

Future of the Brand Management Structure in FMCG¹

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Abstract:

The aim of this paper is to contribute to the debate on the future of the brand management structure in fast moving consumer goods (FMCG) by examining current managerial perceptions of the relationship between brand and category management. The paper is based on a case study of a single FMCG category in New Zealand. The research involved in-depth interviews with managerial representatives of the majority of suppliers and retailers operating in this category. The results indicate that brand management and category management structures are not perceived to be incompatible; that the traditional brand management structure still works well for certain companies; and that it is expected to continue to do so well into the future. Changing environmental factors may call for modifications, but the modification requirements are not of nature that would lead the brand management structure to be discarded.

INTRODUCTION

Shifting power in distribution channels, advances in information technology, brand proliferation, consumer sophistication and globalisation have combined to put pressure on the brand management structure to the extent that its relevance has been questioned in academic and practitioner circles.¹⁻⁴ Of all of these factors, the rise of retailer power and the retailers' increasing emphasis on category management and category-based measures of performance appears to place the greatest stress on the primacy of the brand and the primacy of the brand manager.⁵⁻⁸ This is especially so in a country like New Zealand, which has one of the highest levels of retail concentration in the developed world.

This New Zealand based case study investigates the current status and future of brand management and category management within a single major category (dairy products) from two major perspectives; the manufacturer on the one hand and the retailer (supermarket chain) on the

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other. By restricting the investigation to a single category, the research trades on narrowness on the one hand, for greater depth on the other. In the course of this research, representatives of most major organisations operating in the category were canvassed. The results of the research are therefore but a single snapshot of the relationship between brand and category management, yet the depth does give valuable insights into the complexities of this relationship. The extensive use of quotes in this article is deliberate, as it seems best that these practitioners should speak for themselves.

This is not a pioneering article, although in its depth it does break new ground. The issue of brand and category management has been the subject of a large number of research articles; the most relevant are summarised in Table 1:

Table 1: Future of the brand management structure related research

<i>Reference</i>	<i>Title</i>	<i>Summary statement on the future of the brand management structure</i>
Low and Fullerton ⁹	Brands, brand management and the brand manager system: A critical-historical evaluation	The brand manager system can survive, but ‘... only with significant modifications’ (p.187).
Shocker, Srivastava and Ruekert ¹⁰	Challenges and opportunities facing brand management: An introduction to the special issue	Forms of organisational arrangements may change; brand management will adapt to the demands of the new environment.
Katsanis and Pitta ¹¹	Punctuated equilibrium and the evolution of the product manager	Product management is not dead at all; it is ‘... merely evolving ...’ (p. 60).
Berthon, Hulbert and Pitt ¹²	Traditional product management evolves	Concludes that ‘consumers, trade customers, competitors, and technology will ... play a role’ in shaping the future of brand management, but the ‘creative input of managers’ is a key factor in shaping that future (p. 21). Envisages three scenarios.
Homburg, Workman and Jensen ¹³	Fundamental changes in marketing organisation: The movement towards a customer-focused organisational structure	The future points to a general shift towards organisational structures focused on customers. However, none of the companies interviewed actually intended to drop the brand management structure.
Panigyrakis and Veloutsou ¹⁴	Problems and future of the brand management structure in the fast moving consumer goods industry: The viewpoint of brand managers in Greece	The brand manager system is not dead yet, but it is expected to change; ‘...the way it is implemented will not follow the traditional pattern ...’ (p. 180).

Three major issues emerge from this literature. Firstly, there appears to have been a slight pause in research in the area. The latest journal articles that either wholly or partly cover the topic,

were published in 2000; their data having been collected in 1998.^{15,16} Given that the changes in the environment were described at the time as ‘dynamic and drastic’,¹⁷ another look may be well overdue. Secondly, previous research has either investigated the opinions of manufacturer marketing/brand managers, academics and other groups. The opinions of the retailers (especially the supermarket chains) who are described in the literature as becoming a powerful force in the FMCG equation,¹⁸⁻²¹ and who are increasingly turning to category management,²²⁻²⁴ have largely been excluded. Thirdly; The New Zealand trade and retail literature has hinted at a fundamental rethink on brand management - category management is now regarded as a viable alternative to the traditional brand management system.^{25,26}

RESEARCH OBJECTIVES AND METHODOLOGY

The positions taken within the literature were contradictory, ranging from brand management being in good health, to brand management being a thing of the past, and already eclipsed by category management.²⁷⁻³³ There was a general impression that brand and category management were alternative systems with a degree of stress between them.³⁴ The possibility of compromise, and the degree to which the two systems could cohabit within such a compromise had not been regularly addressed.³⁵ The research sought, not to create a definitive conclusion with regard to these issues, but to create a portrait of the relationship between category and brand management in the words of a set of supplier and retail managers who were attempting to apply the two systems in practice, while at the same time maintaining a relationship with one another! The research sought in particular to acquire opinion in regard to the following propositions:

Current state of organising for managing manufacturer brands in FMCG (manufacturer perspective only applies to this issue): -

- 1) The brand management structure still exists as a mainstream option.
- 2) The category structure has become the dominant structure.

Perceptions on the future of the brand management structure/brand manager system (both manufacturer and retailer perspectives apply to this issue): -

- 3) The brand management structure is considered to be outdated.
- 4) The category structure will replace the brand management structure.
- 5) The future of the brand management structure/brand manager system will involve radical modifications.

The research adopted the qualitative, interview approach because of the nature of the research issues and the need for flexibility. The interview subjects were sourced from a single category (dairy products) in order to ensure that the research was based on a set of interviews that represented a sizeable portion of the major retail and supplier participants in this category, thus allowing for a complete and cross-referenced picture of the supplier/retailer/brand/category relationships within it to be created. This research can therefore only be considered as a case

study, rather than a result that is representative of the New Zealand FMCG industry as a whole. Details of the interviews are furnished in Tables 2 and 3:

Table 2: Interview schedule: Manufacturers

<i>Case</i>	<i>Description of manufacturer</i>	<i>Hierarchical levels covered</i>	<i>Participant(s)</i>	<i>Interview number</i>	<i>Date of interview</i>
One	Large	2	Product Manager	1	05/07/2004
			Category Manager	2	05/07/2004
Two	Small	1	General Manager	3	06/07/2004
Three	Small	1	Managing Director	4	09/07/2004
Four	Large	1	Marketing Director	5	13/07/2004
Five	Large	2	Asst. Product Manager	6	23/07/2004
			Product Manager	7*	02/08/2004*
Six	Medium	1	Sales and Marketing Manager	8	28/07/2004
Seven	Medium	1	Marketing Manager	9	30/07/2004

Table 3: Interview schedule: Retailers

<i>Case</i>	<i>Description of operation</i>	<i>Hierarchical levels covered</i>	<i>Participant(s)</i>	<i>Interview number</i>	<i>Date of interview</i>
One	Large	2	Store Manager	1	29/06/2004
			Store Manager (Dairy Deli)	2	29/06/2004
Two	Large	2	Manager (Dairy Deli)	3	07/07/2004
			Store Manager	4	07/07/2004
Three	Medium	1	Store Manager	5	15/07/2004
Four	Large	2	Store Manager	6	19/07/2004
			Manager (Dairy Deli)	7	19/07/2004
Five	Large	2	Store Manager	8	19/07/2004
			Manager (Grocery)	9	19/07/2004
Six	Small	1	Store Manager	10	20/07/2004
Seven	Head Office/ Parent Company	3	CEO	11*	06/07/2004*
			Category Manager I	12	03/08/2004
			Category Manager 2	13	03/08/2004

*Note that interviews number 7 (manufacturers) and number 11 (retailers) have been renumbered to allow pairing with interviews in the same company/operation.

In all, 23 interviews were carried out; nine on the manufacturer side, 13 on the retailer side, and one with a consultant representing an association. Guarantees of confidentiality and anonymity were given before the interviews. Thirteen of the interviews were held face-to-face (four and nine on the manufacturer and retailer sides, respectively) and ten by telephone (five manufacturer, four retailer, and one consultant).

Interviews lasted for between thirty and fifty-five minutes. Immediately after each interview, summary notes of the interview were written on an interview form. All interviews (face-to-face and telephonic), were tape-recorded, with permission. Taping made it possible to re-listen, to provide an accurate record of the interview, and to facilitate the use of direct quotes as recommended by Saunders, Lewis and Thornhill.³⁶ In addition, as a way of validating the data, interview transcripts/ summaries were sent back to the participants for endorsement.³⁷ Case One on the manufacturer side and Case One on the retailer side were initially used as pilot cases, with a view to ensure 'relevant lines of questions'.³⁸ However, when it was found that the interview protocol had relevant lines of questions, the initial 'pilot' cases were incorporated into the major study for their rich data. An 'audit' was later conducted to find out whether the total picture of findings and conclusions could have been different if the first interviews had been treated differently, and this was found not to be the case.

RESULTS

1) The brand management structure still exists as a mainstream option.

2) The category structure has become the dominant structure.

The brand management structure is still largely in use. Brand/product managers normally handle more than one brand, but brands can also be split between managers, each handling certain products. The category structure is in use as well; however, there is no evidence that it has become the dominant structure, to the detriment of brand management. Brand and category structures are used in combination in some medium to larger suppliers. The category structure can either have a marketing or a sales focus. In companies where comfortable cohabitation is occurring, Sales has a category emphasis and Marketing has a brand emphasis. Other structures are employed as well – for instance, in small companies, the General Manager/ Managing Director can take charge of the brands. While these short conclusions represent the overall analysis of all the responses, the quotes below are representative:

'This division of the company has a marketing manager, category managers and product managers. The company is very much run from a category marketing perspective... Rather than just looking at it from the viewpoint of how brands are performing, we look at how the whole category performs.' [Interview 2: Manufacturer Side]

‘This company uses the category structure. It has a marketing director, a category team that focuses on the trade, and brand managers who are responsible for specific brands. The number of brands handled by each brand manager varies. Some brand managers are responsible for two brands; others are responsible for as many as five brands...Category management has been operational for quite some time, alongside brand management.’ [Interview 5: Manufacturer Side]

‘Generally, the marketing function in New Zealand is organised around brand management. The sales function is organised around category management...On the retail buyer side, all they talk about is category management, and what they have done is rename the buyer as ‘category manager’, but really nothing in terms of their job description has changed. Then the suppliers reflect that; so when they go to talk to the category manager, that is the buyer ..., they talk to them about category management. However, very much in the marketing side of it, the manufacturer side is still driven by brand management.’ [Interview 23: Consultant/Association]

‘In New Zealand FMCG, there are three different types of companies. Some companies are branches of global companies and effectively all they do is implement the global plan ... The other type of company is the small number of large New Zealand FMCG companies ... They actively have a strong marketing department in New Zealand, and a strong new product development department; so they are building brands and products and doing the full brand management architecture...The third category is that of small, local suppliers ... They don’t really do brand management or category management or anything.’ [Interview 23: Consultant/Association]

- 3) *The brand management structure is considered to be outdated.*
- 4) *The category structure will replace the brand management structure.*
- 5) *The future of the brand management structure/ brand manager system will involve radical modifications.*

The brand management structure is not considered to be an outdated structure – it is still useful and works well for certain companies. Factors such as size of brand and size of company determine its suitability, but it appears to be applied in some form, however rudimentary, in even the smallest suppliers. The structure helps to keep focus on brands and facilitates brand/product/packaging-related innovations. The two models, brand management and category management, can work together and have a future together as a joined model - category management would not replace brand management as such. While these short conclusions represent the overall analysis of all the responses, the quotes below are representative:

The structure works:

‘... it stills works well, and companies will not necessarily abandon the brand management structure. The structure gives focus on brands and brands are important to manufacturing companies.’ [Interview 5: Manufacturer Side]

‘... Traditional brand management works because it focuses people on business in just the same way as an entrepreneur who starts his own brand or product focuses on that. I don’t think brand

management is dead. Certainly nothing has come along to replace it.’ [Interview 23: Consultant/ Association]

It has a future:

‘Organisational structures evolve. I wouldn’t say that the brand management structure will live forever but all I would say is that at the moment and in the foreseeable future, it still has a lot of merit. It is beneficial that businesses should understand the strong power of brands.’ [Interview 7: Manufacturer Side]

Factors like size of company and size of brand come into it:

‘The likes of Nestle, Unilever, and such companies where the brands are so big, would probably do well with brand managers who would be looking after even just one brand; and then underneath, they might have assistants looking after the product lines within it. So, it depends on the size of the company and brand.’ [Interview 1: Manufacturer Side]

‘Generally, small organisations have fewer resources... That would mean that it would probably be far harder to organise along pure brand orientated lines. So you would probably find that smaller organisations are more product and category orientated.’ [Interview 7: Manufacturer Side]

‘In this company, we make use of both, and it is working for us.’ [Interview 6: Manufacturer Side]

‘It probably comes down to the size of the brand. Although we have a category focus, we still manage brands and that works well. A big brand like ours may be the responsibility of the category manager and it can get split among product managers by product.’ [Interview 2: Manufacturer Side]

Innovation is linked with the brand management structure:

‘One impact that I really see potentially eventuating from the current structure is the need for innovation around brands. I certainly see that the current category orientated focus in this company may well shift to brand orientated focus to enable us to differentiate ourselves through innovation, and this may well apply to other manufacturers as well. Focus on brands rather than products would enable far more innovation ...’ [Interview 7: Manufacturer Side]

‘Innovation is a major factor. Manufacturers who are innovative may not have to worry about the power of retailers.’ [Interview 5: Manufacturer Side]

Retailers do have a point of view:

‘The job of brand managers in FMCG companies is to build brands. I think the current structure will stay in place.’ [Interview 2: Retailer Side]

‘No, it [product management] is not [outdated]. It facilitates innovation.’ [Interview 8: Retailer Side]

‘Manufacturers are heavily involved in category management as well as brand management. Both of them have to co-exist. I don’t see that any one of them is more important than the other. The brand manager ... is seeking ways to grow the category through brand management, and the other people are sales people who are seeking to secure their place on the shelves at store level. They won’t survive without each other.’ [Interview 5: Retailer Side]

‘I have a concern about it [brand management being outdated] because it means that it could stifle any new innovations and ideas coming out because category management looks at sales and placement on the shelf... Category management and brand management can work together...’ [Interview 12: Retailer Side]

‘... in New Zealand, probably not so much for the big companies/brands...The brand management structure wouldn’t be completely replaced by the category management structure ..., it is never going to get lost.’ [Interview 1: Retailer Side]

DISCUSSION AND CONCLUSIONS

This research indicates that within this category at least, the brand management structure is still in use alongside the category structure and other structures. There is probably a fair balance among the different structures and there is no indication that one structure has dominated; it all depends on the circumstances of the company. On the manufacturer side, the category structure has not become dominant – and shows no signs of becoming so. The rise in the category perspective on the retailer side may create the impression that FMCG manufacturers would have to move away from the brand management structure. Retailers, however, do seem to want the brand management structure to remain; largely because of their perception that the innovation that the brand management structure supports makes their category management activities easier! The supplier focus on brands has remained within their marketing departments, although manufacturers can still talk the category management language of retailers – often via their sales force who are perceived to be increasingly important as a result. Whatever modifications that may have occurred to the brand management structure in companies that employ it, such modifications are not of a magnitude that would justify talking about a marked decline in the status of the brand management structure. In the language of an executive: ‘... very much in the marketing side of it, the manufacturer side is still driven by brand management.’ [Interview 23: Consultant/Association]

There does not appear to be a perception that the brand management structure is outdated. Also, the category structure is not perceived to be a replacement for the brand management structure; and the future points to continued use of the brand management structure, alongside the category structure in some companies (i.e. category structure having either a marketing focus or a trade/sales focus or both). An interesting theme arising from both dimensions largely addresses the ‘why’ aspect. The theme of innovation featured. The brand management structure is not

expected to go largely because it facilitates innovation around brands/products/packaging, and by doing so helps to develop the category. Retailers' increasing emphasis on category management in their operations does not, in this instance, appear to have led to the expectation that manufacturers should abandon the brand management structure. Retailers do, however, expect manufacturers to be able to address category issues without losing focus on the brands that drive retailer categories. Manufacturers who employ the brand management structure do not have to be under the impression that, in order to be seen to be cooperative by powerful supermarket chains that put emphasis on category management in their operations, they should move away from their brand management structures. Modifications relating to brand manager responsibilities may suffice. Brand and category structures are not mutually exclusive.

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