



CASE STUDY – Brand Battles hit the Food and Drinks Manufacturers

With the continuing struggle for dominance of the supermarket shelf, the competition between 'Own Label' and 'Brand' products continues unabated. The comparative costs and margins between the two are an issue of concern to those involved in the manufacturing of the products, often side by side in the same factory. Has the time come for manufacturers to accept the demise of the Brand?

Life has certainly changed for the UK food and drinks manufacturers over the last fifteen years. With their growing power and search for margin, the supermarkets and multiple retailer groups have worked hard to develop their own separate image. Until now, their name implies product differentiation.

Inevitably, this has led to the growth in the market for own/private label brands. Currently estimated at £50bn, own/private label brands account for more than 45% of total sales with the major grocers. This has hit the manufacturers in two ways. First is the overall pressure on prices for lower prices and second, it has created the dilemma of how much resource should be made to support their own brands.

In market terms, there is a little light at the end of the tunnel. First, the rate of growth of own label to the retail and cash and carry trade is falling which suggests the market is moving into the mature phase. Secondly, there are notable examples of products in market segments winning back significant amounts of market share. The strategy for the manufacturers in this market must be to establish the right balance between brand and own label production and to try to hold this position until equilibrium in the market has been achieved.

Whatever that equilibrium, there is still the difficult problem of being the chosen supplier of branded or own label products and still make money. This has put manufacturers under tremendous pressure to modernise their production methods and to innovate their products. The big retailers are very demanding. They insist on significant expenditure in quality control and they require continual product innovation. The way forward for manufacturers is to continue to attack their manufacturing and administrative process costs and to adopt techniques that give greater production flexibility. This will enhance cost comparability and release cash to support investment.

To understand costs is crucial to being able to reduce them. Traditional costing is insensitive to today's complex business processes. The general ledger does not give sufficient definition to the variety of activities that go into making and selling products and services. Changes in the way we manufacture also mean that we now risk allocating an increasing proportion of our overheads to a narrowing band of direct activities.



Again, most companies are organised along functional lines and budgets. Yet, most of the company's activities, and therefore costs, run cross-functionally along processes. New activity-based management models are available which break down costs by activities and the drivers of those activities, thus giving clarity and understanding of the cost build up through the process. This clarity establishes priorities and provides management with the focus to concentrate on areas where high levels of non value-added activity can be driven out.

With new cost clarity, the cost build-up of products and the contribution of customers and routes to market can also be understood. Decisions can now be made accurately on such key matters as pricing, restyling products to enter different price bands and renegotiating supplier/retailer relationships to remove non value-added activity in the supply chain - all important components for a company setting out along the ECR route.

With this new level of understanding of their business, managers can now focus and allocate resources and budgets to those activities that are essential to meet the company's objectives in terms of the product and customer portfolio, customer service and elimination of waste.

Eliminating waste reduces lead-time. Lead-time reduction allows for greater responsiveness to customer demands and higher levels of customer service. The better we understand the cost of waste, the better we understand the added value we can give to the customer. There is no reason why such a programme, which improves customer service levels, should not also release cash tied up in process and inventory.

These are World Class concepts and the hallmarks of a company striving for World Class Performance levels. The business truths that apply to the administrative processes also apply to manufacturing. The key issues for the food and drinks manufacturer are responsiveness, the ability to visit the range almost on a daily basis to reduce stock and extend shelf life. This means range rationalisation, well conceived product exiting and innovation policies and, in addition, a production philosophy which recognises that operatives must be trained in techniques such as SMED (Single Minute Exchange of Dies) and TPM (Total Productive Maintenance). These techniques allow fast changeovers and high levels of equipment up time respectively, which reduces materials wastage. Key to this success will be the development of supplier relationships that minimise disruption to production and reduce chain costs.

The powerful supermarkets and multiples are here to stay. They provide an efficient route to market and create a demand for variety. Manufacturers must respond with greater product innovation and play an increasingly cost-efficient role in the demand chain to claim their share of the opportunity. Such changes in operation imply changes in culture. This can only be achieved through training and total Board commitment. Chief Executives must grasp this nettle if their companies are to survive profitably. The



market has changed. The consumer wants more. The retailers have consolidated to meet this demand. The manufacturers must adapt too to meet the enhanced market opportunities.



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