. It was perceived as yielding too narrow an assortment, and there was an urge to buy other products - some of KF's DOB's did not have a good reputation at the retail level. The industry was sold, intensively, in 1992-93. The financial crisis of 1992, left KF highly in debt and the organisation had acquired a number of operations within the retail sector and the service sector. That was the last straw, because strategically - the industry was not sold for financial reasons - it was impossible to sell the industry's products outside the KF sphere. KF has always had manufacturer brands in its assortment, but in the mid 1980's manufacturer brands were included in product categories where KF had its own brands. This probably had no large effects on volumes; KF's DOB's still dominated until 1990. If the financial difficulties had not occurred in 1992, the industries would still have been sold, but at a slower rate; KF had already begun this process.
DM	• KF's standpoint - to launch DOB's that are separated from own production - have probably made the other organisations aware of the phenomenon and tempted them to do the same. That this process has begun in KF is probably due to the giant crises in 1992: the situation became critical, and this made the organisation think through what it should focus on: production, wholesaling, or retailing. The decision was to focus on retailing, and this led to considerations of what should be included in modern retail operations. One thing was DOB's that were separated from own production, why this became a matter of investigation. It was a

	combination of outside pressure and acute internal problems. "DOB's may be of value, let us go for it." It has taken a while before the operations have started to gain momentum, before the necessary know-how has been acquired. When Möller was drafted in 1993, the master plan had already been launched: to become an integrated, retail-focused, organisation. Since then, a number of tools have been developed, e.g., category management, DOB's, IT, loyalty programmes, etc. the old DOB's did not have a consumer offer; they were the result of a need to label own production. Änglamark was the first example of the new way of managing DOB's, i.e., products were obtained from external manufacturers (KF's industry could not produce ecological products) and the brand was managed like a virtual box. Given this new way of managing DOB's, another explanation for the development during the 1990's is the rapidly increased possibilities of acquiring DOB manufacturing through the European Community. • The first task for the new DOB department was to go through the existing DOB portfolio and analyse the respective DOB's. None of the existing DOB's carried positive values except Änglamark, which had some 30 SKU's by that time, and Blåvitt, which was extremely profitable. The rest of the portfolio had to be scrapped – to reposition the brands was not a viable alternative. The best alternative was to develop a DOB that was neutral – both in terms of consumer perceptions, and in terms of perceptions within KF. A neutral name, thus, had a great political value internally; it was possible to create a shared view that was not affected by strong internal opinions. This was called the XYZ project, and the result was Signum.
KFA	• There is an increased awareness of what the manufacturers' prices consist of – it is not obvious why KF should pay for ICA's or other distributors' marketing activities. The large manufacturer brands are needed in the assortment, but it is not reasonable that they should create an assortment monopoly. DOB's can be used for a number of reasons, and they yield much higher profits. It is better information that has led to the development of DOB's during the 1990's.
CM	• When the low-price competition began in Sweden, Blåvitt stagnated due to the discount chains offering the same prices on the market leaders as KF did for Blåvitt. In the late 1990's, KF made the decision that it would launch an own ecological brand. The result was Änglamark that was launched in 1993. KF was first to market in this niche, and that gave a large momentum for Änglamark's sales. • Blåvitt was a type of DOB, and it was used to launch an avalanche of products, but the planning process was slow: KF suffered from a heavy bureaucracy and long lead-times. There was a need for a department that focused on DOB issues rather than a lot of people that handles other things simultaneously. There was a group of managers that were to work with DOB strategy, but nothing happens unless someone is given a

	proper responsibility for it. It took a lot of time. KF's DOB department was started in 1994 or so.
D&L	• KF has not always sold manufacturer brands, but the organisation changed strategy to attract more customers. There were customers that did not accept KF's products and that left KF with a choice: either to give up these customers or to expand the assortment. The decision was made in the 1980's and brought with it considerable changes of the distribution - the assortment expanded considerably - and the sales of KF's DOB's were affected. Then KF went the whole way and started to sell out its factories.
CM	• The rapid development of DOB's in the 1990's was the result of an insufficient profitability of the large manufacturer brands. International experience - the profitability increases that can be gained from DOB's - was an inspiration, and it is easy to see the differences in margins for the same product, the same quality. The market was more protected before, and then the discount competition came and brought with it decreasing prices on manufacturer brands, which forced KF to lower its prices. This led to eroding margins, why DOB's were launched to increase profitability. • The old DOB strategy was built on own production where products from the factories were just labelled. Today, a brand is built, and then KF chooses which products to buy and prices to pay without being obliged to use products from its own factories. There were parts of KF industry that were more and less efficient and more and less competent in terms of production, and this stymied DOB operations. The industry's production only reached KF's stores, they were not extremely efficient, i.e., they could not offer terms that were better than the one that could be obtained from external manufacturers. Neither quality, nor prices, was better - it was a reminiscence from the time when the manufacturers refused to deliver to the consumer co-operation. The competition from discount chains, the need to increase profitability, and the aim for increasing customer loyalty have been the major driving forces.
KFI	• Many of the old DOB's were discontinued when KF's industries were phased out. There has been a new focus on considerably fewer DOB's. The discontinuation of the industry and the investments in DOB's are not related to one another - it is two different phenomena. Today it is distributor brands, but it used to be the manufacturing industry's brands. That is a difference, and that is related to the process that the retailer side started ten years ago to reinforce its position on the market in relation to the strong manufacturer brands. Another issue is to gain better control of prices, etc. It is the profitability aspects of retailing that have led to the development of DOB's. The retailing side of KF was fragmented into a number of co-ops that had their own ideas of how to run their business. That also gave it a weak position in relation to the consumer co-operative industry. The industry, on the other hand, had the problem of not being able to sell outside the consumer co-operative market. The organisation of

	the retail operations through the forming of KDAB has led to the retail side becoming much stronger within KF. The industries could have remained within the KF sphere: with KDAB as a counterpart, the industry would have been forced to rationalise its operations and become efficient. • The discontinuation of KF's industry was partly due to the organisation wanting to free capital that could be invested in the retailing operations, partly because the industry posed a limitation in terms of assortment variety. KF's industry attempted to produce almost anything that could be sold in the consumer co-operative stores, and this led to a situation where it became unprofitable due to too large over-head costs.
DOB	• The change came in the mid-eighties when a number of districts were discontinued. When DOB's like Blåvitt or Coop were developed, it was only for one reason – to create profitable production for the own industry. When the industry was discontinued – for various reasons – KF could act on the world market when looking for products. It used to be an industry-driven process: the aim was to fill the production capacity. KF has 20 percent of the market, and this is too small a share to serve as a basis for maintaining a profitable industry – the private trade refused to by consumer co-operative products. In 1977, the manager for the grocery sector, Curt Lindfors, appointed a commission that was to present concrete suggestions for how marketing of products from KF Industry could be rendered more efficient. After a couple of year's work, the first and most concrete result was Blåvitt – KF's generic brand – in 1979, which became very successful. Automatically, another brand – Coop – was introduced in 1981, but this brand became too closely related to Blåvitt and also too standardised. The strategy behind Coop was to gather the 35-30 brands that constituted KF's DOB portfolio under one brand. These brands were spread out over 8-10 factories that were responsible for both production and marketing, and this proved to be impossible to co-ordinate. In addition to this, Lindfors retired and the rest of the top management did not support the project. Even though it had no effects on the market, the project was a failure internally since the top management did not support it. The failure was also due to a number of compromises in terms of production, and a lack of co-ordination of marketing communication. It was a joint venture between too many parties with different opinions. It was an inside-outside thinking: the question was how to utilise own production in the most efficient way. It was the wrong question, and it was posed 10-15 years too late. In the 1980's, it became increasingly clear that it was not possible to operate many of the factories in an economical way. Nor was it possible in the long run to maintain an industry based on KF's 20 percent market share on a market with increased imports, and EU around the corner. The discontinuation of the industry gave DOB operations totally different conditions, and in the late 1980's there was a discussion of what should be done with Blåvitt,

which was totally based on own production. Very soon, it became clear that Blåvitt could not be discontinued due to its strong position in the eyes of KF's most loyal customers, and due to its profitability. KF chose to upgrade the DOB and to terminate the link to KF Industry – the own industry now had to compete with external manufacturers to produce for Blåvitt. This freedom to choose supplier led to reductions of purchase costs and an increased ability to find the right price level. Another issue was to homogenise the quality of the Blåvitt series: due to differences between the own industries, product quality ranged from comparable to the market leader to low quality products. The Blåvitt series was also redesigned. Änglamark – which was launched in September 1991 – originated from Konsum Stockholm where customers had asked for ecological products. This led to a local, ecological, assortment in Stockholm being formed between 1985 and 1990. Much money was invested in marketing but too small volumes remained a problem until other, larger, co-ops began to order the products, which generated larger volumes. The increasing interest for ecological products was increasing steadily, and in the autumn of 1989 co-ops were asked to formulate their demands on the central organisation in terms of ethics, environment friendliness, etc. In may 1990, the co-ops and KF agreed on an environment programme for the first time. The programme was very concrete with a number of clauses, one being that KF's wholesaling operations was to develop one environment friendly product in each product area within six months. A small group – three people – was formed to find ways of making these launches commercially viable. The principal choice was between using KF's purchasing organisation to demand an ecological detergent from current suppliers to se how they would react; the second alternative was to develop a DOB. The first alternative was not chosen due to a number of reasons. Firstly, KF's purchasers did not have the know-how to make the right demands when negotiating manufacturing of ecological products. Secondly, KF would have to devote a lot of work into developing a product that both ICA and Dabab would have immediate access to. There were no large financial resources behind the development of Änglamark, why the developers had to rely on a number of enthusiastic employees who contributed with their know-how in the process. There was no money for purchasing in depth consumer research, but a general observation from research on ecological products was that the consumer found it difficult to find the products, they perceived these products as being more expensive, and they also perceived the products as being of inferior quality. Based on these notions, it was decided that KF's ecological products would have to match the brand leaders both in terms of prices and in terms of quality, and that the products would have to be sold under a common brand that was easy to identify as environment friendly. One suggestion was to call the new DOB Grönvitt (i.e., Green-white as compared to Blåvitt – Blue-white –

	KF's generic brand), but this suggestion was not accepted due to the obvious risk of ending up in a low-price position. When Signum was launched in 1995, the new DOB department had been formed and the work was totally different from previous DOB operations – the DOB was developed using a consumer and store perspective.
CM	• The poor profitability at the retailer level is the primary reason for the development of DOB's during the 1990's. In the 1980's some constellations on the market increased their profits, but during the 1990's the margins have sunk, competition has stiffened, and the pressure has increased. The economical climate has also changed during the 1990's – more and more people experience hard times, and thus become more aware of their household economy. Routine shopping has become planned shopping. • KF's DOB history is somewhat tragic. This is something that one must understand, because many of the people who work at KF have experienced the period when the organisation was preoccupied with taking care of the products that KF Industry produced in a production oriented system. Given this history, there are extremely negative feelings towards DOB's within KF. Some – especially the older generation – think it is much more fun to work with the manufacturer brands – and receiving the support that the manufacturers offer – this was not possible in "the old days". Among the younger employees, there is generally a more positive attitude towards DOB's. • In 1994, Rainbow was merely a boring label that was used on a chaotic product assortment. KF Stormarknad, together with the import department, defined a Rainbow assortment, developed a new design – which was originally used by the Danish consumer co-operation – and decided how the DOB would be managed from then on. The reason was that both KF Stormarknad and Gröna Konsum need a bulk-assortment – especially within tinned-foods – that meet a predefined quality standard.
CM	
DOB	

The interviews within KF offer a number of suggested factors that underlie the development of DOB's during the 1990's. Some of these factors are similar to the ones suggested by ICA respondents, e.g., decreasing manufacturer brand profitability, increased competition, and economic recession. In addition to these factors, however, the discontinuation of the consumer co-operative industries, and by this the possibility to source products externally, and the change in assortment strategy seem to be important. KF has had a tradition of selling its own products, but before the 1990's DOB strategy mainly concerned labelling the output from the own industries. In the mid-eighties, manufacturer brands were included in product categories where KF had its own brands to attract more customers. The financial crises in the early 1990's – which led to KF focusing on its distribution and retailing operations – and the inability of the own industry to produce environment friendly detergents, were both factors that freed own branding from own production. Änglamark was the first example of the new way of managing DOB's, i.e., products were obtained from external manufacturers and the brand was managed like a virtual box. Given this new way of managing DOB's, another explanation for the development during the 1990's is the rapidly increased possibilities of acquiring DOB manufacturing in a European Community without borders. This shift from own production may, however, have led to negative feelings towards DOB's within KF, especially among the older employees. The new DOB strategy, i.e., outside-in rather than inside-out, necessitated a new organisation for DOB operations together with other measures to become an integrated, retail-focused, organisation, e.g., category management, DOB's, IT, and loyalty programmes.

DISCUSSION

Looking at the material, we may distinguish two types of factors that are perceived to have affected DOB development during the 1990's: external and internal. Examples of the former type are the transition to a low-inflation economy, price negotiations, the environment debate in Sweden, international inspiration, lack of differentiation between competitors, a Europe without borders, and the economic recession.

The competitive threat from discount chains, together with the advent of commercial television, and thus the chance for manufacturers to increase their efforts to create consumer brand loyalty, led to a perceived need within ICA and KF to become more market- and customer oriented.

Internally, KF experienced a financial crisis that led to a perceived need for an increased focus on wholesaling and retailing operations, a rapid discontinuation of the own industry, and an inclusion of manufacturer brands to attract consumers. Together with the inability of the own industry to supply environment friendly detergents, these changes led to a situation where the new DOB department - launched to serve KF's ambitions to become a modern retailing organisation - could focus on branding issues while acquiring products from external suppliers. The macro-economic changes together with the environment debate in Sweden and KF's increased focus on manufacturer brands, gave ICA both the perceived possibility and the perceived need for developing DOB's. Internally, this was made possible by allocating resources to DOB operations and by recruiting a former Unilever employee that could organise this work.

5.5. DOB STRATEGY AS PLAN

ICA	
MM	• DOB's can be used to correct the price structure within a product category. • An obvious goal is to increase profitability and to increase the pressure on manufacturers which can yield better margins and increase their marketing efforts towards the stores, e.g., rebates, etc. another goal is to create or reinforce a sought profile, e.g., environment friendliness through Skona.
MD	• The main issue is to create better profitability. This can be done directly through better margins on DOB's. It can also be done indirectly as a consequence of increased competition within the category through DOB launches, which increases the margins on manufacturer brands. A second issue is to create a common market activity to unite the chain internally, and to create a common market appearance externally. A third issue is to use the DOB's profiles to communicate aspects of ICA's chain profile, e.g., environment friendliness. This is relevant for some, but not all, DOB's. All in all, the question of margins is the most important one.
DM	• ICA changed its strategy from using DOB's as a way of "hitting" the manufacturer to a more consumer and store oriented view. • Increased margins on DOB's will yield better store profitability, and thus better profitability for ICA.
CM	• DOB's are used to profile the ICA brand. • The economical aims with DOB's differ: if there is only one actor, the products can be used to create competition; if there are too many, DOB's can be used to rationalise the assortment. • The most important reasons for using DOB's are profitability and profile.
DOB	• The main reason for using DOB's is money. Another reason is to profile ICA with products that can only be found in ICA's stores. Creating a pressure on manufacturers in negotiations is something that ICA has learned over time; profits and negotiation power go together along with prices. Diva is used for controlling cheap products, and to secure that these products are sold though ICA's wholesaling function.
CM	• When ICA fails in some negotiations, DOB's are an excellent way of increasing pressure on the manufacturer. They also create better profitability for ICA's retailers, and they serve as a means of store differentiation from the competitors' since the DOB's can only be found in ICA's stores. This is the basic factor: to admit for ICA's retailers to make money and to give customers a good product to a good price. • Launching DOB's is not an end in itself, there has to be some reason for it, e.g., ICA is unfairly treated by the manufacturers, ICA does not have the shares it should, etc. • When DOB's have affected the brand leaders price strategies to the point

	where ICA has got the right deal on their products, then ICA's DOB's will be withdrawn from the market.
CM	• The driving forces are to increase customer satisfaction and enhance store profitability through better margins. Differentiation from competitors and enhancing chain image are subordinate goals today, but this is contingent on if this is done with DOB's that are within ICA's core-business or not.
DOB	• An important function of DOB's is to increase the pressure on the manufacturers.

The respondents within ICA perceive that the main goal for DOB's is to generate better margins and by this increase profitability. This can be done both directly, i.e., higher margins on the DOB products, and indirectly, better profitability through higher margins on manufacturer brands. The second motive for DOB launches is to profile ICA and to increase differentiation and customer loyalty. A third goal is to increase pressure on manufacturers in negotiations. Apart from these goals, some of the respondents mention the use of DOB's to correct price structures within product categories, creating competition or rationalisation within product categories, and to unite the organisation internally and to create a common market appearance externally.

	KF
EVP	• KF has got the same goals as any retailer that launches DOB's: economy.
DM	• The main argument is money; the second is enhancing and maintaining DOB profiles that are in line with the chains' profiles.
KFA	
CM	• The main advantage with DOB's is money, better earnings. That is the decisive factor. At the same time, short-term profitability should not be allowed to affect long-term profitability, i.e., nothing is gained if manufacturer brands are replaced with high-margin DOB products if this leads to KF losing customers who are loyal to the manufacturer brands. DOB's may also unite the organisation.
D&L	
CM	• The main advantage is that DOB's can be sold more cheaply and at the same time make more money: this is a service to both the consumers and to KF. • Profitability is the main motivator, but in the long run the creation of loyalty through profiling will also be important.

	• The advantage of DOB's is differentiation with increasing profitability. The ability to put pressure on the manufacturers is not a main motive, but DOB's have an effect in that function too.
KFI	
DOB	• On advantage is that launching a DOB sends a signal to the organisation that this is something that the top management takes seriously. • Profits and profile are the main goals: KF can experience that it has too small a share of the sales compared to the large manufacturers, but DOB's can also be about pure environment ambitions or profile measures. • Basically it is about profitability, KF needs to increase its profitability. • DOB's play an important role in KF's profile – it is fair to say that Änglamark reinforces the environment profile to a larger or smaller extent depending on concept.
CM	
CM	
DOB	• It is possible to profile the organisation's chains through DOB's and to offer the consumer at better price than on the brand leaders' products. • The main advantage of DOB's is to make money – and profile.

The KF respondents also perceive the economic aspects of DOB's as most important, but also to differentiate/profile the organisation. Other goals that are expressed are offering the consumers better prices on manufacturer brands, pressuring manufacturers in negotiations, and as a way of communicating within the organisation and uniting it.

DISCUSSION

In the theoretical framework a number of different but related dimensions of DOB aims were suggested: reduction of costs, differentiation from competitors, enhancement of assortment attractiveness, and creation of alternatives to manufacturer brands – or alternatively – vindication, margin boosting and marketing differentiation.

Looking at the aims with DOB operations, it is clear that a majority of the respondents place profitability before other aims: in ICA's case this is to a large extent a question of being able to persuade their retailers to include DOB's in their assortments. In KF's case it's a question of generating the profits necessary for the organisation's survival. Most respondents also include aims such as profile, consumer benefits, and pressure on manufacturers, but still profitability is deemed the most important aspect.

Interestingly, ICA respondents also mention common appearance and unifying the chain as motives for DOB's, while one official at KF claims that there may be internal motives for sending a signal to the organisation that management takes DOB's seriously. Both organisations claim that there should be a consumer benefit in DOB's. Another factor that comes into play for both organisations is the use of discount DOB's, e.g., Diva/Euroshopper in ICA and Rainbow in KF, as a means of guaranteeing a minimum level of product quality. Here profile and profits are not seen as the main motivators. This could probably also be said of KF's Änglamark, but it is questionable if the same goes for ICA's Sunda.

5.6. ORGANISATION & PROCESS OF DOB OPERATIONS

	ICA
MM	
MD	• ICA has handled DOB's in the same way as it has when performing the usual brand evaluations. Each product category is analysed in terms of whether there should be a traditional DOB, i.e., ICA-Handlarnas, a profiled DOB, e.g., health or ecology, or if the product category only requires a low-price alternative, i.e., Diva or Euroshopper.
DM	• The DOB manager reports to the marketing director. ICA very much has the character of a network – no one can operate on his/her own: there are regions, there are different departments – everyone is dependent on the others. At the DOB department, there are 15 people working at the DOB department divided into 7 teams with different DOB areas depending on the DOB's respective roles. The DOB department handles product development and marketing, while the ICA's 18 category managers take care of product category plans, product category analyses, and the contacts with the manufacturers. Generally speaking, they are to establish the need for a DOB within a product category. The DOB department can affect them, and sometimes it will forestall the analysis and push a project that it feels strongly for. The category managers handle the manufacturer contacts, since they have these contacts anyway – the suppliers of DOB products are generally found within the group of manufactures that the category managers' work with regularly. If the DOB department were to negotiate with these manufacturers, it might end up in a conflict with the category managers. ICA is very open towards the manufacturers; the regular manufacturers are always offered a chance to make an offer when a new DOB product is to be developed. Thus, all manufacturers know in beforehand that ICA is about to launch a new DOB. The DOB department participates in this process and runs the DOB meetings where ideas are presented and discussed, e.g., package-sizes, relative importance of the launch, time frame, which DOB should be used, etc. When the category managers have negotiated with the manufacturers and they have presented their offers, the DOB department participates in the discussions, and then takes over the process, i.e., product testing, product development, design, launch strategy, etc. It is the DOB department's task to get the product "on the track", but the responsible category manager always participates in the process; things that need to be taken care of may happen on the way, the manufacturer may need to be given a telling to, etc. There is a quality department that revises all the manufacturers in terms of quality standards, and a quality lab that evaluates the product. Then there is a sales department that turns the launch plan into a sales programme, since the products have to be marketed to 2 200 self-owning

	retailers. ICA is a large network, and in the beginning DOB's were not handled by a department, but by the category managers and the import department. That led to "scattered showers" without a strategic focus, and also to a lack of investments in brand profiles since operations were fragmented and handled by people who had more experience from purchasing than from branding and brand marketing. This has been added now, and it has become a large department, but also a lot of DOB launches. There are problems and controversies occasionally, but on the whole, operations are smooth and built on co-operation within a network. The seven teams each consist of two people: one handles product development, the other marketing. Since ICA is to expand its DOB assortment it is necessary to use a dedicated product developer, and a dedicated marketer. ICA cannot use the same organisation as many of the manufacturers, i.e., that a product manager takes care of everything, since each product manager would be responsible for between 50 and 100 SKU's. If you were to have both the short-term and the long-term perspective on that many articles, the day-to-day problems and marketing would take all the time from product development. The teams form a small group where the members can support one another – if one member is away, or quits, another member can help out until the member is back or is replaced. The first team is called "Team Mat" and handles development and marketing of foodstuffs for the house brand "ICA-Handlarnas" which constitutes half the volume. The second team – "Team Miljö" – handles marketing and development for ICA's environment friendly products, which are mainly sold under the Skona brand. The reason for having a team in this area is that product development is five times as fast as in other categories – the multinational manufacturers launch products constantly. The third team is "Team Pris", which handles the low-price brands Diva and Euroshopper. Apart from these three "pure" teams, there are four additional teams: "Team Brands", "Team Miljö/Hälsa", "Team Färsk", and "Team Fast-food". The first of these teams has a product manager and an assistant that handle product categories in which there is a stiff competition with large, multinational, manufacturers, e.g., soft drinks, coffee, and pet food. In these product categories there is a need for ICA to act forcefully. The second of the teams – "Team Miljö/Hälsa" – handles the Sunda assortment, which leads a somewhat languishing life. This team only consists of a product manager due to Sunda's relatively small turnover. "Team Färsk" – which used to be a full team – handles fresh produce, and is now reduced to a marketer. The reason for this reduction is that after a rapid development, the assortment was set, and the category managers handle the marginal development needed. The last team – "Team Fast-food" – is the result of a need to organise ICA's fast-food concepts that were just "floating around" in the corridors. This team will remain until further notice.
	• A product category analysis made by one of the category managers should –

	at least in theory – precede the development of a DOB product. Problems that may be identified are, e.g., larger volumes are sold at a zero-margin, there are a large number of small brands in the category, etc. The most common objective is to find a way for the stores to increase their profitability at the same time as they increase their competitive ability. During the monthly project meetings, all product categories and category mangers are gone through by the DOB developer who leads the meetings and who tries to find out whether there is a need for a DOB product, and if so, what requirements it should meet. Then the motives are presented together with the underlying analyses since it is important to motivate each product launch in a voluntary system like ICA's. Representatives from the quality department and the test kitchen are also present to give their views. The logistics department is usually not represented, and packaging experts are called in on an ad hoc basis. Some issues tend to be forgotten when choosing manufacturer, e.g., if the company can meet a given package specification, if it can make specific types of crates, what kind of consumer packages can be made, etc. These are long-term investment decisions that should be a part of the criteria when choosing between offers. Category managers choose suppliers – offers are discussed – but they have the responsibility. The people responsible for general agreements handle the various manufacturing agreements, but a special DOB manufacturing agreement is also used. There four standard agreements: one short-version for established suppliers, one longer version for new suppliers, an English version of the short-version, and, finally, an agreement where ICA goes in deeper and where everything – including the manufacturers brand – is appropriated. The purchase department handles central purchases. When one of the category managers have found a good DOB manufacturer, the agreement is signed, and then the project is turned over to the DOB department. At this stage, the DOB department's task is to turn the idea into something that will appeal to the consumer. This is when the work begins, and then the process is re-iterated, e.g., content is changed after consultations with test kitchen, a design is developed and altered, etc. Sometimes the project is terminated before it has yielded a finished product because it is not possible to meet ICA's standards, e.g., the product and the market leader should be rated equally in blind-tests, etc. The product should have a chance to match the brand leader – in some cases this rule is deviated from – but in general, this should be the aim of a DOB product. A problem with this organisation is that there are 18 category managers – 18 DOB strategies – each one has his/her own opinion of the importance of DOB's; some are enthusiastic, some are indifferent. When category managers are replaced, the DOB department has an opportunity to "indoctrinate" them to some extent.
CM	• The manager of the colonial assortment is responsible for long-term issues, e.g., contracts, assortment issues, and strategy issues, and for co-ordinating

	the work within the ten colonial product categories. The colonial assortment at ICA is defined as products that are neither frozen nor fresh, i.e., pre-packaged goods that does not require cold storage. Special goods, e.g., detergents, are not part of the colonial assortment either. The colonial assortment constitutes more than half of ICA's wholesaling turnover. ICA uses a category management organisation that works across store concepts. The colonial assortment encompasses a number of product categories that are based on the consumers' purchasing patterns. The aim is to form product categories out of product groups, e.g., baby-food and diapers, that are related in terms of individual or situation. Each of the ten product categories - that encompass between 10-12 product groups - is managed by category manager and an assistant. The colonial department also has some administrative personnel. This way of organising the work allows for a building up of competence - each category manager is responsible for his/her own business area and acquires competence accordingly. • The category managers have a high degree of discretion concerning what should be included in their respective assortments - it is their responsibility. The manager of the colonial assortment is responsible for co-ordinating these assortment decisions so as to avoid sub-optimisation and to benefit from synergies between the product categories; it is necessary for someone to have this view. • The category management organisation works with plans for each product category - or group of product categories - and it is in these plans that needs are defined. There is a forum where category managers present their category plans, and also ideas of prospective DOB launches. The DOB manager, the marketing director, and the managers for, e.g., the colonial assortment, are present during these meetings. It is a running forum where ideas and motives are presented. There are a number of parameters that have to be fulfilled, e.g., prognoses. It is important that there is a clear motive for launching the product - what role it will play in the assortment-mix within each product category. If a category manager get a "go ahead" for a product, the process starts. There are also a number of informal forums, and there are contacts with the regional offices; the need may be identified in such contacts, it may emerge from informal discussions. • It is unusual that individual stores signal the need for products, signals may be sent from the regional offices, which may have got a suggestion from a store, but this is an exception and not a rule. • The first question a category manager must answer is whether he/she should use a manufacturer brand or a DOB when having identified a need within a product category. Should the category manager choose a manufacturer brand, it is his/her responsibility to take the necessary contacts and proceed in the process. If the category manager chooses to use a DOB, he/she must address the question during one of the monthly

	meetings with the DOB department. Usually, the offers are taken in from a number of manufacturers, and it is the category manager who knows who should be asked and not from supplier strategic reasons. Thus, it is often the category manager that handles that negotiation. When the choice has been made, the DOB developer becomes more and more involved in the process, and other departments, e.g., the quality department, are also activated. The category manager should - based on his/her assortment strategy - have made a decision on what DOB to use for the new product. The DOB department then takes over the process and develops packages, arranges product tests, etc. It is a rather long process until the product is ready to launch. The DOB department takes on the task that a manufacturer would have performed, should the category manager have called up a manufacturer and asked for a new product. The category manager is involved in the whole process, but his/her principal role is to initiate the process and to manage manufacturer relations. The process may look different depending on category manager and DOB developer - some category managers want to have a tight grip on the different steps, others let go of more. It also depends on which manufacturer is chosen. Feedback is given trough meetings during the development of a new product. Then there is an activity list - or time axis - where the various parts of the development are plotted, e.g., packaging, samples to the sales force, launch time, etc. It is quite similar to the way a manufacturer operates. The manager of the colonial assortment is usually not actively involved in this process; it is the category managers that have all the daily contacts with the manufacturers. The advantages of this kind of organisation is that a broad competence is created, the disadvantages could be that people may become too focused on their own operations, why things may "fall between two stools".
DOB	• The DOB department's product developers work in the same way as a product manager at a manufacturer company, but the developers at the DOB department working in teams. The job involves developing products and maintaining the contacts with the manufacturer until the completion of the package and design phases. After this, the marketer commences his/her work with the sales force to sell the product to the stores, and with consumer marketing. • The category manager identifies a problem with a product group and presents his/her thoughts on a new product. The DOB developer from the appropriate team then contacts the manufacturers to find out the best manufacturer alternative. Then the alternatives are evaluated in terms of their ability to provide the best taste, quality, etc. If it is a manufacturer that ICA has no previous experience of, the plant is also visited and controlled. After this, consumer tests are performed at the test kitchen, or at other institutes, to ensure product quality and price. Then the advertising agency is contacted to develop a design given the product and

	the package. The initiator of a new DOB product is the category manager, but the purchasing director has the ultimate responsibility. The DOB teams are activated when a decision is taken in the category management organisation and operates – to some extent – as a manufacturer within the organisation. There are examples of a reversed process, i.e., the DOB department approached by a manufacturer with a new product for DOB purposes.
CM	• The manager of the perishables and frozen goods assortment co-ordinates and leads seven category managers, each of them is supported by an assistant. The categories are divided into: 1) frozen goods except convenience food, i.e., ice-cream, fish, chips, etc., 2) frozen and perishable convenience food, 3) cold branded products, dairy, and bread, 4) cheese, fish, and salad, 5) meat, 6) cured meats and provisions, 7) deli. One part of the job is to make the category managers to think in line with the general strategy that has been formed, e.g., in terms of category planning, assortment strategies, pricing strategies, etc. in addition to this the manager has to co-ordinate with the respective regions' category managers. The way ICA is organised, they are the ones that effectuate the decisions that are taken by central category management. The department also has an import organisation that purchases and imports meat, pork, cheese, and deli-products. All in all, the department has 33 employees. • Today's organisation suffers from the division of tasks: the central category management organisation has the assortment responsibility, while the regions are responsible for marketing and pricing.
CM	• The category managers make the assortment decisions, while the DOB department is responsible for marketing and operates as a support function. In some instances the DOB department presents ideas for new products, but the usual process is that the category management organisation starts the process when developing a new DOB product. If a completely new DOB is to be developed, the suggestion can be taken to the DOB department, but it is the marketing director that makes the decision. In that case the category manager must define what products should be sold under the new brand. It would not be prudent to present such an idea without the support from the DOB department. Wiechel's role is to co-ordinate the limited resources for DOB operations. This co-ordination is necessary, otherwise the respective category managers might focus too much on their own categories which might lead to sub-optimisation. Wiechel sees to it that resources are directed to the best projects, and in the best fashion. Wiechel, who has an extraordinary feel for products, also makes the long-term plans for ICA's DOB operations.
DOB	• The need for a new DOB product should – theoretically – be derived from a product category plan, but the ideas come from the DOB department as often as they do from the category management organisation. This creates more of an opportunity driven process as compared to the problem driven process initiated by the category managers. It is quite natural that

		ideas come from the DOB department that scans the international market.

The DOB department within ICA is led by the DOB manager, who reports to the marketing director. The 15 people at the DOB department are divided into seven teams: Team Food, Team Environment, Team Price, Team Fast-Food, Team Brands, Team Environment/Health, and Team Perishables.[15] The first four of these teams each have a product developer and a marketer to create the necessary focus to expand the DOB's within these areas. Team Perishables consists of a marketer, while product development is managed by the category management organisation. Team Brands and Team Environment/Health are both run by a product manager.

The DOB organisation works with the category management organisation, which is divided into two assortments – Colonial and Perishables & Frozen Goods. The category management organisation works across store concepts. The colonial assortment consists of ten product categories (which each encompass between 10 and 12 product groups), each managed by a category manager and an assistant. The Perishables & Frozen Goods assortment organises seven category managers and assistants. The category managers have a high degree of discretion concerning what should be included in their respective assortments – it is their responsibility. The two assortments are each led by an assortment manager who is responsible for co-ordinating the work and for long-term issues, e.g., contracts, assortment issues, and strategy issues.

[15] In Swedish, the teams are named Team Mat, Team Miljö, Team Pris, Team Brands, TeamMiljö/Hälsa, Team Färsk, and Team Fast-food.

These two organisations – the category management organisation and the DOB department – are supported by a quality department that revises all the manufacturers in terms of quality standards, a quality lab that evaluates the products, and a sales department that turns the launch plan into a sales programme.

The process that leads up to a DOB launch is initiated by a category manager who presents a suggestion for a new product at the monthly project meetings. This suggestion should – at least in theory – be based on a product category analysis made by one of the category managers. Problems that may be identified are, e.g., larger volumes are sold at a zero-margin, there are a large number of small brands in the category, etc. The most common objective is to find a way for the stores to increase their profitability at the same time as they increase their competitive ability. During these meetings, which are led by a DOB developer, all product categories and category mangers are gone through, and the DOB developer tries to find out whether there is a need for a DOB product, and if so, what requirements it should meet. Representatives from the quality department and the test kitchen are also present to give their views. The logistics department is usually not represented, and packaging experts are called in on an ad hoc basis. In some cases, the DOB department presents new product ideas for the category managers.

The first question a category manager must answer is whether he/she should use a manufacturer brand or a DOB when having identified a need within a product category. Should the category manager choose a manufacturer brand, it is his/her responsibility to take the necessary contacts and proceed in the process. If the choice is to use a DOB, the category manager chooses manufacturer, a supplier agreement is signed, and the project is turned over to the DOB department. The DOB department is responsible for product testing, product development, and design, launch strategy, but this work is often done in close relation to the category manager, and the development within the various projects is reported during the project meetings. The process may look different depending on category manager and DOB developer. If a completely new DOB is to be developed, the suggestion can be taken to the DOB department, but it is the marketing director that makes the decision.

Some of the respondents perceive that the problems that may arise are often due to division of operations and that there is a tendency among the category managers to focus too much on their own operations or to maintain their personal opinions of the importance of DOB's. Another problem is that the central category management organisation has the assortment responsibility, while the regions are responsible for marketing and pricing. There are, however, few negative comments on the way DOB operations are organised within ICA.

KF	
EVP	• The main disadvantage with KF's way of organising DOB operations is that the DOB department is separated from the concept organisation. This is because there are several chains, and it would not be feasible to have a DOB department within each chain. There is a strong "not invented here" tendency among some of the concepts' category managers, i.e., ideas are resisted because they are perceived as coming from outside the own organisation. The category managers perform the practical development work, and he/she may prefer to continue the relation to manufacturers instead of introducing a DOB in his/her category. KF has arranged internal seminars to market DOB's, but strategies tend to change before they can be implemented at the store level. The top management never makes decisions pertaining to DOB's; it communicates to the DOB department that it wants larger DOB shares, but when Möller takes this message to the category managers, some the reaction is "not bloody likely." The obstacles in change processes can always be found within the middle management; persuading the top level and the stores seldom pose any problems.

DM	• The virtue of a neutral brand is, among other things, the benefits that can be accrued internally; it is possible to achieve a common view on the DOB without strong internal views. • It is the concepts' category managers that are important when it comes to DOB operations. Some 40 people make decisions about their category within their concept, and all these decisions have to keep the same pace and go in the same direction before the market or the store is affected. • The decision structure is, in itself, a problem; if you are to create distinct DOB's, you need a single decision-maker. KF's structure is enormously decentralised in terms of decisions, and in addition to this there is a complex ownership structure. This is a disadvantage when building DOB's. The DOB department is, formally, a support function, but it seldom receives any requests for support from the category managers; it has to formulate its own assignments. The category managers perceive the DOB department as an internal supplier, which forces it to sell its ideas for new DOB products to the concepts.
KFA	• KF Avtal – the central negotiation department – is given assignments from the concepts, and some of these assignments involve purchasing DOB products from Swedish manufacturers; foreign manufacturers are handled directly by the DOB department. There are running category meetings – led by KF Avtal – where the concepts and the DOB department are represented. When a signal comes from, e.g., Gröna Konsum or KF Stormarknad, to develop a new DOB product, this is discussed at the meetings. Should a "go ahead" decision be made, the assignment is given directly to the DOB department and to KF Avtal if it is decided that a Swedish manufacturer should be used. The decision may also be not to develop a DOB, but to find a manufacturer brand that can meet the requirements. Each of the category managers at the respective concepts has the sovereign right to make decisions within his/her assortment.
CM	• Gröna Konsum's market organisation is divided into perishables, colonial/frozen-foods, and non-food. Each of these groups has got a category group that consists of a number of category managers led by a category group manager. In addition to this, there are regional category managers who are responsible for monitoring the local markets. • The category managers, or category group managers, are to give assignments to develop DOB products to the DOB department. There is a meeting every second month where the category managers report progress within new product development programs that they have initiated, e.g., the extent to which products have been found, pricing, etc. In some cases it is decided that a manufacturer brand should be used to solve the identified problem. • Sometimes the DOB department has had a tendency to control what DOB products the concepts should use in their assortments. That is not the DOB department's business – the department should operate as an internal supplier that supplies the concepts with the products that they

	want. The DOB department should receive an assignment to develop a specified product within a specified price-range. They might also support the concepts with ideas for how these product could be marketed within, e.g., Gröna Konsum's stores. The DOB department has appointed key account managers that work with KF Stormarknad and Gröna Konsum, which is a good thing since the category managers have a number of issues to handle. DOB's constitute a small part of their daily work, and it is necessary to be reminded about DOB's once in a while, so the question is not forgotten. So far, DOB operations has been a push rather than a pull process; it is the DOB department that has initiated the processes. That is, however, not the way it is supposed to work. They could, however, supply category managers with new product ideas derived from the international arena. • In general, the concepts - at least KF Stormarknad and Gröna Konsum - should agree on which DOB products they want, but occasionally the concepts have specific needs due to different priorities, e.g., low-price products for KF Stormarknad, or ecological products for Gröna Konsum. In 95 percent of the cases, the two concepts' need coincide. Prix is usually not present during the category meetings. There is also a transfer of new product ideas between the concepts, e.g., KF Stormarknad may present an idea that suits Gröna Konsum, or vice versa. When new ecological products are needed, the first contact is made with the DOB department, in other cases the concepts may choose to use manufacturer brands directly. Sometimes the concepts' category managers use their contacts with manufacturers to supply the DOB department with manufacturing alternatives. The DOB department has an extensive knowledge of what to demand from DOB manufacturers. • The stores do not play a role in the DOB operations.
D&L	
CM	• A category manager for the colonial/Hygiene category is responsible for assortment management, i.e., what should be on the shelves, consumer prices, promotional activities, space management, etc. There are five category teams with a category manager, a sales developer, and an assistant in each team. Then there is a space-group that works with shelf-design, and a logistician that handles purchase routines, etc. When a manufacturer brand is bought, the central contract department - KF Avtal - negotiates a joint deal for all the concepts. Then each concept can make separated deals about, e.g., promotional activities, rebates, etc. The category managers are responsible for these negotiations, and also have the discretionary control over their respective assortments; they choose which brands to include, irrespective of whether it is DOB or a manufacturer brands. Gröna Konsum also has a category management organisation where each category manager decides the assortment composition within his/her category. During the category meetings, the category managers from Prix, Gröna Konsum and KF Stormarknad meet to go through the

	assortments within their respective categories together with representatives for the DOB department, the import department, etc. The DOB department is a support, or internal supplier function, for the concepts. • The DOB manager, Möller, makes decisions pertaining to KF general DOB strategy. The executive body of fmcg handles operations and pricing issues, etc., but this group bases its decisions on the recommendations from the category managers within the different concepts. The category managers handle operational issues concerning individual products, but when more strategic issues come up, the category group manager becomes involved. The category manager fills out a form specifying the type of product, the purpose of the launch, target group, etc. This form is then sent to the DOB department, which sends it to Naf in Copenhagen - the Nordic consumer co-operative purchasing organisation - that has a number of contacts with DOB manufacturers through fairs, etc. Naf receives test samples and offers from manufacturers, and the products are tested in the test kitchen, etc. Then package design is developed together with Brindfors. This development process - from the category manager's decision to launch a new DOB product to the actual launch - takes approximately one year. Each manufacturer receives a form with some 100 questions concerning quality standards, if they fulfil the ISO 9000 requirements - it is a gigantic list. The category manager makes the product decision, and the name decision is made through a common strategy plan that all the concepts have agreed on. If the category manager decides to use a manufacturer brand, the time between decision and actual launch is much shorter as compared to the DOB development process - maybe 2-3 months. • The co-ops can affect the DOB operations through their representative who participates in the category meetings. If the co-ops would like to have a DOB developed that none of the concepts is interested in, that project probably would have a low priority - the prioritised projects are those that all the concepts are interested in. • The DOB department usually does not try to "sell" products to the concepts: the category managers decide what they want and what they do not want. If they decide that they do not want a product, it is no use for the DOB department to develop it - the DOB department cannot force products into the respective assortments. The two key account managers that have been appointed by the DOB department should have the role of supporting the concepts with promotional material, sales solutions, etc., rather than having a direct contact with the individual stores.
KFI	
DOB	• The DOB department has five category leaders. • Each of the concepts works with category managers who are responsible for profitability and sales within their respective assortments. These category managers meet with the DOB department every six weeks together with

	the purchasing organisation that works with Swedish manufacturers and the import department. During these meetings – where a number of issues are discussed – all ideas concerning new DOB products should be discussed and decided on. There are large similarities between the concepts in terms of identified problems, but there are also differences; in some cases one concept wants a product that the others refuse to include in their assortments. All concepts do, however, not have to agree to develop a new product – if one of the large concepts, i.e., Gröna Konsum or KF Stormarknad, wants a product, then the DOB department will develop it. They have the volumes necessary to motivate the costs of developing a new product. The ideal process is that a need is identified based on a market analysis, and that the category management comes up with an idea of how this should be solved. This is, however, not regularly the case; the most common scenario is that the DOB department finds new product concepts. The DOB department has access to the same information as the category management organisation, and sometimes the DOB department has the better know-how. During the three years since the DOB department was formed, DOB development has been a process in which the DOB department has tried to convince the category management organisation. This is gradually changing into a process that is more in line with the DOB department's intentions, i.e., the category management organisation takes the initiative in the development of new DOB products. When having identified a problem, the first step is often to contact the manufacturers and tell them that their products are not profitable enough or that they will be excluded from the assortment if they do not take certain measures, e.g., changing their package-sizes, etc. In some cases it is possible to solve the problem, but often the decision is to launch a new DOB product is close at hand; especially given the goal of a 30 percent DOB share. • When the DOB department was formed, it was with the intention of increasing KF's DOB share. At the same time, however, no one ordered the concepts that they should have a 30 percent DOB share. It has been the DOB department that has had to prove that it can manage to develop these brands and render them profitable. Today, most category managers are becoming more positive towards DOB's, and this is why the DOB department receives more and more ideas from the concepts. Some of them are very offensive, and soon the DOB department will have to dampen the development due to capacity problems. When new product ideas are identified, it is necessary to prioritise among them; it is not possible to work with all suggestions simultaneously. The co-ops are invited to participate in the category meetings, but they seldom do. Some products, e.g., cola, would not have been developed if only one concept had asked for them; it is always an advantage if all chains include the products in their assortments, and this is normally the case. The development into an organisation that controls 2/3 of the sales through

	centrally controlled concepts is that the DOB department now has a defined counterpart. Back in 1979, when Blåvitt was developed, there were representatives from 15 regional assortment committees and a number of KF officials that participated in the operations. The DOB department has now appointed two key account managers who are responsible for discussing DOB activities with representatives from Gröna Konsum and KF Stormarknad. The key account managers are to be a contact person for the category managers, a support function. The DOB department is sometimes perceived as a supplier, but it is not; it does not possess, e.g., marketing resources to support activities, etc.
CM	• The DOB department and the KF Stormarknad's category management organisation have a symbiotic relationship. The DOB department develops new DOB's, and is responsible for their profile and the consumer marketing communication. The concepts' category managers are responsible for giving them the impulse – where should which products be launched, what sizes should be used, what qualities, what price-levels, etc. The category managers within each concept is responsible this, and these decisions should be based on analyses of internal and external data. When a need is identified, it should already be decided if a DOB should be used or not. The category managers identify problems and possibilities, and from this a combination of measures are formed – it is seldom possible to use only one measure, e.g., to launch a Signum product to solve the problem. Sometimes a new manufacturer presents an interesting concept or interesting products. In that case the manufacturer is referred to the central purchasing department to sign an agreement, and sometimes the manufacturer is transferred to the DOB department.
CM	
DOB	• The department is divided into five teams, each with a category leader: Colonial, Groceries, Deep-frozen products & Beverages, Household chemicals, Bread & Perishables. Apart from these five teams, the DOB organisation has three purchasers, one quality co-ordinator, two key account managers, and three assistants. • The DOB department's purchasers are responsible for purchasing DOB products, and sometimes also purchase other products as a service to the concepts. • Purchases of DOB products and of manufacturer brand products are separated in the organisation: the DOB purchasers have nothing to do with Swedish manufacturers or with international brand manufacturers. • The concepts decide what products should be developed; the DOB department purchases the products and the category managers have the responsibility to see to it that the DOB products attain the goals that KF has for its DOB's. To some extent, this responsibility is shared with the DOB purchaser, who also decides what manufacturer to use. • The concept manager checks with the other concepts if they are interested in a new product during the category meetings; the ideal situation is that

	all the concepts agree on new products. So far, specifications have been rather vague and a brand leader's product has often served as a point of departure. KF has appointed a quality co-ordinator who has high ambitions to get a process started in which product specifications are given to manufacturers that send in offers to manufacture DOB products. The standard procedure, so far, has been that the DOB purchasers visit the manufacturers and ask for product samples that look interesting. These products are then tested in the test kitchen, and test values are obtained. When possible, comparisons are made with the brand leader in terms of quality, price-level, etc. Then the product is presented to the concepts that decide if they should accept it or not. The DOB department has, thus, been pushing DOB's, but now the concepts – to a larger extent – begin to ask for new products. Especially Signum has brought with it a change of attitude among the category managers – they are becoming increasingly positive towards DOB's.

The DOB department is divided into five teams, each with a category leader: Colonial, Groceries, Deep-frozen products & Beverages, Household chemicals, and Bread & Perishables. Apart from these five teams, the DOB organisation has three purchasers, one quality co-ordinator, two key account managers, and three assistants. The DOB department develops new DOB's, and is responsible for their profile and the consumer marketing communication. In addition to this, the DOB department's purchasers are responsible for purchasing DOB products from international manufacturers.

KF's category management organisation is divided so that each of the concepts – Gröna Konsum, KF Stormarknad, and Prix – has its own category management. When a manufacturer brand is bought, the central contract department – KF Avtal – negotiates a joint deal for all the concepts, and each concept can then make separate deals about, e.g., promotional activities, and rebates. The category managers are responsible for these negotiations, and also have the discretionary control over their respective assortments. The concepts' category managers decide what products should be developed, the DOB department purchases the products – if an international manufacturer is used – and the category managers have the responsibility to see to it that the DOB products attain KF's goals. To some extent, this responsibility is shared with the DOB purchaser, when he/she decides what manufacturer to use.

The process leading up to a DOB launch should start with the category manager identifying a problem or a possibility within product category. When such a problem/possibility is identified, it should already be decided if a DOB is to be used or not. The most common scenario – historically – has been that the DOB department finds new product concepts, which it has tried to convince the category management organisation to include in their assortments. This is gradually changing into a process where the category management organisation takes the initiative in the development of new DOB products.

During the category meetings – which are held every second month – the category managers from the three concepts meet to go through the assortments within their respective categories together with representatives for the DOB department, the import department, and KF Avtal. Should a "go ahead" decision be made to develop a new DOB product, the assignment is given directly to the DOB department and to KF Avtal if it is decided that a Swedish manufacturer is to be used. After having chosen manufacturer, products are tested in the test kitchen, etc. Then package design is developed together with Brindfors. This development process – from the decision to launch a new DOB product to the actual launch – takes approximately one year. In 95 percent of the cases, at least KF Stormarknad and Gröna Konsum agree on which DOB products they want, but occasionally the concepts have specific needs due to different priorities. Prix is usually not present during the category meetings.

The DOB department's role as an initiator of DOB projects is criticised both among respondents from the DOB department and from the category management organisation. The respondents from the DOB department perceive that its resources do not really allow it to act as an internal supplier that has to formulate its own assignments. One of the category managers, on the other hand, feels that the DOB department has a tendency to control what products the concepts should have in their assortments. Another view is that due to the DOB department being separated from the concept organisation, there is a strong "not invented here" tendency among some of the concepts' category managers, who in some cases prefer to continue the relation to manufacturers instead of introducing a DOB in his/her category.

DISCUSSION

Both organisations have – on the surface – similar systems for DOB operations: a suggestion based on a category analysis is presented by a category manager to a group of DOB officials and category managers during one of the running category meetings. Both systems should – by this token – be more pull than push oriented. There are, however, differences between the organisations. DOB operations within ICA seem to be more a question of the DOB department giving brand support to category management's product decisions, e.g., giving input in early discussions, handling issues such as packaging, and advertising. Product questions, including procurement and supplier-selection, is handled by the category managers in ICA.

The procurement of DOB products is performed by the DOB department at KF, and the interviews suggest that the KF's DOB department has a more autonomous function in the organisation rendering them more the role of a manufacturer, i.e., offering the concepts' category management more or less developed product concepts, than of a support function. In general, ICA's DOB department seems to be more firmly integrated in the organisation than KF's. Some respondents claim that this manufacturer role has diminished over the years, and that category management to a larger extent presents problems to the DOB department, rather than react to its ideas.

We have now looked at the DOB operations during the 1990's, and at the strategic aims and organisation of these operations. In the next sections, we will return to these findings and relate them to the factors in the theoretical framework, i.e., *brand strength*, *level of advertising and promotions*, *consumer perceptions of DOB's*, *market concentration and internationalisation*, *manufacturer responses to DOB's*, *assortment planning*, and *organisation of wholesaling and retailing operations*.

5.7. BRAND STRENGTH

	ICA
MM	• Consumer demand and trust. • Consumers will not accept that, e.g., Pamper's disappears from the shelves.
MD	• Irrational to be without the leading brands. • ICA's profile is based on having strong manufacturer brand products. • Consumer demand and creation of choice-variety. • Product innovation which generates demand in heavy volume-segments. • Important not to pursue a DOB strategy that reduces the manufacturers' incentive for product development.
DM	
CM	• ICA is too dependent on manufacturer brands in its operations to de-list them. • Market development and product development • A large DOB share of a product category may lead to unwanted demands on own market development. • A 2-4 percent DOB share of a large market may be sufficient. • Difficult to position DOB's in categories with strong brand preferences. • Possible to gain market share in the short run, but leads to a situation where DOB's must take on the role of driving category sales.
DOB	• Difficult to assess manufacturer brand strength. • One tactic is to position DOB's as environment friendly to induce trial purchases that may lead to brand loyalty. • Often too resource demanding to drive the market. • Possible to introduce DOB's as me-too's when manufacturers have generated consumer demand. • Dependence on strong manufacturer brands • Product innovation, demand generation, educating the market.
CM	• Possible to use low-price brands, e.g., Euroshopper, to attract customers who will tend to make more traditional brand choices, e.g., ICA-Handlarnas, when in the store.
CM	• DOB's can be used to "stir up" the market.
DOB	

The view within ICA seems to be that the organisation is highly dependent on the leading manufacturer brands, and that being able to offer the customers manufacturer brands is – and has always been – part of ICA's assortment strategy. The main reasons for using these brands are their ability to generate consumer demand, choice variety, manufacturers' ability to innovate, develop products and markets, and educate the consumers.

ICA's DOB strategy can be divided into two approaches. The first approach is to act as brand leaders in small product categories or sub-categories, i.e., to overtake innovation, market development, and consumer attraction. The second approach is to capture a smaller share of large categories with me-too products, thus "piggy-backing" on the manufacturers' investments in product development and consumer advertising.

	KF
EVP	
DM	• Category leaders are needed, few categories where there are distinct second tiers. • Product development, innovation, and developing the market. • Draw consumers' attention to market segments. • High degree of substitutability between manufacturer brands due to lack of brand strength in a majority of product categories. • Some 25 brands that are essential: O'Boy, Coca-Cola, Ariel, Via, Start and God Morgon Juice, etc. • Pursuing a premium position places high demands on product development, knowledge, and resources. • Positive consumer attitudes towards, e.g., environmental friendliness, do not always translate into behaviour. • The consumers that patronise the B&W stores – a formerly privately owned chain that KF bought – are less willing to switch from manufacturer brands to DOB's. In KF's other chains, however, manufacturer brands have not been prominent in the shelves during the last 6-7 years, which makes it easier to persuade the consumers to buy DOB's – the ones that are very loyal to manufacturer brands have already deserted the stores.
KFA	• Manufacturers will hinder attempts to dominate product categories with DOB's. • Possible to dominate sub-categories with DOB's.
CM	• Multinational category leaders have – in comparison to Swedish firms – vast financial resources that enable them to maintain a strong grip on the Swedish market. • Possible for DOB's to lead some product categories, but not the large ones. • Possible to launch DOB's if adequate products can be found.

	• Dependence on some manufacturer brands. • Strong consumer appeal. • Generating product category demand through media investments. Risk of losing customers if they cannot find strong manufacturer brands in the shelves.
D&L	
CM	• An obvious need for manufacturer brands. • Signal for the store's price level. • Consumers get irritated if market leader's products are out of stock. • Generating product category demand. • Difficult to launch DOB's in product categories where brand leaders are strong, e.g., Coca-Cola and Kellogg's. On the other hand, this is only a question of 5 out of 2 000 segments. • In some cases DOB positioning is hindered by difficulties to imitate brand leaders' products, in some cases brand-personality is difficult to copy. • Necessary to keep strong brands in the assortment, not necessary to promote or to generate sales volumes. Sales are directed towards DOB's through exposure, pricing, etc.
KFI	• Dynamic product development.
DOB	• Multinational companies have an advantage in market communication, why they are difficult to replace. Second, third, and fourth tiers can be replaced. • Few brands that cannot be de-listed.
CM	• There is a need for strong manufacturer brands. • Market development through market investments, e.g., television. • Risk of losing sales if DOB's become to dominant, especially in product categories where manufacturers make large investments in media. • Possible to develop the market within some product categories and sub-categories trough DOB's.
CM	• Extremely dependent on manufacturer brands. • Heavy investments in marketing. • The task is to find one attractive manufacturer brand in each product category. • The strong, large, manufacturer brands cannot be replaced with DOB's.
DOB	• Market development and product innovations. • The ability to drive the market increases as DOB's gain strength. • Consumers can be attracted to the store with strong manufacturer brands and then – when in the store – be persuaded to buy DOB's. • Risk of losing consumers loyal to Kellogg's, O'Boy, Nescafé, Gevalia, etc. if these brands were de-listed. Customer must find what she/he wants in the store.

As in ICA's case, the respondents from KF seem to agree that there is a definite need for brand leaders. The main advantages of including these brands in the assortment are consumer appeal, signal of certain price-level, innovation, product and market development, and consumer education.

KF's DOB strategy seems to focus on leadership within niches and to take on the responsibility of market/product development and innovation as the DOB's grow stronger. Brand leader can be used to attract customers to the stores, but when there, sales can be steered over to DOB's by the use of e.g., exposure.

DISCUSSION

In the literature review it was suggested that the main source of manufacturer influence over distributors is the extent to which consumers are loyal to their brands. Leading brands, thus, have the potential to control the distributor's demand side to some extent, and by this these brands could impede DOB development. Looking at the analyses, it is apparent that both organisations recognise the influence that brand leaders have: strong manufacturer brands are needed in the assortment. This need for brand leaders can be divided into static functions, i.e., generation of consumer demand and choice variety, and dynamic functions, i.e., market and product development, innovation, education and attraction of consumers.

It was also suggested in the literature review that brand strength should be seen as contextual, i.e., the relative brand strength is contingent on what level purchase decisions are made. By this token, a brand may be strong on a local market but not within the chain as a whole, or – conversely – have a large national market share and still capture only moderate shares within specific stores. In terms of static functions, then, ICA has to consider how individual retailers perceive the relative strength of manufacturer brands since they are the ones making the purchase decisions within the federation. KF, on the other hand, has to consider brand strength on the concept level since each of the concepts' category management organisations have the discretionary control over their respective assortments.

Given this context, both organisations seem to perceive that there is a limited number of strong manufacturer brands that will continue to dominate their respective product categories, while a number of smaller brands may be replaced with DOB's. Of course, entertaining such beliefs will help to realise this scenario.

The DOB strategies can, accordingly, be described as either taking over dynamic and static functions from manufacturer brands within niches, e.g., small product categories or sub-categories, or to capture smaller shares within product categories with me-too's while leaving the resource demanding static and dynamic functions to the manufacturers. Contrary to the notion that presence of strong manufacturer brands would hinder DOB development as such, the interviews suggest that there is ample opportunity to develop DOB's that are not targeted at replacing the leading brands. By stimulating category demand through product and marketing investments, manufacturer brand strength may even stimulate DOB development. In this way, the dynamic effects of leading brands may compensate for their influence through static functions, i.e., generation of consumer demand.

5.8. LEVEL OF ADVERTISING AND PROMOTIONS

	ICA
MM	• ICA has intensified its investments in corporate advertising since it has become more and more important to unite the organisation. • Introduction of commercial television in Sweden led to a move from push to pull marketing by the multinational manufacturers. This increased brand strength. • Large part of the manufacturers' sales is on promotion. • Difficult to change strategy from the common sales plans with weekly direct advertising to the households that has been used since the 1960's. • ICA's television advertising is co-financed by the manufacturers, the same system that was used for direct advertising. • Few distributors have the money to use television advertising due to the high costs. • ICA's advertising is based on the concept that both ICA and the manufacturers' brands are exposed. • Consumer reactions towards the advertising are mainly positive. • Important to actively drive sales to uphold volumes, necessary to use promotions in stores as a complement to television spots. • Also important to communicate core values, e.g., ethics, environmental concern, etc. There has been, and will be, an increased focus on relationship-building advertising from both ICA and KF. • Sales force costs constitute a large part of manufacturer marketing budgets in Sweden.
MD	• Transaction-generating advertising is the most common form in ICA today – necessary when organising self-owning retailers who focus on margins and campaigns.
DM	• ICA is the largest advertiser in television today, and it is the manufacturers' money that is used to finance this advertising. It would be difficult to find other sources of financing. • Only the 6-700 largest ICA stores receive visits from sales representatives.
CM	• Heavy use of sales forces in Sweden.
DOB	• TV-advertising important for, e.g., detergents. Heavy advertising may lead to consumer fatigue and resentment. • In some product categories, the manufacturers' sales representatives convince retailers to stock a lot of products that tie up substantial capital, since the products are expensive.
CM	• Manufacturer sales representatives sell boxes and crates in the stores by giving extra money.
CM	
DOB	• Many retailers have got used to the help from sales representatives with replenishing products in the shelves, etc. Smaller stores pay when

	manufacturers work the larger stores – the smaller stores do not receive visits from the sales representatives.

The interviews within ICA suggest that although the introduction of commercial television in Sweden led to an increased focus on pull marketing, there is a heavy bias among manufacturers to use sales forces and rebates to secure adequate exposure in the stores. Much of the manufacturers' sales are on promotion, and while advertising is deemed important in some product categories, e.g., detergents, sales force costs, and costs of buying exposure in the stores, constitute a large part of the manufacturers' marketing budgets. The interviews, thus, suggest that exposure in the store is of great importance when generating brand sales, and that this notion is shared by the manufacturers. Sales representatives, however, only visit the largest retailers within ICA, and the smaller stores pay for the aid and rebates that the larger stores receive. Furthermore, the large stores have got accustomed to the help that they receive from the manufacturers' sales representatives, e.g., replenishing, why they are reluctant to lock them out.

As regarding ICA's own marketing, advertising is to a large extent focused on driving sales volumes, e.g., through price offers, this due to the demands from the associated retailers. There is, however, a trend towards corporate advertising within both ICA and KF with a stronger emphasis on core values such as ethics and environment friendliness. ICA is the largest advertiser in Sweden, and this advertising is to a large extent financed by manufacturers through joint sales programmes in which both the manufacturers' and ICA's brands are exposed to the consumers.

KF	
EVP	
DM	• Manufacturers cannot own the initiative by using bought communication. • High degree of substitutability between manufacturer brands due to lack of

	brand strength in a majority of product categories.
KFA	• Common that the manufacturers offer to compensate a higher purchase price with promotional activities. • The multinational companies have no limits in terms of resources that they can use to kill a competing brand.
CM	• Detergent manufacturers have strong brands, but invest enormous amounts of money in advertising. • When using national television advertising for large campaigns, problems may arise if the co-op owned Konsum stores do not store the products. • Negative feelings from both consumers and KF vis-à-vis direct household advertising, which to a large extent is financed by the manufacturers. Direct, negative, effects on sales when reducing this advertising. • Manufacturers use planned consumer advertising as an argument to secure shelf-space. Advertising aimed at inducing consumer demand is not necessarily an effective way to secure shelf-space. • Manufacturers are anxious to capture prime-positions in the stores.
D&L	• Gröna Konsum's attempts to reduce the number of activities have led to declining sales: price promotions are necessary to maintain sales volumes.
CM	• Consumer Prices on DOB products are set lower than manufacturer brand products. They are given more shelf-space than motivated by sales when products are launched. Exposure is deemed necessary to generate sales – manufacturer brands are placed in unfavourable shelf-positions. • After the launch campaign, DOB's are given shelf-space in proportion to profitability. • Relationship-building advertising will increase together with measures directed towards increasing customer loyalty. Product/price advertising will decrease. • Manufacturers will continue to build brands through advertising, but they may not use sales forces in the way they do now in the future. • The manufacturers' attempts to buy shelf-space with rebates are accepted as long as KF perceives that it can gain from it.
KFI	
DOB	• The large manufacturers have an enormous advantage in terms of communication, and will continue to do so. • Manufacturer products have been given the best facings, and this has not led to increased profitability. Products that attract consumers will continue to have adequate facings, while smaller brands will be given less unfavourable shelf-positions. • DOB's are given a prioritised shelf-position during the first six months or so, then they are given shelf-space in accordance with their profitability.
CM	• Television advertising is necessary to drive the market. • KF does not possess the resources necessary to drive a market through television advertising. In media-intensive product categories, an over-allocation of shelf-space to DOB's leads to decreased market shares.

	• In some categories, e.g., tinned goods, negative sales trends have been reversed through exposure of DOB's. • The first difference between categories where DOB's succeed and fail is the level of manufacturers' investments in advertising. • Sales representatives help out with replenishing and promotions to a large extent mainly in the larger stores. This is done to affect distribution of shelf-space and exposure. • Manufacturers always want more promotion. • It is common that manufacturers use planned consumer advertising as an argument to secure shelf-space, but apart from new products under the largest multinational brands, this is an ineffective means of doing so. • KF has, especially KF Stormarknad, cut down on the costs for store personnel during a number of years. This has been down through the whole company, but it has become most apparent vis-à-vis the consumers. This could not have been done if KF did not know that it could rely on the help provided by the manufacturers' sales representatives in the stores. It is a question of controlling the sales forces, and if this can be achieved, it is a tremendous help that the stores can get from them. The personnel can devote time to things that are not really included in the store's cost estimate, e.g., giving the store a nice finish. Today, there are hardly hours in the budget to replenish the shelves. If the sales representatives were to be prevented from entering the stores, they would not receive their help, and that would impede store profitability. Gröna Konsum's smaller stores do not receive this help, they are not attractive enough for the manufacturers. Even so, Gröna Konsum has attempted to shut out the sales forces, but they cannot manage without them either. KF Stormarknad attempts to regulated this, but this means running the risk of the manufacturers directing their efforts to competitors' stores. • Gröna Konsum does not have this aid to the same extent as KF Stormarknad.
CM	• Manufacturers are anxious to buy shelf-space through promotional campaigns, rebates, etc.
DOB	• The extension of Signum allows KF to advertise a group of products with minor alterations. • DOB's should be placed in a way that consumers easily can find them, e.g., at the eye-level. Manufacturer brands may be given less attractive shelf-locations: if the consumers want the products, they will find them. • When KF started its DOB launches, it was deemed necessary to overexpose their DOB's. It is not KF's strategy to overexpose DOB's, but the organisation must look after its own products. • You can tell from the way brands are exposed in the shelves which manufacturers' sales representatives have visited a certain store.

Manufacturer advertising is seen as a powerful marketing instrument at least in some product categories, e.g., detergents. The views within KF, however, vary with respect to the overall effects of this advertising. On the one hand it is suggested that television advertising is perceived as a necessary means for driving a market, that intensive advertising poses a distinct hinder for DOB launches within a product category, and that the multinationals have a great advantage in this respect. On the other hand, planned manufacturer advertising is not seen as an effective argument in negotiations about the allocation of shelf-space to manufacturer brands.

Manufacturers are perceived to be anxious to achieve exposure and prime positions in the stores through e.g., rebates, sales representatives, rebates. Higher purchase prices on manufacturer brands are compensated with promotional activities. Manufacturers always want more promotional activities and are willing to pay for them, and these attempts to buy shelf-space are accepted as long as KF gains on them. As suggested by the interviews within ICA, manufacturers place a strong emphasis on marketing through sales forces and the help from sales representatives is deemed necessary for at least the larger stores operations. Furthermore, should the sales representatives be locked out from the consumer co-operative stores, there is a perceived risk that manufacturer sales efforts will be directed towards the competitors, e.g., ICA.

KF's own direct advertising which is – as ICA's – mainly financed by the manufacturers leads to negative feelings among the consumers, but attempts to reduce this advertising has had direct, negative, effects on sales. Within Gröna Konsum, advertising in national television poses a potential problem since some of the concept's stores are owned by co-op's that do not necessarily subscribe to the campaign. The use of own advertising – furthermore – seems to be limited since KF cannot drive a product category through advertising in the same way as the large multinational companies can. Using the Signum brand, however, enables

KF to advertise for a larger group of products with only minor alterations of the ads/spots. As indicated by the interviews within ICA, there is a perception that price/product advertising will be substituted with relationship-building advertising.

As will be discussed later, KF may – as opposed to ICA – exercise at least some control over the allocation of shelf-space in its stores, and according to some of the respondents, this control is used when marketing the organisation's DOB's. In the launch phase, DOB prices are set lower and the products are given more shelf-space than motivated by sales/profits. This exposure is deemed necessary to generate sales. After this period, DOB's are given shelf-space in proportion to product profitability. The strategy seems to be that smaller brands have to give way to the DOB's while the brand leaders will continue to have adequate shelf-space. This allocation of shelf-space is - however - not unproblematic; over-allocation of shelf-space to DOB's may lead to sales losses in media intensive product categories.

DISCUSSION

In the literature review it was suggested that while both advertising and promotions can create brand awareness, advertising is important for differentiation through its ability to build brand attitude while being less effective relative promotions in terms of purchase facilitation and creating purchase intention. Furthermore, advertising is said to have its largest impact in the introduction stage of a product life cycle, and that this impact can be maintained during the maturity stage if the brand is a leader in its product category and if it has a high degree of consumer loyalty. Promotions, on the other hand, may have a continuing impact during the growth and maturity stages for smaller brands with a low degree of consumer loyalty.

A common theme in the interviews is the heavy bias towards the use of sales representatives as an instrument in the manufacturers' marketing operations. The Swedish system is, apparently, more characterised by push rather than pull marketing. The store is – indirectly – described as the main means of generating sales. DOB marketing, thus, becomes a question of the ability to control what is displayed in the shelves. The views of the relative strengths of advertising and promotions (i.e., as generated by the sales representatives), vary between respondents. Some view advertising as an obstacle for DOB's, while others are more concerned about the cost/benefit ratio of manufacturers use of sales representatives, thus implicitly seeing these activities as the main avenue for manufacturers to drive sales. On the other hand, sales representatives are inevitable for ICA, at least in the larger, uncontrolled, stores, and necessary for KF due to the cost side of retail operations.

The relative impact of advertising and promotions should favour the leading brands, but apparently this impact is not enough in itself within many product categories. As suggested in the theoretical framework, a large relative impact of store exposure should favour DOB development since the retailers control shelf-space allocation. However – as we will see in the coming sections – ICA cannot exercise this control over its retail level, and the degree to which the central organisation within KF can exercise this control varies between concepts. Furthermore, over-exposure of DOB's in the stores may lead to sales losses in some product categories due to large manufacturer media investments.

In ICA's case, the lack of shelf-control can be compensated with joint advertising financed through the SA/VA – or GSP – system. By associating its DOB's to the chain name, ICA can use money from the manufacturers for financing its DOB marketing. Given that ICA is the largest actor within Swedish fmcg, the organisation may, thus, be able to secure that manufacturer advertising to a large extent goes through the joint sales programmes. This would result in a situation where high manufacturer advertising levels would lead to a high degree of exposure of ICA's chain name and thus the associated DOB's in both television and direct advertising.

According to the interviews, although KF's own direct advertising which – as ICA's – is mainly financed by the manufacturers has led to negative feelings among some of the consumers, attempts to reduce this advertising has had direct, negative, effects on sales. The same conclusion can be drawn concerning price promotions. It seems, thus, as if KF is trapped in a marketing situation from which it is difficult to escape – there is a wish to reduce promotional campaigns in the stores, but doing so means running the risk of losing sales to competitors. The same reasoning is applicable to KF Stormarknad's stores in terms of their dependence on the sales representatives that the manufacturer use to affect allocation of shelf-space and exposure. Manufacturers obviously need the stores to market their brands, while at least the larger stores within KF are dependent on sales representatives to carry out their daily operations.

The relative maturity of most fmcg product categories, together with an increasing media-clutter, should favour manufacturers that focus on means of achieving exposure in the stores, e.g., through the use of sales representatives. The interviews, however, indicate that this bias towards sales forces to achieve store exposure may also be the result of the distributors' lack of control over exposure in the stores in a situation where manufacturer advertising to a large extent is controlled by these organisations.

The interviews, thus, suggest that there may be other factors that come into play when assessing the roles of advertising and promotional activities. Contrary to what might be expected, distributors have a difficult time controlling exposure in the stores, while manufacturer advertising to a large extent is controlled by the distributors through the common advertising activities. In this situation, both manufacturers and distributors face a "prisoner's dilemma" when it comes to the use of sales forces. Each manufacturer would probably profit from a reduced use of sales representatives, but given that advertising to a large extent is made in distributor controlled advertising activities, such a reduction could lead to sales losses if the competitors do not agree to make the corresponding reductions. For the distributors, reducing the use of manufacturer sales representatives to perform activities in the stores, e.g., replenishing, is only profitable if the reduction of these activities is reflected in lower purchase prices. This is, however, only likely to be the case if the manufacturers actually *reduce* their efforts and not only *redirect* them to other distributors.

5.9. CONSUMER PERCEPTIONS OF DOB'S

	ICA
MM	• It is important for consumers to trust the organisation you buy from, that the company is honest. This is why ICA has worked intensively with a quality policy, ethical policies, environment policies, etc. These policies have been translated into practical measures and communicated to the consumers. • Pronounced consumer, as well as own, demand of broadening the assortment in niches has resulted in, e.g., environment friendly detergents. Natural that this should be subjected to distributor branding, since it would impede the large multinational detergent manufacturers' production series and probably make their main products more expensive. • DOB products to satisfy needs of small consumer segments, e.g., lactose intolerant consumers. • No plans to compromise the concept of environment friendliness by launching cheap products that do not meet the high standard set by the other products. • That some of ICA's DOB's can be found in the Rimi stores is an internal problem. The individual ICA retailers do not support the use of DOB's associated to the chain brand. There is a risk that the DOB's are subjected to brand dilution through heterogeneous pricing, but this has nothing to do with Rimi.
MD	• ICA's DOB portfolio is divided into four sectors: health, environment, price and quality. Each product should be positioned within each of these sectors. • Sweden is a leading market with respect to environment friendly products, and the signal was picked up earlier by the distributors than by the manufacturers. ICA drove product development in this niche. • No direct knowledge of what consumers buy DOB's. This information can be found in the DOB department. ICA may lack the information necessary to probe deeper into different consumer segments' propensity to buy DOB's. • ICA has the same strategy for DOB's as for the assortment as a whole: the aim is to satisfy the needs of different kinds of consumer segments - from those seeking low-price to those that seek premium products. • Sunda is partly used in Rimi, which is a complication in the general DOB approach. Rimi appears as an alternative to ICA's stores, and from a strict marketing perspective, Rimi's use of DOB's that are a part of ICA's profile, is questionable. However, ICA must adapt to the economic reality.
DM	• Short product cycles within detergent market, a strategy is to focus on every fifth wave of product launches. The trick is to identify the right

	one. • ICA's DOB's reinforce the ICA profile according to consumer research. • The assortment is adapted to ICA's ambitions of being a food-store by using the central house brand that communicates the joy of cooking and eating. • The ICA-Handlarnas logotype is used for colonial, frozen, and chilled products, i.e., products for which ICA can guarantee the quality from production to consumption. Apart from this, ICA uses a special logotype on perishables since these products are more subjected to hazards, e.g., bacteria, during storage in stores and during transportation. The strategy is to keep a distance between the chain and the product brands in these product categories so as to avoid transfer of bad-will. • By using "ICA-Handlarnas" as a house brand, and Skona as an endorsed brand, the consumers can build up a loyalty to the Skona brand while being aware of the fact that ICA does something for the environment. ICA-Handlarnas should communicate taking a joy in food, environment friendliness, and health, why the logotype is used discretely when selling non-food products so as to avoid confusion. • The house brand is not used on pet food: the ICA brand is placed on the back of the packages, ICA will not mix pet food with other foodstuffs. Different colours of the house brand separate food and non-food. • ICA uses product brands that are detached from the house brand in both the hygiene and soft drinks categories, this due to image problems: the consumers do not perceive ICA's image as positive in these categories. • Consumer research shows that the ICA-Handlarnas brand is stronger than both Findus and Gevalia – two leading manufacturer brands. The DOB is also stronger than the chain-brand. • Consumer research shows that the ICA-Handlarnas DOB has gained the consumers trust – it would even be accepted within baby-food. This is due to ICA managing to keep a success rate of some 95 percent; only five percent of the products fail on the market.
CM	• The strategy is to achieve coverage and to show the consumer the product, rather than to show the price. • Difficult to make a general connection between product complexity and DOB shares: larger DOB shares where products are uncomplicated, e.g., tinned food, but on the other hand also large shares in highly technological detergent category. Probably better conditions where products are uncomplicated. • Skona is definitely a brand, but ICA-Handlarnas – ICA's house brand – may not be as strong in the eyes of the consumers: the brand is confused with the individual retailer or store. Skona is more like any product brand.
DOB	• The consumer would not like to use ICA-Handlarnas razor or deodorant due to image problems. They might also question ICA's competence in detergent production, why Skona is profiled as a brand, however endorsed by the ICA-Handlarnas brand. There is a limit to the number of

	brands that ICA is able to maintain and develop, why a Skona's "caring" profile has been used for a number of products. This is partly due to the retailers' high degree of acceptance of Skona. This does not seem to confuse the consumers. • Necessary to show an adequate environment problem to be believable: consumers want their wash to be clean, but not to any cost, e.g., pollution. Possible problem to generalise this brand statement outside household chemicals. • When launching toothpaste, it was decided that neither ICA-Handlarnas nor Lindberghs could be used, and that Sunda is only used on edible products, why Skona was considered to be the brand closest to the product. • By using the ICA-Handlarnas DOB on, e.g., lactose-free milk, ICA gets credit for having this product in its assortment. There is an interplay between DOB's and chain-brand: Skona cannot exist outside ICA since it affects ICA, or the ICA-Handlarnas brand. • The assortment is important, e.g., for consumers' perceptions of ICA's environment friendliness – the consumers do not form their opinions based on what kind of trucks ICA uses, but on what they will find in the assortment. Environment friendly DOB's are, thus, a way of positioning the chain. • Quality ambition of DOB products is to be in parity with category leader's products, or to exceed it with the exception of Diva, which is used to ensure a minimum quality level of, e.g., cheap tinned food products.
CM	• Difficult to succeed in categories with innovative DOB products, e.g., ecological products that are more expensive than traditional products. • Euroshopper launched as a common identity for low-price products.
CM	• Few customers will choose the ICA store due to a unique toothpaste brand, but they may if there is a unique baby food brand. If it is related to ICA's core business, it is desirable to lead new consumers to choose an ICA store. If you go outside this core business, it is much more difficult. • The use of ICA's DOB's in Rimi may pose a problem if it leads to a destroyed price image of the DOB's. • Important to control quality with DOB's in some categories. • Swedish consumers are used to high quality levels, ability to communicate why prices on DOB's are higher varies between product categories. • DOB's succeed in categories where there is a pronounced consumer need, product launches are profitable, and attractive package-design can be achieved. • ICA only has a 0.1 percent share of the cosmetics sales. To increase this share it would be necessary to "teach" consumers to buy these products in the ICA store and to find a name for the product series that is detached from "ICA-Handlarnas." • Quality should be in parity with the common level in the product category, not premium level.

	• All customers buy DOB's, but this also depends on the degree to which the consumer is interested in a given product area. Consumers act differently depending on product category, and at different days of the week. • The DOB department has information on which consumers buy DOB's and manufacturer brands.
DOB	• In the soft-drinks category, ICA-Handlarnas would be "nerdy" given the young target group, why it was decided to launch ICA's cola under a new brand, First Choice. • There is a need to separate pet-food from ordinary foodstuffs. • The only other new brands that have been launched in recent years have been within the pet-foods and hygiene categories due to image reasons, but the trend is to put all products under ICA's house brand. There are, however, plans to place the pet food brands Psst and Trophy under the ICA house brand. • Consumer research show that ICA's coffee brand Luxus is stronger than the ICA-Handlarnas logotype, but the perception of getting value for money increases with the use of the ICA-Handlarnas logotype. • In the future, ICA will probably work with strong brands endorsed by the "ICA-Handlarnas" house brand. • Euroshopper is detached from the other ICA DOB's since the aim of this line of products is not to match the quality of the leading brand, but rather to rid the store of cheap, low quality, products. • By changing the colour of the Skona logotype, chemical products that are sold under the brand are separated from foodstuffs. Even though KF does not, ICA's strategy is to separate food from non-food.

The aim of ICA's DOB strategy is to satisfy needs of all segments, from low-price to premium, but the information on what consumer groups actually buy ICA's DOB's seems to be limited to the DOB department within ICA.

In terms of ICA's ability to reduce consumers' risk when purchasing DOB's, it is perceived as important that the consumers trust ICA as an organisation. ICA's strategy in terms of quality is that products should be in parity with common category level or better, but that the DOB's should not aim for premium positions. Two notable exceptions from this are Diva and Euroshopper for which the quality ambitions are set substantially lower. The strategy is to focus more on the products than on price, and there are no plans to sacrifice the goodwill, e.g., environment friendliness, created in DOB's like Skona with cheap products. According to consumer research, this strategy has led to consumers trusting the quality offered by ICA's DOB's, and to increasing perceptions of getting value for money with the use of ICA-Handlarnas logotype.

In terms of innovation, the general perception seems to be that it is more difficult to succeed with DOB's in product categories characterised by a high degree of innovation – DOB shares are larger where products are uncomplicated. An exception from this is the detergent category where ICA managed to innovate partly due to its relative closeness to the Swedish market, partly because of the large manufacturers' unwillingness to produce environment friendly detergents for the rather small Swedish market. The short product life cycles within detergents, however, make it too resource demanding to launch cutting edge products why it is necessary to focus on every fifth wave of innovation.

In terms of the relation between the chain brand and the DOB's, there are divergent views on the effects of distributing some of ICA's DOB's through the Rimi chain – some respondent believe that this could lead to brand dilution, while others consider it an internal problem. ICA aims at being perceived as a food-store, and this profile is reinforced by the use of the central house brand ICA-Handlarnas. Even though ICA-Handlarnas may be confused with individual retailer or store, consumer research shows that the DOB is stronger than some of the leading manufacturer brands and also stronger than the chain brand, and that ICA's profile is reinforced by its DOB's. The assortment is perceived as important for forming consumer perceptions of the chain, why environment friendly DOB's, or DOB products aimed at satisfying needs of small consumer segments such as lactose intolerant consumers, are seen as a way of positioning the chain.

Each of ICA's DOB's is positioned within four sectors: health, environment, price, and quality, and while the house brand - ICA-Handlarnas - is used for products for which ICA can guarantee the quality, a special logotype is used for products more subjected to quality hazards. There is a balance between the necessary focus on a few brands and the associations that are created by using the same DOB over several product categories, and this limitation in terms of number of DOB's makes it necessary to use the closest DOB when launching new products. On the other hand, in the case of Skona it is seen as necessary to show adequate environment problem to be believable which may limit possibility to generalise DOB statement outside household chemicals. The overall strategy is to keep a distance between chain and product brands in risky categories to avoid negative spill-over. The house brand is, furthermore, used discretely when selling non-food products, and different logotype colours are used to separate food from non-food to avoid confusion. The house brand is also placed on the back of pet food packages to avoid mixing pet food with other foodstuffs. Apart from these measures to separate some of the product categories, product brands are detached from the house brand in both the hygiene and soft drinks categories due to negative consumer perceptions towards ICA in these categories.

	KF
EVP	
DM	• Ambition to meet the needs of target customers with value-for-money products - somewhat cheaper than brand leaders - with packaging and content that communicates the appropriate DOB profile. • Previous research showed that younger customers either had no, or negative, associations to KF. Some of the older customers had positive associations to KF's DOB's. The strategy was to launch a DOB that was

	neutral vis-à-vis KF. • The Blåvitt products used to span over a large quality range, despite the consumers' perception that it was a discount brand. Packaging has been redesigned, and a quality level that corresponds with the consumers' perceptions has been set. • In the two dimensions price and quality, Signum has been positioned as having the same quality as the average manufacturer brands in a given category, but with a slightly lower price. Blåvitt is used on products with lower prices and lower, but consistent, quality. Änglamark is positioned as a niche brand on a "third dimension", i.e., environment friendliness. • The ambition with Signum is not to be top-of-line, but through advertising and package design, many consumers have got that impression. This perception will diminish over time. • Some categories allow for three DOB's with different positions, some do not. If KF were to follow the examples from other European countries, Blåvitt would have a 50 percent price reduction as compared to leading brands instead of the present 30 percent reduction. • Signum should be "stretched upwards" in the quality dimensions through launches of particularly good or smart products. • KF's official standpoint is that product quality should be the first priority, and reasonable business terms the second. • It is more difficult to succeed with DOB's in the formerly private B&W chain since their customers – like ICA's customers – are used to the strong manufacturer brands. • The issue of chain differentiation poses a problem, but one KF has to live with. The lack of strong, positive, consumer associations to KF makes it impossible to use KF as a common denominator in the portfolio of chain brands. • Selling Signum in KF's low-price stores pose a problem, since it may send the wrong price signals and thus devaluate consumer perceptions of the DOB's product quality. Chain specific DOB's are, however, not economically feasible today due to the need to concentrate buying-power, creating large enough volumes, etc. • ICA customers cannot be led to buy a DOB associated with the KF brand, but a neutral brand increases their purchase probability. • There is a contradiction in reinforcing KF's profile with DOB's and at the same time try to keep KF's chains apart, this is a delicate balance-act. In addition to this, 500 of the 1000 Konsum stores are outside the central organisation's control since they are run by co-ops, why it is impossible to communicate a uniform chain profile.
KFA	
CM	• Signum is a traditional brand, i.e., with certain quality associations, and should be perceived in the same way as the brand leader. The stronger the DOB, the less need for a price reduction compared to the brand leader. • Consumers can assess quality more easily in food categories. It is easier to

	position DOB's in, e.g., the detergent categories, where manufacturers have created strong brands through large investments in advertising which is reflected in high consumer prices. In these categories there is a good possibility to compete on price, since production costs are a minor part of the manufacturers' prices. In addition to this, it is difficult for consumers to assess product quality. • There is no problem in launching a new DOB if you can source the right product: some foodstuffs are more difficult than others, e.g., where there are differences in taste depending on where they are produced/grown. KF's business is not to offer low prices, but to offer and adequate assortment, good products, quality, service, etc. This means that some foodstuffs must be produced in Sweden. • The Rainbow DOB is a price-fighter with a decent product quality. Rainbows single statement is that it is cheap. • Consumer quality perceptions are affected by other factors than product quality in some cases, e.g., packaging. • When consumers perceive a DOB as cheap, there is no reason to offer products with too high a quality under that brand. • The centrally controlled Gröna Konsum stores operated independently from the co-op controlled stores. This may pose a problem when Gröna Konsum wants to communicate a chain profile, e.g., through national television.
D&L	• Blåvitt is a simpler quality to a good price, while Signum is a better quality that should be at the same level as the category leader. This is reflected in Signum's price.
CM	• KF tries to create unique products that only can be found in the chains' stores, which creates store loyalty. • It has been difficult to communicate the consumer co-operative ideology in recent years: the older customers are more receptive, but KF also needs too reach the younger consumers. A notion is that KF is perceived as more modern today through Änglamark, etc. It is a more positive feeling today than in the late 1980's. • Änglamark has a strong environment friendly profile, Blåvitt is a price-fighter, while Signum is a DOB with the same product quality as the brand leader, but with a lower price. • The aim is not to satisfy consumer needs that manufacturers do not: consumers accept the prices charged by the manufacturers. Signum is positioned as a brand with the same product quality – in some cases better quality – as the brand leader, but with a 15 percent price-reduction of the consumer price. • In a few cases, e.g., Coca-Cola and Kellogg's, it is extremely difficult to copy product quality, but in all other cases product quality can be copied in a way that the consumer cannot tell the difference. If so, the manufacturer's argument is eliminated. • All types of consumers buy DOB's, with the possible exception of Blåvitt

	due to historic factors. • When designing packaging for Signum, there is no ambition to mimic the brand leaders. Such attempts are an indication that an organisation has not thought through its brand strategy first. • Several Signum products have been innovative, e.g., new tastes, new package sizes, etc.
KFI	• It is easy for the consumers to understand that by patronising Gröna Konsum, they contribute to protecting the environment because Gröna Konsum really makes an effort to be environment friendly.
DOB	• A previous problem with Blåvitt was that its products were extremely heterogeneous with respect to quality: from top-of-the-line products to discount products. The consumer did not experience a homogeneous quality. • Änglamark is the number one environment friendly brand, followed by Skona and Grumme. • Reaching a 100 percent DOB share of the assortment requires a positive image of the chain brand, something that none of KF's chain brands have achieved. KF's strategy is rather to build the chain brands with the help of DOB's: Änglamark is stronger than the Gröna Konsum brand. • Its problematic to launch DOB's in categories where brands are strong and where non-rational arguments have a large impact. It is easier in categories where brands are assessed by experienced product quality. • DOB's play an important role in reinforcing KF's profile. Änglamark reinforces the environment friendly profile, and the brand has different roles in different concepts. In Gröna Konsum, it is a prominent statement; in KF Stormarknad it is a subordinate statement; and in Prix it is an even more subordinate statement. Signum communicates a know-how of, and feel for, food, which is a primary statement in both Gröna Konsum and KF Stormarknad. The ideal situation is that chain brand and DOB coincide, but this has not been achieved in KF. This would require both large volumes and positive consumer associations to the chain brand. There have not been any plans of substituting Gröna Konsum with Änglamark, but Gröna Konsum would probably like to have the exclusive use of the brand. • Intentionally, Signum is not strongly connected to the KF profile in the eyes of the consumer. It leads a life of its own. This is partly because KF does not want to "put a uniform" on the brand – it should compete with brands within each of its product categories. • There are groups of consumers that buy DOB's: middle aged and elderly consumers buy Blåvitt to a larger extent. Änglamark attracts consumers who are younger, more self-fulfilling and individualistic than the collective. The main target group is age 30+ families with children, and with selective price awareness. Along with Signum's younger, highly aware, consumers, these are consumers that KF ordinarily finds difficult to reach through its chains.

	• Consumers may know that the brand can be found in the co-operative stores, but not that they are KF's DOB's. In the case of Änglamark, the consumer co-operative ideological base a possibility rather than a restriction. Signum is a way of communicating modern thoughts and that KF has undergone a renewal process, not least within foodstuffs and ingredients. It is – to a larger and larger extent – used to reposition KF as an organisation.
CM	• It is difficult to launch DOB's in categories where consumers experience a high degree of risk, e.g., animal food or baby-food. Änglamark has failed in the second category. • DOB's cannot drive the market, but it can develop some product categories and segments by launching new products, new package-sizes, etc. • There is no need for KF Stormarknad to have its own DOB's. It is a positive thing that the consumer will encounter KF's DOB's in as many stores as possible. KF must in every possible way "get the message through" and show its assortment, this is probably difficult with one chain or concept. • In the case of Signum, introductions range from niche products to large volume products, which creates a dynamic brand. The feeling is that Signum can be used for more progressive product launches, which has led to positive consumer reactions – especially towards the niche products. • Rainbow is an attempt to reduce the number of labels from a vast number of manufacturers by using one label where KF can control product quality. Consumers should feel safe when they buy Rainbow products – quality should be adequate and prices low. • KF will not launch a prioritised DOB in low-price categories, not even Blåvitt – KF's price fighter.
CM	• Blåvitt is a positive thing, Änglamark reinforces KF's profile, but the value of Signum is debatable: KF should stick to the basic concepts.
DOB	• Product failure is not only a question of impeding the image of KF's DOB's: a product failure of one of the imported brands will harm Gröna Konsum's and B&W's brands.

KF's DOB's attract different consumer segments: Blåvitt – the generic brand – is to a higher degree bought by middle aged and elderly consumers. Änglamark – the environment friendly DOB – attracts consumers who are younger, more self-fulfilling and individualistic than the collective. Signum attracts younger, highly aware, consumers. Both Signum and Änglamark attract consumers that KF ordinarily finds difficult to reach through its chains. KF's DOB strategy aims at meeting the needs of these target customers with value-for-money products, and the official standpoint is that product quality should be the first priority, and reasonable business terms the second.

The four main DOB's within KF's portfolio are positioned differently in terms of quality/price. *Blåvitt* is used on products with lower prices and lower, but consistent, quality, and *Rainbow* is a price-fighter with a decent product quality and low price. *Signum's* products should, according to the interviews, be slightly cheaper than the brand leaders' and to some extent be innovative, e.g., new tastes and new package sizes, which creates a dynamic brand. Perceptions, however, vary somewhat in terms of Signum's quality position. While some respondents claim that this DOB has the same quality as the brand leader, KF's DOB manager claims that the ambition with Signum is not to be top-of-line, but that many consumers have got that impression through advertising. *Änglamark* is positioned on a "third dimension" - environment friendliness - and is rated as the number one environment friendly brand by the consumers, followed by Skona and the manufacturer brand Grumme.

The material suggests that consumers' ability to assess quality may vary with product category. Quality is easier to assess in food than in non-food categories, and in general - with the exceptions for a few manufacturer products, e.g., Coca-Cola and Kellogg's - manufacturer product quality is easily copied. In some product categories, however, consumers require locally produced/grown products due to differences in taste. Apart from the ability to directly assess product quality within food categories, consumer quality perceptions may be affected by, e.g., packaging, and it is deemed problematic to launch DOB's in categories where non-rational arguments have a large impact.

Ambitions that KF's DOB's can reinforce KF chain profiles, and that this will create store loyalty, are expressed in the material. However, the general view within KF seems to be that the negative, or indifferent, consumer associations to the KF brand limit the value of using this brand in its DOB portfolio. Consumers may realise that DOB's such as Signum can only be found in consumer co-operative stores, but the organisation's strategy is to reduce the extent to which associations are transferred from KF to its DOB's. Furthermore, these consumer associations make it impossible to use the KF brand as a common denominator for its chain brands.

DOB's are seen as a means of changing, and creating, attitudes towards KF and its chains. The different DOB's play different roles in this creation of chain profile: Änglamark's environment friendly profile is a prominent statement in Gröna Konsum while an subordinate one in KF Stormarknad and Prix. Signum communicates a know-how of, and feel for, food, which is a primary statement in both Gröna Konsum and KF Stormarknad. The use of DOB's in the different chains may, however, not only reinforce chain profile but also impede DOB profile. KF's DOB manager suggests that selling Signum in KF's low-price stores poses a problem, since it may send the wrong price signals and thus devaluate consumer perceptions of the DOB's product quality.

DISCUSSION

In the theoretical framework it was suggested that the literature provides us with a rather mixed picture of the DOB prone consumer. This notion is confirmed in the interviews where few of the respondents have a clear picture of which consumer segments buy DOB's in general, or their respective DOB's in particular. This lack of knowledge can, however, also be interpreted as a result of the distribution of consumer related information within the organisations. In ICA, fingers seem to be pointed to the DOB manager, while in KF the only person who could give a more elaborate characterisation is a respondent from the DOB department. It is interesting that the possibility/problem identification performed by the category managers seems to lack in consideration of what segments that the respective DOB-products may attract. This could lead to a process where potential revenue through ability to attract profitable consumer segments is substituted with historical or contemporary marginal effects.

The perceptions of product category idiosyncrasies in terms of consumer evaluations display the notion that DOB strategy is not a question of a dichotomous variable - to be or not to be - but rather a question of brand positioning. Both organisations use niche brands - environmental friendliness - as well as price fighters, and premium brands in different product categories. The price/quality quotas, thus, differ between DOB's, but one definite ambition in terms of price/quality is manifested in Euroshopper and Rainbow: here the aim is to uphold a slightly above minimum quality level. The strategy for all of ICA's brands - with the exception for Diva and Euroshopper - and for at least KF's Signum seems to be to offer a quality that is in parity with the common category level or better. In KF there seems to be divergent views on whether Signum is a premium brand or not.

The literature further suggests that the degree to which DOB launches succeed within a product category may be affected by the consumers' perception of risk and of their confidence in their own ability to assess product quality. DOB should have a better chance to succeed in product categories where products are inexpensive, where consumers are confident in their purchase choices, and where manufacturer innovation is low. There is a tendency in the material to view non-food categories as more easy to launch DOB's in, and also that DOB's have a better chance to succeed in less complex product categories. An exception from this negative relationship to product complexity is the organisations' launches of environment friendly products. The success of these launches can partly be explained by the organisations' closeness to a market characterised by "green consumers", partly as the result of the large, multinational, manufacturers' unwillingness to develop environment friendly detergents. This unwillingness, or inability, offered KF and ICA the chance to innovate in a complex product category. The literature suggests that consumers may assess quality based on extrinsic cues such as price, brand name, and packaging. According to the interviews, in some cases difficulties arise in food-categories due to a perceived inability to copy products in terms of for example taste, while in some cases imaginary parameters, e.g., social risk reduction, seem to be an obstacle.

In terms of extensions of the chain brand to DOB's, the two organisations take on two different views. In ICA's case - which is also consistent with their naming strategy - the ICA brand is seen as something valuable and the DOB's are seen as a means of reinforcing different characteristics of the chain profile. In KF's case, the consumer co-operative brand is not seen as adding value to the DOB's, which role are rather to change the negative views on the chain brand than to reinforce its personality. This connection is, however, handled with great care: a too strong association to either chains or DOB's is not wanted.

Both organisations perceive that there is a potential problem with brand degeneration through the use of DOB's in low-price stores. This is, however, a problem that is perceived differently by different respondents, and in KF's case there are even some respondents who consider it a strength rather than a weakness that the consumer is faced with the same DOB's in different consumer co-operative stores. In all, chain differentiation by the use of DOB's is not an exercised strategy be the two organisations.

If we analyse naming-strategies from a brand portfolio perspective, it is apparent that ICA – which is in line with their use of the chain brand – has used an endorsed strategy when naming their DOB's. According to the literature, the using a brand in several product categories may lead to an inability to create distinct consumer associations. ICA's consumer research suggests that consumer associations are limited to a general feeling of trusting the DOB in terms of quality and of getting value for money. In line with the notion that "broad" brands are less affected by dissimilar extensions, but on the other hand offer these extensions less support, ICA has chosen to work with more distinct brands, e.g., Skona and Sunda, that are endorsed by its house brand – ICA-Handlarnas. The common denominator – the ICA shield – is used on all DOB's with the exceptions of dog and cat food, cola, and cologne. In the first instance there is a perceived need for separating foodstuffs intended for human consumption from those for canal or feline consumption. In these two latter cases, separation is viewed as necessary due to image problems. This points to two related problems with the extension strategy: the fit between the product categories in which the DOB is used, and the fit between the DOB and each of these product categories. Interestingly enough, there are plans to place dog and cat food under the ICA house brand while no such plans are indicated for the soft drinks and hygiene products.

KF, on the other hand, has not only chosen to work without a house brand, but also attempts to distinguish its respective DOB's from one another. The reason for this is that the KF brand is not deemed to support neither chain brands nor the individual DOB's due to negative, or indifferent, consumer associations. In contrast to ICA, KF's strategy is to use DOB's over dissimilar product categories, e.g., pet food, non-food, and food.

Both organisations have a distinct extension strategy and perceive that it is necessary to balance the need to focus on a few DOB's and the extent to which DOB's can be used in different product categories. Accordingly, new products are placed under the DOB that is closest in terms of brand associations, and there is no ambition to create new DOB's.

5.10. CONCENTRATION & INTERNATIONALISATION

	ICA
MM	• ICA is developing its charge card towards a loyalty program. • The major internal problem is to maintain a homogeneous price level in the organisation's associated stores, and this sometimes results in compromises.
MD	• In ICA, it is the individual retailer who controls the shelf-space – the central organisation has no system for doing so. Some exceptions can be achieved through agreements with manufacturers built on a direct commitment from the individual stores. Such agreements also exist for individual products to reach a low annual price, where ICA commits itself to a certain degree of retail coverage, i.e., that the individual retailers agree to allocate shelf-space to the product. ICA can also commit itself to a total share of shelves within the associated stores. This is, however, exceptions and concerns a limited number of products. • A number of ICA's retailers have individual annual agreements with manufacturers, e.g., breweries, and want to maintain these relations.
DM	• In theory, the store controls the allocation of shelf-space, but in practise the manufacturers probably have the largest influence over the shelves. • ICA has two low-price brands – Diva and Euroshopper – and the reason for this is that ICA's strategic partner Kesko in Finland had already launched Diva when ICA decided to include a DOB for bulk products, why this brand was licensed from Kesko. Euroshopper – which was developed within the AMS co-operation – was added to the portfolio later on.
CM	• The large size of manufacturer sales forces is due to tradition, but maybe also an effect of the fact that ICA is a large player on the market.
DOB	• A company like P&G may consider Sweden too small a market to launch a product on – it is not worth the cost on a market with 8 million people – and instead launches a campaign in London where they can reach more consumers.
CM	• Euroshopper, which is not unique for ICA but a result of a co-operation within AMS, is an excellent way of creating a common identity for discount products.
CM	
DOB	• Euroshopper is the result of a unique co-operation between ICA's European colleagues within the AMS co-operation.

ICA holds a large share of a rather small market, and it may even not be relevant to look at ICA's 35 percent of the fmcg market since the organisation is a federation within which the individual retailers have the discretionary control over both assortments and shelf-space allocation. In some cases, the central organisation can reach agreements with manufacturers where ICA commits itself to a certain degree of retail coverage in the associated stores. This is, however, exceptions and concerns a limited number of products. Furthermore, many of ICA's retailers have individual annual agreements with manufacturers. This lack of control over the organisation's shelf-space in combination with the vast financial resources controlled by the multinational manufacturers results in a situation where control over shelf-space is divided between individual retailers and manufacturers.

In terms of international co-operation directed towards DOB operations, ICA has developed the low-price DOB Euroshopper together with European colleagues within the AMS co-operation.

	KF
EVP	
DM	• In a near future, KF needs to achieve Nordic volumes through co-operation. This could be done if simple packaging is used. As a general strategy, and especially if KF wants to source innovative products with smaller volumes, purchase co-operation is necessary. • In theory, the central organisation controls the shelves, and in practise it is approaching this control. The central organisation has a reasonable control over the majority of the shelves in KF Stormarknad's stores, but the manufacturers control the beverage shelves, the diary shelves, and the bread shelves. KF has taken the first step – the control over the assortment in KF Stormarknad's stores. The next step is quarterly estimates of the shelves and displays. In Gröna Konsum, neither shelves nor assortment is controlled by the central organisation.
KFA	• The Nordic consumer co-operatives – the Danish, Finnish, Norwegian, and Swedish – also negotiate as a group. This group usually attains its goals in negations with the manufacturers. • KF is divided into different store concepts, and today it is the respective concepts that accepts or rejects a product. The Norwegian consumer co-operation has a system where the central negotiator can de-list a product in all of the organisation's stores, but in KF it is the store concepts that have this power. • Power is an ingredient in the relationships to manufacturers, and this power is based on KF being an important player in the Swedish fmcg market.

	Manufacturers may also have power over KF, and this is predominantly the large multinational organisations that can - and will - dictate their terms. These organisations are the ones that are most difficult - or even impossible - to de-list. Many of them are also very bureaucratic, and thus difficult to influence.
CM	• Sweden is a small market, and for the multinational companies it is inexpensive to maintain a strong grip. Since Sweden has lagged behind other countries, multinationals have maintained their grip. • The concept managers do not really control the shelves within Gröna Konsum, but they are in the process of changing this situation. This is because the central organisation lacks control over the manufacturers' sales forces that deliver to the stores instead of going through the central warehouses. The stores have the responsibility and opportunity to do what they want. • If the central category management says no to manufacturers, they are shut out of the centrally controlled Gröna Konsum stores, they may however be able to sell to the co-ops, or to other concepts, e.g., KF Stormarknad. • Some manufacturers are allowed to make direct deliveries to the stores, but there is a need for getting rid of the peddlers that sell their products to the stores. Unfortunately, the store can sign a legally binding agreement with a manufacturer, and there is no way for the central organisation to stop it.
D&L	
CM	• The process that leads up to a new DOB product begins with a specification from a category manager. The next step is for the DOB department to send this specification to NAF that has a number of contacts with suppliers through private label trade fairs, etc. • Many DOB products are purchased through NAF, especially tinned food sold under the Rainbow brand. KF participates in Nordic purchases, co-operates within product development and exchange of experiences. • If it is impossible to come to an agreement with a manufacturer, there is no need to "beat the big drum". The first measure is to omit them from campaign plans, and then to escalate measures until the only alternative is to de-list their products. • Power is a rather uninteresting concept: the manufacturers and KF have a common goal to attain, i.e., to satisfy the needs of the consumers, which generates sales and profits. • Sweden is a small country, and does not have a more than a minor impact on the large manufacturers' production capacity.
KFI	
DOB	• KF Stormarknad, today, has virtually a total control over their shelves, they work with space management. Gröna Konsum is going in the same direction, and will probably control their shelves in 2-3 years time. Prix has total control over their shelves. • KF participates in international co-operative alliances, but it is questionable

	if this co-operation has had any effects on Signum, Änglamark and Blåvitt. NAF is, however, an efficient purchase organisation. There have been thoughts of common DOB concepts with respect to the tinned food sold under the Rainbow brand, but today the development is going in the other direction, i.e., more locally, more national, production.
CM	• During the 1990's, margins have been decreased each year, the competition has stiffened, and the pressure has increased. It is a considerably tougher climate in terms of negotiations with manufacturers. • In KF Stormarknad shelf-control is split between the central organisation, the manufacturer, and the store. The manufacturers' influence has diminished, the concepts' control has increased, and the stores' control has remained at the same level. KF Stormarknad has more control than Gröna Konsum does where the store has more control. KF Stormarknad's stores have more visits from the manufacturers' sales representatives than do Gröna Konsum's store, especially not the smaller stores. These stores run their own operations to a higher degree. • A large brand will get total retail coverage in ICA's stores, but a mid-sized company with a mid-sized product may have to work hard even for a 20-30 percent distribution. An OK from KF Stormarknad means that a company will have a 100 percent distribution. This is a competitive advantage for KF Stormarknad. • Rainbow is the result of an international co-operation, it is sold both in Finland, Norway and Denmark. It is not the same brand concept – it does not look the same and is not the result of the same strategy – but it exists. • Within KF Stormarknad, the central organisation has the control over shelves, promotional activities, assortment, and pricing. Manufacturers have power through their ability to steer resources over to KF's competitors, and through their ability to influence consumers. In recent years power has shifted to the retailers. It is important to have the upper hand, but the goal is to come to the point in the relationship where you do not have to exercise this power.
CM	• Sweden has a population of 8 million people living on a considerably larger space than the 53 million people in England. If you take a pair of compasses and make a 50 kilometre circle around Hamburg, you will have more people than the combined populations of the Nordic countries.
DOB	• KF co-operates through NAF, an organisation that collects the purchase volumes from all the Nordic consumer co-operations when negotiating with manufacturers. • The manufacturers' cannot turn directly to the stores: all decisions within in KDAB are taken centrally. This followed more and more. Manufacturers attempt to go in locally, but they do not succeed at least not within KF Stormarknad's stores. This control has increased during the last five years. • For many of the manufacturers, selling to KF is a way of attaining access to the Swedish – or Nordic – market.

	• Sweden is a small market – it is larger than KF's share, but even the Swedish market as a whole is not large enough for many manufacturers. • Power is not a very interesting concept, but sometimes KF has managed to reduce the price on a manufacturer's products by threatening to de-list the product. Many manufacturers do not want that because they want access to the Swedish market – they need this market. • The Nordic alliance NAF is a basis of power: when the Nordic consumer co-operations join their purchases, enough volumes are generated to receive some bonuses from the manufacturers, which can be easier than lowering the price. • KF does not have an actual exchange of competence with NAF: the Swedish consumer co-operation is leading in the development towards higher demands on manufacturers.

KF is divided into different store concepts, and it is the respective concept that accepts or rejects a product. The concept managers within KF Stormarknad have a reasonable control over the majority of the shelves in the stores. In Gröna Konsum, the general view seems to be that the concept managers do not control the stores' shelves, but that they are in the process of changing this situation. It is questionable if they control the assortment. The stores have the responsibility and opportunity to make their own decisions, and since the store can sign a legally binding agreement with a manufacturer, concept managers within Gröna Konsum have a limited ability to stop direct deliveries to the stores. However, it is primarily KF Stormarknad's stores that receive visits from the manufacturers' sales representatives, and the problem is more a matter of peddlers than of manufacturer sales representatives. Prix has total control over their shelves and assortment.

During the 1990's, negotiations with manufacturers have become tougher, but despite the fact that KF can exercise more control over shelf-space than ICA, the respondents do not deem the concept of power as very interesting. Even so, there are suggestions that KF may exercise some power over at least the smaller manufacturers based on it being an important player on the Swedish fmcg market. Manufacturers are also perceived as having some power over KF, and this is predominantly a question of the large multinational organisations that can - and will - dictate their terms. These organisations are perceived as the ones that are most difficult to affect, both due to their ability to direct vast resources towards affecting Swedish consumers and due to many of them being very bureaucratic, and thus difficult to influence. For the large multinational corporations, the Swedish market is small compared to many of the European markets. However, some manufacturers need to market their products in Sweden and may, furthermore, see this as means of entering the Nordic fmcg market. Influence through ability to de-list products, thus, seems to vary considerably depending on whether the counterpart belongs to the group of smaller, often national, manufacturers or if it is one of the large, multinational, brand owners.

Within groceries, KF co-operates internationally through NAF, an organisation that collects the purchase volumes from all the Nordic consumer co-operations when negotiating with manufacturers. It is, however, questionable if this co-operation has had any effects on the development of Signum, Änglamark and Blåvitt. International co-operation is mainly a question of co-ordinating purchases, or finding DOB suppliers, and less a question of joint product development or brand strategy. The only DOB that is a direct outcome of KF's international co-operation is the low-price DOB Rainbow, which is sold both in Finland, Norway and Denmark. The concept, however, differs between the participating countries, and the respective DOB's are not the result of the same strategy. There have been thoughts of common DOB concepts with respect to the tinned food sold under this brand, but today the development is going in the other direction, i.e., more locally, more national, production.

DISCUSSION

According to Mattsson's research presented in the theoretical framework, the relative dependence between a manufacturer and a distributor is affected by the share of sales that goes through the distributor, the number of feasible distributors to sell through, and by the degree of positive product differentiation that the manufacturer is able to provide. Given that the manufacturer operates on several markets, a distributor on a national market may have a large share on the national retail markets, but still only constitute a fraction of the manufacturer's total sales. Vice versa, a manufacturer may dominate the national production within a certain product group, and still be only one of several suppliers that the distributor can choose from on the international arena. According to this reasoning, we would expect a relationship between concentration and power distribution among distributors and manufacturers, but one conditioned on the degree of internationalisation and on the size of the national market.

The interviews suggest that the extent to which distributor concentration may be translated into influence depends on the strategic and economical attractiveness of a rather small Swedish fmcg market, and on the level at which decision concerning assortment and shelf-space issues are taken. In ICA's case, neither assortment nor shelf-space are centrally controlled, why any influence based on concentration must be based on the central unit's ability to persuade individual retailers to include or exclude the manufacturer's products in the assortment and in the shelves. In KF's case, decisions pertaining to the assortment and allocation of shelf-space are made within the three concepts, but the degree to which these decisions are actually carried out in the individual stores is a matter of opinion. Stormarknad has, obviously, come a longer way than Gröna Konsum in controlling its – relatively few – stores, but even here there are different opinions of the extent of this control. Prix - with even fewer stores - has this control.

KF's drift towards chain integration has, thus, probably increased its ability to use its share of the retail market as a source of influence. Today, however, only a fraction of this retail share seems to be controlled, why the organisation is still a far cry from the leverage that a twenty- percent share could give the organisation. ICA - due to its federative form - claims that the organisation lacks this control, why the Swedish concentration ration in practise may be much lower than the statistics imply. The basis of this control - the organisation's share of fmcg distribution - seems to be a better foundation for influence in relations with national than international manufacturers which, in turn, supports the notion presented by Mattsson's article on concentrations ratios and power. The extensive use of sales forces could imply that manufacturers perceive the two organisations as important players, but on the other hand this use of sales forces may be the result of the two organisations' lack of shelf- and assortment control.

A strategy that a distributor can use to increase its importance for a manufacturer is to form strategic alliances with other distributors to increase buying power. Apart from providing a basis for acquiring DOB products, distributor alliances can lead to e.g., image transfer, trading format skills, procurement in specific product areas, promotional skills, and technology skills. For both organisations, co-operative alliances seem to be directed more towards purchasing co-operation than towards DOB-operations. The two DOB's that have sprung from the AMS and NAF alliances respectively, are both uncomplicated, low-price, products that are primarily used for securing at least a tolerable quality and to rid the assortment of potentially damaging low-price/low-quality products. In the case of Rainbow, the DOB related advantages are primarily derived from centralised procurement and not from an exchange of ideas related to DOB-operations.

5.11. MANUFACTURER RESPONSES TO DOB'S

	ICA
MM	• The manufacturers and the retail organisation have – jointly – managed to end a development of increasing prices on fmcg goods, and the result is that consumer prices now are lower than in the beginning of the 1990's. Both retailers and manufacturers have survived in this situation. Manufacturers have adapted to the situation and rationalised their operations and have come out stronger than before. Before 1990-91 there were no actual price negotiations between the manufacturers and the retailer organisations. • Multinational companies with experiences from other countries realise that Swedish fmcg is a far more civilised and co-operative environment than you find in continental Europe. Private label has, in some of these countries, captured a 30 percent market share while ICA has some 7 percent. ICA communicates to the manufacturers that it does not aim to destroy manufacturers: it has certain reasons for developing own brands, but the aim is to exist in a symbiotic relationship to manufacturers and to develop product categories and markets. • For many manufacturers, DOB production has the benefit of offering a steady production with a certain profit-level without having to spend money on other costs. • It may be impossible to reach an agreement with some manufacturers, but when a successful DOB is launched in their product category, they are willing to meet ICA's demands. The use of DOB's gives better terms from the manufacturers. • Multinational headquarters have a hard time understanding why sales support costs are so extremely high in Sweden. Too large a DOB share could lead to decreased sales support from the manufacturers but, in practice, ICA's DOB launches have had the effect of increasing the manufacturers' efforts. The manufacturers move their sales forces from the smaller to the larger stores.
MD	• Some manufacturers think that the distributors over-expose their DOB's in the stores in comparison to the brand leaders, that retailers prioritise their own products in the shelves – shielding. The manufacturer sees the shelf as a common market resource, while the retailer – who has invested in the shelf – believes he/she has the right to control it, even though he/she does not exercise this control in practise. When doing so, manufacturers start screaming about unjust competition. A 75 percent market share does not give a manufacturer the right to have 75 percent of the shelves. • The most common reaction from the manufacturers when ICA launches a DOB is to dump prices immediately, to aim for the 100 largest stores – which constitutes a decent share of the total volume. They try to hinder

	ICA's DOB's by using targeted rebates in a way that makes it difficult for ICA to analyse how the margin is affected by the DOB launch.
DM	• ICA's DOB strategy has increased its negotiation power vis-à-vis the manufacturers. DOB launches that have captured an 80-90 percent share of a product category have generated quite a lot of manufacturer anxiety. • There were strong manufacturer reactions to DOB's in the beginning, but they have calmed down considerably. The manufacturers have got used to a free access to the stores' shelves. • The manufacturers that manufacture ICA's DOB products are quite happy because ICA's strategy is to aim for long-lasting, deep, relationships that can be developed over time.
CM	
DOB	• Some manufacturers, e.g., Kellogg's, have reacted by stating that you cannot find their products in any other packages than their own. More and more manufacturers, however, are willing to manufacture for DOB's. • It is difficult to assess how much over capacity the manufacturers have, but companies have approached ICA to offer DOB production. For some of these companies this may be a way of surviving. ICA uses some 70 DOB manufacturers in Sweden. In some cases, however, ICA has been forced to source production from other countries since Swedish manufacturers cannot offer the price or quality that ICA wants. There is ample opportunity to find DOB manufacturers at international fairs, etc. The strategy is, however, to form long-term relationships to fewer manufacturers but to source a number of products from each one to get better prices, flexibility in production, and to ensure that ICA is a prioritised customer. This is a condition for accessing their best know-how and latest technology. It is built on long-term relationship and mutual trust. • The multinational detergent manufacturers have a large production apparatus and are not very interested to make small production series for the Swedish market. They want to use the same detergent all over the world. • The multinational companies resist – the Swan (one of the eco labels used in Sweden) creates a problem for them and they try to get rid of it. • DOB's have, in many cases, led to better deals from the manufacturers by increasing the pressure on them.
CM	• Some manufacturers attempt to make deals with individual – larger – stores, but this has resulted in ICA's central organisation stating that if this price can be offered to individual stores, than it should be possible to offer to the 2 300 remaining stores. The cost of giving one store a rebate is small, but the costs of giving all stores the rebate are tremendous. This has made some manufacturers rethink their strategy to offer selective rebates. • When the manufacturers have become aware of ICA's DOB strategy, the deal on the branded product will be right from the beginning without even discussing whether to launch a DOB or not. In the beginning many

	manufacturers thought it insane that their largest customer would launch DOB's, but ICA has been persistent in communicating that it is not the leading brands that are the target for DOB's, it is the smaller ones. In most product categories where DOB's have been introduced, the brand leader has increased its efforts and increased its sales volumes. • It is a sound reaction from the beginning: if ICA – the largest customer – starts to launch its own products, the manufacturer naturally feels threatened. This has, however, changed now and many of the large manufacturers are now willing to manufacture private label. Five years ago it was impossible to get large brand manufacturers to manufacture for DOB's. Now they are becoming increasingly flexible, much due to the fact that a point is reached where both ICA and the manufacturers see a common end-user in the consumer. This not the case with all manufacturers, but much has happened during the last five years and there is more talking with one another than about each other. • The relationships to manufacturers have changed dramatically: today they can be characterised as partnerships. The manufacturers' have changed strategy from attempting to win negotiations to constructive discussions of how their products should be sold in the stores. The multinational companies are slower to react to these changes: they still believe that they dictate the rules and that they can use one strategy all over the world. In recent years, however, even some of these companies have changed strategy: one of the first companies to enter a full-blown ECR partnership with ICA was the Lever division of UniLever. Most disputes can be resolved if both parties focus on the end-user.
CM	• The question that manufacturers must ask themselves is how they should act to convince ICA to stock their products. Hostility is not a viable strategy, but sharing information and realising that it is not as much with DOB's as it is with other manufacturers that the company has to compete. They have to keep ICA informed about their plans. • One important aspect when choosing a manufacturer is whether they have identified a distinct current and future consumer need. Some manufacturers supply ICA's category managers with market research, are open about their 1-3 year strategies. Manufacturers that exaggerate their sales impede their reputation. Another factor is how well they can co-operate in more intimate matters when jointly building the product category. It is necessary for manufacturers to look at the whole picture instead of promoting their own products. • There are examples of an intimate co-operation between ICA and some manufacturers over joint product development and promotional activities to build a product category. Manufacturers realise that it is no use developing a product that the large distributors refuse to distribute. Another area of co-operation is distribution: it is important to create a fluent logistics system where no participant has to build large inventories. This has created an atmosphere characterised by openness and trust.

	• Many of the manufacturers that previously were against DOB manufacturing now approach ICA with suggestions for new products that they are willing to manufacture for DOB purposes. It is no longer only a question of the smaller companies, but to an increasing extent the larger companies also.
DOB	• Manufacturers may be more hesitant to substitute ICA's products with their own if they are branded with the ICA brand. The launch of ICA's cola – First Choice – has probably not shaken the Coca-Cola company: it is not a threat to them but to the smaller brands in the category. One function with DOB's is to increase the pressure on the manufacturers – generally, it works, but some of them are amazingly strong. • There are examples of manufacturers repositioning their brands when ICA launches a DOB, e.g., cat food. In some cases, merely placing a dummy on the table when they visit ICA can lead to reactions. DOB's can be used a threat, but that is an extremely short-term strategy.

Before 1990-91 there were no actual price negotiations between the manufacturers and the retailer organisations, and the change of this situation has led to various effects. While some manufacturers see the shelf as a common market resource and react strongly against DOB launches which they consider unjust competition, the general feeling among manufacturers towards DOB's are perceived as becoming more positive. Furthermore, the relationships with manufacturers are perceived as having undergone a dramatic change from attempting to win negotiations to constructive discussions of how their products should be sold in the stores. The multinational companies are slower to react to these changes. In recent years, however, even some of these companies have changed strategy. Manufacturers have, to a larger extent, begun to work more intimately by, e.g., sharing information, joint product development and promotional activities, and by keeping ICA informed about their plans.

DOB's are seen as an effective means of increasing the negotiation pressure on manufacturers, and the use of DOB's has led to better terms from the manufacturers. However, as manufacturers become aware of ICA's DOB strategy, the deal on the branded product will be right from the beginning without even discussing whether to launch a DOB or not. ICA's official standpoint is that it is not the leading brands that are the target for DOB's, it is the smaller ones.

The manufacturers may use a number of counter measures in their attempts to hinder DOB operations. The most common reaction is to dump prices immediately by using targeted rebates in the largest stores so as to make it difficult for ICA to analyse how the margin is affected by the DOB launch. These attempts have, in some cases, led ICA's central organisation to claim that if this price can be offered to individual stores, than it should be possible to offer to the 2 300 remaining stores. Some manufacturers communicate that their products will only be sold under their own brand, others have increased their sales efforts by moving their sales forces from the smaller to the larger stores. In some cases, manufacturers have repositioned their brands when ICA launches a DOB.

The general perceptions within ICA is that there is a large number of specialised DOB manufacturers in Europe to choose from, and that more and more of the traditional brand manufacturers are willing to manufacture for DOB's. This is, however, not predominantly a question of large, multinational, companies - many of these companies refuse to manufacture DOB's, at least for the Swedish market. ICA is biased towards using Swedish DOB manufacturers, but in some cases it has been forced to source production from other countries since Swedish manufacturers cannot offer the price or quality that ICA wants.

Even if there is ample opportunity to find DOB manufacturers in Europe, ICA's strategy is to form long-term, deep, relationships that can be developed over time with few manufacturers. For many of these organisations, DOB production can provide steady production with a certain profit-level without having to spend money on other costs. By using smaller manufacturers, ICA also ensures that it is a prioritised customer, which is perceived as a condition for receiving better prices, more flexibility in production, and an access to the best know-how and latest technology.

KF	
EVP	• The manufacturers react. They probably feel threatened. Depending on how large and strong they are, they will have to adjust to a larger or smaller extent. The large, multinational, companies will pull through. Some of them seem to be unwilling to face the truth and try to overlook the problem - they will not acknowledge that they have lost some of their strength.
DM	• Manufacturers are very negative towards the DOB development. They feel as if they have been treated unjustly. Four years ago, all of them were negative, but all of them - with four or five exceptions - wanted to manufacture for DOB's. Now the state that they do not really like it, but that they can manufacture some of KF's products. Manufacturers suggest package deals to an increasing extent: if KF buys their brand, they will consider DOB manufacturing. When KF presents its terms for this production, manufacturers often refuse, but there are others that can manufacture these products anyway. • The losers are the Swedish brand companies, but some of them see this as a great opportunity. In the future, the large companies will manufacture KF's DOB products, this is due to the demands for efficient production and quality. This will be Swedish, Danish, and German companies, etc. • Of the 18 largest consumer goods manufacturers in the world, only four, e.g., Coca-Cola, Kellogg's, and P&G, refuse to manufacture for DOB's. Many use a double strategy: they refuse to manufacture for DOB's on markets where they have a strong position, but are willing to do so where they are weaker.
KFA	• It is uncommon for KF to enter agreements on exclusive distribution of a manufacturers products, if such agreements are made, it is predominantly on infrequent niche products. • KF does not condition purchases of manufacturer brands with requests for DOB production. On the other hand: if KF enters a partnership with a manufacturer that manufactures DOB's, and relations are deepened, their products may be prioritised in KF's assortment. • Some of the multinational companies use price-lists and manuals. These companies react negatively to KF's demands on them. • DOB's are popular among the companies that manufacture them, but others may wonder what KF is doing. Many of them can feel KF

	breathing down their necks, but the large companies do not care: they are strong enough in their niches. The small and mid-sized companies are most worried, which may affect negotiations if they anticipate volume losses. KF does not use DOB's as a threat other than in extreme cases. • The risk of ECR co-operation is that it becomes too technical and that the more emotional aspects of retailing are lost. ECR should not become a system in which digits are entered in one end and shelf-shares come out of the other. • Most manufacturers treat KF's purchase officers as customers, rather than as middlemen. The centralised purchase department negotiates for all concepts within KF. Many manufacturers have started to use key account managers during the last years. • Manufacturers tend to use their category know-how in negotiations and present sales figures that support their views. This is not a viable strategy, since KF's negotiators have the information they need to refute biased arguments. • Some manufacturers try to diminish KF's need for DOB's by increasing their rebates. It is not very common, but it does exist.
CM	• The stronger DOB's become, the more willing the manufacturer will be to manufacture for them. However, there are some companies that never will manufacture for DOB's: the international companies are strong enough not to be interested in DOB manufacturing. There are a number of manufacturers in other countries that are specialised in DOB production, but they cannot manufacture typical Swedish products.
D&L	• ECR should be broken down to concrete, limited, projects, e.g., logistics projects, category management projects, etc. Complex projects are too difficult to manage.
CM	• Some manufacturers have already started to manufacture Signum products. Some of them are alert and flexible and use their production capacity. It is a strategic choice that each manufacturer must make, but more and more manufacturers manufacture for DOB's. The larger manufacturers, e.g., P&G, Master Food, Nestlé, etc. refuse to manufacture for DOB's, and they are probably the ones that will be left since they devote a lot of resources to building their brands. If manufacturers cannot sell outside the small Swedish or Nordic markets they will face too large costs for over-capacity to refuse to manufacture for DOB's. If they are shut out from 20 percent of the Swedish market, many of them will probably start DOB production. • Manufacturers will have to accept that both market share and profitability will decide allocation of shelf-space, not only market shares. This is a dimension that manufacturers may not appreciate, but they will have to ask themselves what they can do to increase profitability for their customers, i.e., the distributors. • One third of the manufacturers have understood KF's change in promotion strategy and try to adapt to it. One third seem to just stand and watch.

	One third attempt to do more of what they have done before, i.e., more sales representatives are sent out to achieve short-term sales volumes through rebates. Manufacturers will have to undergo the same maturity process as the distributors have – different manufacturers have come far in this process, some have just begun. Some of them seem bewildered over the fact that they cannot go directly to the stores and sell their crates. • More and more manufacturers discuss how they will respond to DOB's, but there is no substantially large manufacturer that has broken through and stated that they are willing to manufacture for DOB's. For the large manufacturers, this is a question of a small market that will not shift their production capacity. It is not the Swedish distributors that drive this development, but rather the large continental countries that constitute large volumes. • More and more companies use key account managers to adapt to KF's new organisation. As a KF representative one may be treated both as customer and middleman depending on the manufacturer. • ECR begun as way to reduce costs, but the projects that have been carried out on the Swedish market have only trimmed the current structure and have not made the radical structural changes. • Co-operation with manufacturers is becoming more long-term and structured. Too few manufacturers, however, are sensitive to KF's demands, e.g., co-operation within product development. They present developed products that will not get any distribution. Some of them investigate KF – they visit the category managers to find out in what product areas they see a potential, where there is a lack of products, what could be added, etc. The large multinational companies use their European strategies and their marketing departments do not care about the Swedish market: the product is to be launched in a given week. • KF accept rebates as long as they are beneficial and legal. All manufacturers offer rebates, but the ones that are the toughest to get them from are the multinational companies.
KFI	
DOB	• Manufacturers will probably become increasingly bitter until they realise that if you are not a market leader today, you will have to become a skilful DOB manufacturer. More and more companies are prepared to manufacture for DOB's irrespective of their market position. They have a need to maintain their production capacity. The whole fmcg sector has an over-capacity – that is one of the factors that opens up for DOB's. • There are some examples of agreements on exclusivity between KF and manufacturer companies. • To some extent KF is invited by manufacturers to participate in product development, but this is not a common strategy. The larger the companies, the less they want to co-operate with KF. • The large multinational companies are probably not very nervous due the DOB development, but the third tiers are probably nervous. This has led

	to a behavioural change – they are more open to DOB manufacturing. Today, there are virtually no Swedish manufacturers that will not consider manufacturing for DOB's. The situation has changed dramatically during the last 2-3 years: even the category leaders are becoming more co-operative, at least the Swedish companies. The large multinational companies, e.g., UniLever and P&G, do not want to manufacture for DOB's – it is not in their culture.
CM	• From the beginning most Swedish companies opposed DOB's and saw them as a major threat. Today they still see them as a threat – and so they should – but they now understand better why KF launch these brands. They have to some extent begun to accept that DOB's exist, that they occupy shelf-space, and that they are the result of a strategy. It is, however, not a strategy – at least not at first – to de-list manufacturer brands. That has probably calmed a lot of the manufacturers. The foreign companies are more aggressive: they have experienced in other markets that DOB's have taken a large part of their sales volumes, and they are more cautious than the Swedish companies. The multinational companies try to hinder this development by increasing their investments in sales forces that go to KF's stores and try to pay for extra exposure. They want to brake up the unity. • Manufacturers do not even attempt to offer DOB manufacturing when selling their brands, there is a vast number of potential manufacturers. Today it is not considered as bad to manufacture for DOB's as it did five or six years ago. Now many of the manufacturers see this as a chance to maintain their production volumes and to keep their production apparatus. • Distributive exclusivity is a very uncommon issue in negotiations with manufacturers. The larger companies are, furthermore, prohibited by competitive law to enter such agreements. In some instances, exclusivity may be the result of a common product development agreement. This is also an uncommon form of co-operation, but the manufacturers have become more and more interested in joint development projects. It is becoming more and more common that KF and manufacturers present their strategies to one another, that they co-ordinate strategies and share market information and analyses. Fewer and fewer manufacturers present products that are already developed, since this means running the risk of having them rejected due to them not meeting KF's assortment criteria. • If a large company, e.g., P&G, were to invest 1-3 million kronor in a product launch, KF will include the product in its assortment. There are, however, not many manufacturers that can devote this kind of money to product launches, and not even the largest ones can count on distribution if they do not use very consumer attractive brands for their launches. • Many manufacturers have had such a lead that they have not foreseen the changing distributor strategies, but they have probably realised what is going on by now. They are reorganising, evaluating their competence,

	educating their employees, etc. They have realised that there is a shift in the balance of power and that this shift will have consequences for their companies. Some of them treat KF as a customer, some as a middleman. • Top management in many of the manufacturer companies still has a cemented view on how the relationship between manufacturers and distributors should look like. This is changing slowly – there has to be a more close relationship and the distribution of profits must change also. There has been a mutual approach from both sides, e.g., ECR co-operation, but the balance has to shift or progress will be slow. • Smaller companies with limited resources are the ones that are most willing to co-operate. They have focused their resources and have also realised that if the retailer does not make money, they will not sell their products. • There is a tendency that the larger companies to an increasing extent start to manufacture for DOB's. Whether this will lead KF to switch from the smaller manufacturers remains to be seen: it depends on their terms. The smaller companies are more flexible, they act quicker, and are more involved in the DOB than are the multinational companies. The multinational companies have cost-structures that probably will hinder them to compete with the smaller, more focused, companies. In addition, this means that they have to disclose their production costs, which may be troublesome for them.
CM	• The manufacturers do not enter ECR co-operation for the distributor's sake, but for their own. Their aim is to sell more of their products, but it should be to sell more products together.
DOB	• The larger Swedish manufacturers are, in some cases, even interested in manufacturing for DOB's. • The manufacturers' views on DOB manufacturing have changed: today it is only the American multinational companies that refuse – the Swedish and Nordic manufacturers are interested. • It is not difficult to find DOB manufacturers today. There is a vast supply of both manufacturers and products. The ones used by KF all make a lot of DOB products. The relative dependence of DOB manufacturers on KF depends on how many products they manufacture for KF's DOB's. Sweden is a small market, and many DOB manufacturers work all over the European market. • It is very good to have a direct contact with the manufacturers' representatives, and they share this view. Almost all of them visit KF more or less frequently depending on how many products they have. • It is possible to switch manufacturers, but the relationship to the manufacturers is more characterised by co-operation than by power.

The perceptions within KF – as within ICA – reflects the notion that manufacturers have become more relationship oriented during the last years, and that KF seeks this co-operation. Many manufacturers are perceived as having realised that there is a shift in the balance of power and that this shift will have consequences for their companies. These companies are reorganising, evaluating their competence, and educating their employees. In addition to this, they have started to use key account managers, they engage in ECR co-operation, and they have become more and more interested in joint development projects. It is becoming more and more common that KF and manufacturers present their strategies to one another, that they co-ordinate strategies and share market information and analyses. Some respondents do, however, claim that these co-operative measures are limited, and that manufacturers should devote more energy to joint operations, e.g., product development.

Most Swedish companies have to some extent begun to accept that DOB's exist, that they occupy shelf-space, and that KF's strategy is not to de-list manufacturer brands. The extent to which the manufacturers seek a co-operative strategy, however, seems to be directly related to their size, and while many of the companies with limited resources are willing to co-operate, the large multinational companies are less inclined to do so. This is partly perceived as a consequence of their focus on European strategies for their leading brands, partly due to top management having a cemented view on how the relationship between manufacturers and distributors should look like.

Some manufacturers seek agreements on exclusive distribution of their products, but this is uncommon and, if made at all, predominantly involves infrequent niche products. Other manufacturers attempt to diminish KF's need for DOB's by increasing their investments in sales forces that go to KF's stores and try to pay for extra exposure.

In terms of DOB production, the negative feelings towards DOB production are perceived to have changed during the last years. In any case, more and more companies are prepared to manufacture for DOB's to maintain their production capacity. Some of these manufacturers suggest package deals where they agree to consider DOB manufacturing if KF buys their brand, they will consider DOB manufacturing. These attempts seldom lead to concrete results since the manufacturers often refuse when KF presents its terms for this production. The stronger DOB's become, the more willing the manufacturer will be to manufacture for them. The views, however, differ somewhat in terms of the possibility to acquire DOB production from the large multinational companies, and while some claim that the international companies are strong enough not to be interested in DOB manufacturing, others suggest that few of these companies actually refuse to do so. This depends on whether DOB production is analysed within the Swedish or international context - many multinational companies use a double strategy, i.e., they refuse to manufacture for DOB's on markets where they have a strong position, but are willing to do so where they are weaker. The multinational companies may also have cost-structures that will hinder them to compete with the smaller, more focused, companies. In addition, this means that they have to disclose their production costs, which may be troublesome for them.

All in all, perceptions within KF suggest that the organisation does not have any problems of acquiring DOB manufacturing, either from specialised DOB manufacturers or from brand manufacturers.

DISCUSSION

As suggested by the literature, some manufacturers may attempt to stop, or at least hamper, the development of DOB's, while others may choose to increase their co-operative efforts towards the distributors and even offer production and product development resources for DOB's.

According to Mattsson there are two major positions that a manufacturer may take with regard to its dependence on a distributor: *decreasing* the dependency on the other organisation or *adjusting* to the situation (i.e., a co-operative strategy).

A general conclusion when looking at the material is that there is an articulated demand from the organisations for more elaborate co-operation with the manufacturers. There is also an indication that KF takes on a tougher attitude in this matter "They have no choice than to co-operate", while ICA takes on a view that is more of continuing a historical co-operative strategy. Both organisations, however, seek long-term relationships with manufacturers, have a positive view on their own competence in such relationships, and want to be involved in activities, e.g., product development. The extent to which these wishes are fulfilled seems to differ slightly between the organisations; ICA seems to be more involved than the consumer co-operation.

Both organisations seem to regard the 1990's as a period with an increasingly stiff competition over margins, and the reaction from manufacturers seem to differ between smaller, often national, companies that to a larger extent choose a co-operative strategy and the larger, multinational, organisations that seek to reduce dependence. The latter group has less incentive to co-operate and also has less to win on such co-operation. In some cases competitive law prohibits co-operative measures such as distributive exclusivity undertaken by larger manufacturers.

A whole section of Chapter Three was devoted to the issue of manufacturer reactions to DOB's and the strategic choices that these companies could make. In this area, there are a number of positions that the manufacturer can take – from point-blank refusals to produce private label to becoming a dedicated producer of DOB's. Measures between these two extremes include *offensive measures*, e.g., increasing the distance or reducing the price gap to DOB's, introducing a value flanker, and *defensive measures*, e.g., manufacture opportunistically to occupy spare capacity, or manufacture DOB products on a long-term basis.

Looking at the interviews, it is clear that such a number of national and international manufacturers have already made their choices in terms of DOB manufacturing that the respondents do not consider finding DOB products a problem. Three groups of companies can be defined: the multinational brand owners, the Swedish brand owners, and a number of companies specialised in DOB manufacturing. Among the two first groups, multinational brand owners seem to be least willing to produce for DOB's and most apt to use their clout as owners of category leading brands and large financial resources to fight the distributors. The nationals seem to have changed their views during the last years: many of them still oppose the development but, at the same time, are willing to produce for DOB's. Others do nothing. It is indicated that at least some of the major manufacturers are slowly changing their attitudes towards DOB production, but the respondents do still not see them as a DOB manufacturing alternative. Although there are a number of manufacturers to choose from, it is clear that the respondents want to maintain lasting relationships with a limited number of organisations, rather than to "shop around" for production.

5.12. ASSORTMENT PLANNING

	ICA
MM	• In the early 1990's individual employees at ICA were competent, but the product organisation was neither analytical nor systematic in its approach. DOB's was a known phenomenon, but DOB operations were not steered by the strategic reasons that later emerged. At this time Christian Wiechel was recruited. Like ICA's marketing director, Wiechel had a background in UniLever. • The trade has – traditionally – been rather poor at information retrieval and rather crude measures have been used. Distributors had to ask the manufacturers how much they had bought from them. The organisation was fragmented into different regions, and the companies did not have compatible computer systems. Elving saw an immediate need to build up competence – both within category management and within information support. The "Achilles' heel" that the organisation suffered from was that the entrepreneurial behaviour that characterise the retailers had affected their acquirements of computerised cash registers where they had "shopped around" for systems that they thought suitable for their stores. This has led to a lack of ability to build up the same kind of POS system as some of the competitors have built in a qualified way. Now there is a decision to introduce a similar system for all stores through a leasing system. The back office system Budica is one part of the total system, but this requires computerised cash registers. The individuality within Swedish retailing – not only within ICA – is the main explanation for the lack of powerful efforts to get correct POS data. • All analyses and research show that ICA's DOB's are profitable at the retail level – else the retailers would not include them in their assortments. DOB's also generate higher margins – both in absolute and relative terms – than the manufacturer brands. That is in line with ICA's DOB policy to secure the organisation from subsidising DOB products. This would be infeasible in the long run. The DOB department has been charged with all internally generated costs, and has never drawn on ICA's resources. ICA has a requirement that the whole DOB operations system should be profitable in every step. There are examples of products that have been launched, but where it has not been possible to maintain a price advantage in comparison to the manufacturers. If so, the products have been withdrawn from the market. • One should make a distinction between profits and profile: an important objective for ICA's DOB strategy has been to create profitability within fmcg segments where profitability has been eroded. An example of this is large product categories like diapers where the aim is to turn a negative to a positive result for each package sold. This means that DOB's are

	introduced in heavy volume categories. In other cases DOB's are used to broaden the assortment and as a means of offering consumer niche products, e.g., environment friendly detergents. By using smaller companies for detergent production, ICA could get a more efficient production of small series than would have been possible for the large-scale multinational detergent manufacturers. • Another reason for choosing the detergent category as a start for DOB operations was that both Elving and Wiechel had a background in this field and knew that it is technically very complicated product, especially if new products were to be developed. This was seen as a test of ICA's DOB competence. • There is no need for a general goal with respect to DOB share: each category is analysed in terms of where there is a need for a DOB, e.g., profitability, overall pricing, etc. • It is important to be aware of cannibalisation effects and try to minimise them. However, if one aim for development one has got to dare to go in for the next generation with new products. There is, however, a need to be careful with DOB's and limit the number of product series – too many may confuse both retailers and consumers. In the beginning of the 1990's there were a number of strange things in the product portfolio, but on the other hand it is important to be careful with old brands. It is a delicate balance-act. • DOB's will continue to play a substantial role in ICA's assortment. There will be a reduction of the smaller brands: leaders, second tiers, DOB's and niche brands will remain. Multinational companies have – to a large extent – realised this and act accordingly.
MD	• KF has always had a larger share of DOB's in their assortment. They have built a profile on selling DOB's, ICA has built a profile on selling leading manufacturer brands and it will never deviate from that strategy. DOB's are regarded in the same way as the assortment as a whole: each product category has been analysed in terms of needs for a parallel traditional DOB, a profile DOB, or a low-price DOB, e.g., Diva or Euroshopper. The assortment is optimised based on the strategy that ICA should offer product variety, for this purpose both DOB's and manufacturer brands are needed. Using this model means that DOB's can never capture 50 percent market shares as they do in other countries. • DOB's are profitable relative other brands. • One reason for allowing Rimi to include ICA's DOB's in their assortment is that these brands have replaced a number of manufacturer brands in some product categories, thus reducing the assortment that can be offered to Rimi. This could mean that Rimi purchase from other wholesalers to maintain a full assortment. • When ICA entered the rice market, manufacturers accused them of under-pricing their products, but the DOB proved to have a sustainable market share due to it being economically feasible to sell products with lower

	consumer prices relative the brand leaders.
DM	• ICA is the largest advertiser in Swedish commercial television, but ICA's advertising budget is - to a large extent - financed by the manufacturer companies through the SA/VA or GSP system. It would be difficult to find another means of financing this advertising. • ICA's ambition is a 10 percent DOB share of the assortment, this would mean that a majority of the smaller brands have been replaced by DOB's in the assortment. A 10 percent overall DOB share would constitute a strong competitive ability in all important product categories - about 2/3 of the assortment - where the DOB share would be approximately 15 percent. This would make a 0.5 percent contribution to the stores' net profits - a 5 percent extra margin on 10 percent of the turnover. A 100 percent share would be impossible in an open system like ICA's, and, furthermore, ICA wants to co-operate with the manufacturers since this gives vitality to the assortment. • In theory, a product category analysis should be used when analysing the need for DOB's, i.e., zero-level margins or too many small products. There is no possibility to "toss out" products in a system like ICA's - it has to be fairly well motivated. • The number of DOB's are reduced in ICA's assortment, the number of products is increased. • It is arguable that Rimi should not be allowed to sell ICA's DOB's, but economic reality makes this necessary. Chain profiled DOB's, e.g., a Maxi DOB, a Kvantum DOB, would lead to hopeless logistics and bad estimates.
CM	• ICA's category managers should be the leading people within their field in Sweden in terms of know-how. General product know-how is acquired over time, but more technical know-how is provided by ICA's product lab and sensory testing is done by ICA-Provkök. This competence has been necessary to develop as DOB's have become more developed. The central organisation becomes a manufacturer of, and has to meet the standards that other manufacturers do. • There is a need for co-ordination of the product categories so as to create the big picture and to benefit from cross-category relations. • During the last years ICA has devoted more resources, e.g., manpower, to DOB operations and built an organisation for these operations, along with sales and marketing organisations. • There will probably be no chain specific DOB's even for the largest store concept within ICA - Kvantum. It is not impossible, but the costs - even if stores are large - would be enormous, at least initial costs for packaging, etc. It is not possible to achieve the necessary momentum if the ICA brand is not used; volumes would not be large enough to be cost-effective. • When a manufacturer is chosen for DOB production, the DOB department's developer takes over the operations and the quality department is also becomes involved in the process doing quality controls.

	If it is a new manufacturer that ICA has not worked with previously, an extensive evaluation is performed, e.g., visits to the factory, etc. The advantage of this kind of organisation is that it creates a broad competence. • If there is only one manufacturer in the category, DOB's play a role in creating competition - if there are too many, DOB's can be used to rationalise the assortment by replacing smaller brands. • ICA has a good competence in terms of DOB operations and a good organisation for these operations. The category management organisation has the necessary product competence, and the DOB department has the competence needed for design, etc. The teams - with a DOB marketer and a DOB developer - that Wiechel has organised the DOB department into are important. They work with the category management organisation and people from the quality department. The DOB organisation may be person-related in the sense that Wiechel drives the whole issue of DOB's, but not with respect to the actual operations, e.g., product development, decisions concerning product quality, etc. • Rimi has chosen to work with brand leaders, and these brands are a part of ICA's assortment. It is rather the smaller brands that could be a problem to find alternatives for. • With a total turnover of 60 billion, each tenth of a percent constitutes a lot of money. It is not necessarily so that ICA has seen all DOB successes yet, but on the other hand the most interesting product categories are the first to attract attention. The major launches, maybe, resulted in the first five percent, now the pace is slower. • ICA has started to offer assortment recommendations based on the wholesaler assortment. ICA has also begun to make recommendation tailored to the different store concepts. This help is sought more today than a few years ago; the retailers realise that they should take advantage of the central organisation's know-how.
DOB	• ICA went abroad to find a manufacturer of detergents for the Skona series since there were no manufacturers in Sweden that could meet their quality requirements. • When developing new detergents, a whole team of manufacturers and specialists may be assembled. Products are then tested at various institutes. • Skona leads the development within the detergent category, this is because ICA can focus on the Swedish market and be quite flexible in response to market changes. The large manufacturers lack the interest to devote this kind of attention to a market with only eight million people. • Sometimes, capturing volume is not the objective for DOB's: in some cases ICA launches products that fulfil the needs of smaller consumer segments, e.g., lactose intolerant consumers. • There has been a considerable upgrading of internal competence with respect to know-how of detergent contents, the functions of a deodorant, etc.

	• There is a consumer need for low-price tinned food, but Diva is used to securing a certain quality level and ensuring that the products are sold through ICA to the associated retailers.
CM	• DOB's pose no threat to the leading brands – they are aimed at the 3:rd and 4:th tiers in the assortment. • ICA drives segments of the market, why actual shares of category volumes may be of less importance since these volumes are increasing. It may, however, become hazardous if ICA's DOB's are market leaders – then you have to drive the whole market. • ICA can launch a DOB with a 25-30 percent lower price relative the brand leader since the organisation does not have the same over-head costs. Where DOB's have been successful, they reach a channel share of 10-12 percent, which yields a total market share of 5-6 percent. The organisation has learned that launching a completely new product on the market requires an enormous power. ICA could have this power, but are not organised in the same way as a manufacturer, e.g., sales support. This is a restriction, but introductions of me-too's rarely pose any problems.
CM	• Rimi are too small to yield the volumes necessary for developing a chain exclusive DOB. • It is a criterion when developing products to have total control over the manufacturer and the content – to be able to guarantee a certain quality vis-à-vis the consumer from the factory to the store. • DOB products are not withdrawn when they have served their purpose, but they are withdrawn if they do not meet ICA's sales requirements. • There is an alternative cost of giving shelf-space to a DOB product that could have been sold to a manufacturer. DOB products are not subsidised by ICA. • The manufacturers present figures that are biased to their advantage, but it is easy to see when this is the case when dealing with maybe ten large manufacturers. Data is also bought from the research company GfK, why any unjust claims can easily be refuted. • The central organisation has the competence needed for DOB operations. It is not at question of creating needs, but rather to find opportunities to satisfy these needs in a different way. DOB launches are well prepared and based on facts, they have to compete with the brand leader on both price and quality, otherwise the launches are not justified. • Category management is competent in what they do, they have more narrow business areas, and they are profoundly competent in their work. • The manufacturers now understand that ICA or Dagab are not wholesalers that try to flog products, and that there is a lot of competence within the organisations. Formerly, ICA asked manufacturers to share their figures, information, and knowledge, now this information can be retrieved from the organisation's own systems. Some of this information is not accessible for the manufacturers. POS data is a potential gold mine, but it is necessary to be very confident in its accuracy before it can be used as basis

	for decisions. • ICA demands the right to visit all factories that deliver products, if needed. The criteria used when choosing DOB manufacturers are the same as when choosing manufacturer brands, maybe tougher.
DOB	• The aim is not to de-list the brand leaders, it is to reduce the number of small brands in the assortment. DOB's are used for different purposes depending on product category, e.g., profitability, product variety, etc. • ICA has - unlike KF - chosen to separate food from non-food. Hopefully, the number of DOB's will be reduced and there will be an increased focus on endorsed brands. • Looking at the coffee market, ICA realised that it did not have the power to maintain two coffee brands and to take the leading role. • ICA's sales force visits the stores every six weeks, and a lot may happen between visits when manufacturers visit every day. Some of the larger stores fail to recognise that the use of manufacturer sales representatives to cut costs leads to higher prices, and that it is the smaller stores that will have to pay for these visits.

Rather than attempting to attain a general goal in terms of DOB shares, category management within ICA analyses each category in terms of where there is a need for a DOB. Depending on the situation within the product category, DOB products are used for increasing profitability, creating product variety, etc. If there is only one manufacturer in the category, DOB's play a role in creating competition - if there are too many, DOB's can be used to rationalise the assortment by replacing smaller brands. In some cases, DOB products are introduced to meet specific consumer needs, e.g., lactose-free milk.

ICA does, however, have an ambition of a 10 percent DOB share of the assortment, which would mean that DOB's have replaced a majority of the smaller brands. ICA's assortment strategy is not to replace leading brands with DOB's, but rather to weed out the second, third, and fourth tiers in the product categories. If this strategy is taken too far, it may lead to a situation where the Rimi chain must be allowed to purchase ICA's DOB's due to the lack of producer brands in ICA's wholesale assortment, or the wholesaling organisation runs the risk of Rimi acquiring their products elsewhere. However, Rimi's strategy is to work with brand leaders, and it is rather the smaller brands that could be a problem to find alternatives for. Due to cannibalisation risks, there is, furthermore, a need to be careful with DOB's and limit the number of product series – too many may confuse both retailers and consumers. The co-operation with the manufacturers is perceived as necessary since this gives vitality to the assortment.

The interviews reflect the perception that ICA is well endowed both in terms of internal product and in terms of branding competence. ICA's DOB manager – with a background in UniLever – has designed an organisation that is deemed competent in terms of branding operations, e.g., product development and decisions concerning product quality. ICA's category management is also perceived as competent in what they do, they have more narrow business areas, and they are profoundly competent in their work. Apart from these two organisations, ICA possesses specialised competence in the form of e.g., its test kitchen and quality department.

In terms of external competence, i.e., development and manufacturing of DOB products, the interviews indicate that manufacturers are chosen according to stringent quality criteria, and that the quality department is involved in the process doing quality controls. If it is a new manufacturer that ICA has not worked with previously, an extensive evaluation is performed, e.g., visits to the factory. The criteria used when choosing DOB manufacturers are the same as when choosing manufacturer brands, maybe tougher, and it is deemed necessary to have a total control over the manufacturer and the content from the factory to the store to be able to guarantee a certain quality vis-à-vis the consumer.

The interviews also suggest that ICA's DOB's generate higher margins – both in absolute and relative terms – than the manufacturer brands; else the retailers would not include them in their assortments. ICA's policy is to secure the organisation from subsidising DOB products, something that would be infeasible in the long run; DOB operations should be profitable in every step. If this cannot be achieved, the products are withdrawn from the market.

This profitability is generated due to the organisation not having the same over-head costs as leading manufacturers. In addition - as discussed in one of the previous sections - ICA's advertising budget is to a large extent financed by the manufacturer companies through the SA/VA or GSP system. This profitability, however, is conditioned on the size of the collected sales volumes within the ICA federation, and it is perceived as less likely that individual chains within the federation could achieve the volumes necessary to be cost-effective. Chain profiled DOB's would, furthermore, impede both logistics and estimates.

The entrepreneurial behaviour that characterises the self-owning ICA retailers is also expressed in their acquirements of the backbone of EPOS data, i.e., computerised cash registers. This has resulted in a lack of ability to build up the same kind of qualified system as some of the competitors have built. This situation is now remedied through the introduction of a similar system for all stores through a leasing arrangement. EPOS data is seen as having a great potential, but has yet not become so accurate or comprehensive as to be used as basis for decisions. The respondents perceive that ICA both has access to - and the competence to use - external data in a way that enables the organisation to refute any unjust claims from the manufacturers. ICA has started to offer assortment recommendations based on the wholesaler assortment tailored to the different store concepts. This help is sought more today than a few years ago.

KF	
EVP	• The consumer price of a DOB may be 80 instead of the manufacturer brand's 100 kronor. The purchase price for the DOB is 35 kronor, while it is 42 kronor for the manufacturer brand - if you add the sales costs which is sometimes included it is 52.50 for the manufacturer brand. Distribution costs are equal between the brands, but the margin will be better on the DOB. If this is done properly, you can have a 20 kronor lower price and still have a margin that is 5 kronor higher. • Subjectively, KF's DOB competence is good, e.g., within marketing. As a group, the DOB people are capable, not least analytically. KF is on the frontier when it comes to DOB operations, not least thanks to Per Möller. • If KF can get the category organisation operational, if the assortment can be controlled by this organisation, and if KF gets a chain organisation, then the organisation has a great advantage and the same conditions as Albert Hein, Tesco, and Sainbury's.
DM	• In 1993, there were - in addition to Blåvitt and Änglamark - some 40 labels in KF's DOB portfolio. Rainbow - one of these brands - is kept since it is used to collect imports of tinned food. The modern way is to separate production from the brand - keeping the brand as virtual box and source the products from where they can be found. • Möller worked at McKinsey when he was recruited by KF. According to him, this was probably not why KF wanted him since the work is more related to "soft" values. His 6-7 year experience from the advertising business was probably a decisive factor. • In 1994, Änglamark's products were - in contrast to the former own produced products - bought from external manufacturers since KF did not possess any ecological factories. Blåvitt had some 160-170 articles that had a great consumer value, yielded good margins, and sold in large volumes. Market research showed that consumers perceived Blåvitt as a low price/quality brand why each product was evaluated and adjusted to this perception. Today, Blåvitt the internal attitudes towards Blåvitt have improved and the DOB has increased its sales from 800 million to 1 billion with a yearly gross profit of 270 million kronor. • KF's use of the name Änglamark has resulted in an application for a summons, since it originates from a song written by Evert Taube and a film made by Hans Alfredsson. This situation is the result of a general phenomenon - there is an enormous lack of branding competence within the organisation. This simple legal control should have been made early on. • Signum was the first project from the DOB department and hopefully the last one: KF needs good DOB's, not many DOB's. • There is a lack of products and variants in the assortment. In product categories where several products and brands can be found, they are in

most cases substitutable.

- The brand Signum will not be positioned as a premium brand: this demands a too high level of product development, knowledge, and resources. These resources are not available, but could be acquired. For such a small organisation and such a small market this would, however, be difficult. KF's DOB department has 20 employees, the equivalent at Tesco or Sainsbury's would be 1000 people. These organisations may have a team of 5-6 people when developing a Thai ready-to-eat series – KF's DOB department can maybe put 5 hours work into such development. In the short run, things can be copied from other countries where products are already developed.
- Categories should be stretched so as to increase the span between the best and lowest quality.
- The thirty-percent goal has gradually become a truth in the organisation. This would mean that a number of the brands that are taken for granted would have to be de-listed: there will be no room for identical products from different manufacturers. One of these brands should be replaced with a DOB with the same or similar product.
- The 30 percent goal can be attained without effort, but it would be impossible to market this internally – the acceptance for this does not exist.
- There are doublets in the assortment: some products have been de-listed, but not many. In the next step additional products will be removed, but not many. The ambition within OBS, B&W – and even more so in the Konsum Extra, the large Gröna Konsum stores – is to increase the assortment substantially. This will give room for additional DOB products. The number of facings for the same brand should be reduced, and allocated to other brands, e.g., DOB's. This will create more life and excitement in the store. The shelf-space remains constant, but it will be filled with more products, brands, and variants.
- KF's advantage is that the organisation has a 18.5 percent market share, large volumes, large financial resources, and consumers that apparently are easily convinced when it comes to DOB's. The internal decision structure, however, is a problem: the organisation is too decentralised, and the owner structure too complex, which is a disadvantage when building DOB's. There is a need for a distinct decision-maker that has the facts and the intuition to make the right decisions.
- KF has taken the first step towards controlling its shelf-space: KF Stormarknad has control over their stores' assortments, and this is built on the implementation of an infrastructure, a computer system that can be used to analyse sales. The next step is to make a quarterly estimate of the shelf and of the space used for promotional exposure.
- If KF is to capture more than 33 percent of the market with its DOB's, the organisation will have to shoulder the responsibility for product development, innovation, market development, and to attract customers

	to certain market segments. These resources are not accessible in the short-run, but they can be acquired. The organisation has a decent DOB competence, but on too few hands: there are some 5-7 competent individuals in the house and that is not enough. The first step is that the category managers, who make the running decisions, must be good at this – few of them are. All of them should be upgraded in terms of competence before there is a chance to run this properly. This may seem like a negative view, but there will be a number of simple victories going from today's seven to 25 percent. During this process, competence may develop through recruitment and upgrading current personnel, which could create the ability to make something good. • The ambition is to focus on a few brands to focus resources. DOB strategy is expensive if the goal is to create brands and not merely labels. • There will be no more DOB's from KF: there are too many to manage already. Five of the previous forty DOB's are still left, the rest have – in principal – been weeded out.
KFA	• KF used to have 35 percent integration, i.e., 35 percent of consumer co-operative trade went through KF. Today there is 75 percent integration, i.e., 75 percent of the trade goes through KDAB. This enables KDAB to negotiate in a fashion that was not possible before. KDAB's staff organises a number of supporting operations, e.g., product development, imports, manufacturer contracts, etc. • The central contract department – KF Avtal – has the role to negotiate general agreements with the manufacturers, which calls for a negotiation competence, but the product competence is situated within the category management organisation. KF Avtal buys the information it needs to assess the manufacturers' demands when negotiating. • KF Avral uses the data that is generated within the organisation to a limited extent. It is not built out in a way that it can be used extensively. • When DOB manufacturing is negotiated, KF Avtal scrutinises the price, e.g., in terms of costs for raw materials, in a more meticulous way then when negotiating manufacturer brands. The policy is to look at all the DOB manufacturers' production, technology, etc., but sometimes this is not possible due to lack of resources. The same thing is done when buying from brand manufacturers, both on KF's and their initiative. • ECR is good thing as long as one does not get too preoccupied with the technical aspects and forget the emotional aspects of retailing. There is a lot that cannot be retrieved from figures. • Manufacturers try to use their category specialisation in discussions, and often present figures that support their own arguments. KF Avtal has a general knowledge that enables them to assess the validity of these arguments, e.g., the manufacturer's position on the market, etc. • DOB's lead to a better profitability, and it is better information that is behind this development, from the first tottering steps in the early 1990's. KF has got a better chance to assess the manufacturers in a new way, e.g.,

	in terms of cost structures.
CM	• The problem with developing ecological products is supply of raw materials and the price. It can become expensive, and difficult, to find products. • To reach a 100 percent DOB share a company must be very strong, have a high degree of profitability, and fend for itself. KF does not meet these requirements and probably no other organisation either. • In non-food, there is ample opportunity to compete on price: production costs are not that high, and there are a number of companies that can manufacture the products. • One issue when analysing the need for DOB products is Gröna Konsum's goal that ten percent of the sales should be ecological by 1999 – today this share is three percent. That is why there is a need to develop Änglamark by launching more ecological products in strong product categories. Another issue is whether second, third, and forth tiers in the category could be replaced with a DOB. The category leader will remain, but – depending on how strong the second tier is – smaller brands may be de-listed. Today, however, there is a focus on volumes driven by the need to earn money. • Ecology has nothing to do with profitability, it is more a question of profile. KF does not make more money on ecological products than on the market leader. Ecological products are often more expensive, and the goal is to have as high absolute margins as on the market leader, since keeping the same relative margins as on the other DOB's would mean that ecological DOB's would be more expensive than manufacturer brands. This is a question of environment friendliness, which is part of Gröna Konsum's profile, and this dictates the need for ecological products in the assortment. • There is a need to take one step at a time: if too many products are launched at the same time, there is no time to analyse the effects of the launches. The next step is not really to analyse which brands are profitable or not: KF has a goal of a 30 percent DOB share, which means that one has to look for large volumes. At least there should be DOB's in a majority of the sub-categories whether it is Änglamark, Signum, or Blåvitt. It should be possible to have a DOB as second tier in virtually all product categories. In most categories there is a market leader and a second tier that can be replaced with a DOB. There is no need to have three variants of the same product in the assortment, but on the other hand the consumer has the final decision on what should be included or not. If the DOB is not strong enough, there is a risk of losing sales. • Not many products are removed from the assortment today; this may be done when thorough category analyses are made. Today products are added, which may be troublesome for smaller stores that become crowded with products. • It would be too expensive to have chain specific DOB's since the volumes would be too small – KF only has some 25 percent of the market, and this

	is a small share if one looks at the volumes necessary to get a good price. • KF is not the most profitable company in the world, and neither is Gröna Konsum: the organisation made a profit of 10 million on a turnover of 10 billion in 1996 and needs to make more money to survive. DOB's are one way of creating better margins and to attract customers. At the same time, it is vital that no, or few, products fail due to delivery or quality problems. • When negotiating with manufacturers it is important to look at each product category at a time in terms of margins. Manufacturers tend to present figures that support their arguments, but this can be compared with KF's own data. Category management would have a disadvantage in terms of know-how if they were to discuss products with the manufacturers' product managers, but in reality it is the sales managers that negotiate, and they do not possess specialised product know-how.
D&L	• The assortment is growing rapidly now - the DOB's are not large enough to have any major effects on this, but they still add to the development. It is primarily a question of the concepts having discretionary control over their respective assortments, which means that they take every chance of increasing their sales and, by this, they add products to their assortments. There are a number of products that are common for Gröna Konsum and KF Stormarknad, but their freedom of keeping their own assortments results in a number of products that are common for the concepts. • The increases in the assortment has resulted in a lower inventory turnover rate during the last years since sales are constant while the number of articles has increased. • KF has a packaging department that is not always contacted by the DOB department, which has led to unsuitable DOB packages. This expertise is used more and more. • DOB's generate a slight increase in the number of articles, but the main growth comes from the "tails" in the assortment that have a tendency to become larger and larger. The concepts are expected to differentiate themselves from one another, and this result in the inclusion of odd products in their assortments.
CM	• DOB's have been an excellent way of remedying the situation that occurred when discount chains entered the market and pressed prices downwards, thus eroding margins on manufacturer brands. • Today, KF can go to the most efficient factories in Europe and demand a certain quality. DOB's have the same costs for raw materials, etc. as the manufacturers, but they do not have to carry the costs for marketing, sales forces, etc. that the manufacturer brands do. This is a substantial part of the margin, given that the sales force costs are twice as high in Sweden as in the rest of Europe. DOB's have the same costs for raw materials and logistics, are sold 15 percent cheaper, and still generates higher profits than the manufacturer brands. • Each product category is analysed in terms of potential measures and POS

	data and market data is used to create an extensive input to decision-making. • If you are to have attractive prices on large manufacturer brands, margins become extremely small. • The big difference between DOB manufacturers fifteen years ago and today is that they now can offer the same quality as the brand leaders. This is mainly due to the incredibly high demands from the British retailers. • The category manager goes through his/her analysis: here is a growing segment, here is a possibility to introduce a DOB. Whether it should be Signum or another DOB has been decided in KF's general strategy that all concepts have agreed on. Änglamark needs to be developed and all products that can be found and can be classified as ecological are included in the Änglamark series. The greatest potential, however, can be found in Signum. An identified need within a product category can also be satisfied with a manufacturer brand if necessary. • The starting point is that every product category should be a homogeneously composed area of products that the consumer buys. The next step is to look into each sub-category and analyse the presence of profile-building products, quality products, etc. • Historically, the manufacturer would present a new product and the category manager's decision to accept or reject the product was based on intuition rather than on figures. Now this is done properly, and this is due to the new information age. The manufacturer used to come and present how the market looked like based on his/her figures, now all this market data is used in KF Stormarknad's own analyses based on sales figures from the stores' POS systems. Gröna Konsum has started later than KF Stormarknad, but they have also built up these systems. • The DOB department has a too small capacity to develop the products that the category management organisation wants and to uphold deliveries of the existing products. There is a competence problem, mainly within the purchasing function of the DOB department. Strategies, packaging issues, etc. are handled in a competent way – especially due to Per Möller – but the daily operations is not functioning well. • The branding competence within the DOB department is good, maybe a bit person-related. The foundation is laid, and there is much good work put into the development of Signum. KF can sell Signum that has the same quality, in many aspects better quality, than the manufacturers' products and still have a 15 percent lower consumer price. Signum has become a very strong brand. • There are two criteria for adding a product in the assortment: this product could generate category growth, i.e., sales will increase if it is included. If brand leaders can develop these products, they meet this criterion, but if they launch me-too's or something else that leads to cannibalisation, then it is of no interest. The second criterion is if it is possible to increase profits, i.e., to make more money. DOB's can meet the first criterion

	sometimes, but it is mainly the second criterion that can be met with DOB products. Manufacturer brands more often meet the first criterion than the second one. • The smaller brands often have better margins than the leaders; using DOB's, however, enables KF to offer a lower consumer price while still making considerably larger gross profits on the products. • Swedish chains have been relatively similar, but this is changing now. KF's concepts are starting to diverge from one another. How customers are treated and the people in the stores are more important factors than assortment and price-levels. • KF has been a successful innovator; many of the Signum products are innovations. • DPP analyses are not used in discussions with the manufacturers, KF Stormarknad uses another measure – kronor/square centimeter consumer space – to calculate the profitability of each product. Other measures, e.g., return on inventory, etc. are also used but no fully developed DPP analyses. Manufacturers do not use these measures either: they try to offer space management, but their calculations are built on exposure as a function of market shares, not profits, which is uninteresting to KF. It is a problem that there are many product categories, and all categories cannot be computed this way. Gröna Konsum has encountered the same problems in their work and is now testing other alternatives. • Each category manager is responsible for 5-6 product categories, so he/she has a clear picture.
KFI	• KF's DOB's are quite broad, particularly Blåvitt has been the result of a search for products in most product areas and segments. • Many of the older employees see the last year's development as a total change. It is difficult to assess if progress has been too rapid, but there are those that think that lots of old experience and know-how has been thrown away.
DOB	• The second, third, and fourth tiers will lead an increasingly dangerous life. It is not obvious that there should be three external brands in a given product category – it may become only the category leader and three DOB's. • The ideal process is that – based on a market analysis made by the category management organisation – problem areas are identified, and solutions are presented, e.g., a DOB launch. The organisation has not come that far that this is always the case. It is mostly the DOB department that finds areas. • The first step after having made the category analysis is to have a discussion with the manufacturers. It may be a question of their products not being profitable and that it will be de-listed if measures are not taken to change the situation. It may be able to defend its place on the shelf if the price can be reduced or if the package-size can be changed to increase inventory turnover. This is a process that is gone through with the manufacturer,

	but often - especially given that KF wants to increase the DOB volume - a DOB is a solution that lies near at hand. An analysis may suggest that KF has a too small share as compared to the large manufacturers. DOB's may be an effective way of remedying this situation. It may also be a question of environment measures or profile measures. When Gröna Konsum is to increase its efforts to profile the chain as environment friendly, there is an increased need for Änglamark products and - also - the need to work with alternatives from the private manufacturers. • There were thoughts and demands from Gröna Konsum that they should be allowed to take care of the DOB operations - they saw the possibility of launching a Gröna Konsum DOB - but top management had a different view. They saw that chain specific DOB's would not create the volumes necessary. • Basically, it is a question of profitability: KF needs to attain a considerably higher profitability, and from an international perspective there is a strong relationship - statistically - between chain profitability and share of DOB's. This has been confirmed by KF's own experience: the higher the share of DOB's within KF, the higher the profitability. • Manufacturer brands have been prioritised in the shelves, but this has not led to increased profitability. Now the most profitable products - the DOB's - are given the chance to compete on equal terms. This is not to say those large brands that the consumer find attractive will be placed in a secluded corner - it is the second, third, and fourth brands that will be given an subordinate role. If they are not profitable, they will not be given that exposure. • Swedish chains are not very profiled, the development is possibly going in that direction. There are too many store concepts within KF: there are three supermarket concepts within KF Stormarknad and an additional two within Gröna Konsum. Gröna Konsum also works with two main concepts. Five or six concepts - five or six brands - there are rather too many than too few concepts. The chain brand portfolio needs to be pruned: there is room for more supermarket concepts, but not for more chain brands.
CM	• Products are never thrown out from KF Stormarknad's assortment: products are added to the assortment and consumers are given the chance to choose. When the consumer has chosen, the product may be de-listed. • The manufacturers use their category specialisation as much as they can; they present all the facts that they can get. They do not have an advantage over KF's category managers in terms of know-how. Generally, the manufacturers have a know-how advantage over the trade, but this is changing - the trade has acquired information: information about the own operations, sales, gross profits, inventory, etc. In addition to this, the same market information as the manufacturers use is bought from external providers. Various analysis tools are also used to compute profitability in the same way as the manufacturers. Some of these figures

	are not available to the manufacturers: KF Stormarknad's catman can collect data from 44 stores. This data is then analysed together with measures of shelf-space, etc., to calculate different profit estimates. Gröna Konsum also uses catman, and will soon catch up with KF Stormarknad. • The cannibalisation between DOB's is minute: Blåvitt is a pure price-fighter, Änglamark an environment friendly brand, and Signum is a mainstream brand with a gilt edge. Cannibalisation is practically non-existent.
CM	• When KF had its own industries, each industry had its own brand, e.g., Foodia, Coop, Björnekulla, Cirkelkaffe, etc. There were a vast number of brands, and that is why it was necessary to clean up the brand portfolio. • The problem is that there is an ambition to enter every product category with DOB's instead of focusing on volumes that can be used to increase the pressure on manufacturers. • The people at the DOB department are all theorists. The whole organisation is running in the same direction – towards DOB's – and now one stops and questions what this costs, or what it has resulted in. KF makes money on DOB's in theory, but in practise the organisation lacks the control necessary to carry out the strategies in the stores. Store implementation is too slow. Their successes are mainly the result of an enormous spending of money. • Signum should not be used for niche products, it should be used on the heavy products. • There is not a single person at the DOB department that has grocery experience – this is not only a question of beautiful pictures, etc., it is a question of the harsh reality. • Prix does not use DPP analyses or POS scanner data, they will probably, eventually.
DOB	• Many of the leading brands have low, or even negative, margins in the stores. By using DOB's, there is a possibility of earning money on the same kind of products. The higher the price per kilogram, the better the margins for DOB's. It is easy to advertise a number of Signum products by making only minor adjustments. • Store space is a limitation, at least in Gröna Konsum: you cannot have an unlimited number of for example detergents. Gröna Konsum – that has an environment friendly profile – sometimes choose Änglamark before Signum since their smaller stores do not have the space for more products. In that case, Signum will have to step aside. Many of the brand leaders are now launching environment friendly products. • KF's concepts work intensively with category planning and category management to build up the assortment in a way that suits both their current customer structure and the customers that they need to attract for their future survival. There is a need to profile the Gröna Konsum brand, the B&W brand, the Obs! brand. • It is the collective volumes that are the prerequisite for the prices on DOB

	products, if each concept were to launch their own DOB's, costs would increase too much. • The whole business of DOB's and category management is built on trust and co-operation with a manufacturer. The openness between the two parties may vary, but since KF has a material that they can compare with it is easy to see that there is a lot of money to make. KF did not use to control manufacturers, but this has changed by the use of comprehensive question forms; product safety, risk analyses, etc. KF Provkök – the test kitchen[16] – is used to test the sensorial quality. KF also uses external laboratories to test products in terms of bacteriology, microbiology, allergens, etc. These comprehensive plans have led to an increased ability to ask the right questions when visiting the manufacturers; the better questions the DOB department can ask, the better quality the manufacturers will deliver. There is an exchange of know-how between the manufacturer and KF concerning quality issues, thus allowing both parties to increase their ability to maintain adequate quality levels.

The interviews within KF suggest that the large DOB portfolio generated by the own industry has been reduced considerably to enable the organisation to focus on a few DOB's. Among these remaining DOB's, the brands are positioned in a fashion that effectively reduces the risk of intra DOB cannibalisation. In terms of chain profiles, Swedish chains are perceived to be rather similar and there is a need to differentiate chains/concepts from one another.

So far, the inclusion of DOB products in the assortment has not been accompanied with a reduction of manufacturer brands, why the assortment is perceived to have grown rapidly over the last years. The views on this situation differ somewhat, and while some believe that there is room for more products in the stores, others suggest that this increase in the assortment may lead to a lower inventory turnover rate. The concepts have the discretionary control over their respective

[16] KF Test Kitchen has a consumer panel consisting of about 1,000 individuals – men and women between the ages of 16 and 75. There is also a selected analytical panel, which is trained in sensory procedures.

assortments, and since they are expected to differentiate themselves from one another, the result is a rapid assortment growth – especially in terms of smaller brands – due to the inclusion of odd products and to overlapping products.

KF's goal of a thirty-percent overall DOB share may however lead to a situation where there will be no room for identical products from different manufacturers, and the second, third, and fourth tiers will be replaced with a DOB with the same or similar products. It should be possible to have a DOB as second tier in virtually all product categories. Another issue when analysing the need for DOB products is Gröna Konsum's goal to increase its share of ecological product to ten percent. This calls for a balance between the manufacturer brands ability to expand category sales and the DOB's ability to generate higher margins.

The general view within KF seems to be that the organisation has managed to build up an adequate branding competence, but that this competence is both highly related to the DOB manager, Möller, who has a background in consulting and advertising, and that it is spread on too few hands. Interestingly, the most negative views on the organisation's DOB competence are offered by the DOB manager, who also seems to believe that there are competence problems within the category management organisation. Some comments from the category management organisation, on the other hand, suggest that the DOB department in some instances lacks in product competence and that there are problems with daily operations. Like ICA, KF has a number of specialised functions that can be used to evaluate e.g., product quality and packaging.

In terms of external competence, the general perception is that KF can acquire the quality it needs from DOB manufacturers in Sweden and in

Europe. The organisation has developed routines for both assessing and ensuring product quality, and a number of specialised functions are involved in this work. The policy is to look at all the DOB manufacturers' production, technology, etc., but sometimes this is not possible due to lack of resources. There is, furthermore, an exchange of know-how between the manufacturer and KF concerning quality issues, thus allowing both parties to increase their ability to maintain adequate quality levels.

In terms of DOB profitability, all respondents agree on DOB products being profitable in comparison with the leading manufacturer brands. It would, however, be difficult to maintain this profitability if the organisation were to introduce chain-specific DOB's due to too small volumes. The main advantage in terms of DOB profitability is that KF does not have to cover the manufacturer's over-head costs, e.g., sales force and marketing. Ecological products are, however, not primarily seen as a source of profitability, but rather as motivated by their ability to build profile.

The use of internally generated information differs between the concepts, and while KF Stormarknad has developed an extensive system for category analyses over the years, Gröna Konsum is still in the process of building these systems. Given this use of internal data – especially in KF Stormarknad – category managers do not feel that manufacturers have an advantage in terms of know-how. Furthermore, it is the manufacturers' sales managers that negotiate, and they do not possess specialised product know-how. In addition to this internal data, information is bought from external providers. Some manufacturers attempt to offer space management analyses, but these analyses are not perceived as being of much interest since they are based on market shares rather than profits.

DISCUSSION

In the theoretical framework, it was suggested that a distributor organisation is faced with the problem of designing both a wholesaler assortment and a number of retailer assortments that are both cost effective and that meet the requirements of the consumers. Distributors must, thus, make a number of decisions concerning margin and inventory goals, choice of suppliers, assortments of merchandise to be carried, and customer services to be offered.

When adding products to a wholesale/retail assortment, the distributor must estimate to which extent the product can contribute to the attractiveness of the assortment and to store differentiation. If a product is added to the assortment, the distributor runs the risk of cannibalisation, i.e., the new product takes its sales volumes from other products in the assortment. If, on the other hand, the product replaces another product in the assortment, the distributor runs the risk of losing customers who demand the de-listed product.

The material suggests a coherent view that reductions should primarily be directed towards second, third, and fourth tiers in the assortment, and that the category leaders should remain. DOB's have a role as a means of canalising the sales from these smaller brands to the organisations' own brands, and by this reasoning DOB operations becomes a question of launching products that can replace a number of smaller brands in categories and sub-categories. DOB's are also seen as a way of introducing an alternative to dominating category leaders, and as a means of enhancing the variety in the category.

ICA has maintained their strategy to use manufacturer brands as a foundation for their assortments, while KF has switched tactics from DOB domination, to including manufacturer brands, and back to aiming at a 30 percent DOB share of the assortment. Interestingly enough, both organisations seem to be cautious when it comes to actually making these assortment reductions. In ICA's case such reductions could lead to a lower attractiveness of their wholesaler assortment in the eyes of the individual retailers, and maybe also mean that Rimi would place demands on the use of ICA's DOB's. KF wants to differentiate its three concepts – and also underlying chains – why the decision-makers responsible for the respective assortments need a large wholesale assortment to enable them to offer different assortments in different concepts.

Both organisations want to reduce the number of DOB' while sustaining, or increasing, the number of products. One possible explanation for this is that they want to reduce the risk of intra-DOB cannibalisation, another that too large a brand portfolio leads to resource sub-optimisation. ICA seems to launch products as a reaction to perceived variety, profitability, or competitiveness problems in specific categories, or sub-categories. In addition to these motives, KF respondents seem to be influenced by the organisation's 30 percent goal, and of its ambitions to build profile with, e.g., Änglamark, by launching environment friendly products. Profile building, thus, seems more important for KF than for ICA, probably due to the connection between Gröna Konsum and Änglamark. KF also uses Signum as a brand that can be used to launch a diversity of products in different categories. All in all, there seems to be a trade-off between assortment reductions through DOB's and chain differentiation.

The literature also suggests that a possible incentive for DOB operations is the gains that can be made by assuming responsibility for a number of functions that the organisation must compensate the manufacturer for when buying its brands. On the other hand, these gains are contingent on the distributor organisation's ability to perform these functions in such a way as to reduce costs, or to compensate these costs with other gains from own brand marketing, e.g., differentiation from competitors or reduction of SKU's in the assortment. Looking at the material, both organisations seem to be quite satisfied with their competence in terms of DOB operations. This competence may be divided into two areas: product competence and branding competence, and although both organisations seem to think they have the product competence they need, ICA seems to have the better organisation when it comes to branding competence. As the DOB manager at KF indicates, the consumer co-operation has an adequate branding competence, but it is concentrated to too few individuals. Other respondents indicate that KF's branding competence is very much related to KF's DOB manager. Another issue is if it is possible to separate product from branding competence. It seems that although category management and the DOB department are competent within their respective fields, its is far from clear that they are knowledgeable in the other area, hence a discussion within KF of the role of the DOB department: support function or internal supplier?

Both organisations claim that their DOB's are more profitable – or, as in the case of KF's Änglamark, equally profitable – as the manufacturer brands. One advantage that is mentioned is that DOB's do not have to carry the costs of the manufacturers' sales departments. Increased use of information renders the category managers – at least their own view – as competent as the manufacturer representatives in negotiations, both in terms of manufacturer brands and in terms of DOB manufacturing.

DOB manufacturers are deemed as competent, and their products as in parity with the manufacturers' in terms of quality. Although both organisations commenced their DOB operations with innovative products – environment friendly detergents – the quality of DOB manufacturing and internal competence are not seen as sufficient to lead a category or to develop the market in terms of marketing and product innovation. It seems as if the goal is to launch niche- and me-too products with a low degree of innovation.

In the theoretical framework it was suggested that the use of internally generated data, e.g., EPOS data, for analyses can further the distributor's information advantage over the manufacturer. These analyses can, in turn, be used for replacing rule-of-thumb decisions with space management systems and profitability analyses such as DPP. The material suggests that internally generated sales data may be seen as a potential gold mine, but that it is still in its infancy in both ICA and in KF's Gröna Konsum concept. KF Stormarknad claims that it has not only built a working system, but that this system generates information that is used as input in the concept's decision-making. ICA and Gröna Konsum have a substantially larger number of stores. ICA also suffers from their autonomous retailers' tendency to "shop around" for EPOS-systems, and Gröna Konsum organises a retail system that is a composition of larger and smaller, newly built and formerly co-op owned stores, which makes its implementation slower as compared to KF Stormarknad's 45 units. Another reason for this advantage may be that KF Stormarknad incorporated the chain B&W that had a tradition of using uniform systems.

A functioning infra-structure is a prerequisite for both space management and distributive systems, and maybe also for ECR co-operation, why it is deemed important to solve these problems, which – allegedly – will be done in a few years. The use of space management tools, consequently, follows the same pattern as the information systems: KF Stormarknad is in the lead, while Gröna Konsum is working on it, and ICA offers planograms developed for different store concepts to the associated retailers. Again, ICA can only try to persuade the retailers to form a uniform information system, and to use space-management systems, while Gröna Konsum suffers from a heterogeneous store structure which stymies both information gathering and implementation.

5.13. ORGANISATION OF WHOLESALING & RETAILING

	ICA
MM	• ICA's greatest internal problem is to market one price all over the country. This calls for compromises sometimes. ICA is not allowed to co-ordinate prices other than during campaigns. • ICA has been accused of shielding, but these accusations are easily dismissed since the associated retailers work on strict commercial grounds. They will not give extra support to DOB's, and ICA has – in contrast to the manufacturers' enormous sales forces – a small apparatus for fostering and developing the retailers. KF may be able to shield DOB's to a larger extent, but experience from other countries suggests that fully integrated systems contain storekeepers that will assess what is best for their individual store and act upon these assessments. In theory, an integrated system like KF's may be able to exercise full control of their retailers, in practise they too need to convince, enthuse, and present facts to succeed. • It is a problem that consumer prices on DOB's may vary considerably, but this has nothing to do with them being sold in Rimi's stores. On the one hand, competitive law prohibits ICA is to set prices, on the other hand there are retailers that have not understood the strategy behind DOB's that can hurt the brands by inappropriate consumer prices. ICA has to teach the retailers how the DOB's prices are related to their profitability. • From a strict DOB perspective, it would be an easier process in a functioning integrated system: to use a "naked price" with no sales resources, no activities, but a consumer accepted concept with the right price, the right quality, and firmly rooted in the shelf. There are other aspects of a more soft nature: a federative system creates an enormous stimulation, and maybe a more credible situation, when you are forced to prove yourself. It is not a question of just sending something to the stores, you have to investigate the store's competitive situation and how the DOB should be priced. That may create a stronger position in the long run, and ICA may avoid pitfalls, e.g., forcing products on a store where they are not interesting. The retailer's feel for the local market is a tremendous strength. • The effect of DOB launches could be that the manufacturers sales support would decrease, but in practise it has led to increased sales support. ICA has a 6-7 percent DOB share, and the effect for the larger stores of this is that the manufacturers devote even more time to them. If the share would be 30 percent, or so, DOB's might have this effect. The fact is that today the manufacturers move their sales resources from the smaller stores to the larger ones.

	• It has been a enormous pedagogical challenge to weed out this system; there has been a lot of temporary rewards, personal rewards, and it has been difficult to substitute this for naked prices, cleaner prices, without the sales support for DOB's. The retailers are becoming more professional, but it takes a long time.
MD	• ICA has a heterogeneous store structure and lack centralised control over the shelves – the retailer has this control. To reach the kind of DOB shares that the integrated chains have, you have to be able to control the shelves, and ICA does not. • The possibilities lie in the fact that a higher margin is a strong incitement when you are working with private business owners. As long as you are able to show this, you get a strong driving force, why some of the DOB products get a rapid penetration. Then there are other examples of DOB's that have a slow penetration rate due to difficulties in showing margin improvements. The common thing when ICA launches a new DOB product is that the two main competitors dump their prices and focus on the 100 largest stores, which gives them a decent share of ICA's total volume. They aim to crowd out ICA's DOB's by offering temporary rebates at irregular intervals, which makes it very difficult to assess how the margin is affected. • The problem with DOB prices is that if they are to have a margin advantage compared to the market leaders, you cannot dump their prices. All retailers understand this. Competitive law prohibits any attempts to co-ordinate prices. The problem is that ICA's largest stores, the low-price stores, find that the prices they will have to charge for DOB's to maintain their margin advantage are not low enough to attract their customers. If they are to dump the prices to increase consumer attractiveness, they will hurt both themselves and other stores, and they will risk destroying the underlying idea of DOB's. Instead they choose not to sell DOB's. The prices needed for a margin advantage are low enough to make DOB's attractive in the mid-sized stores, but for the larger stores DOB's have to be considerably cheaper to be of interest. In some product categories ICA has difficulties in attaining as much distribution as it needs, especially in the larger stores. • When it is difficult to show the short-term effects of DOB's, ICA has problems to follow up the launches, and problems with penetration, which weaken the DOB's penetration on the market. It is no use to use loyalty to the chain as an argument in these situations. In ICA's statutes it is clearly declared that DOB's should have a prominent position both in marketing and in the stores. It would be extremely unwise to "throw the book" at retailers to force them to stock DOB's. There is a strong loyalty to the chain within ICA, but this loyalty is not translated into a feeling of responsibility for individual DOB products. It is conviction that drives the system, and this means that one has to be quite pragmatic and tolerate discrepancies.

	• If you show that you have a pragmatic view – not to the extent that each retailer does what he/she pleases – but a pragmatic view on the individual retailers' decisions and respect them, then you can get a "second wave". The retailers dare to join the collective course since they know that they are not fettered.
DM	• ICA has a sales department where the launch plan is turned into a sales program since there are 2 200 individual retailers. They do not have to buy a single DOB if they do not want to, they do not have to buy a single product from their wholesaler either. The central organisation cannot control the price; it cannot control anything. Both channels of influence and arguments are needed. • Diva and Euroshopper are used to "reinforce ICA's backyard", i.e., that ICA's wholesaling operations should be able to offer the retailers a low price alternative so they do not have to buy these products elsewhere. • The central organisation cannot heave out a lot of products; launches have to be well motivated given that it is a voluntary system. If the right motives are there, the retailers will get sold on it. • A hindering factor is the stores and their personnel – about 35 000 people – to whom the central organisation communicates poorly. Often, the storeowner is preoccupied with other things and lacks the leadership necessary to inform his/her personnel how things should be. It is business as usual: the manufacturers control the stores' buyers and give them towels and little gifts. All information from the central organisation must go through the storeowners, which constitute a considerable filter. ICA has a central sales function that manages a central sales programme. Then there are sales representatives who are employed by the regions, and that is to be managed by the regions. That is an additional filter. The DOB department has certain ambitions that it tries to convey to sales department, but then the sales department has to get the people who are responsible for regional sales going to convey this to the regions' sales forces. That is a number of steps; a manufacturer has a national sales force that can attack the stores directly. ICA has an own regional sales force for DOB's, one in each of the four regions, but it is not the central organisation that manages these sellers. • Individual pricing is a hinder for DOB operations since it requires that each retailer set his/her own prices on each item in the assortment. This sometimes leads to horrific pricing. • ICA is very geographic in character, and the stores have different views on DOB's: the opinions of what is good and not differ. ICA had a DOB rally in 1993 when 1 000 stores were covered with six buses – one for each region. 93 percent of the retailers are positive to DOB's, seven percent never agrees with anything that is done by the central organisation. Few things that ICA does have a higher acceptance among the retailer than DOB's. • Even though 95 percent of ICA's DOB launches succeed on the market, the

	retailers tend to focus on the five percent that fail and forget that 90 percent of the manufacturers launches fail. • There is lot of antagonism among the retailers towards the use of ICA's DOB's in the Rimi stores: they see Rimi as a Trojan horse and they want – given what ICA stands for – to be able to offer their consumers the same things as Rimi.
CM	• As a rule, there are not many regional differences between the stores in terms of what they demand within the colonial assortment. There may be larger differences within perishables. • The interest for DOB's has increased with an increased number of products and with DOB successes. This goes for the retailer level as well; they are more interested now than they were before. • ICA likes to ogle at the fully integrated chains and think that they have a easy task when launching DOB's, but the idiosyncrasies of a federative organisation is a part of ICA's strength. It is both a positive and negative thing. The majority of the stores believe that the central organisation does its job well, but they may question individual products even though most of the retailers accept DOB's in general. • It is the retailers who decide over the stores' assortments, but ICA has started to offer assortment recommendations based on the wholesaler assortment. • The regions handle activities, but in the category plan there is a general activity strategy for DOB's, so to some extent DOB activities are controlled by the central organisation. The regions control the practical side of activities. National campaigns are often made for DOB's, but these campaigns focus on exposing the DOB's to the consumer, rather than using price reductions or, for that matter, focus on the price at all. The aim is to avoid high-low pricing which would only destroy the DOB's price image. • ICA has regional retailer boards that also affect the campaigns to some extent. They are often more interested in promoting, e.g., margarine or coffee than dog-food. ICA cannot offer the retailers the same things as the manufacturers when launching DOB campaigns. There is a need to focus on profits rather than sales support. The concept of DOB's is that they price should be right from the beginning, not reduced by a number of different rebates. A clean price from the beginning. • ICA uses its DOB's Diva and Euroshopper to allow retailers to price differently between stores, at least that is what ICA would like them to do. Smaller stores could make a lot of money without reducing these low-price DOB's prices, while the large stores would have to make substantial price reductions on them. These DOB's should primarily be used a campaign products or discount products. ICA does not want the retailer or the regions to slash prices when promoting the other DOB's since this destroys their price image and impedes the DOB's margins. It is a question of charging the right price from the beginning, a price that matches the

	brand leader, otherwise margin advantage is an empty promise.
DOB	• One reason for using the Skona brand on products is that this DOB has gained a high degree of acceptance among ICA's retailers. • Working with individual retailers creates a dynamic situation where the retailers may not accept a DOB. Sometimes this is due to the central organisation's inability to explain the purpose with the product, sometimes the product is not good enough. The consumers do not buy it, and the retailer takes it out of the shelf. This is a signal to the central organisation that it has to perform better. ICA has an own sales force that despite its small size has the largest portfolio in the country: some 400 products. It is in the nature of many retailers to strike deals, why the use of sales forces is an important factor. • Some 95 or 96 percent of the retailers are positive towards DOB's, but even though the storeowner is positive, one of his/her employees and the manufacturers' sales representative may be mates. Consequently, DOB's capture a lower share in ICA's larger stores – some four percent compared to the average six percent – while the smaller stores can have a 10 percent share. • DOB products have to pass a number of filters before they get on the shelf, and it is fair to say that the central organisation does not succeed in getting its plans carried out the way it wants. This is partly due to the manufacturers' sales representatives who help the store with replenishing, etc. when selling DOB's, the store personnel must perform these tasks themselves. The retailers cannot be forced to do this, but they may be possible to entice them to do so. • The sales force is organised under the regions. They used to sell manufacturer brands as well, but now they only sell DOB's. The regions devote a lot of energy to finding bargains, but it is on the DOB's that ICA makes money. This is because the margin structure for these products is built on a "naked" price to the retailer; there are no extra costs are included for, e.g., a sales force, marketing, etc. The central organisation is not making money on these products, there is no head office that is to receive intra-group transfers. This makes advertising allowances from the manufacturers less interesting – DOB products are profitable in themselves. Many retailers understand this when they look at the figures, but forget all about it when the manufacturer sales representative offers short-term rewards for exposing their products. Some retailers are not all that businesslike. • Margins on DOB's are calculated based on the brand leaders' prices in a majority of the stores, but this means that the DOB's lack an advantage over manufacturer brands within some product categories in the 100 largest ICA stores that receive large rebates from the manufacturers. Some of the larger stores are, furthermore, afraid to lose their volume rebates from the manufacturer by promoting DOB's.
CM	• The retailers have realised that they will not make money by giving away

	manufacturer brands, why it is natural to use DOB profitability as an argument when marketing these brands to the stores. The problem is when these DOB's are subjected to high-low pricing that destroy their margins – then the problem of lacking profitability is just shifted from the manufacturer brands to DOB's. This is a enormous pedagogical task to talk to the retailers and make them understand this. ICA has a lobby-operation where people are out in the stores and tell the retailers what they should do to make more money. This is a language that the retailers understand. Another problem is that many retailers look at volumes rather than margins. Some retailers use the lower purchase costs for DOB's to reduce prices even further to increase sales volumes. The large manufacturers can slash their prices to sell volumes, but this is not something that ICA can do with DOB's, why the manufacturers can get the large deals more easily. Each retailer is free to do what he or she wants, and the central organisation can only steer the process by the virtue of superior arguments for, and superior terms on, DOB's. • There are examples of the central organisation negotiating net prices on manufacturer brands given that the participating stores agree to perform certain services. Nine out of ten retailers agree on this, but there are always individual retailers who believe that they can get better terms by themselves. • The advantage of the federative organisation is that when the central organisation gets a break-through, it gets an enormous response and engagement from the retailers. This is also the disadvantage: there is a high threshold for the central organisation to get DOB's accepted. There are 2 300 individualists that tend to have different opinions at the retail level. The day ICA can operated as an integrated chain, but with self-owning retailers, nothing can stop the organisation. In some cases it may be an advantage to have 2 300 filters: product failures are easily detected and leads to quick feedback. On the other hand, this has killed many good ideas as well. Sometimes one may envy an organisation like Sainsbury's where you can push a button and get full distribution the next day. ICA may achieve this in test phases in the future: decisions to launch a DOB will be taken in retailer forums, and all stores comply with this. Today, it is impossible to get this kind of distribution: some DOB's reach a distribution of 40-50 percent, and this makes one wonder where the organisation is heading since it is the retailers who have decided that ICA should develop these DOB's. • The central organisation is responsible for the assortment, while the regions are responsible for pricing and marketing. This is not an optimal way to organise operations: the central organisation cannot carry out category management and form strategies when everything is filtered through four regions that constitute four profit centres and may view things differently. • The retailers and the regions have become more positive towards DOB's over time; launches are followed-up in a better way and DOB's are given

	appropriate shelf-space. This, however, means that the central organisation is faced with increasing demands on product development and strategy. • The motive for launching Euroshopper is to avoid that ICA's other DOB's are used as loss leaders, i.e., that retailers sell them to a very low price. In the chips category, ICA-Handlarnas has a 44 percent channel share, and when retailers asked why ICA was to launch a second DOB, the answer was that this would maybe prevent them from destroy prices on ICA-Handlarnas' chips. • Demands have been made on ICA's own sales force to supply the retailers with campaigns based on rebates, consumer competitions, help with replenishing, etc. A retailer who runs a store that has a turnover of hundreds of million kronor that he will be part of the collective that pays for these services. As long as the ICA collective pays the manufacturers to give individual retailers these kinds of rebates, this system will prevail. ICA has tried to take up the cudgels for a stop to rebates, help with replenishing, etc. – to use a naked clean, naked, price – and the manufacturers will follow suit. There is a need to work together to drive the market.
CM	• ICA cannot tell their retailers to place a DOB on given location in the shelves to put pressure on a manufacturer. KF may do that, but ICA lacks this power. The central organisation has to persuade the retailer to give a product – irrespective of whether it is a DOB or a manufacturer brand – space in the shelf. The manufacturers' sales forces are very good at this persuasion, while ICA's sales force handles 400 SKU's. They have not got a chance to keep track of the shelves in the way as a sales force handling 50 or 20 SKU's can. The retailers' attitudes towards DOB's have changed slowly over the years: more and more of them are positive. The central organisation still has to work for every SKU, it is not like 1 500 out of 2 300 retailers will give shelf-space to them just because they are DOB products. They will still have to fend for themselves in the shelves. This is very frustrating since the central organisation has proved itself by developing successful products over and over, why the retailers, at least, should give the products a test period in their shelves. The sales force still has to travel around and convince the retailers. • The advantage and disadvantage of the ICA federation is that it is a privately owned co-operative with 2 222 individual decision-makers. Each of them has a vote. At the same time as this is an enormous advantage, it creates a messiness and a too prolonged decision process. The sluggishness created by the retailer level can hardly be seen as a guarantee for quality since the central routines are very well developed today with quality labs, internal controls, the environment department, people that work in the process. The risk of failures is minimised today.

DOB	• It would be easy to decide centrally where the products are to be placed in the shelves and price levels in relation to competitors, but that would not be as challenging as the work within ICA. The ICA movement is wonderful, and it is stimulating to work at ICA and have all the contacts with the retailers who are all unique and with their own will. Sometimes, of course one may think that they do not know what is best for them. Seventy percent of the time is devoted to selling the DOB's internally, to selling ideas to the regions and to the sales force that is to sell the products to the retailers. • The retailers regard the central organisation as a supplier among others and not as their own DOB. They are actually the ones owning the DOB's and what the central organisation is trying to do is to sell the retailers own products to them. ICA will have to work more with store profitability, to educate the retailers to think in terms of margins. It is about money. ICA also has to teach the retailers that even though it is nice to receive a cheque at the end of the month from a leading manufacturer, it is better to have the margins that DOB's can give them. It is pedagogically very difficult to explain this, but there lies the problem. 98 percent of the retailers are positive towards DOB's, but when they see to their own wallet, they start to make other decisions. • Today, the retailers sell the cat-food brand Whiskas with a zero-margin and make a lot of money on ICA's Psst, but sell too little of it because they have got the wrong prices in the shelves. The reason for this is that the retailers do not work with individual pricing on the SKU level, but on the product category level. The retailers would make good money selling Psst at a consumer price of 6.90, but instead they charge 7.30 for it and sell too little. The reason is that the retailer sets a general percent margin on all products within the category instead of setting margins on each product. The result is that the DOB becomes too expensive in comparison to the leading manufacturer brand.

In terms of local variation in demand, and thus need for locally adapted assortments, there seems to be few such differences within the colonial assortment while there may be some differences within perishables. To ensure that the associated retailers do not have to buy low price products outside the federations wholesale assortment, ICA has launched the two brands Diva and Euroshopper.

A common theme in the interviews is that ICA has no control over the retailers' assortments or shelf-space allocation. Furthermore, the organisation has had to establish an internal sales organisation to market

ICA's DOB's to the 2 300 associated retailers. This sales organisation, however, is very small in relation to the large manufacturers' sales forces, and has some 400 products to market. The use of a sales force is seen as a decisive factor when marketing DOB's. There are a number of steps in the sales process; the central sales function manages the central sales programme which is then communicated to the sales representatives who are employed by the regions. The central organisation is responsible for the assortment, while the regions are responsible for pricing and marketing.

Despite the fact that a majority of the retailers are positive towards ICA's DOB's, the central organisation does not succeed in getting its plans carried out the way it wants. This is partly due to the manufacturers' sales representatives offering the store with services, e.g., replenishing, that the central organisation cannot offer when marketing its DOB's. DOB campaigns focus on exposing the product rather than on price, and it is seen as a pedagogical challenge to persuade the retailers that DOB's should not be marketed through price promotions and that the focus should be on profits rather than sales support. Retailers have become used to manufacturer sales forces offering them temporary rewards, or even personal rewards, and it has been difficult to substitute this for naked prices, cleaner prices, without the sales support for DOB's.

Due to competitive law, ICA is not allowed to co-ordinate prices other than during campaigns; the general rule is that the retailers should set prices individually. Apart from the problem of retailers hurting the DOB's by inappropriate consumer prices, in some product categories ICA has difficulties in attaining as much distribution as it needs, especially in the larger stores. Margins on DOB's are calculated based on the brand leaders' prices in a majority of the stores, but this means that the DOB's lack an advantage over manufacturer brands within some product categories in the 100 largest ICA stores that receive large rebates from the manufacturers. This has led some of the large retailers not to include DOB's due to them not being attractive enough in comparison to their relatively low consumer prices on manufacturer brands. If they are to dump the prices to increase consumer attractiveness, they will run the risk of impeding the DOB's price image, and instead they choose not to sell DOB's. Another problem is that some retailers tend to set general percent margin on all products within a category instead of setting margins on each product. The result is that the DOB becomes too expensive in comparison to the leading manufacturer brand.

Given this situation, one reason for launching Diva and Euroshopper has been to allow retailers to price differently between stores. ICA does not want the retailer or the regions to slash prices when promoting the other DOB's since this destroys their price image and impedes the DOB's margins.

When assessing the pro's and con's of developing DOB's within a federative organisation such as ICA, most respondents perceive that there are advantages with a system based on self-owning retailers in terms of stimulation and credibility due to the central organisation having to prove itself when launching DOB's. Some perceive that the retail level may provide a safeguard against unsuccessful product launches, while others believe that the central organisation is professional enough not to need this filter. The general perception, however, seems to be that if you can prove to the retailers that DOB's are profitable, a strong driving force will be created at the retailer level. However, when it is difficult to show the short-term effects of DOB's, ICA has problems to follow up the launches, and problems with penetration, which weaken the DOB's penetration on the market. There is a high threshold for the central organisation to get DOB's accepted, not least due to the need for educating the retailers to focus on profitability rather than on sales volumes.

KF	
EVP	• The resistance towards DOB's is not to be found among the retailers; their ability to exercise control has changed with the new concept organisation. They affect KF's DOB operations by ordering products, but the shop-keeper's role today in that aspect is reduced as compared to five years ago. It is the middle management that resists; it is always the middle management that resists changes. If you meet a top manager, there are rarely any problems, and the retailers are focused on what is good for the customers.
DM	• The retailers are very excited about DOB's, and the main argument for DOB's in KF's communication to them is money, money, money - DOB's create good margins. Money is the first message, profile is the second; the joy of eating connected to Signum, Änglamark's environment responsibility, and Blåvitt's value-for-money statement. These profiles are in line with KF's concepts, it is recognised and perceived as a familiar concepts. The acceptance of DOB's is more common at the retail level than it is in the central organisation and the regional offices. However, overriding values are not that interesting to the retailers - they are interested in keeping their jobs, avoiding reductions of man-hours, and that the store is successful, even though they do not make money from it in the way ICA's retailers do. • In theory, the central organisation controls the shelves, and in practise KF is approaching this control. The central organisation has a reasonable control over the majority of the shelves in KF Stormarknad's stores, but the manufacturers control the beverage shelves, the diary shelves, and the bread shelves. KF has taken the first step - the control over the assortment in KF Stormarknad's stores. The next step is quarterly estimates of the shelves and displays. In Gröna Konsum, the central organisation controls neither shelves nor assortment. • KF does not work with exposure, etc. when launching DOB's; the reason is that DOB policies are not ready yet. Since these measures are a part of the DOB concept, activities will start to be organised in a few years time.
KFA	
CM	• Signum works fine, but it is a bit sluggish since Gröna Konsum is not yet organised as a chain organisation. If it had been IKEA or Hennes & Mauritz, it would have been possible to merely deliver the goods to the stores, Gröna Konsum has to sell the DOB's to the stores. This situation

	will, however, be remedied. • Gröna Konsum's stores will not, strictly speaking, have any freedom of choice in the future, but this will take at least another year to achieve. In a chain organisation, it is concept management that should decide what assortments the stores should carry. • There is a change in attitude at the retail level concerning DOB's, and also within the central organisation. Stores that have a clear picture of their marginal structure realise that they can make money by selling DOB's. Möller has been on a tour in all the four regions to enthuse the shopkeepers, so the stores are aware of the benefits of DOB's – KF can sell more, it can make more money. The reason for such a tour is that there is a need for informing people in more way than just sending a paper saying that they should stock these products. The personnel have to have their harts in their work. The stores have had a lot of freedom taken away from the stores: they cannot do their own business in the store, they cannot decide what should be on the shelves, and they cannot decide their prices. It is a new way of working, and this calls for more information. It is a question of taking control over ones own company, and that is not easy. • KF does not control promotional activities, shelf-allocation, etc. for DOB's. There has been some projects where this has been tested, e.g., candy, caviar, etc. This has been more to test what goes wrong, because a number of things go wrong when trying to implement space management in a store structure that is as heterogeneous with respect to shelf-sizes, store sizes, etc. as Gröna Konsum's. • Geographical demand differences exist, e.g., products that are demanded in one part of the country is not in another. The central organisation cannot act as if it was almighty in these matters; the important thing is that these locally demanded products are sold through KF's warehouses.
D&L	
CM	• The retailers' attitudes range from the one third that are positive to centralised control – they realise that they need professional help with their assortments – one third is indifferent, and one third thinks that it was better when store could decide for itself what it would buy from the sales representatives.
KFI	
DOB	• KF Stormarknad, today, has virtually a total control over their shelves, they work with space management. Gröna Konsum is going in the same direction, and will probably control their shelves in 2-3 years time. Prix has total control over their shelves. • DOB's are priced with reference to the price-level decided by each of the concepts. This means that DOB's consumer prices will vary between KF Stormarknad, Gröna Konsum, Prix, etc. Price competition should not be done with DOB's to a larger extent than it is with manufacturer brands. In general, the co-ops follow the price recommendations made by KF. The central organisation does, however, not exercise a total control of co-

	op pricing and little energy is devoted to do so. It is not perceived as a problem. Today, KF has implemented a process in which the concepts should have communicated their respective price-levels on a DOB before it is launched. This will reduce the extent to which these discussions occur after product launches. The price span on DOB's between the concepts should, thus, be in relation to their average span on fmcg products.
CM	• In KF Stormarknad shelf-control is split between the central organisation, the manufacturer, and the store. The manufacturers' influence has diminished, the concept's control has increased, and the stores' control has remained at the same level. KF Stormarknad has more control than Gröna Konsum does where the store has more control. KF Stormarknad's stores have more visits from the manufacturers' sales representatives than do Gröna Konsum's store, especially not the smaller stores. These stores run their own operations to a higher degree. • Geographical demand differences are few within the colonial assortment. • When a DOB is launched, KF Stormarknad's and Gröna Konsum's shopkeepers have no alternative but to include it in their assortments. They are obliged to order what they are told to order - it is not a negotiation. KF Stormarknad has come a longer way towards chain integration, and the reason for this is partly that it has fewer stores than Gröna Konsum: 44 stores vs. 450 stores. It is easier to handle fewer stores, to reach them with information, to enthuse the personnel. • When working in a store, it is difficult to plan beyond the next day or the coming week. The central organisation has the ability to see trends and react in an early phase. Central concept managers can decide that a new DOB should be introduced, but the internal marketing is nevertheless important; to tell the stores what is happening, what the problem is, and how the DOB can solve this problem. Even though it is possible just to make a decision and carry it out, it is important to explain why things are done, not only in terms of DOB's. The stores need this understanding in contacts with the manufacturers' sales forces, and it creates a devotion that can be communicated to manufacturers and consumers.
CM	• The stores do not affect the operations, but the implementation of DOB's. There have been meetings in Stockholm, Gothenburg, and Malmö where they have assembled shopkeepers to show the virtues of DOB's. They are receivers. You have been responsible for a store without anyone trying to control you, and all of a sudden someone starts giving you directions of how you should manage your shelves. Of course there are negative reactions. • The manufacturers often suggest how their products should be placed in the shelves, but no such signals have been received from the DOB department.
DOB	• The implementing of a system in which the central organisation controls the stores' allocation of shelf-space to, e.g., DOB's, has been sluggish. The workload when implementing such a system is enormous.

	• Möller, Lars Hjort, and a number of the DOB managers arranged meetings at four different locations, and used multislide presentations to communicate the aims of DOB's. There are many that are sceptic, but also many that are positive. Central control is not enough, you have to create enthusiasm. The stores will be won when they realise that they make more money, and they are starting to make more money. That is why things are happening. Either the stores give the DOB's the places in the shelf that the central organisation tells them to and succeed, or they do not. It is necessary to believe in this. • KF strives for a certain structure in their pricing. The concepts try to agree on - at least approximate - pricing strategies to avoid collisions. The aim is to achieve adequate price differences between the concepts. They all have, e.g., Signum, but the products are cheaper in OBS!'s stores than they are in Gröna Konsum's.

In theory, in an integrated organisation like KF's, the stores should not have any freedom of choice in terms of including DOB's in their assortments, in terms of promotional campaigns, and in terms of pricing. In reality, however, the central organisation's control over the retail level varies between concepts. While most respondents agree on KF Stormarknad having an adequate control over both assortment and shelf-space allocation, Gröna Konsum is perceived to lack this control. Possible explanations for this proposed lack of control include the large number of stores, a heterogeneous store structure with respect to e.g., shelf-sizes and store sizes, and a lack of KF Stormarknad's tradition to work as an integrated chain. Gröna Konsum is, however, perceived as developing towards KF Stormarknad integration. Prix has total control over the concept's shelves. Despite the perceived control over KF Stormarknad's stores, KF does not control parameters as promotional activities and shelf-allocation for DOB's. There have been some projects where this has been tested, e.g., candy and caviar.

As suggested by the respondents from ICA, the interviews within KF indicate that there are few geographical differences in terms of demand, at least within the colonial assortment.

KF strives for a certain structure in their pricing. DOB's are priced with reference to the price-level decided by each of the concepts. This means that DOB's consumer prices will vary between store concepts according to the concepts' average price span on fmcg products. In general, the co-ops follow the price recommendations made by KF. Today, KF has implemented a process in which the concepts should have communicated their respective price-levels on a DOB before it is launched.

The interviews also reflect the perception that it is necessary to create enthusiasm for DOB's at the retailer level irrespective of whether the stores can exercise control over DOB operations or not. Even though it is possible just to make a decision and carry it out, it is important to explain why things are done, not only in terms of DOB's. The personnel in the stores need this understanding in contacts with the manufacturers' sales forces, and it creates a devotion that can be communicated to manufacturers and consumers. In line with this, the central organisation has devoted resources for marketing DOB's towards the stores. Most store personnel seem to be positive towards DOB's, and the interviews suggest that the potential resistance towards DOB's is rather a question of negative feelings within the central organisation than at the retail level.

DISCUSSION

Theoretically, we would expect to find large differences between integrated and federative organisations in terms of their ability to carry out DOB strategies in the stores. The interviews with ICA support this notion: the central organisation has to market their DOB's to the individual retailer to achieve distribution. The views on this system differ, and while most respondents admit that this is a substantial obstacle in DOB operations, some pose that it may be an advantage also due to the quick feed-back and high demands on DOB operations: "if you can make it *to* the stores, you should be able to make it *in* the stores." Others refute the notion that the individual retailers should play a role in ensuring quality and market success. These respondents feel that the central organisation is professional enough to know what will work at to get the products, and that the retailers constitute a major filter that stymies a number of potentially successful product-launches.

A great deal of frustration is detectable in the interviews concerning the long chain of decisions in the organisation: the DOB department presents the products to the central sales department which has to persuade the regional sales representatives to market the products to the individual retailers. These 2 300 retailers, in turn, have in some cases delegated decision-making to staff responsible for the stores' different product areas, why this personnel also has to be convinced to include DOB's in their respective parts of the store's assortment. While 93 percent of the retailers are positive to DOB's in general, this sentiment is not always translated into purchase decisions why ICA's DOB's have a rather moderate channel share.

The most prominent argument when marketing DOB's is their profitability, but in reality this argument is only viable if the retailers calculate margins which, in many cases, seems to be questionable. DOB's also have to compete with the manufacturer sales representatives' persuasive tactics which may include kickbacks, something that is impossible for ICA to offer. The larger stores may also be subjected to manufacturers' attempts to cut margins in order to diminish the DOB's marginal advantage. There is, clearly, an ambition of ICA's to educate retailers so as to achieve a better leverage for DOB's marginal advantage.

In KF's case, obstacles should not be sought at the retail level as much as within the central organisation. Although it is arguable that Gröna Konsum lacks the desired control over its shelves and assortment, there seems to be few problems with getting the channel penetration necessary for DOB's. The store personnel seem to be positive towards the organisation's DOB's, this partly due to marketing towards the stores. Although the respondents agree that the stores have no possibility not to include DOB's, it is obvious that they see enthusiasm and information as necessary means of selling DOB's in their stores. Both organisations seem to agree that there are few, if any, geographical differences that call for assortment alternations between stores. Some examples exist, but a majority of the assortment is unrelated to local demand differences.

If channel penetration is a problem within ICA, pricing seems to be an even larger one: not only are the individual stores expected – and forced by law – to set their own prices, larger and smaller stores have distinctly different situations when doing so. Larger stores receive rebates from manufacturers that give them an incentive to lower manufacturer brand prices and thus also to cut prices on DOB's to maintain their competitive ability. Many of these stores refrain from including DOB's in their assortments, not to induce price competition with DOB's. Other stores impede the marginal advantage of DOB's by cutting their prices, which increases sales volumes but decreases profitability. This, in turn, may lead to dissatisfaction with DOB profitability.

ICA's introduction of Euroshopper is an attempt to reduce price competition with its chain-related DOB's, but still the general feeling seems to be that the pricing situation is far from satisfactory. Given these problems, it is not surprising that the use of ICA's DOB's in Rimi is not considered a major problem. When it comes to promotional campaigns, they are run by the regions and the central organisation's view seems to be that exposure should be done without price-offers since the price on DOB's is optimised from the beginning.

KF, on the other hand, does not seem to be concerned with price-differences between the concepts as long as thy are the same for DOB's as for manufacturer brands. No attempts are made to order launch campaigns for DOB's, but his may be done in the future. In summation: ICA faces the problem of educating their retailers and to brake the tradition of rebates and kickbacks offered by the manufacturers. KF has the ability to set prices, but this is primarily done within the concepts while price differences between concepts are not seen as posing a problem.

5.14. INTERNATIONAL INSPIRATION

	ICA
MM	
MD	• DOB's is an international trend that may increase and decrease, but which is almost always the number one item on the minutes when meeting international distributors and manufacturers. The interest, however, varies between countries. Wholly integrated chains like the ones in the UK question if they should include Coca-Cola at all in their assortments. That requires a total commitment to DOB's, which is a rather limited market. • When the large chains in the UK developed their wholly integrated systems rapidly – especially during the 1980's – DOB's became a matter of course. The word now is that they have gone too far, that there is a backlash. The ones that have decided to co-operate manage better than the ones that have decided to take an extremely tough stance against the manufacturers. The main explanation for the DOB development in the UK is their tradition of being skilful in obtaining products: they have found means of production that have been competitive relative the manufacturers. It is easy to see how this co-operates, and this has placed a heavy pressure on the manufacturing industry. In other countries this has not been as natural; in France, Carrefour launched their generic brand "Produit Libre" which was the inspiration for KF's Blåvitt. Carrefour's generic brand was a short-lived phenomenon; it was a little too lacking in profile to last very long. • There is some kind of co-variation between DOB shares and the manufacturers' incitement to develop products; if DOB's are taken too far they will stymie product category development. That is probably why there has been a backlash in the UK when the large retailers launch their DOB's. This does not create a good market mechanism.
DM	
CM	• Even if it would be optimal for ICA to have some 30 employees that shared the product categories like, e.g., Albert Hein, it would not economically defendable.
DOB	
CM	• Naturally, ICA looks at other European countries and at the USA. In Europe there are chains – wholly integrated chains – that have a 60-70 percent DOB share. There are even extreme cases where the organisation works only with DOB's. This poses the question if this is really DOB's or just private label. They just substitute the manufacturers label with their own, and that is not the way DOB operations are done by ICA.
CM	
DOB	• It is easy to be envious of, e.g., the Hakon group in Norway. Hakon has

	just launched a coffee brand that is bought from the same manufacturer as ICA buy its coffee from and they have a problem because they sell too much of it. They are capturing too large shares of the category. This is a result of them being able to decide where the products should be placed in the shelves and their price level in relation to the competitors.

A few references are made to the international development. One is the reflection on the backlash of chains in the UK that have taken such a tough stance towards the manufacturers that it has stymied product category development. Other reflections are made on the vast resources possessed by the international chains, Norwegian Hakon's ability to control shelf-space allocation, but also that many chains in Europe can be characterised as developing private labels rather than DOB's.

	KF
EVP	
DM	• You look for parallel markets, analyse what Casino, Sainsbury's and all the other have done and make something similar. It is not that dramatic, but it may be perceived as novel in the small Swedish territory. • KF's DOB department consists of 20 people; the equivalent at Sainsbury's or Tesco - if they have one since all employees work with DOB's - is maybe 1 000 people. They can engage a team of 5-6 people to develop a Thai ready-to-eat series, while KF's DOB department can, maybe, devote five man-hours to this. In the short run, it is possible to copy concepts from other countries and put your own brand on the products. • KF should have the same DOB share as the most successful retailers in the USA.
KFA	
CM	• Both ICA, KF and Dabab have probably been looking a lot at the UK and maybe the USA, where retailers make a lot of money on DOB's, before launching DOB's on the Swedish market.
D&L	
CM	• The professional world class companies that KF looks at have a large DOB share, and they work a lot with DOB's. • KF looks at all groups of fmcg companies that operate on the continent, e.g., Albert Hein in Holland, companies in the UK, larger retailers in Spain and France. The USA is also a source of inspiration. The best solutions are picked. KF target is to become a world class company, and today's world class companies operate on the continent. There is no reason to re-invent the wheel; there is ample opportunity to copy things that have already been done.
KFI	

DOB	• The UK is an important source of inspiration - KF has a manager responsible for scanning international markets, so these markets are scrutinised. There have been a number of journeys to the UK, and KF has also worked with an English design bureau when developing Signum.
CM	
CM	• An organisation like Sainsbury's has a totally different degree of control of their DOB operations - you are hired in a defined concept.
DOB	

Respondents within KF both see the international development as a source of inspiration - KF is aiming to be a leading retailing organisation, and these organisations have a large DOB share - and as the result of substantially larger resources within the leading retailer organisations. Primary sources of inspiration are the USA and the UK.

DISCUSSION

We can find indications of international inspiration in both organisations. Some comments, especially from KF, indicate that the respondents feel that they have considerably more limited resources for DOB operations than the large foreign retail organisations. A few respondents from KF claim that the USA and UK are sources of inspiration, and that retailers in these countries have set a standard for DOB share. The views from ICA's MD suggest that one conclusion that can be made based on the UK situation is that ICA's co-operative strategy has yielded the best results.

5.15. VIEWS ON COMPETITORS

	ICA
MM	
MD	• Much of what is happening within the fmcg trade is a result of the actors watching each other. It is a very transparent system, and this leads to a situation where organisations trigger each other. That is probably the main reason for the rapid DOB development during the 1990's. The ambition to launch DOB's has been founded on both facts and perceptions.
DM	• Historically, KF started the DOB operations in Sweden, and this was probably a result of their situation – KF had a difficult time getting the manufacturers to deliver goods. Either they did not want to deliver, or they were too expensive, and that is why KF started their own factories to get the right prices. In the 1980's they realised that their industry had become a problem for the organisation; they could not expand, they could not compete since the market was too small. They also realised that they were lagging behind in product development, and even if the factories were relatively competent the assortment was rather boring. ICA changed its strategy when KF started to include manufacturer brands in their assortment.
CM	
DOB	
CM	
CM	• When doing a BCG matrix, the assortments of KF and Dagab are included: have they done something that is better with their DOB's or have they started selling manufacturer brands that ICA has not grasped? • There is a significant difference between KF and ICA in that KF has a goal of 30 percent DOB share, while ICA does not work with a fixed goal. It is other needs that define if a DOB is launched or not.
DOB	

ICA's managing director suggests that the Swedish system is transparent, why it is natural that the main competitors watch each other's moves. This notion is also supported by one of the category managers who makes direct investigations into what KF and other competitors are doing in terms of DOB strategies. Another notion, which has been discussed earlier in this chapter, is that ICA's DOB strategy has been affected by the strategic change made by KF in the mid-eighties. One respondent also suggests that KF's DOB operations are affected by its goal of a 30 percent DOB share of the assortment.

KF	
EVP	
DM	• ICA talks less and does more. Their products just flow out on the market and their shares increase. This makes some of the personnel in KF's stores rather anxious since ICA's stores can provide - at least in terms of prices - a much more attractive assortment.
KFA	• In many product categories, ICA copies KF's DOB launches within six months. ICA has copied a lot, they try, but they are lagging behind.
CM	• It is fair to say that ICA was more successful than KF with their DOB ICA-Handlarnas. They have developed their DOB organisation more than KF; they have their own sales force, they have a lot of money that can be used when persuading the retailers to buy their products. • Manufacturers that attempt to sell to ICA almost always succeed. It is not the central organisation that decides –it is the store. • KF should have a DOB organisation like ICA's, or some kind of sales force - even if it should not strictly be a question of sales - but some kind of informants that go around and market DOB's. ICA has a strong sales force that goes around and market their DOB's, that why ICA has been so successful.
D&L	
CM	• KF looks at ICA in terms of how the organisation manages and develops its DOB's, but not in terms of individual product launches. KF decides what products are to be launched, but studies how the market develops.
KFI	
DOB	• Skona never got the same kind of environment friendly profile as Änglamark did. That was probably not ICA's s strategy either; ICA probably felt a need to launch environment friendly products, but was more commercially focused than KF. KF was more idealistic and environment focused when Änglamark was developed.
CM	• There is no "follow my leader" when developing DOB's; KF does not copy ICA, or vice versa. The two organisations form their strategies independently of the other. Both organisations want to make money on DOB's, but ICA probably finds it difficult to understand some of KF's launches. KF finds it difficult to understand some of ICA's launches, since they seem very focused on volumes, not on niches. ICA and Dagab seem to base their work on what has been. That is the impression that their launches give. KF tries to look ahead: what will happen? What will have to be achieved to attract attractive consumer segments? On the other hand, ICA already has these segments as their customers, why KF's has another driving force. Both KF and ICA work in a professional way with

	DOB's.
CM	
DOB	• Nowadays KF does not look at ICA when it comes to DOB operations. However, naturally KF has a good picture of what ICA is doing, and both organisations purchase DOB products from the same manufacturers. Both organisations have been successful in fighting back the market leaders.

The interviews within KF indicate that there are different views within the organisation as to how it is related to ICA. Some suggest that ICA is skilful in its DOB strategies and that it has developed its organisation more than KF, some claim that ICA copies KF's DOB launches. The views on whether KF looks at ICA's DOB strategies vary, but direct copying of the other seems to be uncommon. KF is described as being more idealistic than ICA - at least in the case of environment friendly detergents - and that KF sometimes does not understand ICA's focus on volume segments.

DISCUSSION

As indicated by ICA's MD, the Swedish fmcg system is highly transparent - which is in line with a classical oligopoly - and competitors monitor each other, both in terms of strategic responses and for inspiration. One example of the former is ICA's change of strategy as a response to KF's decision to include manufacturer brands in all product categories within its wholesaler assortment. Another interesting fact is that both organisations developed environment friendly detergents as their first modern DOB product line - and at the same time. According to one of ICA's respondents this may partly be due to inspiration, partly due to co-ordination between ICA, KF and Dagab in terms of asking for an environmental friendliness policy. According to ICA's DOB manager, ICA's decision to launch its own DOB's was a direct counter measure to KF's change of strategy. Another respondent claims that one difference between the organisations is that KF has a goal of 30 percent DOB share, while his own organisation, ICA, does not have this kind of set goal.

Some respondents from KF envy parts of the ICA organisation, e.g., an own sales organisation – which ICA considers a symptom of their lack of integration. Another respondent claims that ICA copies much of KF's launches. The views of KF respondents on whether they scan ICA or not differ: a common opinion seems to be that there is a more general information gathering in terms of overall strategy, but not a copying of individual products. Given visibility of the two organisations, and given the two organisation's need to develop successful DOB products, the notion that the organisation would abstain from copying the other's successful product launches is somewhat surprising.

5.16. THE FUTURE

	ICA
MM	• There is a possibility that today's conceptual framework will become obsolete in the future. There will be brands that are exclusive to a chain, but would not be defined as DOB's since they are owned by a manufacturer. DOB's will, however, continue to play a major role even though the co-operation between distributors and manufacturers – e.g., through ECR – will be intensified. The smaller brands will be weeded out from the assortment: it will not be possible to survive if you are the fourth, fifth or sixth brand in a product category. The brand leaders will remain to generate store-traffic. Within perishables, there will be a renaissance for locally produced products.
MD	• ICA has an upper limit for DOB shares that is probably lower than KF's – KF has a goal of 30 percent, ICA's aim is ten percent. Within certain product categories, ICA's share will be higher, but the total volume will never be particularly high due to ICA being too open a system. ICA cannot sub-optimise the way that one needs to if DOB's strategy is to be pursued in a consequent way. • If ICA reaches a ten percent DOB share of the total turnover, DOB's will have a thirty- percent share in some product categories. There are large areas today where DOB's have not captured more than minor shares, and ICA has a long way to go before it can increase the current 6-7 percent share to a ten percent DOB share. It is moving slowly, but it is a realistic goal given that ICA cannot force the retailers to order DOB's.
DM	
CM	• There will probably not be more DOB's in the coming period – the portfolio is rather large as it is and covers the potential growth areas, at least within the colonial assortment. There will, however, probably be more DOB products and, probably, a number of withdrawals of products – it is necessary to accept that all launches may not be equally successful.
DOB	• ICA has a goal of a ten percent DOB share, which is a relevant level. This means that the manufacturers can compete for the 90 percent that remain. For Skona the goal is a 20 percent share of ICA's sales.
CM	• ICA will have a larger share of DOB's in its portfolio, but there will be a balance between DOB's and manufacturer brands. The large manufacturer will probably manufacture ICA's DOB products. Then ICA and the manufacturers have reached the point their relationship when the organisations will start to focus on the consumer, not on what can be gained from the other party. In this situation, the large brand manufacturers will join ICA in developing the market. DOB shares will probably vary between product categories, but there will be a greater acceptance for them from manufacturers, ICA's retailers, and the

	consumers. The second, third and fourth tiers will be removed from the assortment, and there will be much cleaner assortments in the stores. The consumers will find everything that they need and feel more certain that they will find the product the next day – it will not be today's "galloping" assortments.
CM	• In the future, ICA will use an organisation based on the different roles, or store concepts. In this organisation, there will be almost daily discussion about which DOB's should be used in which stores, and maybe also chain-specific DOB's will be launched, e.g., the same products may be sold under different names within the largest stores – Kvantum and Maxi. • DOB's will not reach a 100 percent of the assortment even in 30 years.
DOB	

The interviews suggest that DOB's will continue to play a major role within ICA in the future, but that it will be a long process to increase the current 6-7 percent share to a ten percent DOB share. DOB shares may be higher within certain product categories, but the total volume will never be particularly high due to ICA being too open a system. ICA will probably not increase the number of DOB's, but will – however – increase the number of products sold under these DOB's. Chain specific DOB's may be launched in the future, and we may also see manufacturer brands that are exclusive to a chain. The brand leaders will remain to generate store-traffic, while the second, third and fourth tiers will be weeded out from the assortment. ICA will have a larger share of DOB's in its portfolio, but there will be a balance between DOB's and manufacturer brands.

KF	
EVP	• KF's DOB's will never have 100 percent share of the assortment.
DM	• Thirty percent is a matter of how you calculate shares. According to GfK's statistics, KF has a 12-13 percent share today, including other brands than Blåvitt, Änglamark, and Signum, and based on all product categories, e.g., perishables. If it is measured in this way, the 30 percent goal will be attained in maybe 1-1½ years. It is quite easy to attain this goal within the dry product categories that are measured. KF will – at most – have a 30-33 percent DOB share, but at that point it will be necessary to sit down and analyse what the customers think. KF may attain 30 percent, but if the customers prefer discount-products, the share will be less. The 30 percent goal is nothing sacred, but you need to have an internal goal to focus on.

	It is, however, a problem to communicate this internally, the acceptance is not there. The main question is if KF can render the organisation more efficient in terms of product flows, etc. This makes percentages less interesting. • All the old DOB's will be weeded out within 1-1½ years. New DOB's will probably be introduced, but the ambition is to have a few brands to enable the organisation to focus and to avoid the enormous expenditures necessary to launch DOB's that are not just labels.
KFA	• A realistic assessment of the DOB share of the assortment must include the reactions from the manufacturers who will not act as idle bystanders - they perceive this a competitive threat. KF may not reach 30 percent, but in the short run 13-14 percent is a realistic share; in the mid run between 18 and 20 percent can be reached; and in the long run, a 25 percent share is attainable.
CM	
D&L	
CM	• There are no fixed limits – 30 percent is a future goal, but how long it takes to get there, or whether it is at all possible to get there, that is something that you can only prophesise about. It will depend on how the brand manufacturers will react. If they rationalise their operations and use the reduced costs to lower prices, then it will be more difficult to meet the criteria that KF has set for its DOB's, i.e., equal quality, a 15 percent lower price, and better profitability. If this were the case, KF Stormarknad would not order DOB's anymore.
KFI	
DOB	• It is a long way to go before the point is reached where DOB's have become so strong as to have a 100 percent of the assortment; this is not anything that will be discussed in the coming 2-3 years. There will be both internal and external obstacles. The internal obstacles are that many of the decision-makers within KF are getting on. These people have gone through a process where KF had an own industry that controlled the assortment. To some extent there probably is a fear of going back to the old situation. For psychological reasons, this is nothing that will be discussed in the near future. First the prioritised brands - Blåvitt, Änglamark, and Signum – prove that they are so strong that no other brands are needed, and that is a long way to go.
CM	
CM	• There will not be as much as a 30 percent share of the assortment: KF is too small, and you need to be large. There is a tendency of trying to do everything simultaneously; it would have been better to make sure that the organisation operates properly, then maybe you can start developing DOB's.
DOB	• The manufacturers will not stand idly by – they will increase their efforts to meet the competitive threat from DOB's.

Like ICA, KF will focus on a smaller number of DOB's in the future. The views within KF differ with respect to the goal of a 30 percent DOB share. The DOB manager perceives that this goal will be attained in maybe 1-1½ years, at least within the dry product categories that are measured. Some question if this is a realistic goal, while others see the goal as attainable but are less certain when it will be attained, partly due to manufacturer and consumer reactions, partly due to internal obstacles. A common notion in the interviews is, however, that KF's DOB's will never have 100 percent share of the assortment.

DISCUSSION

The two organisations share the view that we will not see assortments dominated by DOB's in the future. Given the category-by-category approach that ICA and KF use when identifying opportunities for DOB launches, some categories will have larger DOB shares than others, but it is a common feeling that the leading brands will continue to dominate sales within a foreseeable future. Second and third tiers will face a more severe situation, and both organisations will focus on fewer – or at least not more – DOB's, but with a larger number of products sold under them. Within KF, the views on whether the stated 30 percent goal is attainable or not differ. The DOB manager seems to be quite confident, while others are less convinced that this can be achieved. It is interesting that two obviously arbitrary goals have become truths in the respective organisation: their concern being more *when* rather than *if* these goals will be attained.

6. DISCUSSION

"There is more ado to interpret interpretations than to interpret the things and more books upon books than upon all other subjects; we do nothing but comment upon one another."

Chap. xiii. Of Experience (Michael de Montaigne. 1533-1592)

6.1. INTRODUCTION

The aim of this study has been to investigate how an array of organisational and market related factors are perceived by distributor organisations, and how this is expressed in the organisations' own brand strategies. In the material derived from the interviews we have seen that for each of the determinants proposed in the literature to affect DOB development, there are both similar and divergent perceptions within the two organisations. Furthermore, there are various strategies used within the two organisations to handle these proposed determinants.

In the interview material, we have seen examples of all aspects of strategy, i.e., *plan*, *ploy*, *pattern*, *position*, and *perception*. The respondents within the organisations have provided us with the intentions behind DOB operations, and with the effects on manufacturers of the threat to launch DOB's in negotiations. They have described how DOB operations take place within the two organisations and they have provided us with their perceptions of how the organisation affects its surrounding context with its DOB operations. Finally, the respondents have shared their perceptions of how DOB's are perceived both within the central organisation and by the retailers.

In many cases these perceptions have been consistent within the organisation, in some cases we have seen different opinions, sometimes depending on the respondent's function within the organisation. In other cases, individual respondents have not discussed certain issues, which is a result of both their role in the organisation and of the unstructured form of the interviewing. As discussed in connection to how the interviewees were selected, the process of recommendations, contacting, and interviewing ended when the new interviews did not yield more than marginal contributions to the study. Given this process, and given the relative consistency of the results within the two organisations, it is arguable that the perceptions presented in the previous chapter are reflections of the two organisations' strategies.

In this chapter, some of the interpretations based on this material will be discussed in more general themes to provide both a summary of the central aspects of DOB strategy, and to discuss how these aspects relate to one another.

6.2. DETERMINANTS OR STRATEGY FORMATION?

The results presented in the previous chapter support the notion that the effects of the proposed determinants on DOB development are far from straightforward, and that it is impossible to regard DOB development as the result of an automatic response to different market conditions. Two examples will illustrate this:

MANUFACTURER BRANDS AND ADVERTISING

Based on the literature on DOB development (see, e.g., Laaksonen, 1994; Hoch & Banerji, 1993; CCMIT, 1994) we would expect that there should be an inverse relationship between DOB penetration on the one hand and manufacturer brand strength and level of manufacturer advertising on the other. In other words: the advice to a distributor organisation would, based on this notion, be to refrain from launching DOB's in categories where there are strong manufacturer brands and/or high levels of manufacturer advertising. The results presented in this study, however, suggest that manufacturer brand strength and advertising levels need not have a negative effect on DOB development depending on the strategy chosen by the distributor.

Looking at KF and ICA, we find that both organisations admit that they are dependent on strong manufacturer brands in their assortments due to their ability to attract consumers to the stores and due to their owners' role in product and market development. A distributor that has the ambition to compete head on with brand leaders would, thus, have to invest heavily in marketing and product development to build and maintain DOB's that are equally strong as the leading manufacturer brands. However, the presence of brand leaders need not be a hinder for DOB operations aimed at capturing niches, or at capturing a smaller proportion of category sales. Furthermore, by using the leading brands to attract customers to the stores, and by leaving product and market development to the owners of these brands, distributors may even profit from manufacturer brand strength when developing DOB's.

The same reasoning is applicable on manufacturer advertising, i.e., distributors may use manufacturer advertising to educate consumers and to attract them to the product categories, while using exposure and pricing in the stores to persuade at least a fraction of the consumers to buy DOB's. As suggested in the theoretical framework, while advertising may be effective for leading, differentiated, brands in the maturity stage, there is an inverse relationship between promotional effectiveness and brand loyalty, why store exposure may be an effective means of marketing DOB's.

Both ICA and KF have chosen this strategy, i.e., to aim for the smaller brands in the product categories while maintaining the brand leaders in the assortment. The organisations perceive that it is possible to lead smaller categories or sub-categories, and that sales can be steered towards DOB's through exposure in the stores.

WHOLESALE AND RETAIL CONCENTRATION

Much research on DOB's have been directed to the relationship between retailer concentration and DOB development (see, e.g., Randall, 1994; Euromonitor, 1996; Jary and Wileman, 1998; Borghesani *et al.*, 1998). In the literature, increased market concentration is suggested to lead to fewer and larger organisations that can amass the resources necessary to develop their own brands.

From structural perspective, Sweden appears to be one of the most concentrated fmcg markets in the world and should, thus, display a high degree of DOB penetration. As discussed in Chapter One, however, the Swedish fmcg market is lagging behind less concentrated fmcg markets as the UK, Germany, and France with respect to DOB penetration. The conclusion would, thus, be that concentration *does not* have an effect on DOB development, at least within Swedish fmcg distribution.

However, if we look *into* the distributor organisations on this market and attempt to translate this concentration into influence over wholesaler and retailer assortments, we find that this concentration may be somewhat illusory. The results in this study show that in the ICA federation, the 2,300 retailers have a discretionary control over their respective assortments, while KF's 20 percent share is divided into three different concepts, each with a discretionary control of their respective assortments.

A related basis of power derived from concentration should be the control over shelf-space at the retail level. The results in this study show that it is the retailers within ICA who exercise this control, and there are indications that at least the Gröna Konsum concept within KF lacks this control. The extent to which the central organisations' can persuade or control retailers will, thus, be decisive for the organisations' ability to translate their shares of the fmcg distribution into influence over the manufacturers. Furthermore, Sweden is a small market why this influence primarily can be used in relations with smaller manufacturers, while it is questionable if it is effective in the relations with the large, multinational, manufacturers.

THE RISK OF OMITTING IMPORTANT VARIABLES...

In the beginning of Chapter Two it was suggested that when using a deterministic approach, one set of variables – the determinants – are included in our models while others, i.e., variables pertaining to the formation of strategic responses, are omitted. If this latter group of variables should turn out to affect the actual development of DOB's on a market, we will end up with a biased model.

The above examples suggest that the use of deterministic models may, indeed, lead us to the wrong conclusions when analysing DOB development. The relationship between determinants and DOB development may be complex, why the use of quantitative measures of advertising levels, investments in product development, or concentration ratios, may be insufficient when analysing this development. We need to take the qualitative aspects of strategy into account when making such analyses.

In the previous chapter, the nine factors in this study were presented one by one. In the remainder of this chapter, however, we will discuss the results from a "cross-factor perspective" in four themes. This discussion will be concluded with some thoughts on the focus of the study: DOB strategy.

6.3. MANAGING THE CHAIN AND DOB PORTFOLIOS

In terms of the branding strategies of the two distributors, we have seen that there are both similarities and dissimilarities between manufacturer branding and distributor branding.

As suggested in the theoretical framework, a DOB may be subjected to the same limitations pertaining to brand extensions as any brand, why the distributor – as any brand owner – must decide on whether the brand should be used for a large variety of products or not. This requires considerations of how the consumers' perceive the fit between the different product categories that the brand is used within. Furthermore, a distributor that wants to use a high degree of distributor identification in its branding approaches must consider the consumer's associations to the company brand and must also consider the risk of negative spill-over, should one of the products fail to meet the expectations of the consumers. A product failure may damage other products sold under the brand as well as the brand owner's own reputation.

Starting with the question of the use of DOB's for products within several product categories, the interviews within ICA and KF add aspects to the forming of a DOB portfolio. Given that exposure is an important means of marketing fmcg products, the use of a common identity for several products should be of value for a distributor that seeks to achieve as much exposure for the DOB as possible. In terms of advertising, ICA's use of the house brand "ICA-Handlarnas" not only enables the organisation to link products to one another, but may also lead to indirect advertising of the DOB by exposing the chain name in the advertising generated by the common manufacturer-retailer advertising programs (SA/VA). This connection is not perceived to be viable for KF, but one of the respondents from KF's DOB department suggests that the use of Signum enables KF to achieve cost-effective advertising for a number of products with only slight modifications of the adverts. In addition to this, both organisations perceive that there is a need to focus on a few DOB's due to limited resources while increasing the number of products.

All this would advocate the use of few DOB's but, as we have seen, both organisations have deemed it necessary to use different DOB's with different positions in the price and quality dimensions. ICA uses its house brand for non-hazardous products that are in parity with the common quality level of the respective product categories, while the price should be slightly lower than the brand leaders. Apart from this general strategy, the distributor also uses niche brands such as Skona positioned as an environment friendly product range, and Diva and Euroshopper as discount DOB's. While the former DOB is endorsed by the house brand, Euroshopper is totally separated from ICA-Handlarnas. ICA also perceives that there is a need to keep pet food and ordinary food apart, but even here there are plans to place these products under a common DOB. KF uses four distinct positions for its DOB's in terms of price and quality. Blåvitt is a low price DOB with lower but consistent quality, while Signum is slightly cheaper than brand leaders, with higher quality aspirations. Like ICA, the organisation also uses niche brands, i.e., the environment friendly DOB Änglamark, and the discount DOB Rainbow. In contrast to ICA's use of separate DOB's to avoid mixing some product categories, KF uses its DOB's within a number of product categories. While both Blåvitt and Änglamark have a common appearance in all these product categories, Signum's uniformity consists of the name Signum, and uses a design that is very close to the brand leaders' and following some form of product category standard.[17]

Given the need to focus on fewer DOB's, then, both organisations have seen it as necessary to use different DOB's with different positions, and to use the "closest" DOB when launching products. This positioning strategy can, however, be subject to limitations. Both organisation claim that they do not possess the marketing and R&D resources necessary to capture prime positions in a majority of the product categories. In addition to this, as suggested in the theoretical framework, the strategy to use the DOB in more than one product category will not lend itself to premium positions due to consumers finding it hard to believe that the DOB can provide the same quality for products across the assortment. On the other hand, focusing on discount brands necessitates both that the DOB's are separated from chains that do not use a discount profile and that the organisation can acquire low cost products with a decent quality. Furthermore, it is difficult to use discount DOB's to build chain profile in such a way that the chain can compete with discount chains. DOB's do not lend themselves to price comparisons, and consumers will probably tend to use prices on leading manufacturer brands when making their assessments of the chains' price-levels.

When it comes to relating the DOB's to the chain brands, the two organisations' strategies differ. ICA has chosen to make a strong association between the chain and most of its DOB's, while KF does not perceive that consumers' associations to KF are strong and positive enough to make this connection. For the same reasons, KF has chosen to reduce the associations between the corporate brand and the

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[17] This notion is supported by an article in Quo Vadis Xpress, May 31, 1996

organisation's chains.[18] There are, however, limitations to the connection between ICA's chain brand and its DOB's; in both the hygiene and soft drinks categories, the ICA brand is perceived to be a liability rather than an asset by the respondents. In ICA's case, thus, naming strategy is a two step brand extension: from chain to brand, and to product category. In KF's case brand extensions are limited to DOB extensions over different product categories.

Within ICA, there are different views on the effects of using the organisation's DOB's in the low-price chain Rimi. However, due to profitability reasons this use is deemed necessary. KF's DOB manager suggests that the distribution of Signum through the organisation's low price stores may have negative effects on the DOB, but again, short-term profitability motives are deemed to outweigh the risk for brand dilution.

The interviews, thus, support the notion that in addition to the problems of brand dilution through the extension of DOB's over dissimilar product categories, the distributor must handle the relationship between DOB's and chain portfolio when forming its brand strategy. If we regard a store concept as product with a number of traits, e.g., location, price-level, and service, too broad a spectrum of offers, i.e., too heterogeneous store concepts under the same chain brand, may lead to a situation where the consumer cannot relate specific traits to the brand. In this situation, the chain brand – as is the case with a diluted product brand – will only work as a means of recognition/recall without benefiting from specific associations. Looking at ICA and KF, we may conclude that both organisations have heterogeneous store structures within their chains –

[18] The same strategy is used for the consumer co-operation's loyalty programme, while ICA uses its corporate brand for its corresponding card.

stores in the ICA chain range from small neighbourhood stores to hypermarkets, while at least Gröna Konsum and Prix handle a number of store sizes.

A distributor with several chains must handle two different brand portfolios: the chain portfolio and the DOB portfolio. It is arguable that consumer associations to chain brands will be affected by store heterogeneity in the same way as brand associations are affected by product heterogeneity. Consequently, the distributor must position the brands in the respective portfolios so that the consumer perceives that the brands are used for offers that are homogeneous enough to lead to distinct, positive, associations. Using the brand for heterogeneous offers - either stores or products - in terms of quality, price, service, etc., will increase the risk for brand dilution. If the name strategy is built on the transfer of associations between DOB's and chain brands, there must also be a correspondence between the products and the store concept if the common brand is to be strengthened. Should such a correspondence not be achieved, the result may be brand dilution and the creation of unwanted associations to the brand.

In terms of brand profile and differentiation, an optimal brand strategy for a distributor thus requires that:

1. The chain concepts are branded and positioned in such a way that the chain brands are used for similar stores.
2. The DOB are positioned and branded in such a way that the DOB is used for similar products.
3. Associations between the chains and the DOB's are formed in such a way that the DOB's and the chain concepts reinforce one another and, by this, reinforce the common brand. Distribution of DOB's with specific chain associations should, thus, be restricted to the stores within the chain to avoid brand dilution.

Given the perception within the two organisations that the volumes that can be generated by individual chains, e.g., Gröna Konsum, Rimi, and Prix, are too small to be profitable, DOB strategy will continue to be defined by a balance-act between profitability and profile. These goals are, thus, to some extent contradictory on a small Swedish fmcg market.

6.4. THE INTERNAL SUPPLIER

In the theoretical framework it was suggested that the relative profitability of DOB's compared to manufacturer brands is dependent on the distributor's ability to perform marketing and product related functions in such a way as to achieve a lower cost than the purchase price of manufacturer brands. Alternatively, the distributor has to compensate costs for DOB operations with other gains from own brand marketing. When launching a DOB, the distributor organisation should, thus, balance financial, operative and competitive gains against the loss of services offered by the manufacturers, e.g., supplier marketing and sales/promotion assistance. We have already discussed the creation of consumer loyalty and the cost reduction of advertising and promotions costs that the use of a chain-associated DOB over several product categories can yield, but there are additional factors that a distributor – theoretically – should be able to benefit from. Distributor organisations do not need to buy distribution (at least to the extent that they can control the organisation's stores), and they can – at least potentially – benefit from their proximity to the consumer market when developing new products. Furthermore, distributors can identify brand/product positions within a specific store concept's assortments rather than on a whole market, which enables them to find niches not readily identifiable to manufacturers.

In the material, we find that the two organisations have succeeded in some of these areas, while they have experienced difficulties in others. One interpretation of the distributors' launches of environment friendly detergents is that the organisations used their proximity to an increasingly environmentally conscious consumer market to innovate before the multinational companies detected this trend. Another interpretation, however, is that these multinational companies considered the green segments within the Swedish market as too small to motivate the investment.

As has been suggested earlier, the two organisations have not targeted the leading brands when positioning their DOB's, this due to these brands' consumer attractiveness and due to their owners' investment in marketing and product development. The task for KF's and ICA's DOB developers should, thus, not be to compensate a loss of the brand leaders with DOB operations, but rather to make these operations profitable enough to yield better margins than the smaller brands. Interestingly enough, the material suggests that the distributors base their claim that DOB's are more profitable than manufacturer brands on the marginal advantage over the brand leaders. It is the decreasing margins on these brands that are seen as the main reason for the DOB development during the 1990's.

The intensive use of sales forces in Sweden is asserted to be reflected in the brand leaders' margins, but this is, however, a complex issue. As we have seen earlier, both organisations are dependent – at least their larger stores – on the services provided by the sales representatives. DOB operations could, thus, lead to a transfer of profits from stores to products should it lead to a reduction of the use of sales representatives. It seems that though DOB's may work as a way of pressuring manufacturer margin, their main role is to generate profits given a competitive situation. DOB aims are, by this token, static rather than dynamic; making money given a situation rather than changing the situation. This is also in line with the view that the category leaders – who pose the largest margin problems – are not the main targets of KF's and ICA's DOB's.

Turning to the question of how the cost of DOB operations is related to the gains from these operations, i.e., the absolute DOB profitability, both organisations assert that their DOB's are profitable, both on the wholesale and retail level. It is, however, questionable if this profitability is derived from the ability to substitute advertising with promotions, and to have a secured distribution, as suggested in the literature. Looking at the material in this study, we find that the organisations have a limited ability to control promotional activities, and that distribution is a question of persuasion within ICA – and to some extent within Gröna Konsum. Respondents within KF suggest that even though the organisation perceives that it controls store operations within at least the KF Stormarknad and Prix concept, few if any attempts have been made to use this control to promote DOB's. Furthermore, both ICA and Gröna Konsum find it difficult, or impossible, to control the stores' allocation of shelf-space. Within ICA, there is an additional problem of avoiding brand dilution through heterogeneous consumer pricing in the associated stores, which in some cases has the effect that the hypermarkets within the federation refuse to include DOB's in their assortments.

An internal study made by ICA in 1994 based on experiments within six stores concludes that giving DOB products prime positions in the shelf leads to substantially increased average store margins, and that the market leader increased its sales while the DOB's took sales from the second and third tiers. However, the study points to the importance of using well informed sales representatives that do not assume that the store is positive towards DOB's, but is able to sell the products with good arguments and sales material. The sales representative should also be prepared to rearrange the shelf to be allowed to place DOB's in the prime positions. In general, the sales force is considered a key function in DOB marketing.

Investigations carried out by students within the ICA School (ICA's internal education department) support the notion that ICA's DOB strategies may suffer from heterogeneous allocation of shelf-space and pricing. Consumer prices on DOB's varied considerably between the investigated stores (in some cases with over 100 percent). In some cases DOB's were priced in a way that yielded high margins but generated moderate sales volumes, possibly due to them being given considerably less shelf-space than manufacturer brands with small – or even negative – margins. In other stores where DOB's were priced in a way that yielded small margins, products generated large sales volumes, and in some stores were given considerable shelf-space.

Retailers within ICA are, on the other hand, positive to DOB's. A study made by Delfi, shows that the ICA retailers are most optimistic in terms of the DOB development within the coming 5-year period – 58 percent believe that this share will increase considerably, compared to 40 percent in KF and the "third block". (DaglivaruAffärer, February 1998, p 13)

Apart from the varying control over assortment, price, promotional activities, and shelf-space allocation, the respondents within KF and ICA perceive that there are other factors within the organisations that may hinder their DOB operations. In ICA's case, these problems are to a large extent generated by the division of labour between the central organisation and the regions in terms of sales efforts and marketing. In KF's case, respondents suggest that the role of the DOB department is somewhat ambiguous – while some consider this department a support function, others see it as an internal supplier. The DOB department's role as an initiator of DOB projects is criticised both among respondents from the DOB department and from the category management organisation. The former group perceives that the DOB department's limited resources do not allow it to act as an internal supplier, while at least one of the category managers feels that the DOB department has a tendency to control what products the concepts should have in their assortments. Some respondents believe that the separation of the DOB department from the concept organisation has created a strong "not invented here" tendency among some of the concepts' category managers. Furthermore, some of the respondents suggest that there are negative feelings towards DOB's in KF due to the negative heritage from the own industry operations. Unlike ICA, there are also respondents from the category management organisation who suggest that the DOB department lacks in product knowledge, while KF's DOB manager suggest that there are competence problems within the category management organisation, and that brand competence is concentrated to a small group of individuals within the organisation.

It is, thus, fair to say that both organisations have factors that may hinder their DOB operations, and while most of these hindering factors can be found at the retail level within ICA, it is the central organisation that generates most of the problems within KF. Integration seems to be a question of degree of control, and as suggested by this study, much attention should be devoted to the organisation of the internal operations when developing DOB's.

6.5. DOB STRATEGY – PROACTIVE OR REACTIVE?

As suggested by the interviews, there has been an ongoing debate within the Swedish fmcg market over the shielding issue, i.e., that the distributors allocate too much shelf-space to their DOB's in comparison to the DOB's market shares. The views within ICA on this matter is that the organisation lacks the ability to make such allocations of shelf-space, while respondents within KF admit that the organisation over-allocates shelf-space to their DOB's when making product launches, but that these products receive a proportional shelf-space after the introduction period. Figure 16 presents the results from a survey of retailer attitudes towards shelf-space allocation made by Delfi.

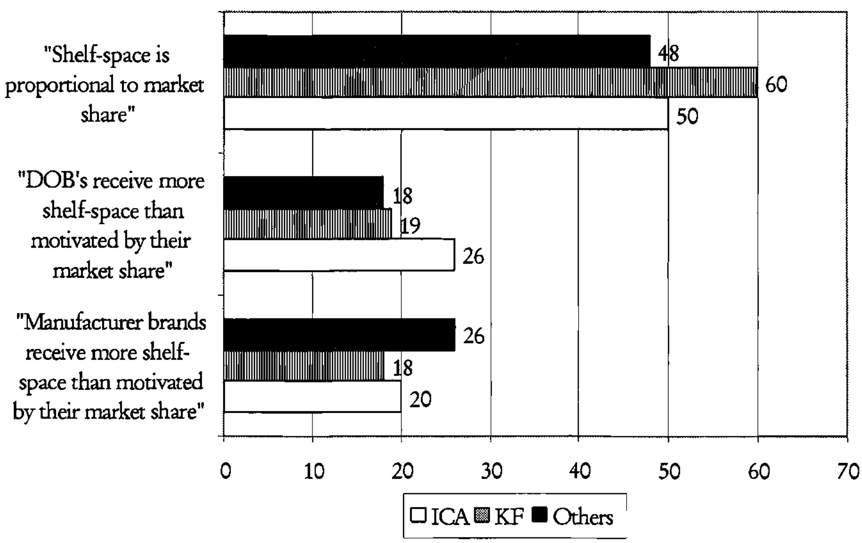

Figure 16: Retailer attitudes to shelf-space allocation (source: Delfi)

According to these figures, 50 percent of ICA's retailers feel that shelf-space is proportional to market share, a notion which is shared by 60 percent of KF's retailers. 20 percent of ICA's retailers believe that manufacturer brands receive more shelf-space than motivated by their market shares, while 26 percent believe that the organisation's DOB's have more shelf-space than motivated by their market shares. The corresponding figures for KF's retailers are 18 and 19 percent respectively.

Given that DOB's are not sold outside the distributor organisation's stores, share of the total market would render DOB's less shelf-space than motivated by their share of the stores sales. Furthermore, the interviews within KF and ICA suggest that shelf-space should be allocated based on profitability, rather than on market share. In the debate, manufacturers have accused distributors for shielding, i.e., giving more shelf-space to DOB's than motivated by their market shares. Given that the distributors perceive that DOB's yield better margins than leading brands, it is somewhat puzzling that they refute these accusations – if DOB's were to receive shelf-space according to their national market share and not to their profitability, they would hardly make it to the shelves at all.

The interviews outside KF and ICA show that there is a clear demarcation line between the thinking within ICA and KF and within the "third block" as to how shelf-space should be allocated – based on market share or on profit share. The former could be seen as related to the consumers' choice, the latter as an inside-out perspective – store profitability rather than consumer choice probability.

When looking at the contradictions in the interview material concerning why the DOB's were developed – as a response to eroding margins on brand leaders – and the organisations' strategies – to attack the smaller brands rather than the leaders – one might question if the shielding debate is not missing the point. Given that distributors realise that the leading brands are strong enough to endure a reduction of shelf-space – and given that the owners of these brands invest in sales forces that replenish the shelves – DOB's could be seen as a *reaction* rather than as the *cause* of this re-allocation of shelf-space. In such a situation, a distributor that perceived that more shelf-space could be devoted to other brands than the leaders without decreasing the stores' attractiveness would have to choose between including more manufacturer brands and launching DOB's.

The first alternative would lead to increased costs for distribution and also to handling more manufacturer contacts, while not creating a sustainable differentiation, i.e., one that is difficult for competitors to copy, for either the store or the wholesaler. Using DOB's, a wholesaler within a voluntary chain could create a point of differentiation vis-à-vis the retailers, i.e., the DOB's would not be found outside the distributors' wholesale assortment, which could tie the retailers to the wholesaler. The retailers, on the other hand, could still make a majority of their earnings on leading brands, but at the same time make some earnings on DOB's with high margins even if these brands did not yield large sales volumes. In addition to this, both the retailer and the wholesaler would exclude a part of their assortments from direct price comparisons, either with other retailers or with other wholesalers. If the DOB's were used as a means of pressuring manufacturers, this strategy would also give the wholesaler an increased influence in negotiations with the remaining manufacturers.

The same reasoning would be applicable to an integrated chain, with the difference that the distributor would not have to differentiate itself vis-à-vis its retailers or to reduce the price comparability of parts of its wholesale assortment. As discussed previously, DOB's can also reinforce and change the distributors' profile in the eyes of the consumers, thus creating loyalty on other grounds than just price-level on the leading brands. In this way, then, manufacturers should be more concerned with the paradigmatic shift from market share to profit share as a base of shelf-space allocation than on the emergence of DOB's. This way of allocating shelf-space leads to a reduction of what the manufacturers battle over - exposure in the store.

6.6. THE FUTURE DOB DEVELOPMENT IN SWEDEN

> *"We include DOB manufacturing in the total business that we have with the chains. Five or six years ago, our company was rather determined not to enter this business. Today, we have concluded that DOB's have come to stay. In this situation we have to regard this business in the same way as we regard our other business operations."*
>
> Göran Engehult, Kungsörnen[19], (Dagligvaruaffärer, February 1998, p 15)

Although sharp in their reactions to the emergence of a new breed of DOB's in the early 1990's, most manufacturers now seem to have accepted the new competition in the shelves. Both ICA and KF have communicated to manufacturers that the goals that they want to attain with their DOB strategies are modest - 10 and 30 percent - in comparison to the DOB shares of many European chains. While ICA regards the development in the UK as an example of how an aggressive DOB strategy may backlash if too much pressure is placed on the manufacturers, KF tends to see the international chains with large DOB shares as the role-models of its own strategy formation.

When commenting on the future development of DOB's, however, the organisations share the view that DOB's will play an important, but not dominating, role in their assortments. Interestingly enough, not only distributors' but also manufacturers' attitudes towards DOB's seem to be based on the development in countries like the UK, else it seems strange that the relatively modest goals and results within Swedish fmcg distribution would cause so much concern among the Swedish manufacturers.

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[19] Kungsörnen is supplier of products to - among others - KF's Blåvitt and ICA's Sunda.

The emergence of DOB's may be seen as an effect of a change in the balance between distributors and manufacturers, and it is apparent in the material that the distributors have become more demanding in their relations with the manufacturers. To some extent, this may be an effect of the learning process that the organisations have gone through in terms of the cost structures of branding and manufacturing through their own DOB operations, to some extent it may be an effect of working with professional organisations in international alliances. Another contributing factor may be the inspiration from other markets where distributors have placed higher and higher demands on brand manufacturers.

As we have seen in the previous chapter, the respondents within both ICA and KF suggest that the organisations seek deeper, long-lasting, and open relationships with both brand manufacturers and DOB manufacturers. It is not a question of winning negotiations, but rather to enter constructive discussions of how to better serve the consumer and to share information pertaining to e.g., product development and marketing activities and ECR activities. This notion is supported by an interview with Jaliya de Soysa, ICA in 1996:

> *"In the first place we should agree on the problem formulation with the suppliers that are willing to participate in the co-operation. These organisations must be prepared for a total openness in the co-operation, and should also be prepared to let the consumers retain the possible cost reduction generated by the co-operation... The new kind of relationship that we seek is not restricted to large companies – to be able to satisfy all consumer needs, smaller manufacturers are needed as well...* "
>
> (Dagens Resumé, 13/11 1996)

According to the article, in addition to these requirements, ICA wants the manufacturer to meet the following demands. Firstly, the management of the partner organisation should be engaged in the relationship. Secondly, the supplier should have the adequate technological maturity since many of the inter-organisational contact will go through EDI and computers. Thirdly, the organisation has to accept new rules and new business conditions. Fourthly, the organisation must see the potential for a new kind of co-operation.

The interviews within ICA and KF further suggest that it is primarily the smaller manufacturers that have been willing to adapt to these demands and to consider manufacturing for DOB's, while the larger, multinational, companies are less willing to do so. Some of the respondents suggest that even these large organisations are slowly changing their strategy towards co-operation. The smaller manufacturers on the Swedish market are the ones that are most interested in manufacturing DOB's. These companies see DOB manufacturing as a way to broaden their market. Lars Barkström, Diskteknik, expresses this notion:

> *"The market is dominated by large, centralised, European companies. By manufacturing for the distributors, we avoid all marketing costs."*
>
> (Dagligvaruaffärer, February 1998, p 15)

Both ICA and KF perceive that there are a vast number of specialised manufacturers that can be used when acquiring DOB manufacturing, but the strategy seems to be to form lasting relationships to a limited number of manufacturers, partly because this enables them to become a prioritised customer. In some instances, perceived product quality is affected by where products are manufactured, e.g., locally grown foodstuffs, why there is a need to use Swedish DOB manufacturers.

Given that the smaller manufacturers are more willing to co-operate, and given that there is a perceived necessity to produce some of the foodstuffs locally, it is not surprising that a large share of the organisations' DOB manufacturers can be found in the Nordic countries. 60 percent of KF's DOB products are manufactured in Sweden, and 50 percent of the DOB products that are acquired outside Sweden are manufactured in Finland and Norway. 40 percent of ICA's DOB products are manufactured in Sweden by 75 Swedish suppliers, often local and non-dominant. (Dagligvaruaffärer, February 1998)

The development of DOB's will continue, but since neither KF or ICA aim for the brand leaders, and since the smaller manufacturers to a large extent seem to meet the organisations' demands on co-operation, we will probably not see assortments dominated by DOB's in the future. The category-by-category approach and delegated control over the assortments used by both distributors does not lend itself to the realisation of overriding goals pertaining to DOB shares in the assortments. Using examples from other countries where distributor organisations are highly integrated, and where these organisations share the control of extremely large markets, may thus lead us to erroneous prognoses of the Swedish DOB development. Sweden is a small market, its distributors are more inclined to co-operate than to use power in their relations to the manufacturers, and the resources that can be directed towards DOB operations are limited. Furthermore, while ICA cannot exercise any direct control over its retailers due to its federative form, the extent to which KF can act as a fully integrated distributor organisation is questionable.

6.7. STRATEGY REVISITED: PLANS, GOALS AND PATTERNS

Although much research effort has been devoted to developing sophisticated response models for brand managers in manufacturer companies, less effort has been devoted to aid decision-makers within distributor organisations when it comes to branding issues. The result is that decision-makers within manufacturer firms have a number of both deterministic and non-deterministic strategy models to choose between, while their colleagues in distributor organisation have a more difficult time to find models adapted to their needs.

The results in this study have highlighted a number of contradictions between the organisations' strategies and their behaviour. DOB's are motivated by their ability to generate better margins than leading brands, but - at the same time - both organisations claim that they are not aiming for these leading brands when developing their DOB programmes. Both organisations have official goals in terms of how large the DOB share should be within the coming years, yet the product portfolio is the result not of an overriding strategy, but of hundreds of category specific decisions made by the category managers. Both organisations claim that DOB's are used to build chain profile, yet both organisations sell their DOB's in more than one chain.

When looking at these results, one may question if there is a link between goals, strategies, and operations in the two organisations. Top management within the organisations set goals inspired by international DOB successes but are not involved in the formation of the strategies through which these goals are to be attained. Category management make numerous decisions based on the profitability structure within their respective categories, but this work is to not guided by either strategic nor tactic considerations on the brand level. In this situation the DOB departments become brand suppliers that act in the void between general goals and product related decisions.

In absence of relevant decision-models, decision-makers within the organisations must rely on the collective perceptions of how aims and approaches should guide DOB operations. These perceptions may be as contradictory as the resulting strategies, but since they are shared within the respective organisations, they serve the purpose of strategic guidelines.

The aim of this study has been to investigate how an array of organisational and market related factors are perceived by distributor organisations, and how this is expressed in the organisations' own brand strategies. The results show that although we may not find strategies in the form of consistent plans within the two organisations, their responses to the proposed determinants are neither automatic nor random. They are intentional responses based on the decision-makers' perceptions of both their own organisations and of the surrounding context.

7. SUGGESTED RESEARCH

"We may give advice, but we cannot inspire the conduct."

Francis, Duc de La Rochefoucauld. 1613-1680, *Maxim 378.*

During the completion of this study, several potentially interesting research questions have emerged. As mentioned earlier, seven interviews were made within the "third block", i.e., the wholesaler Dagab and the chains connected to this organisation, to learn more about ICA and KF from an outside perspective and to contrast the material derived from these two organisations. Among these seven respondents, some had very strong views against DOB's, while others discussed the obstacles that small, non-integrated, organisations encounter when developing DOB's. It would, thus, be of interest to probe further into these organisations' strategies to get the "full picture" of DOB strategies within the Swedish fmcg distribution system.

This study has focused on the central organisations within KF and ICA, and – given the perceived influence of the organisations' individual retailers on DOB strategy – it would be of interest to investigate the attitudes of these retailers. How do these retailers perceive the central organisations' DOB strategies? How do they regard the issues of shelf-control, promotional activities?

Another group of interest is the manufacturers – how do these organisations perceive the development of DOB's within Swedish fmcg distribution? How will they handle the demands for close co-operation, and sometimes DOB manufacturing, in the future? What differences in strategies are there between smaller manufacturers and larger ones?

A fourth area of interest is consumer attitudes towards DOB's and the behavioural correlates of these attitudes. Since 1987, *Center for Consumer Marketing* (formerly the Foundation for Distribution Research), has collected EPOS data from Swedish stores in an ongoing research project. Besides sales data for all products in the supermarkets, the resulting database also contains information of in-store-promotion and of advertising for each of the products. Apart from consumer surveys, it would be of interest to investigate how DOB's relate to leading manufacturer brands in terms of promotional elasticity, advertising, and consumers proneness to buy DOB's in different product categories.

In this study, a structured analysis of interview data - the Framework approach, which was originally designed for structuring and analysing qualitative data for policy-making - has been used to investigate the complex issue of DOB strategies within two Swedish distributor organisations. The rationale for using this approach was a perceived need to "tap into" the perceptions and strategies within these two organisations, and to use this as a point of departure rather than to measure the correlations between various determinants and DOB penetration in different product categories. The results presented differ from those presented in previous, more deterministic, research and will hopefully contribute to a richer understanding of at least DOB development within the Swedish fmcg sector. A question, then, is how this approach can yield interesting results when studying strategy formation pertaining to, e.g., the implementation of POS scanner systems, planograms, etc. Furthermore, it would be interesting to see how this approach can contribute to our understanding of complex issues in general - both within marketing and management research.

In this study, a number of factors have been discussed in terms of their effects on DOB development - and more specifically on DOB strategy and DOB operations. This list has proved to be relevant when making the interviews since it has been able to address the central issues at hand. However, since the theoretical framework has - at least - guided the interviews, there may be other factors that come into play when explaining the development of DOB's on a market. It would thus be of interest to attempt to find other factors that influence DOB development within the Swedish fmcg system. As stated in the first chapter, one should be cautious when making generalisations from one market to another, and it would thus also be interesting to test these factors outside both the fmcg sector and outside the Swedish context.

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Appendix 1: The Thematic Framework

1. Presence of Strong Manufacturer Brands

A. Perceptions of if, and if so why, manufacturer brands are needed in the assortment when competing for consumers.
B. Perceptions of the relationship between manufacturer brand strength and the ability to launch and maintain DOB's within a product category.

Examples of phenomena

- The influence of strong brands on customers' store-choice
- Extent to which consumers are loyal to various brands
- Manufacturer brands' role of driving category development
- The use of manufacturer brands to attract customers
- Competition with smaller, undifferentiated, brands
- Shielding

2. Level of Advertising and Promotions

A. Perceptions of the effects of manufacturer advertising and promotion on, e.g., consumer knowledge, attitudes and choice on both the product category and brand levels.
B. Perceptions of the effects of own promotion and advertising.

Examples of phenomena

- The use of sales forces to achieve exposure in the stores
- The effects of manufacturer advertising to educate consumers and generate demand
- The relative effects of promotion and advertising for small and large manufacturer brands

3. Consumer Perceptions of Distributor Own Brands

A. Perceptions of different consumer segments and their overall DOB proneness.
B. Perceptions of opportunities/ difficulties for DOB's in different product categories in terms of, e.g., innovation rates, consumers' perceived risk in making their purchase decisions, their ability to make quality assessments, appropriateness of the DOB(s) in the category, and the degree to which DOB's can offer adequate and consistent product quality.
C. Perceptions of how consumers perceive the organisation's brands and the fit between these brands and chain image.
D. Perceptions of how consumers perceive the fit between, and number of, product categories in which the DOB's are used.

Examples of phenomena

- DOB issues in terms of e.g., acceptance, apprehensions, and positioning of the brand
- Views of which consumers buy DOB's
- Views on how consumers perceive risk when buying from a product category
- Views on consumer perceptions of quality differences between DOB's and manufacturer brands
- Risks of positioning DOB's as value-for-money or low-price in terms of quality perceptions
- Packaging strategies; facing off category leaders vs. common appearance of DOB products
- Views on which products can be sold under DOB's and within which product categories

4. Market Concentration and Internationalisation

A. Perceptions of the organisation's relative influence over manufacturers operating different categories based on, e.g., size and share of – and control over – the national retail sales in the product category, and influence through international alliances.

B. Perceptions of the DOB related benefits that can be accrued from international alliances.

Examples of phenomena

- The importance of the organisation as a customer to manufacturers
- The extent to which retail sales are controlled by the central organisation
- Effects of manufacturer and retailer internationalisation
- Effects of international alliances in terms of negotiation power and DOB operations

5. Manufacturer Response to Distributor Own Brands

A. Perceptions of the co-operative, adjusting, or competitive measures taken by the manufacturers operating in different product categories.

B. Perceptions of manufacturer's reactions to DOB's and of the availability of DOB production.

Examples of phenomena

- Resistance to DOB development, e.g., differentiation
- Adaptation to the development, e.g., decreased margins
- Co-operation, e.g., product development, ECR
- Different manufacturer reactions to DOB development and changes in these reactions
- Attempts to sell manufacturer brands through DOB manufacturing

6. Assortment Planning

A. Perceptions pertaining to assortment composition, e.g., the risk of cannibalisation among DOB products, the level of manufacturer margins, and the degree to which the number of SKU's can be reduced and partially replaced with DOB products.

B. Perceptions of the organisation's ability to perform brand operations, e.g., branding, procurement, production, in such a manner as to compensate the costs induced by DOB operations with other gains from DOB marketing.

C. Perceptions, and use, of EPOS data, profitability measures such as DPP and space management systems.

Examples of phenomena

- Product questions
- Assortment questions in terms of depth/breadth, what products, what prices, cannibalisation, DOB products
- Differentiation between competing and own chains
- Important aspects of manufacturer brand products/manufacturers
- Ability to take on product development and branding competence
- Profitability aspects on DOB's
- Price differences between DOB's and manufacturer brands
- Possibilities to clean up the assortment through the use of DOB launches
- Shelf-space allocation
- Signals for launching DOB's
- Knowledge about production costs through DOB operations

7. The Organisation of Wholesaling & Retailing Operations

A. Perceptions of the extent to which the central organisation can force, or persuade, individual retailers to include the DOB's in their assortments.

B. Perceptions of the extent to which DOB's can be priced and promoted in the stores so as to avoid brand dilution and price competition within or between the organisation's chains.

Examples of phenomena

- Local adaptation of the assortment
- Relations with retailers and co-ops
- Internal DOB marketing

8. DOB Strategy as Plan

9. Other Factors

A. DOB development during the 1990's

B. The future

C. The organisation and process behind DOB operations

D. International inspiration

E. Views on competitors

Appendix 2: The Steps from Protocol to Chart – An Example

THE INDEXED PROTOCOL

The first step in the Framework process is to index all the protocols using the conceptual framework.

Text in protocol	*Index*
" In the future – to reinforce, if there is to be any image around Signum – there is a need to add some products, but the DOB as such will never be a premium brand. It demands so much of product development, of knowledge, and resources. Things that we no not possess, we can get them, but for this little organisation and this little market, I think it's difficult. My small department encompass 20 people, the corresponding unit in Sainsbury's or Tesco is... actually, there is no such corresponding unit because everyone works with this, and this means that they have maybe 1,000 people, that's the proportion."	3C 6B 9D/6B

As illustrated in the above table, three parts of part of the interview were indexed. The forming of an image around the DOB was deemed to belong to the forming of consumer perceptions of the DOB (3C). The perception of demands on different organisational resources to create a premium brand was deemed to belong to the category concerned with perceptions of the own organisation's ability to perform brand operations (6B). Finally, the perception of the DOB department's size – both in absolute and in relative terms – was deemed to belong to both to 6B and to 9D (International inspiration).

As discussed in Chapter Four, the lack of explicit guidelines in this process demands a combination of experience from indexing the material and a thorough understanding of both the empirical material and the theoretical aspects of the various factors. This made necessary to go back and re-index interviews during the learning process, and also in some instances to sacrifice precision when using double indexes.

THE CHARTS

The second step is to create charts for each of the subject areas where the corresponding text from the protocols was condensed and translated into English.

	Consumer Perceptions of DOB's
EVP	
DM	• The brand Signum will not be positioned as a premium brand, but the need may arise to build image by adding some products.
KFA	

	Assortment Planning
EVP	
DM	• A premium brand positioning demands a too high level of product development, knowledge, and resources. These resources are not available, but could be acquired. For such a small organisation and such a small market this would, however, be difficult. KF's DOB department has 20 employees, the equivalent at Tesco or Sainsbury's would be 1000 people.
KFA	

	International Inspiration
EVP	
DM	• KF's DOB department consists of 20 people; the equivalent at Sainsbury's or Tesco - if they have one since all employees work with DOB's - is maybe 1 000 people.
KFA	

As shown in the above tables, the condensed material is organised in a case by case order in the respective charts so that cross-case analyses can be performed.

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