Business Roles 2

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Introduction

1. **What is the difference between a 'retailer's own brand' and a 'well-known make'?**
2. **Think of, and write down, a few examples of products sold in supermarkets or groceries in your country:**

Retailer's own brands	Well-known makes

3. **Which of these two types of product is usually cheaper? Of better quality? More readily available? More widely advertised? More popular?**
4. **What are the advantages and disadvantages for a manufacturer of supplying retailers with these two types of products:**

Retailer's own brand		Manufacturer's well-known make	
Advantages	*Disadvantages*	*Advantages*	*Disadvantages*

Breakfast cereals

Situation

You work for the Canadian manufacturer of breakfast cereals, Forrest's. The firm has been making cereals since 1891, when the founder, Charlie Forrest, invented his recipe for making wheatflakes. Your world market share is higher than that of any other manufacturer.

For many years your policy has been to supply only your own products. This means that you have refused to make cereals to be sold as a retailer's own brand. The customer can be certain that a packet of cereal which doesn't carry the Forrest's name can't have been made by Forrest's. As a result, if they want Forrest's quality, they have to buy Forrest's.

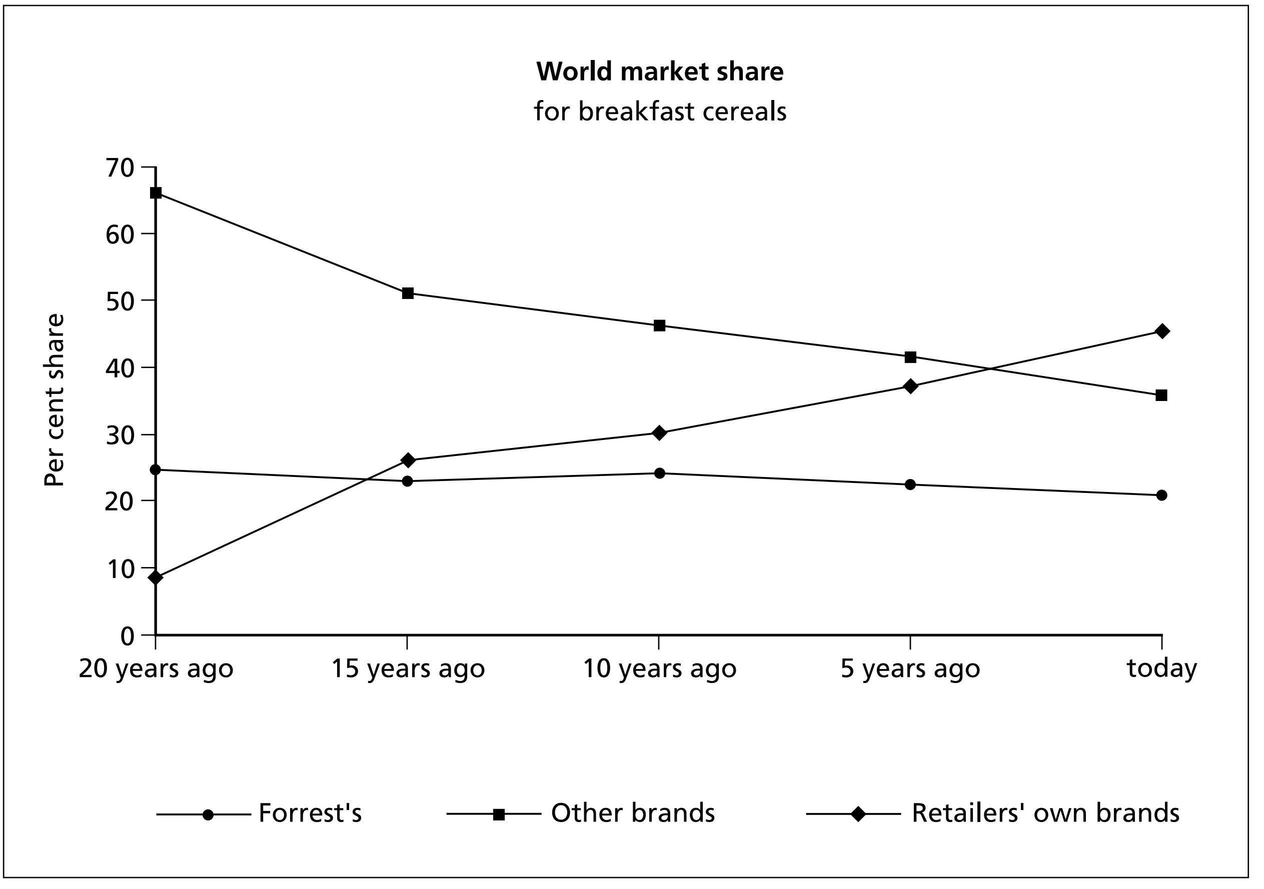
Your breakfast cereals are on sale in practically every country in the world. Awareness of the brand name Forrest's is better than for any other make of breakfast cereal by a long way. You constantly receive requests from retailers to supply them with products which would then be retailed under the retailer's own name. You have always refused up to now. In fact, you print on your packets: 'We don't make cereals for anyone else'.

Today, however, you are meeting to review this policy. The main reasons for this are: that the demand from retailers for *own-name* cereals is high, and meeting it might enable you to increase sales significantly; that if you refuse to supply these cereals, other manufacturers will supply them and they will get the sales and profits instead of you; and that although your sales are increasing, your market share, in a rapidly expanding market, is declining slowly (see graph).

You must decide:

- if you should alter your policy of refusing to make cereals for retailers
- and if so, under what conditions you will manufacture for retailers

Fact sheet



World market share
for breakfast cereals
70
60
50
40
30
20
10
0
Per cent share
20 years ago
15 years ago
10 years ago
5 years ago
today
Forrest's
Other brands
Retailers' own brands

a

Role: **The President**

Chairing the meeting: You chair the meeting and ensure everyone joins in. Organize the meeting in the following way:

1. First ask each participant to state and explain their point of view about the policy of not manufacturing cereals for retailers.
2. Write on the board the arguments for and against a change in policy and then discuss them in detail before coming to a decision.
3. Finally, if you do change, decide exactly what your new policy will be.

Your own point of view: Your great-grandfather founded the company and you want it to remain a great company. The best way of remaining the most famous cereal manufacturer in the world is to refuse to make cereals for anyone else. People buy your cereals for their quality. If you make cereals for retailers, customers will find your quality at a lower price under another name. They will then stop buying your brand. Your firm will lose its reputation, and profits will fall.

Photocopiable

b

Role: **The Marketing Manager**

You think it is a terrible mistake to refuse to make breakfast cereals for retailers. Your competitors are making them instead, and you are losing this market. Your international reputation is very strong, and your own successful marketing policy of heavy spending on TV advertising and a strong brand image will always ensure healthy profits for the company. But you are very worried about market share. Twenty years ago, your share was 25% (admittedly of a smaller market), and today it is nearer 20%. It is the retailers' own brands which are taking an increasingly greater share.

You can easily break into this market and manufacture *own brands* for retailers. As they will demand a low price, you can produce a cheaper, inferior product for them. You will demand just one thing of the retailers – the guaranteed presence on the shelves of your Forrest's products. In this way, customers who are looking for quality will continue to buy your brand. And those who prefer lesser quality and a cheaper price will also buy your products without knowing it. Soon you will dominate not just the top end of the market, but also the bottom.

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Role: **The Head of Quality Control**

It would be a mistake to change your policy. Your products are the best in the world. Everyone, not least the customer, knows this. Retailers also know this, and would refuse to market under their name a product of inferior quality. Therefore, if you did manufacture for retailers, you would have to maintain your quality for them.

Customers would try the retailers' brands and immediately notice that they were getting the same quality whether they bought high-priced Forrest's or low-priced retail brands. After that they would of course continue to buy only the retail brands, and you would lose most of your market. In the end your brand might disappear, and the company would end up being just a manufacturer for retailers, with the low profit margins that this means.

Photocopiable

d

Role: **The Production Manager**

You want a change of policy. None of your many factories around the world works at full capacity. You would be delighted to be able to make products for retailers, whether they ask for exactly the same quality of products or not, as you are already used to making several different products on the same production lines on different days.

Manufacturing for retailers would enable you to reduce production costs, which in turn would both help Forrest's to be more competitive and increase profit margins.

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Role: **The Financial Director**

You are most worried about any fall in profits which a production agreement with retailers would almost certainly entail. The most important problem is the price that retailers pay you for your product. When manufacturers make retailers' own brands, the price is inevitably very low, because retailers always want their own brand to be the cheapest in the stores.

Even if you make an inferior quality product especially for retailers, profit margins will inevitably be much lower than on Forrest's brand products.

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Role: **The Sales Manager**

You want a change of policy. However, there are important conditions that you must attach to any agreement to manufacture retailers' own brands. These are that:

- retailers must agree to market your *full range* of Forrest's cereals
- they sell under their own brand name *only* cereals produced by you and which are in fact exactly the same type and quality as your own range

So, a customer who goes into a K-Mart supermarket in the USA, for example, would find the complete range of Forrest's cereals, and a range of K-Mart's own cereals which were in fact exactly the same as your cereals in every way – only the name on the packet would be different. Your reasoning is that customers will quickly discover that 'own brand' cereals and Forrest's are the same *in this particular shop*. When they return to this shop, they will buy the 'own brand' for reasons of price. But when they go to another store, they will buy Forrest's, rather than taking the risk of buying an inferior quality 'own brand'. In the long run, sales of Forrest's products will increase.

g

Role: **Head of Research and Development**

You think that if your firm changed its policy, your department would have to close down. Why? Because retailers would do their own R and D, and then come to Forrest's and specify what sort of product they wanted manufactured. As Forrest's gradually changed over to manufacturing retailers' brands, less R and D would be necessary, and before long there would be no need for you at all.

As you do not want to lose your job, you will do everything you can to oppose the idea of manufacturing for retailers.

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Breakfast cereals

Summary of story

Forrest's, a Canadian manufacturer of breakfast cereals which sells its reputed products all over the world, must decide if it should change its policy of refusing to supply *own-brand* products to retailers. Until now, the company has always refused to make and supply products which would be sold under a retailer's own brand name instead of the brand name 'Forrest's'. The aim of this policy has been to maintain Forrest's excellent image and awareness, and to remain the world leader. However, retailers' own brands are taking an increasing share of the market, and demand from retailers for Forrest's to supply *own-brand* products is high.

Timing

Introduction (*optional*): 10-30 minutes

Preparation: 15-20 minutes

Simulation: 40-60 minutes

Follow-up (*optional*): 10-30 minutes

Total: minimum 55 minutes, maximum 140 minutes

Introduction

1. Make sure students understand what these terms mean.
2. This question deliberately asks about supermarkets and groceries, to narrow the discussion down. If you have enough time, let students work in pairs or small groups first. Then the whole class can compare answers.
3. Ask students these questions. The answers will help them to prepare for question 4.
4. Do as for question 2. Then the whole class can explain their answers. Remind students that you are looking at this from a *manufacturer's* point of view.

Possible answers

1. A 'retailer's own brand' is usually the brand name on products, which is at the same time the trading name of the store itself. Sometimes it is a special brand name chosen and given by a retailer to a whole range of products (for example, dairy products) which cannot be found in other stores. A 'well-known make' is a make like *Coca-Cola* or *Mars*. These products can be found in most shops, sometimes all over the world. They are often found alongside a retailer's own brands.
2. The retailer's own brands will mostly carry the names of stores in your students' countries. In the UK it will be *Sainsbury's* or *Tesco*, for example, so students will write *Tesco's cornflakes* or *Sainsbury's baked beans*. Well-known makes will vary from country to country, but your students will doubtless suggest products like *Nescafé*, *Uncle Ben's*, *Kellogg's*, *Heinz* or *Danone*.
3. This will vary according to each retailer's particular policy, but *own brands* are often cheaper, and sometimes of inferior quality and more readily available. Well-known makes are much more widely advertised, and, logically speaking, more popular, otherwise they wouldn't be *well-known*.
4. <u>Retailer's own brand</u>: *Advantages*: no advertising or marketing costs. Lower distribution costs. Good market share if the retailer is big, or supplies are manufactured for several different retail groups. Image cannot be damaged by defective products, as they carry the retailer's, not the manufacturer's name. *Disadvantages*: low price, and therefore possibly lower profit margins.
   <u>Manufacturer's well-known make</u>: *Advantages*: control of price, quality and availability, image, marketing, and research and development. Customers can find in any store a product they know and trust. *Disadvantages*: the retailer might be less interested in pushing the product than the *retailer's own brand*. Shoppers might believe that the *retailer's own brand* is made by the maker of a *well-known brand*, and is therefore of the same quality, only cheaper.

Simulation

See General notes for teachers on page 2.

Business background

Many people know of Kellogg's advertisements stating that they 'don't make cereals for anyone else'. This was an obvious attempt to counteract the increasing share retailers' own brands were taking. The dilemma for famous makes like Kellogg's is that market share has to be maintained not just through the quality of the products, but also through costly advertising and sophisticated marketing; while retailers, determined to develop customer loyalty, offer a complete range of own brands, and demand that manufacturers make them a quality product at a low price. In recent years, some manufacturers (for example of soap powder), have had more success than others (breakfast cereals) in keeping their hold on the market.

Outline of roles

A: President: is against any change of policy, for fear that the firm's products would lose their quality image.

B: Marketing Manager: Forrest's should make cereals of an inferior quality for retailers in return for the presence of its own products on the shelves.

C: Head of Quality Control: is against a change, as Forrest's would have to supply a good quality product to retailers and would quickly lose the market for its own brand.

D: Production Manager: making products for retailers would help to reduce production costs.

E: Financial Director: making products for retailers would lower profit margins.

F: Sales Manager: agrees to a change in policy provided retailers sell Forrest's full range, and that their own brand products are of exactly the same quality as Forrest's.

G: Head of Research and Development: is worried their department will close down if Forrest's make retailers' own brands.

Possible outcome

This is very difficult to predict. The Marketing Manager's argument that Forrest's are losing a good market to other manufacturers by refusing to supply retailers' own brands is a convincing one. But this solution only stands up if retailers accept a product of inferior quality to Forrest's, which they are not likely to do. Then again, can the company afford to stick to its present policy and continue losing market share?

Vocabulary

awareness: how well-known something is

brand image: how a brand is perceived by customers

delighted: very pleased

the full range: all the products a company makes

guaranteed presence: the certainty that products will be available

inferior: poor, mediocre

profit margin: sales revenue on each product after deduction of costs

reputation: name, renown, standing

a retailer: person, store or company which sells to the public

a retailer's own brand: name given to products which can only be found in one chain of stores; often the same name as the trading name of the store itself

on the shelves: displayed in the store

wheatflakes: breakfast cereal made of wheat

to work at full capacity: to work at maximum output, unable to increase production