The balancing Act between Decentralisation and Centralisation in Marketing and Innovation Management

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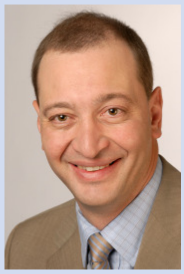


Recently, Kraft Foods restructured its national companies within Europe, focusing on the three core areas of snacks, coffee and cheese. The Kraft Foods business in these categories is led from Zurich, Switzerland. The new European category structure was created in order to centrally develop successful core brands such as Milka, Toblerone, Jacobs and Philadelphia, thereby supporting the Kraft Foods global growth strategy. *(Kraft Foods press release)*
In contrast, Nestlé is continuing to use strongly national business units and invest large amounts in understanding local consumers, an example being the current German Nestlé study into nutrition patterns of around 4,000 consumers.
These two examples show how differently consumer packaged goods manufacturers meet the challenges of global markets. Kraft Foods sees the recipe for success in a more central structure. Nestlé, on the other hand, competes for consumers with very independent national subsidiaries.
But which brand and innovation strategy promises the most success? To answer this question, Roland Berger Strategy Consultants and Ipsos conducted a survey of 4,500 consumers in six countries, analysed numerous case studies and interviewed top managers from 20 companies.

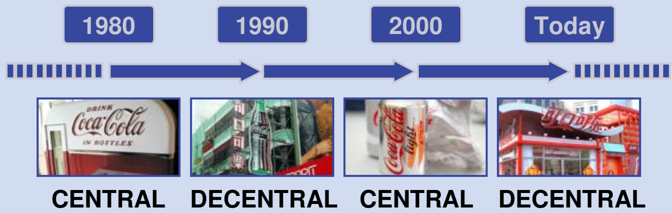
Current Trend for Centralisation playing into the Hands of private Labels

The decision for a de-central or central strategy is not an once-in-a-lifetime decision. Companies move between the two extremes. An example is the beverage giant Coca-Cola: Central organisational structure in the 1980`s, decentral in the 1990`s, back to central with the start of the new millennium and currently switching back to decentral *(see figure 1)*.
But there is a very clear trend that will continue to challenge business strategies of producers of FMCG brands: The unbroken conquest of private labels into all major categories and markets. The playing field for brand is shrinking at the same rate that discounter and private labels are growing. At the same time, the effectiveness of media marketing is declining. Many companies respond by rigorously focusing and centralising brand portfolios and management. Top managers defended this approach in the survey mainly by citing economies of scale as well as reduced complexity – benefits that the financial markets also tend to view positively. Consumer needs as the main motivation for centralisation took seventh place in the survey, playing only a subordinate role.

By losing track of consumer needs and shopper insights through centralisation, manufacturers lower the value their brands add in the eyes of consumers. But not only that: Centralised innovations suffer significantly higher flop-rates (80 percent) than decentralised ones (50 percent). The managers polled were in agreement about the main reasons for this: losing track of the market, overly full innovation pipelines, low speed and excessive reliance on tests. Retailers, on the other hand, are building up massive amounts of shopper information about their customers, e.g. to professionalise their private label business.

1

Organisational Structures at Coca Cola



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The Consumer says, he prefers local Brands

In markets as diverse as Germany, France, Great Britain, Poland, Russia and China, we studied whether consumers preferred global or local brands. The result: Local brands meet consumer needs better *(see figure 2)*.
This holds true primarily for the industrialised nations; in Russia or China global brands still tend to do somewhat better. Consumers in countries of emerging markets have a different view of global brands than Western Europeans. The Russian consumer is skeptical of local brands. The many years of experience with quality issues have left their mark. The Chinese love large global (i.e. more centralised) brands but also local ones such as *Tsingdao or Lenovo*.
Interestingly, there are no categories that are particularly well suited to global (i.e. more centralised) marketing: Consumers are more likely to go for local brands even for shampoos or household cleaners. However, global brands have the advantage when it is a question of status, innovation or size of product range.

Abstract

With private labels conquering market share, can manufacturers allow to drift away from consumers needs and shopper insights? Manufacturers of consumer goods move between central and de-central management of their global brand portfolios. In more central approaches, local consumer needs and shopper insights are usually not at the centre of attention. Still, research indicates that local brands meet consumer needs better. Roland Berger Strategy Consultants and Ipsos argue that managing complexity to fulfill consumer and shopper needs is key to success in markets with increasing power of retailers and private labels.

Kurzfassung

Können Markenhersteller angesichts des aggressiven Wachstums von Handelsmarken lokale Bedürfnisse und das Einkaufsverhalten von Konsumenten vernachlässigen? Konsumgüterhersteller bewegen sich zwischen zentralem und dezentralem Management ihrer Markenportfolios. Lokale Bedürfnisse und Einkaufsverhalten der Konsumenten haben bei zentralem Management geringere Priorität. Marktforschungsergebnisse legen jedoch nahe, dass lokale Marken diese Bedürfnisse besser erfüllen. Roland Berger Strategy Consultants und Ipsos empfehlen, die Komplexität lokaler Bedürfnisse als Chance im Wettbewerb zu begreifen und als Stärke gegen Handelsmarken zu nutzen.

Consumers assign global brands the qualities of having cutting edge technology, high range diversity and always launching new products onto the market. A good basis for the introduction of innovations, one would think. We know, however, that an important factor for the success of innovations is meeting consumer needs. In this respect, our survey delivers an amazing result: Local brands win in fulfilling core needs and supporting a good quality of life.

The Secret of local Brands

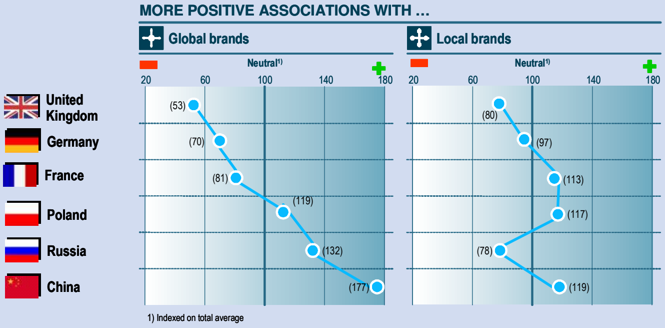
A journey into the beer category will lift the secret. Depending on the country, consumers perceive global and local brands very differently. Stunningly beer-loving Germans perceive global brands such as Carlsberg or Heineken quite positively. Their share of the German beer glass, however, is negligible. These brands do not satisfy the core needs of the majority of consumers. Which are these key values that consumers are looking for? Which drivers are decisive for success in the beer category and are these similar across national borders?
In country A, reward is an important consumer need, while in country B, downtime is in the foreground. In country D and country C, a brand can gain preference points by being an everyday beer. In order to be successful, a successful brand or a product innovation must offer a relevant response for three different needs. A stringent global positioning will not successfully master the balancing act between these drivers. We know that if we hunt three hares, we will not catch any of them *(see figure 3)*.
Along with relevance, the second most important criterion for a brand's success is the differentiation in the market. What is the perceived difference in comparison to the competition? Am I one of a kind or just me too?
How do we know this? In the course of 30 years of research experience, 10,000 tests from more than 250 different product categories in over 55 countries were conducted at Ipsos. Based on this data key drives of success were identified. Thus, we were able to discover the DNA of a successful product – the IDQV criteria. I = Impact, D = differentiation, Q = Quality or Relevance, V = Value. Products which scored high on these criteria were successful in their markets.

Managing Complexity to add Value for Consumers

There is no universal recipe for success in central or de-central strategies and organisational models. While finding the right balance has a large influence on the success of a company, strategies and organisational set-up often do not take consumer needs and shopper insights enough into account and miss out on local growth opportunities.
We recommend manufacturers of consumer packaged goods to put much greater emphasis on adding value with their brands and products. In essence this means meeting consumer and shopper needs precisely with all marketing mix elements, e.g. brand positioning, communication, channel mix, pricing and product or packaging range. The starting point should be a clearly positioned international brand portfolio. Management should structure the brand portfolio and its management in a way that the portfolio can be customised locally, thereby moving closer to consumers. Particularly complexity needed to fulfill consumer and shopper needs should not be avoided but managed to turn it into a competitive advantage.

2

Global and Local Brands



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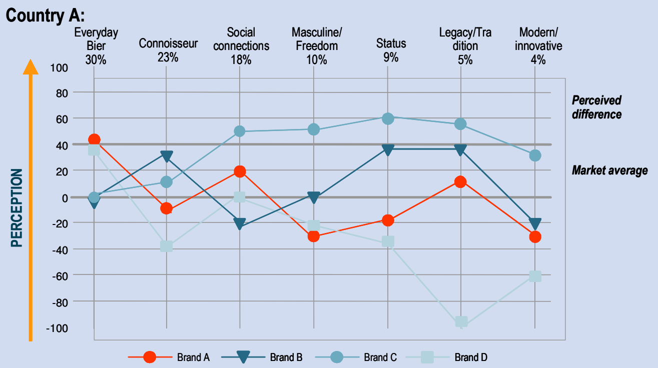
Example for Country A



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