



BRAND PORTFOLIO OPTIMIZATION: FOR FEWER, SMARTER, MORE PROFITABLE BRANDS

EXECUTIVE SUMMARY

For retailers and CPGs, the marketplace is changing dramatically. No longer exclusively following CPG trends in product offerings, retailers are creating their own brands to leverage their advantages in agility and speed to market and to reinforce – and benefit from – their increased understanding of consumer needs and the increasingly positive image of their own store banners.

But with increased authority and ambition within their own stores, retailers are discovering that they must become as competent as CPGs in the crucial areas of

brand architecture, product mix and brand management from the top down, including corporate, store and product marketing. In short, they are challenged like never before to generate compelling and consistent brand offerings. This requires brand portfolio optimization. A former DMB&B vice chairman has termed it “the value-producing marketing approach of the next decade.” Schawk describes it as:

The alignment of a retailer’s branded product offerings to support the corporate positioning and create an ownable point of difference in the marketplace.

Retailers now create brands that match distinct consumer wants, often more quickly than CPGs, more nimbly and with equal insight into the consumer.

THE OPPORTUNITY TODAY: THE RETAILER PERSPECTIVE

In the past few decades, the process that determines the product mix at a retail store has changed drastically. As recently as ten years ago, it was driven by CPGs, who innovated products and determined categories and offerings for retailers, and even influenced store layout. Retailers' role in product selection was usually as a "follower," offering relatively unsophisticated private label or store brands as a value alternative when it was opportunistic. For retailers, this was enough, as it gave them some margin benefits and helped position the national brands as more innovative and of higher quality, justifying their price.

But the strategy is maturing. Retailers now create brands that match distinct consumer wants, often more quickly than CPGs, more nimbly and with equal insight into the consumer. Retailers have been compiling club card data for many years, and have tracked the trends of consumers shifting to store brands and private label. Combining this behavioral data with attitudinal data from primary research uncovers unmet shopper needs.

At the same time, retailers have learned how to polish their own store images, as Trader Joe's, Target, Safeway and others now boast enough brand equity to position their store brand products as high-quality value alternatives to national brands, and their private label products as superior. Consumers increasingly agree with these propositions.

Retailers leverage this through other advantages, too. Brands from retailers like Target, Trader Joe's and Wal-Mart have come to embody broad lifestyle aspirations of various kinds, and they can leverage this across more categories than most CPGs can. Few CPG companies have the means of production and the in-store real estate to present lifestyle brands that cross traditional category bounds. But retailers can. Another point of leverage for retailers is that their sophisticated data and agile production allow them to track CPG purchase trends and come out with competitive new products before CPGs can recoup development costs on theirs.

For all these reasons, retailers have arguably their best opportunity for significant marketshare in half a century. In strategy, production and consumer perceptions, they are poised to control the shelves – and aisles – for the long term. And if they can cement this control in a tough economy, the benefits could be even greater when the economy improves and consumers are ready to accept more higher-end offerings from trusted private label brands. Retailers are also making moves now to sell their private label goods in other retail outlets – a testament to how much their brands now look and behave like national brands. This represents a great opportunity.

The CPG Competition

In these ways, retailers are taking greater control of their own store space, and this puts additional pressure on CPGs. Today,

CPGs must provide products increasingly to the retailer's promotional specifications, and with fewer POP and POS opportunities, they also must make sure that on-the-shelf packaging is optimized for effectiveness. After many years of price cutting to stay competitive against other CPGs and private label – and now in a tough economy – CPGs must make complex portfolio choices, to meet consumer demand nimbly and at an advantageous price point. In addition to these challenges, CPGs are not favored with the means or in-store leverage to roll out the breadth of category-crossing brands that a retailer can. And their confirmed role as product innovators always creates cost pressures that weigh against lowering prices.

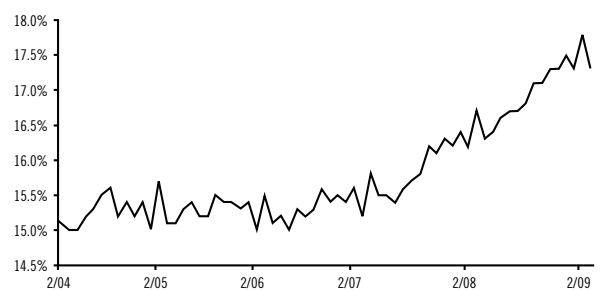
The Result for Retailers

The door is open for retailers to build ever stronger private label and store brands that compete not only on price and benefit but on brand image and loyalty, as well. The door is also open to broader distribution. As private label products increasingly look like national brands and perform like them, there are fewer barriers to where they can be sold.

Why Now?

There is a "perfect storm" today for private label and store brands. With the overall image of the private label concept improving – thanks also to higher product quality – a deep recession has made shoppers even more willing to try private label and store brand offerings. Private label in the U.S. grew roughly six percent in the three years leading up to the start of the recession in 2007. But it grew nearly 10 percent in less than two years after that, according to The Nielsen Company. And there is a widespread feeling that if these brands are generating trial today and are embraced for their value proposition and a polished brand image, they can leverage trust and familiarity to up-sell consumers to premium products as the economy recovers.

Private label share grows as the U.S. economy struggles



Source: The Nielsen Company

THE ENVIRONMENT TODAY: THE CHALLENGES

When a retail chain's brand portfolio is optimal, everything is in sync. The chain's corporate message is expressed at the store level and at the product level, consistently. At the product level, there is appropriate message consistency within brands and across categories, and there is a product mix that reflects good opportunities to strategically complement, compete with or "fill in the blanks" around national brands.

Brand portfolio optimization positions retailers to leverage their increasing strengths in a changing marketplace and a challenging economy.

But this goes against traditional retail expertise, wherein corporate imaging is not always tied to traditional retailer merchandising strategies. Until recently, retailer merchandising teams were tasked with creating private label brands to tactically compete against the CPG offering within their categories. While this approach generated opportunistic revenues, the result was a proliferation of brands that had little or no value beyond one or two categories. This “siloed label creation” is at odds with the integrated, holistic approach that’s necessary for brand portfolio optimization.

BRAND PORTFOLIO OPTIMIZATION: THE SOLUTION

Retailers today need to make highly informed decisions on brand architecture and product mix. They must ensure that the growing consumer respect for the store banner is leveraged by individual product lines and brands through experiences that are both compelling and consistent with the corporate message. And this requires a newfound synthesis among the marketers who oversee the corporate image, those who oversee retail advertising, and the purchasing departments, who have traditionally focused on stocking the shelves on an item-by-item basis, without regard to brand consistency.

Brand portfolio optimization achieves all of these. It allows retailers to achieve logic and consistency at all levels of marketing and inventory. It determines the right mix of private label and national brands, and eliminates illogical redundancies and unproductive competition. It fosters consistency in overall brand message across corporate, individual store and individual brand underneath the banner. And above all, it positions retailers to leverage their increasing strengths in a changing marketplace and a challenging economy.

Most of the time, brand portfolio optimization is the process of formulating fewer, smarter, more profitable brands under one corporate banner, for logic, agility, consistency and shelf impact. Occasionally it involves expanding opportunistically within a specific category. But in every case, it’s the process of aligning the broader corporate objectives at all levels of marketing and making sure that the product portfolio expresses those objectives through its mix and timing. And brand portfolio optimization involves developing a rigorous internal discipline to keep corporate marketing, retail marketing and sourcing on the same track.

The Brand Portfolio Optimization: The Process

The process comprises several steps:

Corporate positioning analysis. What is the retailer’s desired image in the marketplace? What is its competitive point of difference against other retailers? What combination of value and aspiration does it desire? Is it achieving it now?

Pillar definition. Pillars are brief, key concepts – usually three to five for a portfolio of brands – that define corporate expectations and the consumer expectations and perceptions the portfolio must deliver against. For example, there will always be a “value” or “staple” pillar but the more strategic pillars push the consumer relationship further (e.g., “holistic health” or “discovery”).

Brand portfolio analysis and optimization. This involves an inventory of the retailer’s offerings and an analysis of how well it aligns with the corporate positioning and desired consumer interpretation. Where are redundancies? Weak offerings? “White space” opportunities? What is the point of entry and where should we compete (value, national-brand-equivalent, premium)?

Deployment. This involves many things:

- **Sourcing and setting criteria for new products.** How does a product extend and grow the brand? Does it fit in with approved categories, such as dietary trends or shopping patterns? Is the opportunity significant? At what price points? At this stage, a thorough process for approving new products is developed.
- **Merchandising.** How will the brand be promoted and developed post-introduction? How to keep the brand relevant in consumer terms?
- **The vendor community.** Making it clear to vendors what types of products fit with the portfolio, to receive better input from them.
- **The merchant.** Developing communications processes that prepare merchants for products, to ensure appropriate slotting and merchandising activities.
- **Marketing, advertising, P.R.** Strict communications tools and guidelines are developed to ensure awareness across the spectrum of retailer audiences – end consumers, store associates and financial markets.

Communicaton. This is the strict discipline needed to make sure that the portfolio remains optimized as marketplace realities change, and to make sure that all levels of the corporation work to generate and promote the portfolio.



Schawk, Inc., (NYSE:SGK), is a leading provider of brand point management services, enabling companies of all sizes to connect their brands with consumers to create deeper brand affinity. With a global footprint of more than 48 offices, Schawk helps companies create compelling and consistent brand experiences by providing integrated strategic, creative and executional services across brand touchpoints. Founded in 1953, Schawk is trusted by many of the world's leading organizations to help them achieve global brand consistency. For more information about Schawk, visit <http://www.schawk.com>.

Visit www.brandsquare.com, powered by Schawk, to participate in a one-of-a-kind, exclusive online marketing community. Registration is fast, free and easy. As a registered member, you'll have access to news and trends from leading blogs, magazines and webcasts. You will also be able to ask questions and join threaded discussions on hot topics. All this and more at www.brandsquare.com. Follow Brandsquare on Twitter at <http://twitter.com/brandsquare>.

© 2009 Schawk, Inc. All Rights Reserved. No part of this work may be reproduced in any form without written permission from the copyright holder. Schawk is a registered trademark of Schawk, Inc. The Schawk logo is a trademark of Schawk, Inc. BLUE is a trademark of Schawk, Inc.

**BRAND PORTFOLIO OPTIMIZATION:
THE BRAND POINT MANAGEMENT PERSPECTIVE**

Brand point management is a business practice for branded products and materials that integrates the many stages of a brand's lifecycle – the strategic, creative and executional – through the coordination of people, processes and technology.¹ Brand point management extends the power of portfolio optimization by carrying its rationale across strategy, creative and execution. Internally, the retailer is a pipeline that produces tremendous numbers of SKUs in a short time. Brand point management makes it more efficient to introduce products quickly and in line with the overall strategy. With retail systems, a strategic roadmap is meshed with a design roadmap. Once the strategic element of a portfolio is set, brand point managers can work with the creative team to align strategy and creative to fulfill the promise of the strategy. And when managers understand the executional demands of premedia and printing, they can “pre-develop” designs to compress the cycle times from design to execution. And the execution team travel further upstream in the process. The upshot: Where national brands can require six months to a year to develop a new product's design, private label can compress the design and execution to a matter of months.

All of this requires an entirely new workflow model and internal teams trained to work in new ways. Simply devising a design system doesn't make it happen: there needs to be a strategic roadmap, the rigor at the creative stage, strong communication at all times with executional partners and a comprehensive management rigor that ensures the workflows happen as they should. Without these, brand guideline binders stay on the shelf and the brand portfolio simply isn't optimized.

WHY SCHAWK?

Schawk is a global brand communications company whose expertise spans the strategic, creative and executional phases of the brand lifecycle and brings efficiency and consistency to the process through industry-leading technology. Schawk has extensive experience in brand portfolio optimization for major retailers worldwide. Schawk extends the benefits for its clients by carrying optimization through to the creative and executional stages in many ways: by devising brand development and workflow processes and implementing them through oversight and education; and by providing actual services across the brand lifecycle, including strategy, design, re-design, premedia, print management and fulfillment.

The integration of these services creates more compelling and consistent consumer experiences in four major environments – at home, on the go, at the store and on the shelf. And it's the integration of these services that makes Schawk's delivery of brand portfolio optimization so efficient, effective and profitable for its clients.

Where national brands can require six months to a year to develop a new product's design, retailers can compress the design and execution of a new brand to a matter of months.

1. For more information on Schawk's delivery of brand point management, see the several white papers and podcasts available on the Schawk website, <http://www.schawk.com/insights-and-work/insights>.

