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Master Thesis

Coopetition and Strategic Networks in the Fast-Moving Consumer-Goods Industry:
Category Management as a strategic opportunity in crisis

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Supervisor:
Debbie Harrison

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Abstract

Managers need to understand that networks should be an important part of their strategy and that cooperation and competition should be intertwined in the business context. The biggest opportunities in business don't come from playing the game better than everyone else - they come from changing the fundamental nature of the game itself to your advantage. In a context of crisis, these aspects take an even bigger importance, since most of companies fail to grow or to present results.

I introduce a tapered approach to the fast-moving consumer goods industry in order to relate these strategic networks with the coopetition theory. Taking the interviews made to the players hovering in this industry in addition to the existing body of knowledge of published articles and recent environmental dynamics into consideration, this paper will attempt to compare and contrast the category management approaches regarding coopetition and tactical networks' practices, inserting this concept in a broader strategic view that encompass not only the marketing understanding, but also the strategy point of view, enclosing it as a strategic coopetitive tool and alternative to grow, especially important in crisis times.

This thesis will be supported by one case study that intend to illustrate the evolution of the networking-level strategy and coopetition in the consumer-goods industry, mainly supported by the category trade management in a context of crisis.

Introduction

In this paper I intend to present an innovative strategic approach to the Fast Moving Consumer Goods industry using Category Trade Management, intrinsically related with the theories of Networking Level Strategy and Coopetition, all in a crisis context.

The report is organized as follows. First, I briefly review previous research that supports my arguments that include the category management in the spectrum of coopetition and strategic networks. Next, I outline the primary purpose of the paper, which is to incorporate these theories as a strategic growth engine in crisis times as a detailed case study. Then I will discuss the results of it, based on the interviews made, past literature and similar examples, discussing the results.

My bottom-line recommendation is that most retailers and producers could significantly improve their profits by engaging in an adequate category management, mainly taking the advantages from price-points, price sensibility, maximization of the assortment profitability, etc., hovering in a coopetitive panorama, where cooperation and competition are realities and networks a way of engaging on it. This is a new approach, since the category management had always been seen as a merely collaborative marketing process, but the competitive and strategic forces are also present and are crucial for getting the most of it.

I decided to start with some definitions. Denote a private label (PL/DOB) as a brand owned or controlled by a downstream firm (retailer) and sold exclusively at a single retail chain or group. Similarly, denote a national label or industry brand (A-Brands/NL) as a brand owned by an upstream firm (producer/manufacturer) and typically available at a number of downstream outlets. Kumar and Steenkamp (2007) note that PL products existed over a century ago, but that PL presence accelerated in the seventies coinciding with the growth and consolidation of the retail sector. While PL products are most familiar in the grocery sector as stated by Quelch and Harding (1996), they account for almost half of domestic apparel sales nowadays.

Motivation

Building several of my conceptual arguments using the coopetition strategy and strategic network theory, I want to apply these concepts to a changing and in crisis industry like the consumer goods one, namely regarding the interactions between the manufacturers and retailers, being able to present a new approach that connect them, by developing and leveraging resources as for coopetition, in a particular way, through the effective category management. Because a win–win relationship is critical, I discuss the issues of partners' goal alignment and balance of value creation (common benefits) and value appropriation (private benefits), by Brandenburger and Nalebuff (1996). Perspectives of the network theory help to explain and articulate how to access and extend knowledge and resources outside the firm, how to leverage them, and what types of relations are appropriate for doing so, taking in account the present crisis environment.

Although there have been a growing body of studies focusing networks, most of the studies view networks as a set of collaborative relationships, and neglect that competitive element in the network. Cooperation is built on commitment and trust on both sides. Competition, on the other hand, is related to control and involve influencing the behavior and output of another party through the employment of power and authority (Lin et al. 2007). In business networks both cooperation and competition are needed in relationships between competitors, but the two types of interactions create progress in slightly different ways (Bengtsson & Kock 2000). Consequently, they coexist in every business relation that is made. In order to create sustainable competitive advantages, firms must both cooperate and compete with their headlining stakeholders. Adding this, most of these studies missed to encompass coopetition in a situation of crisis, with special relevance for the ones analyzing the consumer goods industry.

Historical Overview

First of all, and considering that various authors have linked private-label performance to economic conditions e.g. Quelch and Harding (1996), I observe that private-label market share generally goes up when the economy is suffering and down in stronger economic periods. Likewise, Nandan and Dickinson (1994) state that during difficult economic times, the popularity of private labels tends to increase, whereas in periods of relative economic prosperity, the share of national brands increases. Everything starts in this point: with the crisis and in a first phase, the manufacturers with their national brands faced challenges they never did before, having to find new ways to grow, reformulating their strategy. Nevertheless, in a second phase, the retailers also experienced some downturn, having now to also realize new growth strategies. In this context, inserting coopetitive behavior in order to find ways for both the retailers and the manufacturers to overcome the negative trend in both economical situations seemed to be the right thing to do.

In the past, manufacturers were able to control retail sale prices and physical distribution and could powerfully influence retailers' inventories and displays. (Obgonna and Wilkinson 1998) Retailers were highly dependent on manufacturers and allowed them to give significant advice on the optimal management of shelf-space in retail locations (Corstjens and Corstjens 1995). From being the source of almost all product innovations and mass-market activities, without giving the necessary attention to the DOBs, manufacturers and their brands started to fail and miss targets in the market. Consequently, retailers increased own market research and their “closeness” to consumers have provided them with considerable market information on the basis of which to control non-product-related variables in the marketing-mix, including in-store merchandising and shelf-space management (Howe 1998). In this context, the stronger these private labels are, the more they are interested in sell their own brand on the shelves and the more they invest on segmenting their products and enlarging the range (Corstjens and Corstjens 1995). By combining increased buying power, good store location, scale, and accurate reflection of changing consumer needs, retailers have now clearly worked themselves into a position of dominance in the supply chain (Duke 1998; Grant 1992; Pache 1998).

Finally, in the consumers side, as people attach greater importance to lower prices during crisis times, they attach less priority to perceived quality. Consumers therefore become more willing to try unfamiliar brands and/or private label if this permits them to reduce their expenses. Moreover, in crisis times, unemployment rates rise, having obvious impacts on the industry, not only reducing the consumption capacity of the population, as it affects the popularity of branded products, but also favouring the products that offered promotions and low-premium, as a matter of logic savings. Even if not affected by unemployment, social consternation, the precariousness and the smart shopper thinking apply to a growing trend. Private brands, in this scenario, have changed and evolved into a much more broad and powerful concept: they have gained a sizeable share of global grocery sales and further growth is predicted for the future (Ailawadi, Pauwels, & Steenkamp, 2008).

However, and like Corstjens and Lal (2000) indicate, there should be enough customers who buy national brands for a quality store brand strategy to be profitable. This balance between national and private label brands is in the best interest of consumers by ensuring a broad choice of products to choose from (assortment) as well as low prices. The strength of private label brands keeps manufacturers in check by suggesting to them to offer competitive wholesale prices on national brands. The strength of national brand products keeps retailers in check by inducing them to compete with one another by offering competitive prices (Ailawadi, 2001). In addition, private labels cannot live "alone" by theirselves, restricting the shelves to non-labeled items. Neither consumers nor retailers can do without strong A-brands. Since consumers value in-store competition and retailers would chase their clientele out of the shop if they reduced consumers' choices to private label only, there is an intrinsic need to the retailers for A-brands (maybe even more than consumers), as they form the price anchor of the category as a whole, at the same time they set the price architecture and price piano that allow to attract more consumers. Considering the manufacturers, they have had to reappraise their strategic and marketing activities throughout the whole channel. According to Jorgensen (1995), a manufacturer can increase the switching costs of its counterparts by establishing <u>closer relationships with retailers</u>, and thus preventing new manufacturers from penetrating the market.

This shows that retailers and manufacturers need each other and they can be both profitable in a fairly competitive industry, within different economical environments, both by engaging in competition and cooperation. By learning from each other and engaging in a so-called coopetitive behavior, not only by growing their own profits, but also making the industry grow, both clusters of companies can give the next and necessary step to adapt to this new environment. This is where the category management assumes great prominence.

The importance of Category Management appears in this process, representing a new kind of vertical arrangement that is not integration, franchising, or a vertical restraint (Steiner, 2001). Instead, it is a vertical partnership in which previously confidential information is shared between manufacturers and retailers to share information and knowledge, increase the margins of both parties by cutting costs and increasing sales, representing a relatively new kind of approach to the Networking Level Strategy, since it appeared in the supermarket industry only in the mid-1990s and has rapidly swept across non-food categories in the United States, Europe, and elsewhere. (Steiner, 2001) In this process, both firms will be able to stretch the categories in order to position their products in the different ranges of the market, offering the clients different value proposals with different products.

Decisively, the category management concept was brought to this paper in accordance with the strategic networks and coopetition trends, as firms cannot isolate themselves from their environment, but must actively engage in relationship with suppliers and buyers, while selectively teaming up with other firms inside and outside the industry to attain mutual benefit. But while they are collaborating to create a joint value, firms are also each other's rivals when it comes to dividing benefits. With the category captainship, this relationship is even deeper, since there are only two intervenients in the relationship. Advantages and dangers arise from this approach and will after be discussed.

My main objective during this paper is to present category management and captainship as strategic tool, embedded in a coopetitive outlook and glued to a strategic networking behavior, that will serve as an alternative instrument of growth for inverting this situation.

The main research questions that I will try to answer within this paper are:

- "How can category management be introduced in the coopetition display?"
- "How the big brands can enhance their key distribution relationships in the future, namely through category management systems?"
- "How can we introduce the concept of Category Management and use it as mean of overcoming the crisis and make not only the industry grow, but also the companies on it"

I believe that this paper will stimulate future conceptual and empirical research on this important topic and has implications for consumer-goods managers and policymakers.

Literature review

I decided to divide this part into three major themes: Coopetition, Network-Level Strategy and Category Management. As a starting point, I intend to briefly present in this chapter a summary and little analysis of relevant documents and cases that have been written in these subjects, using them as a conducting line to present my approach, that mixes these two concepts in the consumer-goods axis. Within this review, I intend not only to summarize the readings and findings, but also to give an incremental overview to both subjects.

The Networking-Level Approach

First of all, I decided to start with the Network-Level approach. I will try to focus on the firms' downstream vertical relations as well as direct horizontal relations, both approaching learning, linking and lumping activities. With these points, I will try to show how the company can combine some decisions and actions with their networks, in order to provide its clients more value than the competitors in a sustained way.

Researchers on strategic networks (e.g. Hakansson and Johanson 1993) have transposed the social exchange perspective on social networks (e.g., Cook and Emerson, 1978) to business networks (Anderson, Hakansson and Johanson, 1994).

There is a growing body of research in strategy that covers the behaviour of firms engaging in strategic networks, but, in spite of the importance of them in a firm's internationalization there is still a shortage of research in this area (Chetty,1994; Blankenburg et al., 1996). There is also growing trend to write about M&A's and joint ventures, forms of alliances that are in vogue this century (Auerback, 2008). From the beginning of the 90's, research on strategic blocks (Nohria and Garcia Pont, 1991), learning in alliances (Hamel et al., 1989), interfirm trust (Gulati, 1995; Zaheer and Venkatraman, 1995), network resources (Gulati, 1999) and, more recently, strategic groups (Freire, 2008), have examined interfirm relationships from a variety of theoretical perspectives and outcomes. This growing attention given to the strategic networks shows the also growing importance of it and highlights the need for focusing the research in this topic.

Firstly, it is important to define strategic networks. Using the social exchange theory, they are defined "as a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualized as collective actors" (Blankenburg-Holm, Johansson, (1997). These actors include competitors, suppliers, customers, distributors and government (Axelsson and Johanson, 1992 ; Sharma and Johanson, 1987).

In today's business environment firms are embedded in relationships with other actors in order to gain access to resources needed (Kock 1991). Håkansson and Snehota (1990) claim that "no business is an island" indicating that companies are involved in long- term relationship and that the atomistic company does not exist. Gnyawali and Madhavan (2001) argue that "resource asymmetries occur because of differential flow of resources among network members as well as their differential ability to control such flows". Consequently the actor's interest and motivation will vary to undertake action and respond to the action of other actors. The strategic focus on core competence has led companies during the 1990´s to take actions towards a higher degree of outsourcing. The networking-level approach and the strategic networks have been getting more attention in the last years, mainly due to the increased specialization of companies. In that sense, already Bonaccorsi, (1992) argues that firms do not operate independently, but maintain networks with comparable firms and Styles and Ambler (1994) emphasize the importance of a firms business networks in providing information and resources to the firm.

Even though, the most important change comes in behaviors: most organizations view their joint ventures and subcontractors as beyond the boundaries of their firm and even those involved in alliances do not think of partners as an integral part of the organization. The contribution from strategic networks is that strategy conception and implementation of ideas is shared between the partners, creating a "network theory", where all the participants communicate multilaterally across the whole of the value chain (Johanson and Mattsson, 1988).

In fact, from 1989, Hamel et al. start giving more importance to the subject, defending that strategic alliances can strengthen companies against outsiders even as it weakens one partner vis-à-vis the other. Cooperation then becomes a low-cost route for new competitors to gain technology and market access. This argument arises even more in industries with big investments in production (e.g. aeronautics, pharmaceutical), that take much money to develop new products and to penetrate new markets, that few companies can go it alone in every situation. Hamel et. al (1989) believe that there are simple but powerful principles that companies need to follow when entering in a network level strategy. First of all, firms need to know that collaboration is competition in a different form – the so-called coopetition, that will be developed further in this chapter; Secondly, the sense of harmony is not the most important measure of success, since conflicts decide which competitor will be better in the end; Thirdly, the cooperation has to have some limits, in order to defend themselves against competitive promise, mainly in the front-office employees, in a daily basis; Finally, the learning part of the alliance is the most important. More than using the competitors or other elements in the value chain as a way of avoiding investments, learning from them is paramount. As Hamel et al. (1989) claim, it is not devious to absorb skills from your partner – that's the whole idea. "We must digest their skills", they alleged.

Basically, the alliances have a main point: a company must emerge from them more competitive than when it entered it. Hamel et al. (1989) give two main conditions for mutual gaining (that it is, somehow, impossible, as Kurtulus & Toktay (2009) state in their work): in one hand, the partner's strategic goals converge, while their competitive goals diverge. In the case of consumer goods, this is very important, since neither side shall invade the other's market, leading to a clear upstream/downstream (in my case, a low-range/high-range) division of effort; On the other hand, the size and market power of both partners is modest compared with industry leaders, which doesn't apply to this case, as the industry leaders are the main focus of the analysis. In the case, I will do research on two companies that are both market leaders or at least their products are direct competitors and in the most sold categories, creating a new approach to the same problem. With this, I start to see that some of the companies that I will analyze will have different outcomes than the ones delivered from previous research;

Deciding to focus my attention in the information exchange and not strictly in the cost cutting or cost-sharing motivations (believing that, in the end, the exchange of information will, per se, reduce some costs and boost sales), I decided to focus on Hamel et al. (1989) work, where they mainly argue that, in a truly strategic network, each partner believes they can learn from the other and, at the same time, limit access to proprietary skills, creating a constant paradox and a "healthy fight" to achieve the desired outcome. This "fight" happens, as was said before, in a daily basis, with the interaction of engineers, marketeers and product developers: who says what to whom, who get access to whih facilities, who sits on what joint committees. This point is crucial in this paper, since the competitors I am analysing contact everyday in every level of their structure, so that the information systems must be careful looked at. Hamel et al. (1989) defend that it is necessary to put learning in a higher path. In the short-run, the quality and performance of a company's products determine its competitiveness. Over the long-term, however, what counts is the ability to build and enhance core-competences (distinctive skills that spawn new generation of products). This point will be very important for the A-Brands to assume a leader position in the market, with a long-term offer to their clients.

After some time, Lorenzoni and Baden-Fuller (1995), then introduce a concept of Strategic Centre to Manage the Network of partners. Their approach goes beyond the strategic centre concept, focusing on the company being a leader in the network, managing partners, developing core skills and competences of partners to make them more effective and competitive and borrowing ideas from them. In the case I am focusing on a two-way situation only, with two partners sharing some objectives (Unilever-JM and each one of the partners), meaning there is no Strategic Centre per se, since both companies are strong players in the industry. Even though, some points may be taken from this paper, since the authors are still focusing the learning part from strategic alliances. They argue that moving quickly from ideas to the market by a simultaneous learning process with partners offers a competitive advantage over other developers. They say that competitive success requires the integration of multiple capabilities (e.g. innovation, productivity, quality, responsiveness to customers) across internal and external organizational boundaries. This is the main point in a merger, acquisition, alliance or formal agreement, as well as in the case I am going into, since both parts try to learn from each other, obtaining competitive advantage.

On the other side of the barricade, the authors as well argue that skill transfers between parties did not always result in mutual benefit. One Defence contractor explained that their experience of skill transfer nearly always meant that the partner was strengthened and became a stronger rival. Hamel et al. (1989) also found that the unwary partner typically found its competences were "hollowed out" and that its collaborator became a more powerful competitor. That is where companies must be careful and, before every alliance or other strategic networking activity, "gather the troops" and present a careful planning and a clear strategic action, because every exchange of information happens from the lower to the upper levels on the company and everybody needs to be aware.

For overcoming this problem (or, at least, part of it), firms must create a notion of partnership, which creates a learning culture and have the ability to perceive the full business idea and understand the role of all the different parties in many different locations across the whole value chain. In one hand, leveraging the skills of partners is easy to conceive, but hard to implement, since it takes many partners to effectively make the system work, but the negative behaviour of only few can bring the whole system down. On the other hand, formal contracts are relatively inflexible and are suitable only where the behaviour is easy to describe and is relatively inflexible, but the relationships are creative and flexible and so very difficult to capture and enforce contractually. This approach is very important to the work I am pointing to present. In fact, both players in the industry (DOB's and A-Labels) are not likely to make formal contracts that will lead to inflexibility or legal problems (e.g. collusion) and so the informal behaviours are the main object to focus on. For example, Benetton franchising system relies on unwritten agreements, relying on trust and with clear expectations, saving a great deal of time and expense. My work will add an important contribution to this part of studies, showing how can we make these informal agreements being accepted and understood by all parties in an easy manner.

Finally, Garcia-Pont and Nohria (1999) and Zaheer (1999) added that the location of firms in the interfirm networks is an important element of competition beyond the traditional models of competitions, that focused on strategic variables such as scale, advertising intensity, etc. (Porter, 1980). They argue that competition is more intense among actors who occupy a similar location relative to others – similar network positions - but is mitigated if actors are tied to each other. Adding this, Lorenzoni and Baden-Fuller (1995) state, "Of all battles firms face, the most difficult is not the battle for position, nor is it even the battle between strong and weak firms following the same strategic approaches. Rather, it is the battle between firms adopting different strategies and different approaches to the market". This statement applies perfectly to my research, since A-Brands and DOBs approach and strategize differently in the same market. They mainly play in different ranges, approaching different publics, but always trying to diversify and expand into each other's "territory", which, the latter, will create conflict. In this case, Unilever-JM and its partners are playing in the same market, which can difficult the relationship.

Summarizing, and using words from Gulati, Nohria and Zaheer (2000), in a more contemporaneous approach, "networks of interfirm ties are very important in examining fundamental issues in strategy research, introducing the concept of strategic networks in the context of industry structure, positioning within an industry, inimitable firm resources and capabilities and dynamic network constraints and benefits". As a matter of fact, researchers had seen firms as autonomous entities some years ago, striving for competitive advantage from either external industry sources (Porter, 1980) or from internal resources and capabilities (Barney, 1991), which is inadequate in a world in which forms are embedded in networks of social, professional and exchange relationships with other organizational actors (Gulati, 1998; Galaskiewicz and Zaheer, 1999) in today's days, where specialization and networks are of extreme importance. These networks "encompass a firm's set of relationships, both horizontal and vertical with other organizations – be they suppliers, customer, competitors or other entities – including relationships across industries and countries" (Gulati, Nohria and Zaheer, 2000). They are composed of inter-organizational ties that are enduring, of strategic significance and include strategic alliances, joint ventures, long-term buyer-supplier partnerships and host of similar ties. Within this new context (information systems, specialization, technology) strategic networks potentially provide a firm with access to information, resources, markets and technologies with advantages from learning, scale and scope economies as well as specialization inputs; and allow firms to achieve strategic objectives, such as sharing risks and outsourcing value-chain stage and organizational functions (Gulati Nohria and Zaheer, 2000). But, as was said before, for a strategic alliance to have a long-term impact, learning must be on focus.

The Coopetition Approach

On the Coopetition concept, I intend to give a brief overview on what has been written, having in mind that this concept is intrinsically linked with the Networking-Level strategy and its strategic networks. I will avoid the common approach to the objectives of coopetition, namely the use of it to fight against more powerful brands or companies in the industry or even to have access to scale cost reduction, e.g. through division of investments in R&D. I will rather apply a concept already introduced by Lado, Boyd and Hanlon (1997), where both companies engaging in the coopetitive behaviour would have to have great collaborative and competitive behaviour as well as strong presence in the market.

It is argued that it is of great importance to further develop the knowledge about this kind of business relationship, as it must be regarded as the most advantageous one, when companies in some respect help each other and to some extent force each other towards, for example, more innovative performance. It is of interest to ask the question how cooperation and competition is possible to combine in one and the same relationship, and how such a relationship can be managed.

		Coopetitive Orientation	
		Weak	Strong
Cooperative Orientation	Strong	Coopetition Behavior	Syncretic Behavior
	Weak	Monopolistic Behavior	Competitive Behavior

Table 1: The Coopetitive and Cooperative Orientation (Source: Lado, Boyd and Hanlon, 1997)

Adding this, coopetitive environments impede the generation of proprietary and discretionary learning, by forcing competitors to selectively share critical knowledge about their assets (Baumard, 2008).

The phenomenon of coopetition, that is, simultaneous cooperation and competition between firms, has become increasingly popular in recent years (Gnyawali & Madhavan 2008, Ketchen, Snow, and Hoover 2004; Bengtsson and Kock 2000). Research shows that over 50 percent of collaborative relations (strategic alliances) occur between firms within the same industry or among competitors (Harbison and Pekar 1998). A number of factors contributed to the rise of coopetition in the late 1990s and early 2000s, including the accelerating breakthroughs in information and communication technologies and the development of internal and external networks by most major companies. The layers of interconnectedness, channel conflict, and novelty involved in e-commerce, pushed the term coopetition to the forefront of business strategy.

Coopetition combines the advantages of both competition and cooperation into a new dynamic which can be used to not only generate more profits but also to change the nature of the business environment in the company's favour and it occurs when companies interact with partial congruence of interests. They cooperate with each other to reach a higher value creation if compared to the value created without interaction, and struggle to achieve competitive advantage, originating a balance between a cooperative and a competitive interaction among the same firms, so that neither one of the two ways of conduct will harm the other is a strategic challenge or dilemma for many firms (Bengtsson & Kock, 2000). Often coopetition takes place when companies that are in the same market work together in the exploration of knowledge and research of new products, at the same time that they compete for market-share of their products and in the exploitation of the knowledge created. In this case, the interactions occur simultaneously and in different levels in the value chain. Real long-term business success comes not solely competing successfully within your current industry bit also from being an active participant in shaping the industry's future (Branderburguer & Nalebuff, 1997). My case will be inserted in this panorama

Coopetitive relationships are complex as they consist of two diametrically different logics of interaction. Actors involved in coopetition are involved in a relationship that on the one hand consists of hostility due to conflicting interests and on the other hand consists of friendliness due to common interests. Actually, business is cooperation when it comes to creating a pie and competition when it comes to dividing it up. (**Appendix 1**) We cannot confuse this concept with collusion, where there is no pie enlargement, only division. Companies are complementors in making markets, but competitors whenn dividing markets up and understanding cooperation is as important as understanding competition. Using the Value Net (Branderburguer & Nalebuff, 1998), we see that customers and suppliers play symmetric roles in the process of value creation and competitors and complementors play mirror–image roles (competitors are the substitutes). (**Appendix 2**) These two logics of interaction are in conflict with each other and must be separated in a proper way to make a coopetitive relationship possible.

Years later, and with the creation of a big conference by EURAM, this concept was discussed and improved, as presented in the paper from Dagnino & Padula (2002), that stress that coopetition does not simply emerge from coupling competition and cooperation issues, but rather it implies that cooperation and competition merge together to form a new kind of strategic interdependence between firms, giving rise to a coopetitive system of value creation. Coopetition is a way of defining a strategic game of interaction, which models the whole 'interplay range' in detecting firms' interdependence (Dagnino & Padula 2002). In fact, whereas both competitive and cooperative perspectives focus on entirely diverging and converging interest structures, since it takes into account firm interdependence on the base of partially congruent interest structures, coopetition represents an "integrative theoretical bridge", which stretches to join the two contrasting mentioned perspectives. Indeed, coopetition strategy refers to a kind of interfirm strategy, which consents the competing firms involved to manage a partially convergent interest and goal structure and to create value by means of coopetitive advantage.

According to Dagnino & Padula (2002) and regarding typology of interfirm coopetition, there are two basic forms: dyadic coopetition and network coopetition.

<table>
<tr><td colspan="2"></td><td colspan="2">Number of Firms</td></tr>
<tr><td colspan="2"></td><td>Two</td><td>More than two</td></tr>
<tr><td rowspan="2">Number of activities in the value chain</td><td>One</td><td>Simple Dyadic Coopetition</td><td>Simple Network Coopetition</td></tr>
<tr><td>Multiple</td><td>Complex Dyadic Coopetition</td><td>Complex Network Coopetition</td></tr>
</table>

Table 2: Coopetition Types (Source: Dagnino and Padula, 2002)

I will focus on the dyadic coopetition, that refers to firm dyads or simple two-firm relationships, mainly because I decided to reduce the overall set of companies to a comparison between two (Unilver-JM as manufacturer and individual retailers – Jerónimo Martins as an example) in order to simplify the approach. This relates to:

a) coopetition (both competitive and cooperative) relationships between the same two firms along one single level of the value chain (i.e., strategic consortia as R&D consortia). This is what they have termed 'simple dyadic coopetition';

b) coopetition (competitive and cooperative) relationships between the same two firms along several levels of the value chain (i.e., a number of firm dyads in the automobile industry who cooperate on car R&D and/or production and compete in car distribution). This is what they have named 'complex dyadic coopetition'.

From this dyadic and paradoxical relationship that emerges when two firms cooperate in some activities, such as in a strategic alliance, and at the same time compete with each other in other activities is here called "coopetition."

Focusing in the relationships between two firms along several levels of the value chain (e.g. Unilever and Jerónimo Martins competing in Portugal), it is argued that these agreements assume different forms and focus on cooperation in R&D and manufacturing of one or more product lines while distribution generally remains competitive, which I do not apply in this case, since their only objective in this case is assumed to be "making the pie bigger", through the sharing of knowledge and strategies. The alliances above are widely known under the press common label of "allied in costs, rival on markets" or "marry nobody, collaborate with everybody".

Activity	Exchange	Aim	Logic of Interaction	Agreement	Power Base	Roles	Social Ties
Cooperation	Business Social Information	Mutual Interest	Norms	Informal and Formal	Functional	Clear Conflicting	Visible
Competition	Social Information	Conflicting	Rules of Thumb	None	Positions	Rivalry	Invisible

Table 3: Cooperation and Coopetition (Modified from an idea presented in Bengtsson, Kock and Laine, 2000)

We can see the advantages of coopetition in **Appendix 5.** In fact, by engaging in a deep relationship with the other, firms can achieve economic profitability at the same time they are easily able to create consumer value. This happens more than in the case of only collaboration or competing.

Since prior research shows that there are three parties who influence the performance of store brands: consumers, national brand manufacturers, and most importantly the retailers who sell them, I decided to apply the concept of category management to this dissertation, in order to position these influencers in the light of the consumer goods sector and how can they all benefit from coopetitive behavior.

The Category Management and Category Captainship

Category management is hosted in this coopetitive conduct, since it recognizes the interrelatedness of products in a category and focuses on improving the performance of the whole category rather than the performance of individual brands (either private or national). Under Category Management, category managers are responsible for integrating procurement, pricing, and merchandising functions of all brands in a category and jointly developing and implementing category-based plans with manufacturers to enhance the outcomes of both parties (Pellet, 1994). Basically, category management emerged as an important trend in strategy and marketing, especially in the consumer packaged goods industry. As popularly understood, the concept of category management is generally acknowledged to be a control system under which the objective is to maximize performance of a large collection of competing brands or products (i.e., the category) rather than individual brands. (Zenor and Zerrillo, 1995). According to an industry report, grocery retailer interest in category management is high with 83% viewing Category Management as the most important issue facing their company (Progressive Grocer, 1995). Niraj and Narasimhan (2003) also define it as an information sharing alliance between the retailer and all manufacturers in the category. The information shared is a signal about the uncertain intercept of the linear demand function.

"Category management is a process that involves managing **product categories as business units** and customizing them on a store-by-store basis to satisfy customer needs" *Nielsen, 1995*
"A flexible organizational approach that focuses **supplier/distributor** and wholesaler/retailer attention on the impact every product has on a category's overall profit picture. All functions that affect the category's P&L are place under the control of a single manager" *IDDA, 1993a*
"Category management is a **distributor/supplier process** of managing categories as **strategic business units**, producing enhanced business results by focusing on delivering consumer value." *Joint Industry Report on Efficient Consumer Response, 1995*
"CM is a method whereby vendor and retailer **team up** to manage their **mutual product categories** on a store by store basis" *Joseph, 1996: The Category Management Guidebook.*

Table 4: Category Management definitions (Dussart, 1998)

To implement category management it is essential to have a consistent strategy and a standardized business process. The process consists of six steps (Scotland Food and Drink, 2011):

- **Category definition:** decide what category your product fits into.
- **Assessment:** identify sales, profit and return required.
- **Strategy:** develop demand and supply-chain strategies for the category.
- **Tactics:** determine the assortment, pricing, shelving and promotions required to achieve the plan targets.
- **Plan implementation:** implement the category business plan and strategies through the store.
- **Category review:** monitor category performance versus plans on an on-going basis, e.g. how has your product, your sales and, ultimately, your bottom-line improved?

Additionally, the category management is divided into some groups: category (categoria), sub-category (sub-categoria), segment (segment) and sub-segment (sub-segmento), as the figure 1 shows:

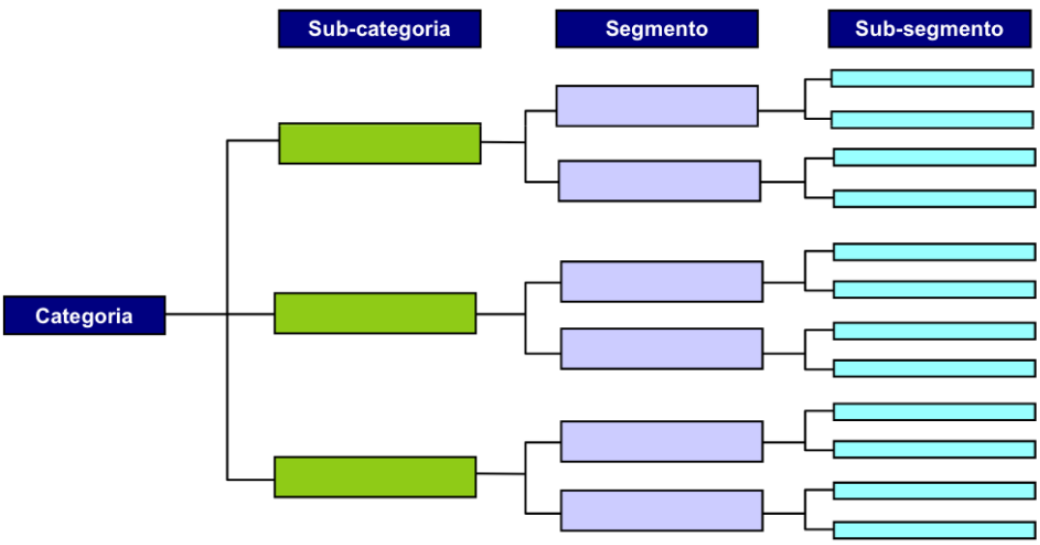


Figure 1: The division of categories (Source: Unilever-JM)

The use of this concept to the development of this thesis as much to do with the findings from the study made by Dhar and Hoch (1997), which uncovers that from the national brand's perspective, encouraging the retailer to carry more brands and deeper assortments may be the most effective way to keep store brands in check. The importance of these variables, however, may depend on the national brand's market position. For example, a category leader may be glad to see a rise in store brand share if it comes at the expense of one of its secondary national brand competitors.

As it can be observed from the various definitions above, key words related to Category Management tend to be supplier, retailer, their relationships and collaboration as well as product categories, consumer value and store-by-store approach. Besides the definitions of Category Management also its objectives and purpose are important. Dussart (1998) suggests that Category Management has two key objectives: (1) use product category as the business unit and (2) customize the marketing strategy close to local shopping habits. Also Aastrup et. al (2007) argue that the general concept of category management assigns all product categories a role of strategic business units. Desrochers & Nelson (2006) note that category management should shift managers' focus from brands to the overall performance of a category. Dupre & Gruen (2004) also point out that from a relationship and collaboration perspective it is good to notice that the definition of strategic focus on category management should come from retailers' categories, rather than suppliers' brand.

Although there have been drastic changes in every aspect of economic, social, political and technological conditions since then, the number of published books on category management is still very rare. The area is generally dominated by research and consulting companies and the technical information about specifics is not disclosed.

It seems that the retailers and manufacturers have understood at least on a general level the purpose and goals of category management. However, this does not seem to be the case with category captainship. As Desrochers et al. (2003) suggest the best benefits are gained from category management when suppliers' and retailers' resources and skills are put equally into to use to produce better decision-making and lower costs. Desrochers et al. (2003) suggest that best way to do this is through category captainship, as do also Kurtulus & Toktay (2009). They also remind that this is the result of the complexity in categories and lack of resources at the retailer (Kurtulus & Toktay, 2009). Therefore, a new trend has emerged: retailers, worried with other challenges concerning their growth strategy, have decided to find a way to get access to the knowledge from the manufacturers, starting to outsource retail category management to a chosen supplier on whom they rely for strategic recommendations and insights, a practice often referred to as “category captainship.” (Kurtulus & Toktay, 2010).

Category captainship is developed by Lindblom & Olkkonen (2006) as they suggest that the category captain should have responsibility over development and growth of the category, providing information on product trends and recommending price and shelf-space allocation in the category. Generally it seems that the retailers have given no clear role or responsibility to the suppliers, but just use their input where they feel it to be most fitting case by case. Category captainship is then defined as an exclusive alliance between the retailer and only one manufacturer. In Wang et al. (2003), the retailer and the category captain acted as an integrated firm, embedded in a strategic network, with a coopetitive behavior. The authors investigate whether it is profitable for the retailer to delegate decisions to the category captain. As examples, retailers such as Wal-Mart, Metro, Safeway, and Kroger practice this deals in some of their product categories and usually assign manufacturers such as Kraft Foods, P&G, Unilever, Kellogg and Danone to exchange knowledge and give recommendations, because of their established brands in the market and their resource availability.

This fact created a lot of new interactions in this business, mainly and obviously between retailers and manufacturers. It created an all new set of strategic networks, where retailers and manufacturers collaborate to maximize the profit of each category at the same time they compete to sell the most of each one’s products, providing a coopetitive outlook to this matter. Once again, the strategic networks and coopetition emerge, and not through the cost sharing facet, but the information sharing one. In fact, a typical category captainship arrangement, “the retailer shares all relevant information such as sales data, pricing, turnover, and shelf placement of the brands with the category captain” (Kurtulus & Toktay, 2010). The manufacturer, in return, analyzes all the category information, using their wider knowledge about the matter, offering the client a detailed plan, including strategic and marketing recommendations about product and price architecture.

There are some known areas in which retailers expect the manufacturers to give input, most of the times as category captainship (Kurtulus & Toktay (2005a))

1. Assortment: recommendations about which products should be on the shelves (as well as which innovations should come in and which old products should come out) and what product mix should be implemented.
2. Shelf space management: product architecture, consisting in which brands and products should be on the shelves and where they should be.
3. Price: price architecture and price piano suggestions, which means the manufacturer is expected to give input on which prices to practice in each product of the category.

Moreover, Lindblom & Olkkonen (2006) indicate that category manager when acting like a captain has three main responsibilities:

1. Development & growth of the category,
2. Providing information on product trends
3. Recommending prices, assortment, and shelf-space allocations for all the products in the category.

Yet, with the growing practices of category captainship, some antitrust concerns have been emerging (Steiner 2001, Desrochers et al. 2003) as we can see through Leary (2003) opinion "*I first became aware of "category management" and designated "category captains" about six years ago, when I was in private practice. I was aware that consultation on these subjects with a retailer can be delicate, even when you are talking only about your own brands. The idea that a manufacturer would provide advice about the pricing and promotion of competitive brands, as well, set off every antitrust alarm*". In the US, the Antitrust Institute has voiced reservations about category captainship. In Europe, ECR has taken the lead to ensure that category captainship is implemented in compliance with European Union competition rules. Desrochers et al. (2003) state that antitrust concerns related to category captainship practices focus around two issues: (1) competitive exclusion, with the denial to small competitors the category captainship, since they do not have the necessary resources (Desrochers et al., 2003), and (2) competitive collusion, that refers to the possibility that a category captain can use its role to facilitate collusion and limit the competition among rivals in the category (Desrochers et al. 2003). Adding this, general recommendation regarding category captainship practices is that retailers should appoint the captainship to the strongest player in the category. This has not been followed by some companies, that tend to chose the strongest company as a captain, overwhelming the competitive balance and the smaller players in the industry. Finding of Kurtulus & Toktay (2009) proofs that ideal category captainship arrangement is such where manufacturer with high(est) brand strength and cross-price sensitivity is appointed as the captain, who supports the general recommendation. In their other article, Kurtulus & Toktay (2005b) also note that retailers tend to assign the category captainship to larger manufacturers with more resources and expertise for doing the work in the category. In spite of that, as Kurtulus and Toktay (2010) present, many retailers and manufacturers in the consumer goods industry practice category management deals with the manufacturers and report positive benefits, in spite of all the accusations on collusion. This is due to the fact that the proposals from the category captain are only recommendations. In fact, many retailers, after receiving the reports from the captains, modify them in their own interest.

Ultimately, when considering the benefits and value creation of category management and captainship, Lindblom & Olkkonen (2006) observe that obtaining a win-win-win situation through collaboration is challenging to achieve in practice. Subcontracting relationships are usually deeper and more complex and many firms share their notions of strategy with their subcontractors, but the sharing is nearly always limited (Baden-Fuller & Lorenzoni, 1995). It is common for firms involved in alliances to exchange ideas about strategy and to look for strategic fit and even reshaping of strategic direction and networks can be thought of as a higher stage of strategic networks, for in the strategic centre there is a conscious desire to influence and shape the strategies of the partner and to obtain from them ideas and influences in return (Baden-Fuller & Lorenzoni, 1995). This is intrinsically connected with the arguments presented before in the strategic networks and coopetitive behaviour. These examples, and many other successful category captainship implementations, demonstrate that by working together, retailers can considerably benefit from their manufacturers' expertise in managing their categories and deliver consumer value through supply chain collaboration.

These three concepts are aligned and can be included in the business spectrum, as we can see through the framework in the **Appendix 4.**

Research Methods and Design

The main reason to choose this theme was the fact that I worked at Unilever-JM as a summer intern in the Category Trade area, in the Food Department. This internship allowed me to work directly with this subject, mainly with retailers, private brands and A-Brands in the context of crisis, getting some important insights to do this work as well as a great interest for this subject. With this, I can say I got more experience and knowledge that I can use in this paper. It also gave me the connections I needed to find the right people to answer the questions I intend to bring to this work.

Having the chance of meeting many people during this internship, I decided to interview players (**Appendix 3**) with importance in the general business, mainly the ones working with strategy and category trade. According to McNamara (1999), interviews are particularly useful for getting the story behind a participant's experiences, having the chance to pursue in-depth information around a particular topic and being useful as follow-up to certain respondents.

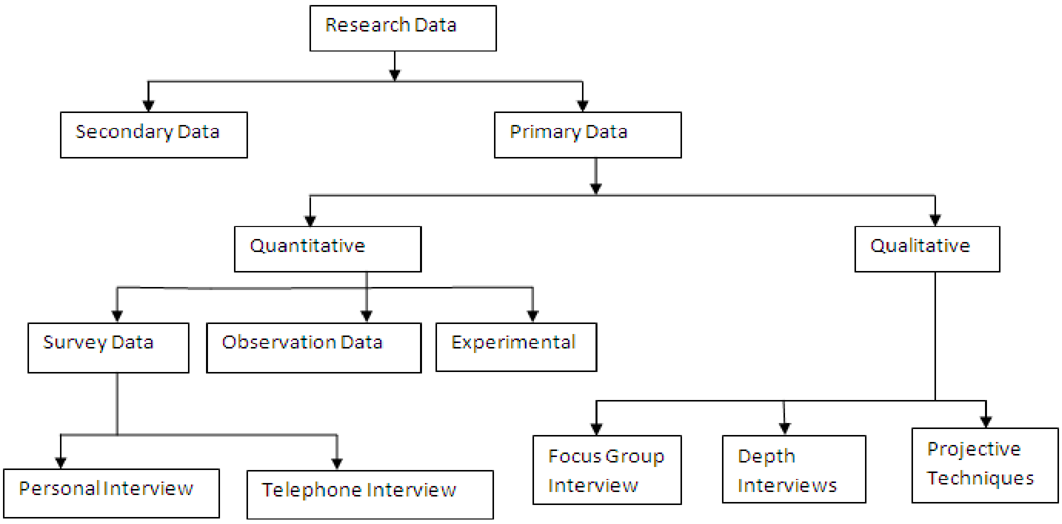


Figure 2: Types Of Research Data Collection Techniques

For that I contacted the responsibles for Category Trade, Planning, Key Account Managers and Marketing in Unilever-Jerónimo Martins; I contacted area directors, managers and store managers in Jerónimo Martins; and finally, I contacted consultants that previously worked with the consumer goods industry, in order to get a independent view of the problem.

In order to identify different types of coopetitive relationships between competitors, different companies in the same industry have been selected. I chose to interview important players within the biggest companies, in both retailers and big A-branded sides, as well as some players in the consultancy industry, since they can give a neutral approach to the questions. With this I will be able to face the three sides of the industry and recommend a more balanced approach. For instance, I chose Unilever-JM (one of the biggest A-Brand companies in Portugal and in the World), Jerónimo Martins (one of the two biggest companies in the retailing industry in Portugal and the major producers of private-labelled goods) and, finally, two other consultancy firms – The Boston Consulting Group and Explorer Investments. Introductory interviews were conducted with managers in each company, and they were lead to describe some relationships to other competing firms producing the opposite type of brand (retailers were asked about manufacturers; manufacturers were asked about retailers) and specific questions about their firms, within the industry. Interviews were analyzed to identify distinct coopetitive relationships that the firms were and had been involved in. The category trade management was also focused as an example of coopetitive behavior. The coopetitive relationships identified were selected for further attention.

Personal interviews have been carried out with business managers at different levels in several companies in different lines of business involved in the relationship. The interviews conducted are schematically illustrated in **Appendix 3**. Ten interviews in total were carried out in firms within three industries.

A standardized interview guide (with punctual changes for each industry) was used, and all the interviews were transcribed. Each interview lasted from 30 to 120 minutes. The interviewees were asked to describe the cooperative or competitive interaction that they were involved in, how firms interacted in specific activities and economical backgrounds, and in what way the firm was affected. This was made in a general way, not describing the activity per se but how it affected and continues to affect the company.

Adding that, the growing importance on the topic of strategic networks, as was said before, gave me an even bigger motivation to try to achieve new findings in this area. Despite this attention, even with some authors focusing on the importance of coopetition in recent papers (Branderburguer & Nalebuuf, 1997;

Lado, Boyd & Hanlon, 1997; Bengtsson & Kock, 2000; Gnyawaly & Madhavan, 2006), scientific investigation on coopetition has not gone much far farther beyond naming or claiming it, being the theme an under researched one, giving me an extra motivation to go on with this thesis.

Finally, the Category Management has not been as linked as it should be to the both concepts of strategic networks and coopetition, which led me to connect these three concepts and consolidate them into a single approach that, in the latter, can contribute to a perspective of creation of a new and fresh competitive advantage.

Some of the first choices I as a researcher made after choosing the subject of coopetition and networking level strategy in retail were to decide on the perspective of the research. Everything cannot be observed in one study, so more detailed perspective on the research theme was needed. First choice was to concentrate on the coopetition of different parties in category management. Considering that the most important decisions in retail are made by the shoppers at the store floor and both suppliers and retailers do have an opportunity to affect these choices for their benefit, I wanted to observe how it could be done in coopetition behavior.

As pointed out by previous literature, the application of category management recommendations is ultimately in the hands of the retailer, but I decided to give equal importance to the supplier side (most of the studies say they may give recommendations on various matters, but the final word should still be said by the retailer). For this reason, I chose not to underestimate the importance of collaboration and competition, relationships or role of suppliers in category management, trying to discover what are thoughts and needs of the both suppliers and retailers. Adding this, much can be learnt by both suppliers and retailers just by listening what the people working closest to the store space have to say.

The research process begins with the formulation of the purpose of the thesis. After a brief period of exploratory research, I formulated the research questions.

The main research questions that I will try to answer within this paper are:

- “How can category management be introduced in the coopetition display?”

- "How the big brands can enhance their key distribution relationships in the future, namely through category management systems?"
- "How can we introduce the concept of Category Management and use it as mean of overcoming the crisis and make not only the industry grow, but also the companies on it"

After this, a case study approach has been chosen for the empirical study presented in this article. This chapter deals with the issues related to the research case. First, characteristics of the case environment are discussed. The chapter will conclude with the presentation of case research discussion findings. An exploratory analysis is made of coopetitive relationships in the consumer goods industry to develop certain propositions about coopetition, mainly through the category trade management approach. As previously stated, I also decided to conduct interviews in order to sustain the case study propositions, focusing the crisis effect on these interactions between the firms. This case study spotlights Unilever-JM as the central company (fictionally represented) and develops a multitude of relationships around it, predominantly the ones with the retailers and their private labels.

The case study method provides the opportunity to gather a lot of data on a small number of study objects, which in turn makes possible multifaceted descriptions of competition. Such an approach is needed if new propositions about relationships between competitors are to be generated and if understanding for the interaction among competitors is to be increased. This method is a commonly used strategy in business and management research since it allows for a processual, contextual and longitudinal analysis of the various actions and meanings which take place within these settings (Yin 1993; Hartley 1994). Case study searches for rather holistic explanations of the phenomenon and, due the flexibility in design and open-ended nature in data generating that allows the case to be examined in considerable depth, has an important function in building theory (Eisenhardt, 1989; Gummesson, 2000; Yin, 1993).

Also, individual interpretations of competition and the way that individuals relate their own actions to those of their competitors are important aspects of competition. These interpretations can be accessed through interviews or conversations with managers in the studied companies, which requires establishing a close relationship between researcher and representatives from the studied companies. These requirements can be fulfilled by the case study method.

Additionally, given the complexity and linkages of category management and coopetition into larger context, I strongly believe that observing one case and making conclusions and recommendations based on it does well serve the purpose of the research. First of all, it will create a general understanding between the theoretical considerations and practical applications of coopetition on a more general level but at the same time it will identify opportunities, problems and action points in the case in question. Some of the benefits of case studies he lists as stated by Cohen & Manion (1991) and Adelman et al. (1976) and other authors are for example that case study gives a possibility for generalization and brings out the complexity and interrelation of social structures. Case study is also often directing towards action and application in practice.

Then, in the case study, I intend to:

1. Observe category management practices and ways that the retailer-supplier relationship in the form of coopetition, through category management could enhance the benefits and consequently the profits for both the parts of the relationship,
2. Concentrate on inserting the category management practices in the coopetition level and their use at the store level and
3. Conclude about its results.

The aim is to better understand the retailer and supplier relationships as well as the use of category management practices as not only a marketing tool, but also as a strategic issue in the case. For that, I aim to give an historical overview of the Portuguese economy and Portuguese fast-moving consumer goods industry evolution in last years, with an analysis of the evolution of Unilever-Jerónimo Martins compared to the private labels, making a tapered approach on this issue and present the main modifications in the industry in Portugal, namely the growth of private labels and the adaptations big brands had to make. The data provided concerning the country and the industry is updated to 2012 and the one concerning the company and the stakeholders related with is from 2009 and 2010. Aligned with this, the economic context to be developed regards the same timeline.

Finally, I will show how we can introduce their category management decisions in the strategic coopetitive behaviour and in their strategic networks, presenting this as a part of the solution to help the company grow in crisis situation, explaining how both Private Labels and A-Brands can achieve their goals in this industry at the same time they compete on it. With this, I look forward to find alternative ways to find balance in this industry, where both brands can achieve growth, by betting on each one's strengths to not only "enlarge the slice of the cake" but also enlarge "the cake" as an all, mainly through the growing phenomenon of category management.

The Case Study: Category Management as a strategic win-win situation to overcome the crisis?

It was 02.30 am and Mr. Casablancas[2] was still in his office. As a matter of fact, it has been happening the last months. The results on his table were, for the last years, not meeting the targets at all. Since 2008, the year of the crisis implosion, that Rhye[1], a fast-moving consumer goods company that sells products from food to personal care, passing by home care, was not delivering the outcomes from the expected predictions and he had to find a solution. Being a practicing strategist and an influential leader, Mr. Casablancas was used to deal with crisis and strategy, but in this case not a single marketing strategy from that department was working and something had to change. With the crisis in its apogee, growth of private labels in Portugal was a crescent factor and the big branded companies - like Rhye - were not only losing market share to the private labels, but also observing a reduction on the market range. It was like the private label owners were destroying value both for the company and the consumer, pushing the prices so low that they will be, at a time, lower than the costs of producing those goods. That was, observed Mr. Casablancas, a trend in this market since the crises imploded: with less money in their pockets, families tend to forget about the benefits of the products, their quality or healthiness, focusing progressively on price. On the other hand, during the last years, private labels shifted from a last resource to strategic weapons. Increasingly, they are tools that separate a retailer from its competitors, hopefully in a way that helps to build loyalty and purchase behavior…and Mr. Casablancas knew it. [1]

After all the efforts from the marketing teams to overcome this situation, mainly through investments in understanding shifting consumer attitudes and behaviors across key categories/brands and drivers of those behaviors, using that knowledge as the foundation for all marketing strategies; by understanding the price relationship between his brands and private label, using this to inform retailers of category pricing insights and to drive your own price strategy; and finally by embracing innovation as a key private label mitigation strategy, wrapping in new attributes that offer unique benefits targeted against the needs of key shoppers/targets, the teams were able to understand the private label threat within their specific categories, developing and clearly communicating a value proposition for Rhye brands that mitigate that threat. And it seemed that category management, a concept many supermarkets adopted since the early 1990s, with the objective of improving the overall performance of product categories and establishing consumer loyalty was a good choice. This enhancement to category performance had the objective of creating numerous benefits to organizations seeking to increase profits in a competitive business environment. Category management is a retail management initiative aimed at improving the overall performance for a retailer in a product category through the coordination of buying, merchandising, and pricing of the brands in the category.

By engaging in this coopetitive behavior, he could propose their main clients (and competitors at the same time) a strategy of competing and cooperating in the same axis, supported by statistical studies that indicate the necessity for category managers to focus on all brands within their respective categories and not over-emphasize private label brands. Consumers prefer a full assortment of merchandise, and an over emphasis on private label brands may result in diminishing category performance. Furthermore, mainstream private-label retail prices are often directly linked to the prices of the national brands. This means that the A-brand price level is a key factor in the retailers' profit margins on their private-label offering. Given the interdependency of the two, any price adjustment in the A-brand (upward or downward) is likely to filter down into the private-label

[1] Fictional name for the CEO
[2] Fictional name for the Company

price as well. Consequently, retailers will not be inclined to undermine the position of the A-brand completely, as this will cut into their own profitability.

Category management stresses the finding the optimal mix of all brands in a product category from the perspective of consumers and retailers' needs. Improved performance of the entire product category, and not just private label brands, is the underlying principle of category management practices.

To explain the actual situation, Mr. Casablancas has been analyzing the evolution of the Portuguese economy and the consumer goods industry and the trends that had been shaping it in the recent years, not only in the producer side, but also in the distributor (retailer) and consumer sides.

i) Portuguese Economic Context

The macroeconomic indicators in Portugal are entirely related with the crisis in the actual situation. In order to perform the evaluation of the level of consumption, unemployment rate, consumer price index, consumer spending, retail sales evolution and consumer's confidence represent great variables for analysis, since they are impactful in the dynamics of the economy.

The unemployment rate has been growing, mainly in the youngsters, showing that the crisis is having a great impact in the job market.

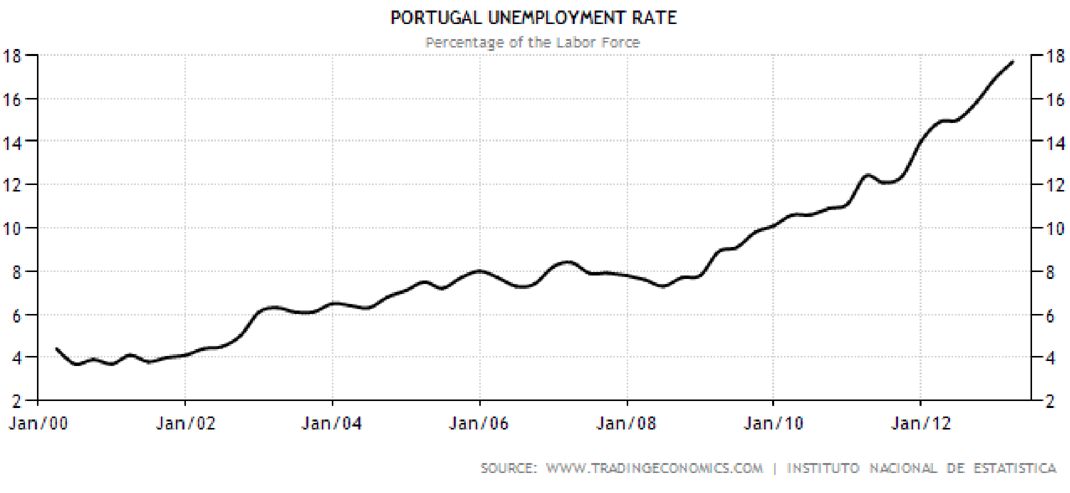


Figure 3: Portugal unemployment rate (Source: www.tradingeconomics.com)

Comparing Portugal with the European Union [European Commission: Economic and Financial Affairs,2012][2], from 2000 to 2012 (and the predictions for 2013) it is possible to attain that the situation in Portugal is harder than in any other country.

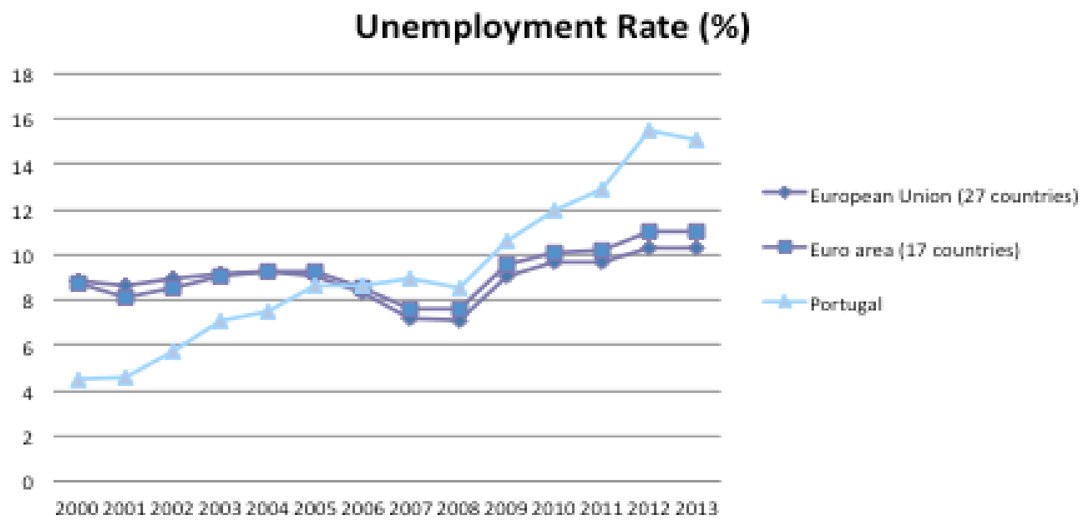
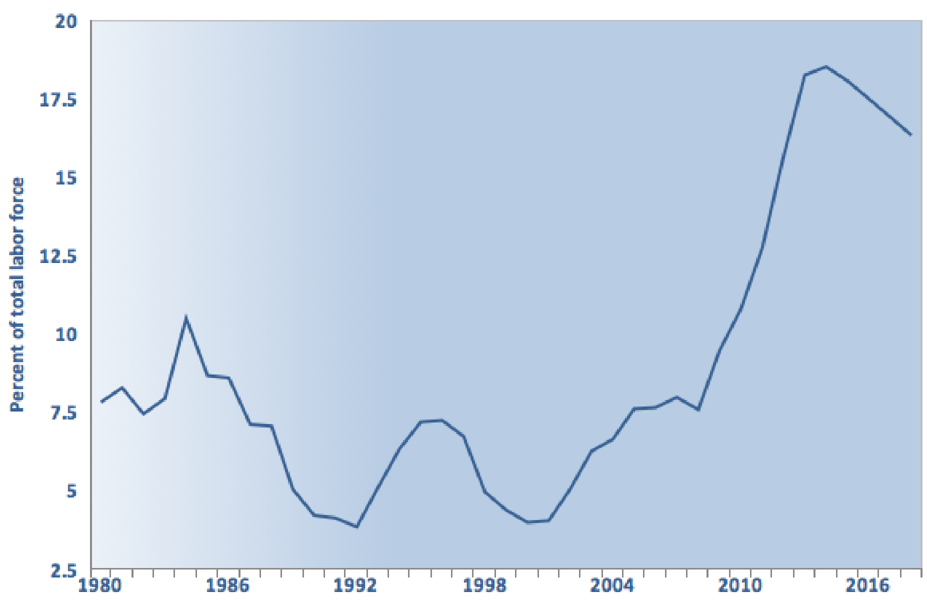


Figure 4: Portugal unemployment rate (Source: www.ameco.com)

Moreover the main conclusion is that, as unemployment increase, as well as the number of individuals in a precarious situation (both financially and in a social perspective) disposable income and willingness to spend money in better products are heavily affected.



Date	Value	Change, %
2012	15,7	22,87%
2011	12,7	17,99%
2010	10,8	14,02%
2009	9,5	24,72%
2008	7,6	-4,92%
2007	8,0	4,28%
2006	7,7	0,54%
2005	7,6	14,51%
2004	6,7	6,09%
2003	6,3	23,84%
2002	5,1	24,74%
2001	4,1	

Source: World Economic Outlook, April 2013

Figure 5: Historical Portugal unemployment rate (Source: World Economics Outlook, April 2013)

A look at the confidence of the consumers confirms the previous indicators results. The last available value is of -57% for the Portuguese market.

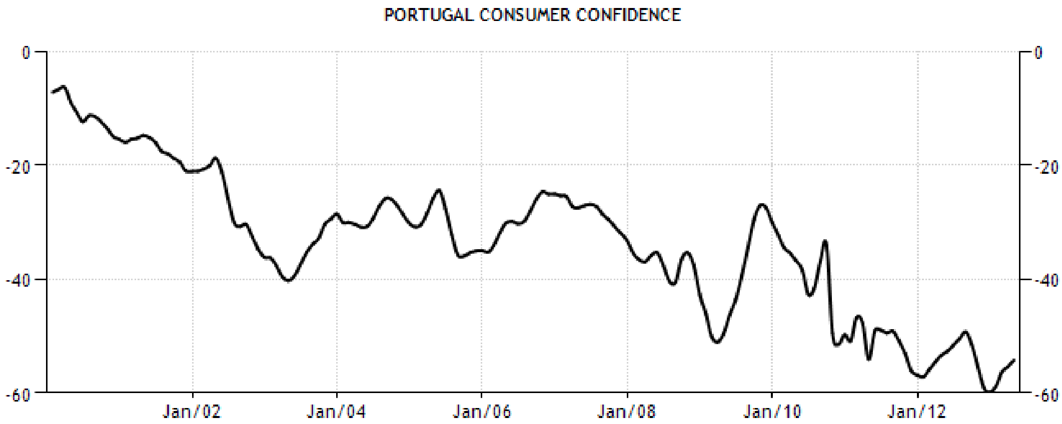


Figure 6: Portugal consumer confidence (Source: www.tradingeconomics.com)

Adding this, very dependent on the confidence level and unemployment rate, the consumer confidence, even with some turnarounds, have been going down. This variable is indicative of how the crisis affected the consumers not only in the moment of purchase but even before the same.

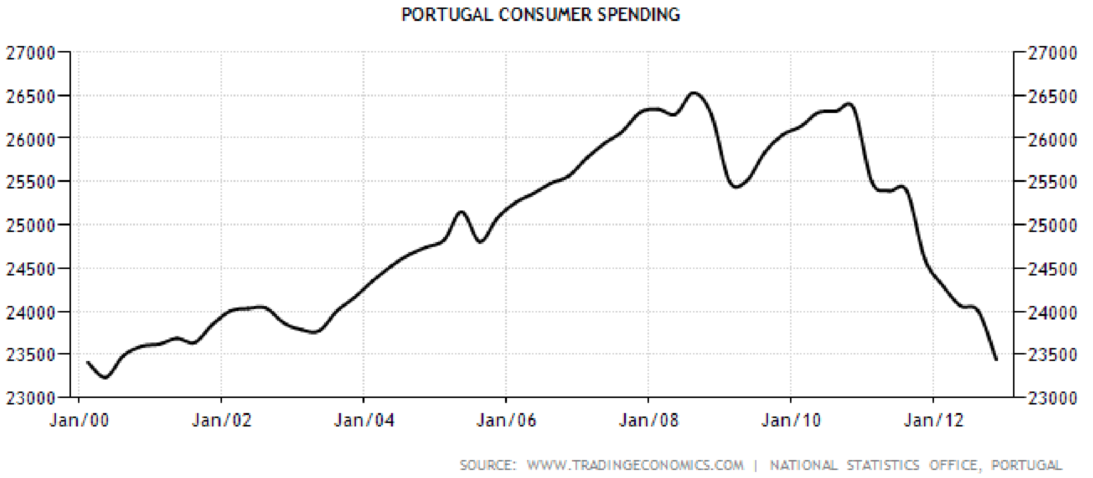


Figure 7: Portugal consumer spending (Source: www.tradingeconomics.com)

In association with all the indicators presented before, the consumer spending has been going down since 2010, after a great fall in 2008 (the crisis beginning) and a discrete recovery. This great impact on the consumer spending, in association with the lack of confidence of the consumers, does not perspective a good evolution in the near future.

Concluding, the recent updates for Portugal show further deterioration of the economy. In the last quarter of 2012, GDP shrank an annual 3.2 percent, the 8th consecutive quarter of contraction. Moreover, the unemployment rate reached a new record of 17.7 percent in the first quarter reflecting the magnitude of the current recession. To make things even worse, industrial production has been consistently declining and business confidence remains at very low levels. Also, consumer confidence has been deteriorating as tough austerity measures are taking a heavy toll on already low salaries and pensions.

The crisis and an international and national instability jeopardize the action of brands producers and make private labels life easier. Consumers are more and more looking for more efficient proposals that can be reached through value for money products. Convenience also is a recent trend giving more power to small shops located in the city centers. Therefore it is straightforward that those have a more reduced portfolio through having less available shelf space to products from Unilever, for example.

ii) Consumer Goods Sector Analysis

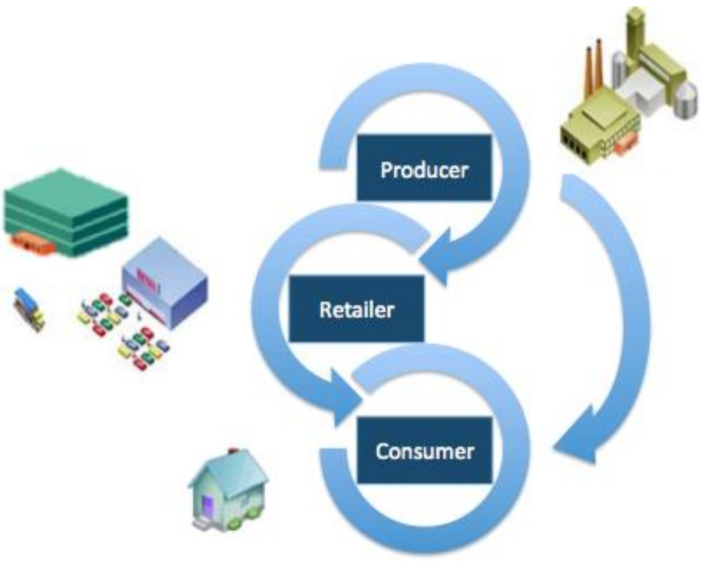


Figure 8: The Supply Chain in the fast-moving consumer goods industry

The supply chain of retailers business regards a very simple system. Usually the producer performs not only the production process itself, but also the assembling and packaging. Even when buying some pre-produced items, the delivered value of a company at this stage is usually augmented through brands that segment the market, evolving for a differentiation strategy. After such, the distributor plays the role of the intermediation until the final client.

This market, as whole, has evolved positively in the last two years, but in the last year (and after a great breakdown in 2009 and 2010) in a non-constant way, as we can see through figure 9:

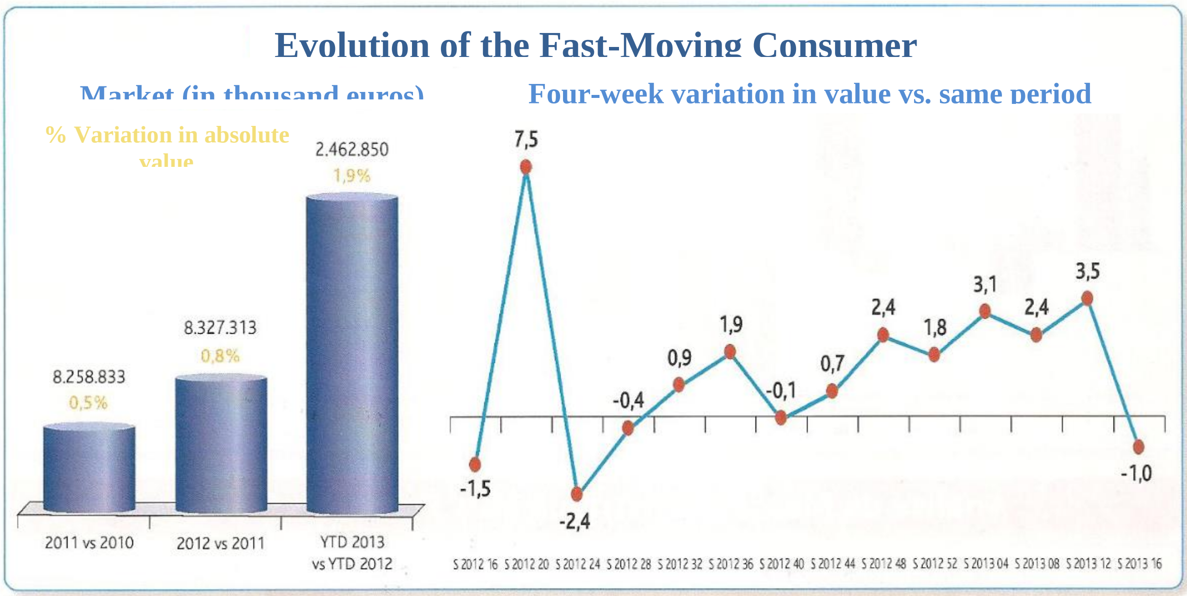


Figure 9: Evolution of the Fast-Moving Consumer Goods Sector (Source: Nielsen)

When analyzing the evolution of the market, we assisted to a shift from the wholesalers to the rise of private labels (Figure 10). In these old terms, the producer sold to a wholesaler (normally a cash & carry) that sold to a smaller store (normally a small supermarket or convenience store). This trend, very

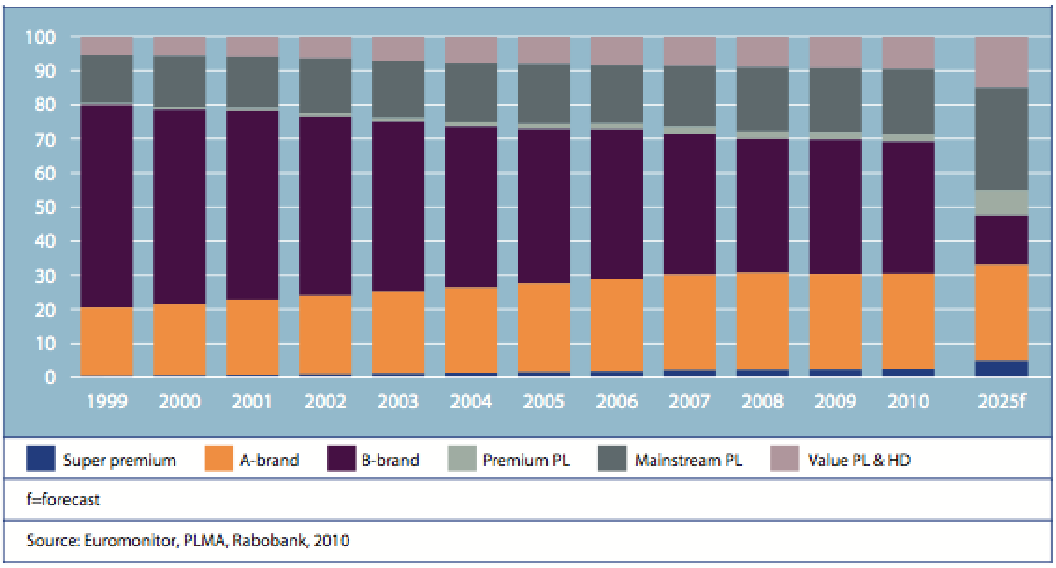


Figure 10: Private Label vs. A and B (percentage) (Source:

common during the 90's, has suddenly lost prominence to the phenomenon of the private labels growth.

This more recent trend consists in defining the distributor also as a-kind-of a producer through the development of its own brand. The point is about developing the skill of differentiation from their vertical competitors. Moreover - and consequently - they intend to be players in the brand offer. It is like integration in backwards so that they are able to perform a lot lower prices, deepening the segment of value-for-money. Undeniably, it was a very intelligent (and with the perfect timing) move regarding the values of the macroeconomic analysis already performed. Finally the consumer has a small impact if thinking from an individual point of view but he also as a broad range of choices.

Nevertheless, and since the brands are still important in this industry, during the last year there have been distinct moves in the market, with these manufacturer brands growing and showing they are not dead.

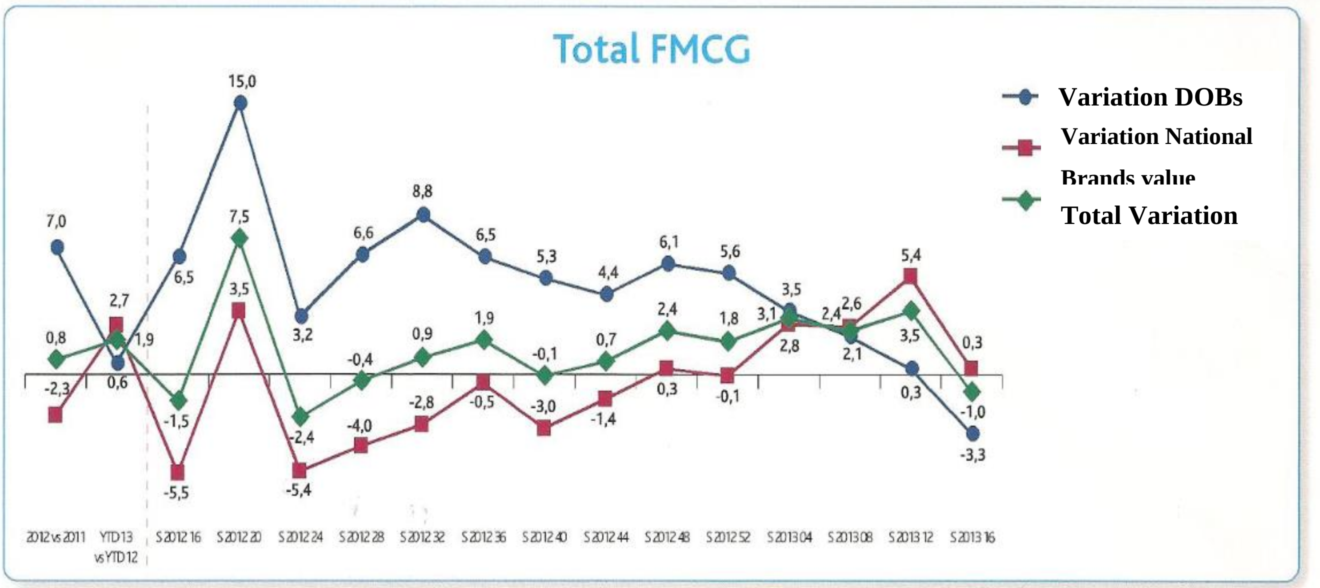


Figure 11: Evolution of % Sales by type of brand (Source: Nielsen)

Finally, still concerning the sector as an all, we assisted to an increase in the importance of hypermarkets and the decrease of the traditional commerce. In fact, the habits have been changing in the last years, and so they will continue to change, with the free-service (impulse purchases) market to gain position as well.

Figure 12: Evolution of % Sales by type of commercial area (Source: Unilever-JM) Legend: Hipermercado = Hypermarket; Supermercado = Supermarket; Livre-Serviço = Free Service; Estabelecimento Tradicional = Traditional Stores

<u>Producers</u>

On the side of the producers, with the growth of private labels the power has also "changed hands". If before the power was concentrated in the producer, the dynamics evolved in order to give to the retailer solider bargaining power. Nowadays not only the total space in shelf, the position of the product among others and the existence of promotions are part of avid negotiations, but also the launch of a private label induce to more power from the retailer by being the only link that producers have to the final consumer. The margins and also the new features of products from DOPs (which is rich information for the distributor) are reason for producers feeling less able to play a bold role in the supply chain. Moreover clients are also getting into more power. They have a lot of options and the access to information and their rights to complain are also increasing.

Branded items offer the promise of trust and consistent quality while private label typically varies greatly between retailers. Brands are customized or uniquely crafted to address specific customer needs and wants. They encourage consumers to "trade up" and are responsible for category growth. On the other hand, companies have to achieve cooperation, since you have to listen to customers, work with suppliers, create teams, and establish strategic partnerships -

even with competitors, which doesn't sound like war or competition and most businesses succeed only if others also succeed (Branderburguer & Nalebuff, 1997). Business is cooperation when it comes to creating a pie and competition when it comes to dividing it up (Branderburguer & Nalebuff, 1997). Companies are complementors in making markets but competitors in dividing them up and understanding cooperation is as important as understanding competition.

The international and national crises are, especially the last one, two permanent advents in the industry and consumers expectations and decisions. First of all, as was referred before, the crisis affected the budget of families, that changed the pattern of consumption, preferring a cheaper product to a healthier one. Furthermore, if we consider the fall in the consumption, we also assisted to a decrease on the firms' revenues, leaving less money to R&D and innovation, that resulted in a less deep knowledge of the consumer and to a lack of disruptive products or processes, leading to a no-exit process.

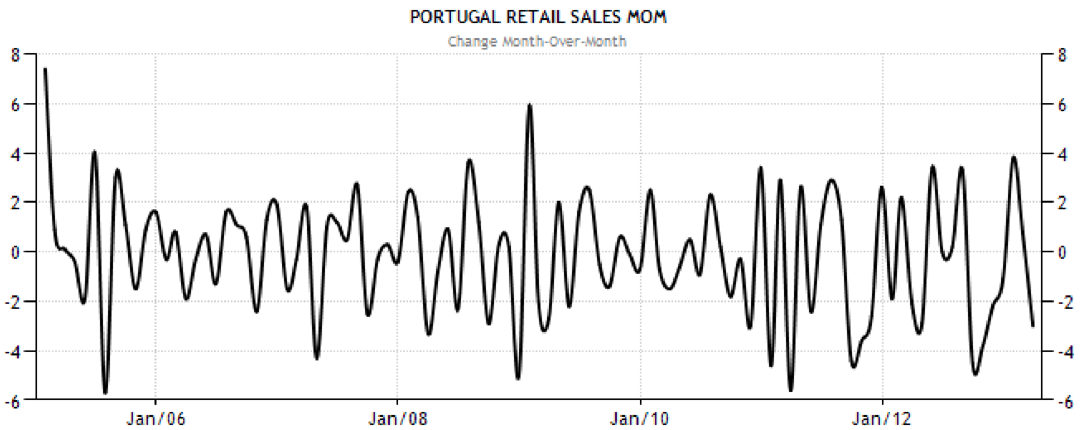


Figure 13: Portugal retail sales MOM (Source: www.tradingeconomics.com)

As an example of this lack of knowledge of the client in the crisis times, we have the example of Unilever's Lipton Ice Tea in Portugal. They decreased the sugar level, aligned with the reasoning of healthier products and following advices from World Health Organization. Moreover even when making changes in the product on behalf of the consumers' health they simply do not release information regarding so. The changes in the way they produce are a reality, sometimes positively received by consumers, such as the decrease of level of salt by being substituted by other spices or additives, in the case of Unilever brand Knorr.

Source: TradingEconomics

It would be intuitive that any company would be affected by the crisis so that reducing in the money they are willing to spend in Advertisement and Research and Development would make sense. Big companies intend to have a different role. Even being aware of the enlarged need to be efficient and effective and that there are budget limitations, the point is to remain competitive. The fact that private label is being their greatest competitor, accounting for a fight for the leading position, stokes this reasoning.

The economic crisis also potentiated the late launch of products that actually cover the whole price piano. This is one of the greatest mistakes of, for example, Unilever: not understanding that less disposable income decreases the willingness to buy premium. Somehow what Unilever lacked was the working over the price-factor. In fact the *price premium* is something hard to fight for because the private label has control over all the value chain. And as already referred the distributor knows in advance when a brand is going to launch a product or new features.

The economic recovery may be slowly happening, but the recent recession will put its stamp on private-label demand in the coming years. The economic depression eased some of the main limitations to private-label growth as increased price sensitivity drew consumers to private-label alternatives. Increased inter-store competition is fuelling the need for retailers to pursue both private-label segmentation and economies of scale more vigorously.

<u>Distributor</u>

On the side of the distributor, they became, as was stated before, the main engines of change with the growing trend of their private labels. With the crisis and the consumers shifting from quality to price as a decision-making variable, retailer's private labels assumed a strong position, with their low involvement.

Adding this, since the distributor is the producer in this case, they achieved total control of the information about consumer and about the stock and shelf. The shelf control and the negotiation power were previously developed regarding the less power of Producers. They are the ones in charge of the location and moreover they have information in backwards from the innovations and in frontwards about consumer preferences and location in selling point choices. Very often the private label price is settled down through comparison with the Unilever or Procter &

Gamble recommended price. Moreover, they intensified the quality of the private-labels, developing new products for different ranges and increased the copycat practices, all under the motto of cost efficiency. By satisfying the basic needs of the consumers, offering a singularly focused functional benefit – at a lower price – distributor’s private labels have managed to create singular message-based marketing devices to attract those consumers who seek one thing in their shopping decision-making – simplicity.

These distributors had also found a way of maximizing the utility of their interaction with the A-brands. Among major benefits private labels bring to the retailer, the focus on the retailer’s ability to coordinate the prices of both the national brand and its store brand counterpart is the most important. By using product-line pricing, the retailer can exploit the differentiated nature of the two brands.

In Portugal the first movers in developing a strong DOBs range of products was Lidl. Their main products were private labeled. As they were able to settle down only with their brand products, Lidl enforced the other super and hypermarkets to develop their basket on that side as well. Later on, and in order to increase the value and the margins, Lidl also started having brands but with a quite small range of choice: only the leading player. Nowadays, Jerónimo Martins with the homogenized Pingo Doce brand and Sonae with Continente assume the highest market shares.

A new role

The development of DOBs raised a new role to Distributors. Through the entrance at a fast pace in the production segment, having a brand became one of the main ways of distinguish between them. In fact they easily intent to price wars so that now they are also betting on marketing and branding of assembly and packaging.

Some of the products they sell are at such a low price that the margin is lower than if they were selling a brand product. The price wars are becoming dangerous, even with some cross-subsidization among the basket offered. Nonetheless in the Portuguese market the prices are still likely to be more manageable, in opposite of some more developed ones. Some Portuguese players are feeling more and more difficulties, especially Intermarché and Auchan. When leaving the market of distribution, even with a lower presence of private labels products, the power is transferred to the ones who remain and not for companies as Unilever and so on, that in fact are losing clients.

By being able to copycat they are also able to develop more the space and the brand of their own supermarket, which is the best way for them to stay in the front-row of consumers' choices. The development of the basket create synergies in the choice of the consumers "one product was good, this one may be too", the presence in the daily life of a family. Moreover when promoting the supermarket itself, it overlaps with remembering the value of their own brand. Additionally this, these private-labels are pure negotiators fighting for the best price, able to discuss and squeeze the prices due to economy of scales and high bargaining power when discussing with small producers – and they say that in a very proud and national-appealing way.

The investment in R&D, the proposal of healthier products is not at all done by distributors, since they limit themselves to copy. The A-brands are the responsible for the development, innovation and this fact does not allow them to achieve the cost structure of their competitors. The management of the market for the distributors is much easier as it is much more concentrated and developed as a strong network of representatives of the same company allowing the achievement of several economies of scale and experience.

Consumers

The consumer is the final target of both distributors and producers. He is the driver of every change and, even more nowadays, the most important factor to take into account. The consumer considering all the changes and actions of the two players of the supply chain limited himself to respond to their attitudes. In fact the crisis highly affected most of the Portuguese population choices, increasing the elasticity towards most of the items. Therefore the choice of cheaper products became more intuitive. Consumer needs changed with the crisis as was stated before.

First of all, he turned more and more to the DOBs, creating a confidence halo and the habit of consuming them, since the quality is highly perceived and the prices are even lower. With this routine, the willingness to experiment products from the same private-label grows. Summing up bad movements in the receipt of some products and a value-for-money offer from the distributor, the first trial of a private label product started being a habit. The synergies among the basket of private labels also converted into a reality. The consumer itself developed this philosophy of smart shopping that raised harder analysis, since now on the disposable income is no longer a distinctive tool, at least not as reliable as before.

In addition the shopping at convenience stores that by being smaller demands for a smaller portfolio regarding the cost-efficiency perspective being more complicated to producers to have their negotiations for space and range of products exposure. Moreover it is more likely to have a direct comparison with the supermarket own brand that is always more price competitive. From a Unilever’s point of view, the fact that clients are more and more buying at convenience shops decrease their margin in total since the number of products is reduced it is becoming hard to keep a complete portfolio. Recently some products were out of the market as the most efficient decision.

iii) Thinking strategically about Category Management at the company

At the company, category management is very important. Even though is a recent and not very evolved process, the company decided to give it an effective importance by setting three teams to deal with it. Every category (Foods, Personal Care and Home Care) that works with retailers (super and hyper markets as well as convenience stores and discounts) has their own team working in customer category trade marketing to do the category management. They do both works for an inside use and for the retailer, in the case there is a category captainship occurrence. For that, they develop virtual stores, using software like CatMan Focus and other in-store initiatives, in order to control and promote the category, as we can see in the example from Colgate and Carrefour partnership project in **Appendix 6**.

The bet on this process and on the empowerment of the category management teams derives from the motivation to change, mainly due to the crisis times we are living. Regarding the suppliers, we assist to the concentration of suppliers and production places, globalization of the markets, stronger reaction from the brands and growth of the bargaining power of the retailers. We assisted to more partnership relation and a shift of attitude (win-win) to a share of information behaviour. New competitors appeared, originating a greater saturation of the market, with new concepts and formats in the stores, which led to de reduction of the "distance costs" and consequent operations internationalization.

On the side of the client, the weak population growth and the fast aging of the population in association with the greater demand for sophistication resulted in cultural changes and consumption habits. The information flows also propagated, essentially due to the technology development. This development consists in more compact, fast and accessible technology, with vaster information dynamics, online sales and massification of information utilization.

With these inputs, Mr. Casablancas and Rhye decided to increase the evaluation and comprehension of the consumer. They bet on studying and understanding the consumer, its need and wishes, his behaviour (type of client, patterns of consumption) and diagnosing the consumer as user (intuitive and simple reading – family, format, price), the origins of the changing costs, the most important, consumer profitability. The firm also analyzed the assortment in order to answer to the consumer needs, updating the offer to the client, assuring opportunities and efficiency in the product sale. In the category management teams, the worker function as market analysts, monitoring the performance of the actual and new products. They then offer the input for the development of new products (DOBs, exclusive brand and first prices, mainly). They similarly give key tools for the store space (optimizing the service to the client, facilitating the buying process), for the linear/shelves (implement in accordance to the consumer decision tree, optimizing the reposition and rotation of SKUs), price (evaluating and controlling the suppliers prices, structuring the brands' price positioning and pondering the price variation and the expected impact on the sales volume), promotions (increase the consumer traffic, moving stocks, induce to the shopping experience and reinforce their brand awareness and the image of the retailer).

With category management, the company seek, essentially:

- Suit the business to the consumer needs
- Differentiation regarding competition
- Increased sales and profitability
- More efficient management, decision-making and coordination

- Increased ability to respond to unexpected changes
- Cost-cutting

In the end, the performance of each category will be assessed having in mind the key performance indicators or KPIs:

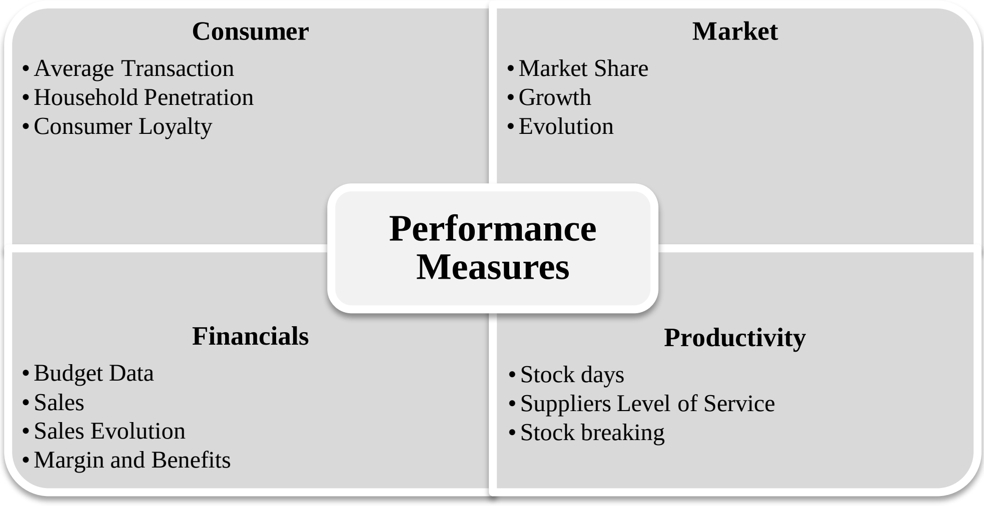


Figure 14: The Key Performance Measures

iv) Coopetition: cooperation or competition? Why not both?

As a way of solving part of the problem that arose from the crisis, Mr. Casablancas and its category management team started to research deeply the coopetition concept and its appliance to the consumer goods sector, as well as good examples that have been used and worked throughout the last century. After a week of deep analysis, the team was given a detailed report of the best practices and ways to maximize the sales of their products.

As big consumer goods companies pursued ways to improve margins and compete more effectively, they wanted to reconnect with consumers and satisfy their needs in order to stop eroding the shopper base. They wanted to ensure that the shelves were stocked with products that consumers want, in order to compete with an endless variety of new products, including the private-labeled one. This could be achieved through the development of category management at the light of strategic networks and coopetition and not only by developing it solely. It involves a retailer, such as a supermarket, appointing a leading branded manufacturer as a category captain who develops a plan for all products in a particular category, suggesting items that the retailer should stock and recommending how they should be priced, displayed and promoted, as well as a definition of the strategy of each category.

In fact, by assuming this connection between both theories and processes, both the retailers and them could achieve a collaboration situation at the same time they will compete to sell the most in each shelf, in each category. They will propose all the design and strategy of each of the categories and agree to collaborate in that point with the retailer, competing after with their one strategy. To a substantial extent, manufacturers and retailers perform complementary functions, so that both benefit by the efficiencies achieved by the other.

Given the example in the beginning of the 90's, with the pioneering arrangement between Procter and Gamble and Wal-Mart, where the key intuition was that many costs in the distribution channel could only be slashed by information sharing and far closer cooperation between firms in a vertical relationship (Steiner, 2001). While integration was frequently undesirable and not feasible, a vertical "partnership" could enable independent manufacturers and retailers to achieve many of the efficiencies of integration.

This approach contrasted sharply with the product management strategy wherein dedicated managers were charged with the responsibility of maximizing returns from individual products. The categories' management aimed to overcome shortcomings of the brand management system like internal competition. Another benefit has to do with the assortment of products whereby the assortment can favorably affect product sales in one of two ways, either it can enhance the number of units sold or it can help positively influence the price of products sold by providing synergies. A third reason is in valuation of time, where buyers analyze supplier relationships to minimize on transactions and handling costs.

Basically, category management will allow the company to:

- Organizationally design a strategy for distributors where buying and merchandising functions are integrated through category management teams responsible for developing category business plans, both internally and with suppliers. These category-based plans are aimed at improving the overall performance of the category.

- Engage in an interactive and collaborative business process in which distributors and suppliers work as partners to create and manage consumer-focused category plans and as competitors when selling individual products, participating in a coopetitive relationship.

- Focus on the category as a whole rather than concentrating on just one particular line. Supermarkets often have categories for a number of products that are grouped together, e.g. soup or fresh produce.

- Emphasize the consumer and benefit him as it leads to an improved range (from first prices to extra-gourmet), reduced out-of-stocks and shopping will be made easier by the collaboration of retailers and suppliers to improve the effectiveness and efficiency of demand/supply management. At the same time, it allows for a larger set of options and assortment and better prices, due to price competition.

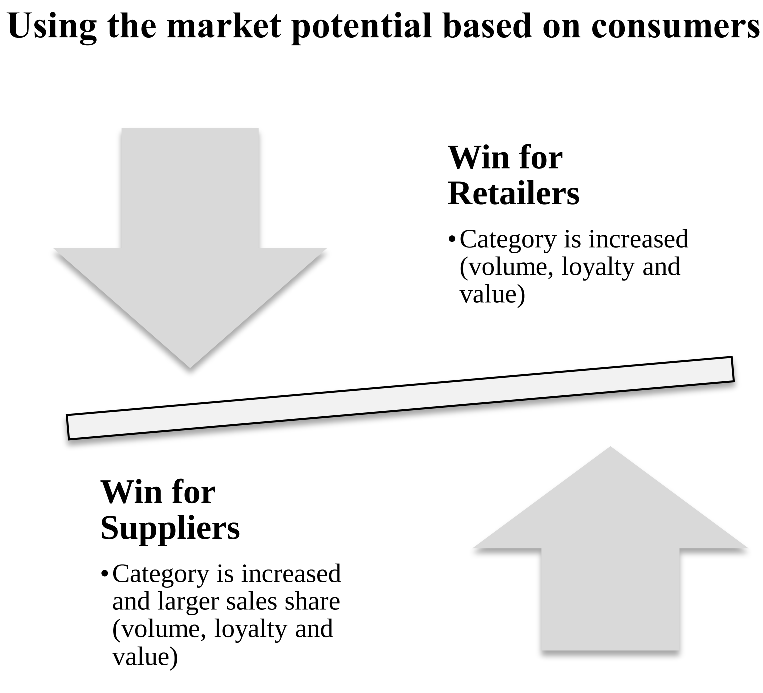


Figure 15: The win-win situation

To ensure a perfect mix of products in the store, maximizing their brands on-shelf at the same time they intend to boost the total sales, Mr. Casablancas and his team developed a new program to be used on the company, based on the intention of having a standard perfect store that could be applied to all the stores in a continuous way, functioning as a category captain.

The Seamlesstore Program is now based on the concept that for every variation in geography and outlet size, from a US superstore to a small-town independent in China, there is an optimal merchandising layout for best meeting shoppers' needs and presenting the company brands. It is a repeatable model, which ensures the right products are available in stores and are marketed clearly to shoppers.

Mr. Casablancas recognized that "a better shopping experience leads to improved sales growth not only for their company (as shoppers purchase these big companies' products more frequently) but also for the retailers, since they sell more, applying the price-points and price-piano practices, offering a all new way of presenting the products and making it easy for the shopper". This program would lead the company to develop their understanding of what works in different channels and store formats, and also encouraged all the retailers to develop a range of new IT systems to facilitate measurement of key parameters (KPIs), that is improving the way they do business and helping them stand out from the competition. "In the end, the consumer will be better, since we offer a larger assortment range as well as making the life and choice easier for them. The consumer surplus will grow and the offer of more differentiated products will benefit it", claimed Mr. Casablancas, with a visionary look.

The Seamlesstore aims also at improving the way the firm market their brands to shoppers, improving shelf stand-out and ensuring they "give shoppers more reasons to choose our brands in-store", explained Mr. Casablancas. He resumes "What we decided to do was to create a concept for managing the point of sale. It is not a project but a process that had a beginning but has no end, and something that is always in permanent iterations in order to reach perfection or at least successive improvements. It is a systematic way in order to explain to anyone who comes to a country and who will see or work in the POS, what is meant by a store to be 100% good or, as we say, perfect", alleged Mr.

Casablancas. He continues “We strongly believe the way companies have been approaching category management and captainship is limiting the potential of this tool. Companies are betting on short-term projects, that arise from sporadic difficulties the category is passing through or due to the lack of knowledge embedded in the firm, which leads them to get it from the outside”. “Basically is a new whole new way on how to build cooperation with customers (as the company did), approaching them at various levels, whether management assortment, promotions management, definition of linear organization (planograms), price piano management, visibility in stores (either within primary or secondary)”, and “explain the vision for each of these themes, trying to convince the retailers that our ideas / suggestions are the best and, therefore, lead to implementation”, justified Mr. Casablancas with a smile in his face. “But in a long-term perspective!”. He then states, passionately: “We desire to work with the retailers, change knowledge and work together for the growth of the category. We have the will to enlarge the range of the market in association with our fellow retailers, growing the sell-in, the sell-out, theirs and our profit and sales. We want it to be a good thing for both intervenients”, finalized him.

This program would be something known only internally (it will not pass all the knowledge to the clients” and is first and foremost, a discipline of cost-effective implementation at the point of sale in order to deliver sustainable growth. It is also based on the shopper and relevant to customers, as it is based on insights. (**Appendix 6**)

The Seamlesstore, in Mr. Casablancas opinion, is “when a store has the relevant range (for that store) available, the products are arranged in the right way in the linear visibility and merchandising applied are appropriate to that product/store and customer, always based on the interests and needs of consumers/shoppers, using the tools available in stores for customers to improve the presence of the same product”.

Then, the company has KPIs to measure the success of the approach to the point of sale and check if the store is perfect in that category. Anyone who enters the firm will need, in a systematic way, to know what is the perfection of category x in y client, and this is the same for everyone.

Getting his mind back to the desk full of papers, Mr. Casablancas wondered about this new option. Should they keep their actual strategy with investments in marketing, promotions and product managers, with a product centered approach? Or should they start to give more importance to the category management as a whole, investing more in the relationship with the retailers? Can this category management tactic prejudicial in legal terms, giving some problems to the company, mainly regarding collusion issues?

Discussion and Findings

Case Study	Activity	Exchange	Aim	Logic of Interaction	Agreement	Power Base	Roles	Social Ties
Case 1 Unilever -JM and its retailers	**Coopetition** (cooperation in the category management and competition in sales, marketing and other operations)	Business Social Information	Mutual Interest and conflicting interests	Norms + Rule of Thumb	Informal and Formal	Functional + Positions	Firm Level: Clear Individual Level: Conflicting	Visible in cooperation

Table 5: The case-study insertion in the coopetition table (Modified from an idea presented in Bengtsson, Kock and Laine, 2000)

The redacted case study can be inserted in the coopetition table by Bengtsson, Kock and Laine (2000). In fact, the activities performed by both players in the category management vortex, namely using the category captainship approach, can be included in the coopetition practices, since they cooperate in the category management decision, but they compete in all the other operation, such as marketing, sales, finance, etc. This includes the aim of the relationship, since it covers the mutual interests and the conflicting interests.

The exchange that happens is based in a flow of information between both retailer and manufacturer, mainly about sales data, pricing, turnover, and shelf placement of the brands on the retailer side; and the advisory and knowledge sharing in the manufacturer one (captain). The rules in this flow of information rely on written norms as well as common sense and rules of thumb, since the handling of information is not always easy. This rules are based in formal and informal agreements as not all of them are written. Once again, in this relationship, all the involved people interact and change information, and so, at an individual level they are collaborating with competitors and working with them, which is neither easy nor straightful. At a firm level, the things are agreed and easier. The positions are defined in the formal agreements but there is a functional change of knowledge in every level. All these points in the relationship which leads to a social tie on the collaboration part of the coopetition, since both players are working together for the maximization of the category value as a whole.

First of all, I discovered, while writing this paper, that category management has not been seen as a coopetitive behavior between two players, but more as a collaborative conduct. This is wrong, because even if firms are making invisible or visible deals to make category management, applying the collaborative comportment, they are always struggling with competition.

Second, through my case study, grounded on interviews and research (and like Gruen & Shah (2000)), I discovered retail industry did not truly understood and apply the category management, in order to realize true benefits are still far ahead. In a deeper application of this process of category management, it is easy to see that can be a tool for gaining competitive advantage in the FMCG industry, mainly by improved customer loyalty, better resources allocation and sharing as well as more efficient procurement operations. It is very important to consider this process of managing categories as a valid point on helping to overcome the menace of the crisis to every single company in this industry.

Third, firms need to understand that, from the interactive point of view, the importance of category management relies on the ability to create consumer value (e.g. through information exchange) in the relationship between a manufacturer and a retailer (e.g. competition, cooperation and coopetition). Moreover, previously discussed definitions and processes of category management have suggested that it should be beneficial to all involved parties when category management is being executed. Just as Lindlbom (1999) argues, I realized the more that counterparts are interacting within a category management process, the more it is likely that they also enhance their relationship, since their processes and knowledge are more homogeneous and intrinsic. Thus, there is two-directional dependency between interaction within the category management process and the nature of the relationship. In the latter, and taking into account the **Appendix 7**, we can see that the value created as well as the benefits and profitability of a relationship in a category management process, are highly dependent. The coopetition approach will therefore be highly useful in the process, confirming the theoretical support from De Wit, B. & Meyers, R. (1998), that argue that it "combines the advantages of both competition and cooperation into a new dynamic which can be used to not only generate more profits but also to change the nature of the business environment in the company's favour".

Through this case study, I wanted to give proof of the benefits of this approach, which can be attested by looking at the answers of the interviewed players in **Appendix 3,** in addition to the analysis of the previous literature. In order to give a balanced validity of my case study, I would present some financial effects of the category management in some processes, but, as I will develop in the "Limitations and Further Research" chapter, this information is not accessible.

From the interviews, mainly the last two questions of each interviewed group (manufacturers, retailers and consultants), we see most of the interactions relating category management and category captainship are well seen and have good impact for all the involved parts and, in the latter, for the consumer. In Appendix 4, the respondents share their willingness to engage in coopetitive behavior with their competitors, mainly giving advice on how to do it through category management,

First of all, the related deliverables for the company and its partners (clients) are related with implementing the principles of category management that can give some benefits like:

- Improved performance and presence in stores
- Building incremental sales
- Gains from market share
- Improved profitability in channels
- Development of categories
- Improved relations with customers
- Developing competitive advantage via information and understanding
- An opportunity of building your relationship (coopetitive or not) with the retail account.
- Providing a model for valuable market and consumer information

These indicators are both related to the manufacturer and the retailer, since the coopetition approach leads to an approximation of a win-win situation.

Even though, there are distinct benefits for manufacturers and retailers:

<u>Benefits for the Manufacturer</u>

For the manufacturer the benefits are enormous – they have the opportunity to control, influence and direct the categories they are dealing with. These benefits grow with the fact they are category leaders, with the opportunity of influencing a whole category in a unique way. On the other hand, it can be more difficult for a minor player unless they are able to demonstrate how the category as a whole can benefit from their move to a greater position of influence. In such circumstances clarifying the opportunity in strategic terms is the key to success.

Additionally, and like Kurtulus & Toktay (2005b) state, consumers are generally better off under suppliers' assortment recommendation rather than retailers'. This is due to the fact that suppliers are able to provide wider variety and choice for the consumer, which offers them more utility and value, while retailers prefer to narrow the variety of an assortment as they benefit from the competition between manufacturers.

Another obvious advantage for the manufacturer, mainly when being a category captain, is the access to information about competitors, mainly the one retailer shares, such as sales data, pricing, turnover, and shelf placement of the brands with the category captain. (Kurtulus & Toktay, 2005a) This is seen as consolidation of information. Actually, when products are sold on an individual basis the information received by buyers will inevitably be greater than that of the manufacturers. With category management most of this info will be shared or at least discussed, giving inherent advantage to the manufacturer.

Fundamentally, such partnerships with retailers are always useful because manufacturers are chosen by the first one, since they are leading manufacturers and brands, which retailers recognize to have enough expertise to give insight about the categories in order to make them grow. Usually, when we have this type of partnership is because trade relations with the customer concerning that category are good, we assist to win-win situations.

Summarizing, the category management mirrors:

- Consumer needs (the products fit the physical/emotional need of the consumer and fill the emergent/future needs
- Consumer utilization habits (occasion of use and consumption habits)

- Consumer buying process (moment, frequency, cross-selling and tendency)
- Profile of the target consumer (demographic analysis)

Benefits for the Retailer

For the retailer, and since they are now growing and establishing in the market, the benefits are more watchable, but we cannot say they are bigger. Since their bargaining power is growing, they are placing enormous pressure on the manufacturers to fulfil their financial objectives, seeming to only focus on the maximization of the profitability, maybe deteriorating their relationship for the future. This pressure consists primarily in the competitive part of the coopetition, with the limitation of shelf-space in stores, which increasing competitive pressures, thus putting a premium on the revenue and profitability of stores for every square meter of available shelf-space. As Vollmann and Cordon (1998) argue, retailers evaluate the performance of category management in the terms of contribution per cubic meter of floor or focusing on return on investment. Basically, if the shopper does not see some result at the store, then all the category management programs are useless. Furthermore, since retailers' long term success is related to their consumers' satisfaction (Kurtulus & Toktay, 2005b), their main objective is obviously to reach the final shopper fulfillment. Even though, the benefits in a short-term are watchable, since they can have better performing category "cheaper" or with less resources as the work is conducted by the supplier. This is the main benefit for the retailer: they are taking advantage from the suppliers' knowledge and expertise in certain categories. Through the experience of category management, many retailers and manufacturers with experience of category management arrangements, report positive outcomes from their relation, with increased sales in the category, benefiting all parties as well as improved consumer satisfaction (Kurtulus & Toktay, 2005b).

Essentially, this relation should not only focus on improving the relationship or collaboration between the intervenients, but also about delivering the value to the end customer, resulting, for example, in lower average prices. Since the opportunism will always be present and given the importance of the manufacturers to the input for better category management, retailers should try now to mitigate the risks involved with the category captainship. As some of the respondents pointed out, best results from category management practices are reached through collaboration and active participation of the retailers. Instead of handing over the category to the suppliers for a playground, the retailers still need to keep the leashes in their hands and have control over final decisions. This probably is the best way to manage a category in an open and non-biased way. Similar approach is suggested for example by Gruen & Shah (2000) who consider open collaboration as to be the way for successful and better performing category plans.

Strategically talkinh, and like Aastrup et al. (2007) also suggest, the category management process should start from the strategic aims and category roles of the retailer, rather than from the supplier's brand perspective. They also note that mutuality and trust are key concepts for establishing working category management relationships. Therefore suppliers must be able to document and reassure the retailers of the benefits of doing it and the need of having the supplier as their preferred partner. Generally their conclusion is that CM can benefit both parties and especially the retailers, but requires use of information and linking of category management to retailer strategies in order to do so (Aastrup et al, 2007).

Like the results pointed out from Appendix 4, some other examples are presented in Steiner (2001), as we can see when it is argued that "*although category management has not always proved to be effective, in many instances it has clearly generated measurable efficiencies in the United States and Europe*":

1. H.E. Butt Grocery Co. claims that category management enabled it to save $12 million annually by improving its product assortments and eliminating slow-moving SKUs. A test of category management in the cat box category increased the retailer's sales by 12.5 percent and gross profit dollars by 9.5 percent and decreased the category's average inventory and warehouse space. The manufacturer was rewarded by increased sales to the retailer;
2. In Europe, a 1998 synopsis of category management results in Spain, Sweden, and the Netherlands reported impressive cost savings in margarine, detergents, and other product classes by reducing out-of-stocks, cutting SKUs, and improving the efficiency of product delivery systems.

3. Carrefour, the second largest retailer in the world, recently asked Colgate to serve as category captain in the oral care category. Based on a number of consumer studies, Colgate suggested that Carrefour restructure the display in the oral care category so as to merchandise toothbrush products above toothpaste products, as opposed to merchandising them next to each other. As a result of the restructuring, Carrefour reported 6-16% sales increase in the oral care categories in its retail markets. Colgate also benefited from this sales increase (ECR Conference 2004). The sales increase in the oral care category came at a little cost to the entire channel because Colgate mostly utilized its already existing consumer studies and its expertise in the oral care category. If Carrefour was to conduct the research necessary for such a restructuring, it would have been much more expensive. **(Appendix 7)**

General Benefits and Risks

Generally, most of the observed cases lead us to conclude that a win-win situation, even if hard to achieve, is possible. One first benefit refers to the assortment of brands or products available, that can favorably effect product sales in one of two ways, either it can enhance the number of units sold or it can help positively influence the price of products sold. With category management and category captainship this is possible, since the assortment is bigger and more varied, leaving more space for, e.g. cross selling.

Essentially, it seems to be that, at least, the suppliers in different roles tend to lose or gain depending on what their role and relationship with the retailer is. Aastrup et al. (2007) suggest that category management can benefit retailers as well as suppliers but they also note that more observations should be made to understand the types of benefits and sacrifices that suppliers experience when involved in category management. This means that manufacturers must first bet on the interactive component of coopetition, to gain the trust and mutuality, before making the decisions in the category management. Basically, before getting to enjoy a real benefit, in the present conjuncture (retailers bargaining power is higher), manufacturers should convince the retailers that they are the partners with most potential to work with. As explored by Astrup et al. (2007), as the power in retail has shifted from suppliers to retailers in the previous decades, it should be in all suppliers' interest to gain the role of preferred partner with the retailers.

Adding this, in Wang et al. (2003), the main result from the investigations in category captainship is that using a captain for category management is profitable for both the retailer and the manufacturer-captain.

These examples, and many other successful category management implementations, demonstrate that by working together, retailers can considerably benefit from their manufacturers' expertise in managing their categories and deliver consumer value through supply chain collaboration. On the other hand, manufacturers get to know detailed information about their clients and competitors at the same time they influence them in their benefit. In the end, the interaction will want to benefit everyone, from the manufacturer to the final consumer. It is suggested (Kurtulus & Toktay (2005a)) that category captainship may lead to lower average prices in the category, which benefits consumers. This is one of the desirable outcomes of manufacturer-retailer collaboration. For example, Wal-Mart's general philosophy concerning supply chain collaboration is to benefit from the expertise of the manufacturers to deliver consumer value through a reduction in retail prices.

In contrast, while many testimonials and cases in the industry report positive benefits for both players in the dyadic relationship, there is also potential for negative outcomes of the category management practices, namely through category captainship, specifically in what concerns the possible claims of antitrust practices, since the manufacturer can influence the decisions of the retailers, sometimes even prejudicing the other manufacturers. Actually, what is in the best interest of the category captain may not be the best for the retailer. Category captainship may increase the consumer surplus and offer more differentiated products in the short-run, increasing consumer satisfaction (Kurtulus & Toktay, 2005). However, consumers can be harmed through competitive exclusion (less manufacturers, namely the small ones), prejudicing the consumers that prefer variety of brands. Even though, in Europe, for example, ECR had taken measures to guarantee that category captainship is implemented in accordance with EU competition rules. For example, the Demand Side Projects EU Competition Law Guidelines established by ECR Europe state "the retailer remains free to follow or not to follow the manufacturer's recommendation. The retailer should not enter into any agreement or understanding with the manufacturer concerning the setting of retail prices in the category, the selection of products for a category, or conditions on the retail shelf".

With all the pros and cons, I just can suggest that retailers should balance the advantages and disadvantages of engaging in the category management practices with the manufacturers, namely through category captainship. They should be more vigilant about competitive exclusion in categories where consumers value high variety, and in cases where the leading brand is very powerful. Adding this, the retailers cannot simply chose the stronger brand manufacturer, since it may not be the most efficient category manager. They should focus on the long-term, adopting a strategic perspective in deciding how and where to implement category captainship, rather than jump at short-term benefits.

To assure the best approximation to a win-win situation, both retailers and manufacturers have then to assure some ideas during all the process. In one hand, with the shift of power from manufacturers to retailers, the game changed and the first ones can no longer do whatever they have in mind, having to define their strategy better and consolidate it through times, being more rigorous on their approaches. On the other hand, in their relationship with the manufacturers, retailers have to be aware of the dangers of sharing information with their partners in the category management decisions, namely when choosing a category captain. In addition, they should focus on the long-term decisions, and in the consumer, trying to find the best possible solutions to benefit them, in the latter. For avoiding competitive exclusion and thereby benefiting the end consumer (and thus, themselves), they have to create opportunities for non-captain suppliers to provide input into category decisions, maybe considering the assignment of the category captainship to non-leading brands that have sufficient knowledge and resources. In the end, they shall maintain enough control over the process to be able to select and balance manufacturer recommendations. In order to avoid the consumer to lose in the long-term, and thereby being dissatisfied, retailers shall, as was said before, welcome all the manufacturers (even the small ones) to the possible captains. With that, they will be enlarging the assortment they offer, proposing a larger variety. Finally, in association with the information handling care, they shall have independent and pondered decisions on the assortments, price and product architecture, not relying solely on the recommendations. This assumes even bigger importance in the biggest categories (store traffic drivers).

To finish, in order to protect themselves from the private labels growth, manufacturers not only should engage in coopetitive behavior, but also a comprehensive defensive strategies, which carefully consider a combination of the following actions, that are mostly included in all the category management strategy I presented above:

1. Pricing and Promotion: increasing advertising, intensify promotions and other prices cuts, product line extensions, etc.
2. Consumer Efficient Segmentation: Tailoring product lines and maximizing the assortment to satisfy the needs of each consumer segment in each category, minimize product/consumer group overlap, and maximize profits for both manufacturer and retailer.
3. Value Line Bundling: Managing a product's "benefit bundle" to optimize both price realization and value perception among consumers
4. Retailer Relationship: Improving or redefining (e.g., pursuing a "coopetition" strategy) retailer/manufacturer relationship

Conclusions

This paper makes several noteworthy contributions. Manly getting Category Management concept into the coopetition and strategic networks theories, I suggest a new look into the consumer goods industry in a way it could help to develop the business to deliver even more value to the intervenients, which can be critical in crisis times. This line of thought mainly focus in the strategic overview of every matter, intending to focus on the value that can be created by both manufacturer and retailer to the consumer, mainly through the interaction process (coopetition and strategic networks).

In a different way from the traditional approach to coopetition, it identifies and articulates several key factors that increase the likelihood of the firms to engage in coopetition and strategic networks, not just in cost-sharing processes, technological innovation process or collaborative alliances, but also in order to increase profit and share knowledge, with the consumer in the centre. Important strategic questions for a firm are the benefits or drawbacks when being involved in cooperation and/or competition, as Kock & Bengstsson (1999, 2000) argued. It has been claimed that there will be an increasing need to create new retailing strategies characterized by greater flexibility, and openness to a "partnership orientation" (e.g category captainship) and a commitment to new innovations. Also retailers have shown their willingness to develop more collaborative interaction strategies.

During the 1990s traditional manufacturer-retailer relationships have mutated. In place of intensive competition, manufacturers and retailers are nowadays seeking more collaborative relationships. In particular, the concept *category management* has received growing attention. In the prevailing literature category management is defined relatively narrowly; it is seen as merely "managerial tool", which tries to maximize economic profitability by maximizing the consumer value. In this paper I intended to present a more strategic approach, where collaboration is not the only tool to use, but, instead of it, competition is introduced too, leading to a coopetitive behavior. Instead of focusing only on e.g. assortment planning and in-store sales, both players should focus on their relationship and how they can win more with it. It pretends to be a device that gives the basis of growth to both players through an interactive point of view, where collaboration is a reality in the category and competition is a certainty when fighting for a consumer. Using category captainship and strategic networks concepts, I achieved some key findings from the study, such as the need for objective, open and honest collaboration between retailers and suppliers in order to do successful category management. Adding this, I suggest that retailers and manufacturers shall devise their common strategies by balancing the advantages and disadvantages of engaging in the category management practices with the manufacturers, namely through category captainship

Finally, in summary, Figure 4 briefly pictures two different approaches to category management: 1) the marketing normative approach and 2) the strategic interactive approach. The traditional marketing approach is a very product-centric one, not caring much about the consumer nor the relationships with their other intervenients. Adding this, the economic profitability was the almost exclusive concern. My approach points more in the interaction point and the value to all the intervenients in the relationship, mainly the consumer (in the end it will lead to the economic profitability for retailers and manufacturers). Like explained in appendix 5, only the strong nature of relationship could lead the higher consumer value and economic profitability.

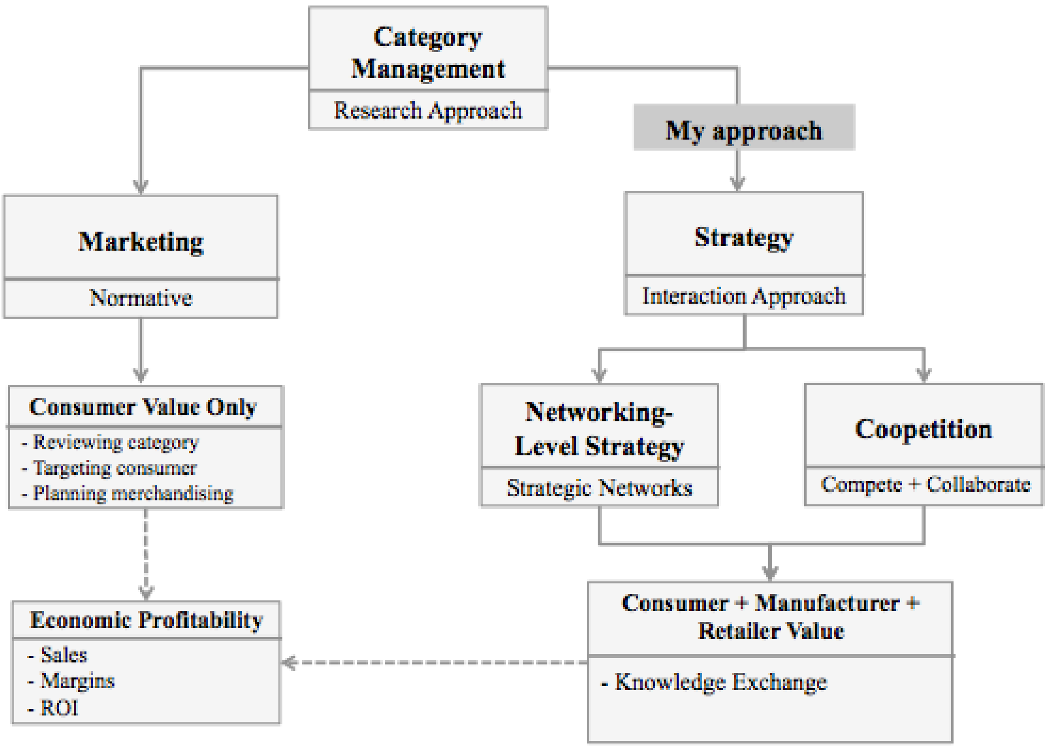


Figure 15. The Strategic Approach to Category Management (modified from Lindblom, 1999)

This explorative study based on personal interviews with business managers in different lines of the industry has shed some light on the complex issue of coopetitive relationships between competitors. The streams of cooperation and competition can take many different forms, so that, both qualitative and quantitative studies are needed to penetrate this area of research deeper, as the findings in this study cannot be generalized into a common pattern for all industries. Finally, it aims at giving a more strategic approach to the category management and captainship but lacks the marketing tools. My main objective was to use this more strategic concept as a mean to the companies to increase their awareness about the need for developing relationships in the world context we are nowadays.

Limitations and Further Research

Despite having achieved its research objectives, the study is not without limitations. As suggested earlier, doing research is all about making decisions. These decisions rule out certain subjects, view points or approaches on the chosen research area. Sometimes also the available resources or researchers experience can limit what can be done in terms of the study. In the following, some of the main limitations of this study are considered.

First and foremost, the main limitation of this study consists in the fact that the category management is not well developed in Portugal. In fact, to assess the utility of category management, companies should try to measure the impact of their partnerships with the retailer, mainly regarding the elements stated above: performance and presence in stores, sales and market share evolution, profitability in channels evolution, development of categories and development in the relations with customers. Without this assessment, companies will only have a theoretical and non-substantial methodology to the results of the category management approach. In my case I found a limitation on the collection of information, since none of the contacted companies had e.g. the separate impact of the category management regarding the whole project in their databases, nor any team had thought about it.

Second limitation is obviously the study's concentration on single case and geographical location. The use of Unilever-JM, Jeronimo Martins and other consumer goods and retailing companies obviously limited the scope and reach of the analysis, results and recommendations for other countries. However, as argued during the research, this has been a conscious decision, since the knowledge is limited, as well as the networks in which I move. Of course the applicability of the findings can be argued and be considered a limitation, but as the study, its focus and merits should still be recognized.

Third, the limitations the category management itself, since the legitimacy and legality have been discussed and argued by many specialists and lawyers, in the extent that the category champion can constraint the movements and strategies of the other suppliers.

Fourth limitation of the study is actually due to the limitations of previous research in the area. As pointed out, research on category management and coopetition as interconnected theories does lack strong frameworks. As no recognized and widely used theoretical frameworks were available, the study had to use few and not so recognized ones, modifying and applying them in different ways. Adding this, the category management theories, in spite of being progressively developed, are just theories. As was said in the first point, this lack of practical and financial isolated effect of category management can lead to a discredit of the subject. In spite of being strongly based on previous literature on the subject, the frameworks are not quite the same as using something more established.

Fifth, my thesis proposal mainly focused on the strategic concerns in the category management, leaving most of the marketing issues for other researchers. In fact, a better understanding of this sector and category management would be more accessible if joining the marketing and strategic tools.

Sixth, the dilemma of cooperation and competition is a very discussed one, since the recommendations are always changing, depending on the economical context or position in the value chain but mostly, depending on who is your competitor and who is your cooperative partner. The present strategic focus on core competence and outsourcing and the fact that many markets are stagnating and mature, might indicate a need for cooperation. So that, coopetition seems to be a good focus these days, but it actually need more research.

Seventh, and very specific from my case (Unilever as competitor and supplier for Jerónimo Martins, as well as Jerónimo Martins being a shareholder of Unilever), there is a need to analyse the managerial problem that may occur due to this different roles. These conflicts are caused by the fact that firms have various roles towards each other i.e. as buyer, supplier, competitor, and cooperative partner. The paradox of coopetition is easier to handle on the firm level, as individuals cannot cope with having to cooperate and compete with the same persons for any longer period of time.

Essentially, based on category management improvement projects, I see there is a clear gap between what research studies and reports present as best practices and many companies' day-to-day category management activities. Category management can be taken to a whole new level by following a more structured, analytical and data-driven approach, and it should be one of the areas where the investments should get into.

Although this study has managed to answer the questions it posed in the beginning, it has also raised a number of new questions. As discussed in the limitations, nothing can be studied completely and from all perspective. Both studying the previous literature as well conducting the research on the case did raise some considerations and thought on what would be interesting to know and learn more about

Appendices

Appendix 1: The Pie or Value Created Framework

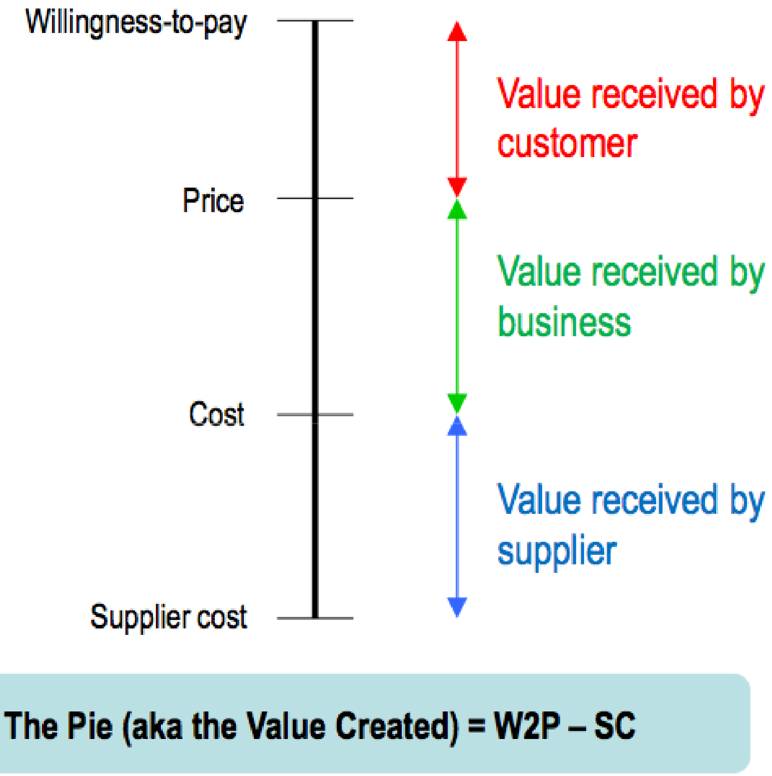


Figure 16. The Pie (Bradenburguer & Stuart, 1996)

Appendix 2: The Value Net and its Components

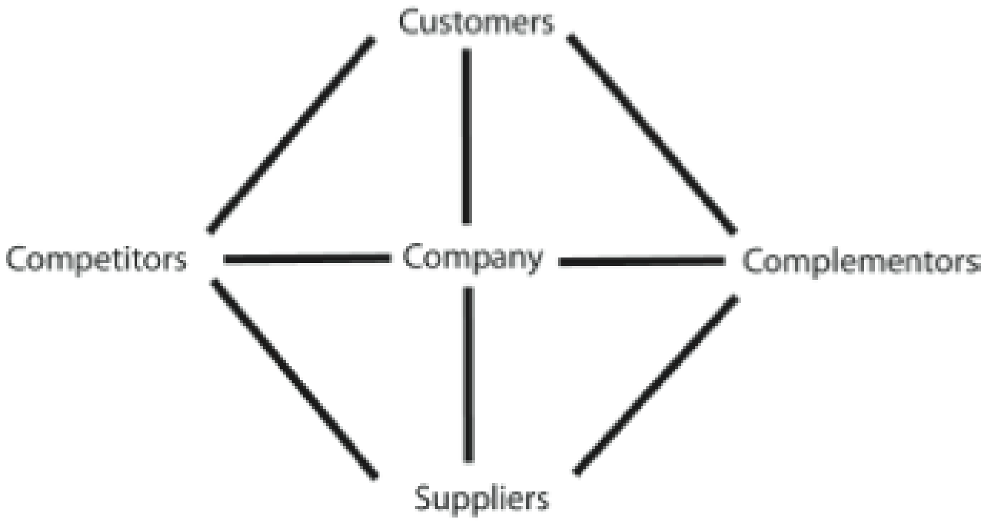


Figure 17. The Value Net and its components (Bradenburguer & Nalebuff, 1998)

Appendix 3: Player's Interviews

Since the workers and companies are the main players in this paper, I decided to gather data based on interviews. The objective is to illustrate and identify the main trends on the consumer goods industry, regarding their ways of creating networks and engaging in dualistic behaviour. In this sense, I chose to interview important players within the biggest companies, in both retailers and big A-Brands sides, as well as some players in the consultancy industry, since they can give a neutral approach to the questions. With this I will be able to face the three sides of the industry and recommend a more pondered approach.

The table below includes the summary of the interviews conducted for the research of this paper. The explanations of the table follow below:

Interview/ Respondent	Industry*	Date	Title
1	FMCG	21/01/13	Head of Customer Marketing
2	FMCG	21/01/13	Head of Marketing Ice-Cream
3	FMCG	28/01/13	Key Account Manager
4	Retailing	11/12/12	Operational Manager
5	Retailing	11/12/12	Operational Manager
6	Retailing	11/12/12	Deputy Store Manager
7	Retailing	11/12/12	Project Manager
8	Retailing	11/12/12	Commercial Director Pingo Doce
9	Consultancy	12/06/13	Senior Consultant
10	Consultancy	12/01/13	Senior Consultant

Interview/Respondent: acronym of the interview and its respondent;

Industry: If it represents a worker from a DOB (Retailing), A-Brand (FMCG) or Consultant (Consultancy);

Date: Date of the interview;

Title: Refers to the position the respondent holds in the organization.

The steps that I followed in the interviews, as well as the answers follow next:

- 1st Step: I entered in contact with Unilever-JM, a Portuguese consumer goods company established in Lisbon, where I worked in as a Summer Intern. I interviewed the Heads of the mains areas of the company (Foods, Personal Care and Home Care) as well as the Planning and Sales responsibles.

1. How did Unilever - namely their management area - react to the crisis and the growth of Private labels?
2. Do you think it would be possible - namely through Category Trade Marketing - making agreements (formal or informal) between key representatives of DOB's (Private labels) and A-Brands (big brands, which includes Unilever)? If yes, how? Do you think that these agreements allow a "spreading" of the range of market?
3. Do you think that is possible a win-win situation between the DOB's and A-Brands in a market where the two are positioned differently with similar products but quite distinct value propositions? How?
4. Assuming you know what is a category captain, did your company engage in any coopetitive behaviour like this one? How do you report the results?

- **Answers:**

A) Player 1 – Marketing Lipton

1. Reinforcing promotional intensity of its main brands, in some cases making realignments price, and even launching new brands and offerings for the economy segment – e.g. Original Olá Ice Cream and Vaqueiro for Spreading.
2. Agreements with DOB's or whatever brand that puts in cause the free competition among manufacturers operating in the market, are not allowed and obviously not practiced. What happens in some cases where our brands are leaders is a work of "category management", in which we seek with our expertise to make recommendations to a certain segment of the range of linear storage or promotions for enhancing the business of retailers.
3. The retailers have a clear notion that private labels and "A-brands" play different roles in their supply and what they are looking to is finding a balanced offer that maximize the return, both in rotation and in-store traffic and in profit. It is important to have an offer that attracts all kinds of consumers and this can only be achieved by offering a balanced mix of private label and A-brands. If the A-

brands disappear, it will also disappear the main source of income for these retailers, as well as all the know-how supplied to them by manufacturers, who have a much more substantial investment in innovation and development than private labels.

4. We have been involved in particular projects in the RTD (Ready To Drink) category, not in a constant tune but in limited time ones. It was a good experience for us, since we grew profit (average around 3%-4%) and sales (average around 5%), as well as we developed the relationship with the retailer, enhancing the synergies and knowledge sharing, that created an even better relationship, even if we are still competitors.

B) Player 2 – Marketing Ice Cream

1. Intensification of promotional activity (higher frequency and discounts); Renewed focus in the economy/lower range, with proposals to cover lower price points, so that UL is closer to its fair share this segment prices.
2. Since this is a strategic issue for every company (to produce DOBs or not), the agreement would be possible. Manufacturers would be able to gather the benefits of scale by producing DOBs private labels in their factories, while having the benefit of seeing DOBs' products produced by leading manufacturers in their categories. There are currently some manufacturers in Portugal, which already practice it (Lactogal, Sovena, etc.), being, in the long term, something that can affect the differentiation of its brands vs DOBs.
3. Both will continue to play a role, even if there are different dynamics / weights between them. The A-Brands still have to lead in innovation, emotional connection with consumers, and strengthening its value proposition, playing the role of generating profitability for retailers. DOBs work as an element of differentiation of each retailer to affirm their competitiveness, quality and exclusivity proposals.
4. Sure, we had projects within Unilever and the retailers. They allowed us to increase our collaboration, still being competitors in the category. The category itself had developed in this time,

leading to a range expansion and a win-win situation. From our side, we got a good output, with a sales growth about 2%, since we are already leaders.

C) Player 3 – Key Account Manager

1. Unilever in its purposes seeks to ensure that, in times of crisis, does not lose market share by increasing its promotional intensity to continue to have consumer-preferred brands. On the other hand, due to the expansion of private labels, Unilever has sought to offer low price solutions opportunity, to give consumers the A-brands have also in the economy/low segment.
2. Such agreements are not legal and, since Unilever is a company that respects the law, could never get into this kind of negotiations.
3. The win-win situation between DOBs and A-brands depends on the concerned markets, but it is a very difficult scenario to happen. It could happen in a market where DOBs with a low price positioning would allow the entry of new people into the category and not by transferring clients between them. In a further phase, and because the products offered were of superior quality, consumers would shift their consumption for these A-brands. Only in this situation can I visualize a win-win.
4. N/A

- 2nd Step: Since I want to reach some other players in the industry, mainly on the Retailers side I chose to contact Jerónimo Martins to have a broad sense of the market.
    1. How did Jerónimo Martins - namely their management area - react to the crisis and the changing consumption pattern of people?
    2. Do you think it would be possible - namely through Category Trade Marketing - making agreements (formal or informal) between key representatives of DOB's (Private labels) and A-Brands (big brands, which includes Unilever)? If yes, how? Do you think that these agreements allow a "spreading" of the range of market?

3. Do you think that is possible a win-win situation between the DOB's and A-Brands in a market where the two are positioned differently with similar products but quite distinct value propositions? How?
4. Assuming you know what is a category captain, did your company engage in any coopetitive behaviour like this one? How do you report the results?

- **Answers:**

A) <u>Player 4</u>

1. Adapting the concept / operation to market needs, cost rationalization and assortment optimization.
2. I do not know what kind of deal could benefit the JM this area.
3. The situation varies depending on the category of which we speak but, as an overview, the DOB (when properly worked) represents a threat hardly give leeway to A-Brands to reach a W-W situation. In a category where price is the relevant point (e.g. paper toilet), this win-win situation is not reachable. Only with a prospect of finding added value in the medium / long term I can see such a situation.
4. N/A

B) <u>Player 5:</u>

1. Jerónimo Martins in Portugal had to adapt to the needs of consumers and consumption patterns that were changing. It was visible a downgrading in some food categories (the fall in sales of beef and pork meat and increased consumption of canned food; reduction in the categories of health and personal products, for example). With this in mind, the company Pingo Doce has undertaken a repositioning of its brand, reinforced the focus on price and very aggressive promotional campaigns. The first initiative of May marked the beginning of this cycle, which seeks to provide consumers with opportunities to purchase products that, due to economical conditions, would not be possible for them to buy. In Recheio company, we had to realize that the market was changing with the bankruptcy of many small restaurants and

traditional commerce, but with opportunities for the weakening of some competition.

In short, the company sought JM adapt to market with m repositioning of Pingo Doce brand.

2. The strategy of Pingo Doce proved that this is possible. With weekly Pingo Doce campaigns, many A-brands could increase their sales (in volume), quite remarkably. Even if there is some destruction of margins, volumes may offset this reduction.

   Despite the adverse context, and in the interest of both the A-Brands and Private Labels, there is a balance in terms of market share. In case this does not happen, and if the increasing Private Labels consumption persists, the profitability will be severely sacrificed in retail

3. The big question that arises at this point is if a current private label consumer can return to a brand of industry, given the price / quality ratio of these.

   At the current juncture, win-win relationships are easier to create, given the volumes and needs to do sales on both sides. In an more favourable environment, brands become less cooperative. In some cases, it is possible that A-labels use their productive capacities to produce their own brands. In this scenario, the market would be more focused on innovation. Another way of cooperation can be done through exclusive formats for some chains, that adapted to sets of each brand, having exhibiting boxes that fit to each one. Thinking more about the Client-Retailer (sell-in), obviously not neglecting the end customer (sell-out).

   It seems to me that there is potential to increase the involvement of some brands of industry in forming linear (shelves) in-store, taking responsibility for compliance with planograms, thus freeing the operational focus in store.

4. N/A

C) <u>Player 6</u>

1. I would say that the reaction of JM was trying to understand the signs of consumer and adapt its value proposition to these signals.

The Factor price and opportunity gained more relevance in the last year, which "forced" Jerónimo Martins to a few alterations in their policy of “every day low price”. Basically, promotions and campaigns were added to their prices already low: a policy of low and lower instead of high and low prices (Continente) or “everyday low price” (Pingo Doce 1 year ago). Of course that, to support these prices, the chain will have to change: reduction of assortment to simplify and make more efficient operation; more self-service stores, reduction of "superfluous" commissions such as the ones paid when accepting low payments with ATM cards, etc. Basically is greatly simplifying the operation. Initially it was inevitable to take and accept a loss of profitability in order to avoid losing share.

2. Right now the A-Brands are being much benefited by supermarkets in terms of market share and sales. Why? The reductions in the assortment that have occurred eventually left an A-Brand alone on the shelf with the private label. This division ends up with the 2nd and 3rd brands of the A-brands in the respective categories, which ultimately protects them from competitors they always had in recent years.
3. It is very difficult to find win-win situations. There may be some exclusive and differentiating projects in a way they create value, unknown to the date, but this happens in exceptional case, not being the rule. In case of some change in the trend of consumption, a shift from a private labels to an A-brand can only happen in a context very different economic, which is still questionable. A consumer who liked the experience with a private label, hardly will pay more for the same type of product.
4. N/A

D) <u>Player 7:</u>

1. JM, and more specifically Pingo Doce, was fast and agile in adapting its strategy to the changing consumption pattern of the population, originated by the crisis. Crises have a direct impact on the disposable income of the people and their willingness to spend it. The variable price becomes even more important and consumers

typically become more attentive, insightful and sensitive to good prices and good opportunities. JM learned to observe and antecipate it and had the courage and determination to adapt their strategy to this new reality by adopting an aggressive policy of promotions and creating opportunities for high added value for its customers. This adaptation to the new consumption pattern was well perceived by consumers, who responded actively; proof is that Pingo Doce in 2012 managed to increase its sales by 2.4% compared to 2011, even with the strong market contraction, which led to an increase in market share and strengthen its competitive position.

2. I would not call it agreements but joint cooperation between the two parties. This cooperation in my opinion can clearly create value not only for retailers and suppliers, but also for the customer. And that should be the focus! If you create value for the customer ultimately create value for the other parts. Good linear organization is the clearest example of how this can happen. Let us have the example of a consumer who has a dog. Given that the overwhelming majority of the people who have pets, have a dog or a cat, would be altogether separate facilitator of dog food and cat food (even though both are in the linear of pet food). In addition, if the person wants dog food, typically his decision tree will be split between dry food, wet food or snacks. Now, if the linear is clearly organized, the customer more easily find what he is looking for plus it will have a clear perception of the available supply, points of differentiation and value proposition of the A-Brand (eg, certain innovation relation to DOP). Eventually we will assist to a broaden range of market as a result of this organization, and the client will possibly discover more innovations that will not realize that in a less organized linear.
3. I think it is perfectly possible to create a win-win situation between A-Brands and DOBs, as long as there is a different positioning between the two. The DOBs are here to stay and is increasingly becoming a critical success factor for retailers, who have been gradually betting on the quality of these products. The Pingo Doce

brand is a great example of this, as many products are considered consumer tests better than the own-brand. To have this distinctive positioning of A-Brands is very important that they are able to go finding innovative value propositions and differentiated and, not least, to achieve this differentiation is well perceived and valued by the client.

I think clearly there is room in the market for both DOBs as for the A-Brands category and I think the trade is an important tool with great potential to create value for the various parts. In my opinion, it is increasingly important to realize how the consumer thinks and values and though the A-Brands have a key role, because is on it that their own success depends. There are surely plenty of ways to develop and improve the category management that are today unknown, and their study will certainly bring benefits to all parties.

4. We have had some experiences but only through punctual projects and partnerships with a term. The sales increased about 12%-15% in almost every project.

E) Player 8: Commercial Director of Pingo Doce

1. The private label was already a consolidated reality in Pingo Doce. Studies show the PL has now a greater degree of confidence and the market shares for these retailer brands are increasing.

   In a first phase, we assisted to a deflection of the consumption from the A, B, C brands to the PLs. These DOBs bet on hard activity on discounts and on the effective promotion of them; at the same time we assisted to a loss of purchasing power, due to the crisis, leaving less space for the margins of the manufacturers brands.

   In a second phase, the general consumption went down and the big brands – the biggest responsibles for the innovation, differentiation, technology and communication – seemed to being recovering, but the consumer "warned" they wanted another thing – promotions. This led these brands to disinvest on the four points cited above and bet on promotion. This phase was a redefinition of the strategy of those companies, in accordance with what the consumer wanted – aggressive promotions.

The third phase, from 2002 to 2010/2011, we assisted to the final consolidation of the DOBs, with a general price drop without promotion (everyday low price). The "new" consumer could not reduce that many things with the salaries drop (e.g. parents will not suddenly change kid's school to a worse one; selling the car or the house to buy a new cheapest one is not easy anymore), so they needed to reduce in the supermarket goods, but still wanting to keep the quality they were used to. The new PLs offered them this opportunity, adding to the fact families did not want to lose much time on their grocery shopping. With the new PLs, they knew they could buy simpler and with the same quality, for a way lower price. In the case of Pingo Doce, we changed the strategy, shifting our communication to a more efficient approach, with harder and faster communication of the promotions (e.g. 1st of May 2012 campaign, which started an important promo operations)

Finally, the last phase, from 2011 to nowadays, the economic development has been challenged and the few extra-money consumers have has been channelled to hobbies and holidays. The groceries are now in a new level, with the promotions in the order of the day and the future will certainly bring a shorter range in this market. The brands are slowly recovering, since people are now turning into experimentation again, after having gained confidence in the private label. Since the manufacturers are the most responsible for the innovations and they are betting on this as weapon against DOBs, it is normal that this is happening.

2. The Category Management is in the limelight these days. Its importance is growing with the crisis, emergence of the retailer's brands, raising importance of the consumers and in how to understand them. This change is seen as way to "pull the wagon" of the fast-moving consumer goods, namely through partnerships in order to maximize the sales and the profitability of all the players. For that, some key performance indicators (KPIs) for the categories

are set in joint meetings, so as to achieve the mutual objective: maximize the value of the category.

3. The experience says it is possible. The value of the brands is unequivocal, mainly in the differentiation axis. They are the ones that are the main responsible for innovation, differentiation, research, etc. The urgency for innovation in a DOB is not so big as in the case of these brands (the only exception happens when there is no strong brand in a category).

   In my opinion is "healthy" and possible to have a balance in this industry, In the case of Portugal, this imperative is even bigger, since we are southern people, more impulsive and passionate. We like to buy brands, since they give us status even if they do not give us any extra physical benefit. We are not as rational as northern people (you can see the case of France, England and Scandinavia where the DOBs are very powerful) and, so that, the brands are obviously recovering a bit and, as I said before, betting on promotions and communication.

4. We have had some experience of managing sub-categories in closer partnership with some suppliers, but not on a continuous and permanent way.

   It happens more by engaging in specific projects with a start date and end. It will be understood as:

   - Redesign the assortment and / or planograms in a particular sub-category,
   - Test implementation layout checkout exhibitors in impulse categories
   - Implementation of specific furniture exhibitors
   - Innovative and exclusive offers during certain time periods
   - Selling cross between complementary categories

   These experiments have focused more on the categories of Personal Hygiene, Perfumery, confectionery (biscuits, chocolates, etc.), Yogurt, Wine, Beer and Soft Drinks.

   The results are positive and between 5% and 20% increase in sales.

- 3rd Step: Interview some consultants with experience in the area of Consumer Goods to get some external insights on this industry.
    1. How did the all sector react to the crisis and the growth of Private labels and the exchange of consumption patterns;
    2. Do you think it would be possible to make agreements (formal or informal) between key representatives of DOB's (Private labels) and A-Brands (big brands, which includes Unilever)? If yes, how? Do you think that these agreements allow a "spreading" of the range of market?
    3. Do you think that is possible a win-win situation between the DOB's and A-Brands in a market where the two are positioned differently with similar products but quite distinct value propositions? How?
    4. Do you think Category Management could be a good example of coopetitive behaviour and an engine for growth in the crisis time?

D) Player 9 and 10: Consultants from BCG and Explorer Investments

1. We assisted to a brutal investment in DOBs, above all. Within this investment, PLs invested in the segmentation and augmented range of the market, in order to expand the TIRs.

   Adding this, I highlight the expansion of the DOBs into the non-food business, namely to the home appliances, toys and other machinery. For that, DOBs started to develop specialized sourcing teams, specially in China. Finally, the first price brand, that opens the supply (meaning, the lower private label) was given more and more attention, in order to expand this range of supply.

   Regarding the Category Management, companies also changed their behaviour towards this strategic and marketing tool, mainly by giving further attention to price architecture and brand architecture, meaning the organization of the structure of the brand portfolio that defines the number and roles of brand names that a company uses for its range of products and the target groups or target markets it serves.

This step was taken due to the fact that, before, brands did the category management in an empirical way, seeing what worked or not by experimenting. This led to different strategies in each store: some offered unique things, others had the basic portfolio and others bet on a narrow vs. larger selection of brands and products, most of the time in a messy way, without a strategy. Nowadays they prefer to have a centralized strategy and then decide for an international, national, regional or local approach to the assortment of products and brands.

2. We think there will be no problem regarding collusion or other illegal behaviors in this case, since the portfolios and assortments of each one of the brands and retailers, respectively is very large and if they are over in one category, they will certainly be under in another. Even if they are the category champions for a retailer, a manufacturer can never or very difficultly "conquer" a retailer over the other competitors.
3. We think the retailers will always win more, because the wallet of the clients does not go bigger, so they will not buy more. In the limit, yes, they can attract other type of clients or initiate the experimentation to new products from brands, but it will never reach a win-win situation. It can also happen in a niche market, that is very impulse related and so easier to bring new things in.
4. We think so, since in Portugal the Category Management concept is not so developed and is in need of much more improvement. It is an essential tool for the development and growth of this industry, which will definitely help both types of companies to surpass the crisis. It is imperative that companies continue to develop and give even more attention to this phenomenon and transfer resources this department.

   Adding this, there are opportunities for new kinds of savings to be achieved through coordinated vertical cooperation. These involve re-engineering store fixtures, reducing shelf-stocking time, creating "store-friendly" packages and "store-ready" pallets. Though requiring substantial capital investment, they could produce savings of 10%-20% percent in the cost of product handling. They can really take a lot of costs out of the system if everybody understands what the other needs.

- 4th Step: Gathering and organization of the information to apply to my case.

After the literature review I formulated hypothesis that will be confirmed by the both the answers given by the players. Adding that, I decided also to conduct a survey to the consumers in a further phase. This survey will, in addition to the questions to the players, confirm the hypothesis of the changing consuming patterns.

Appendix 4: The category management interaction framework

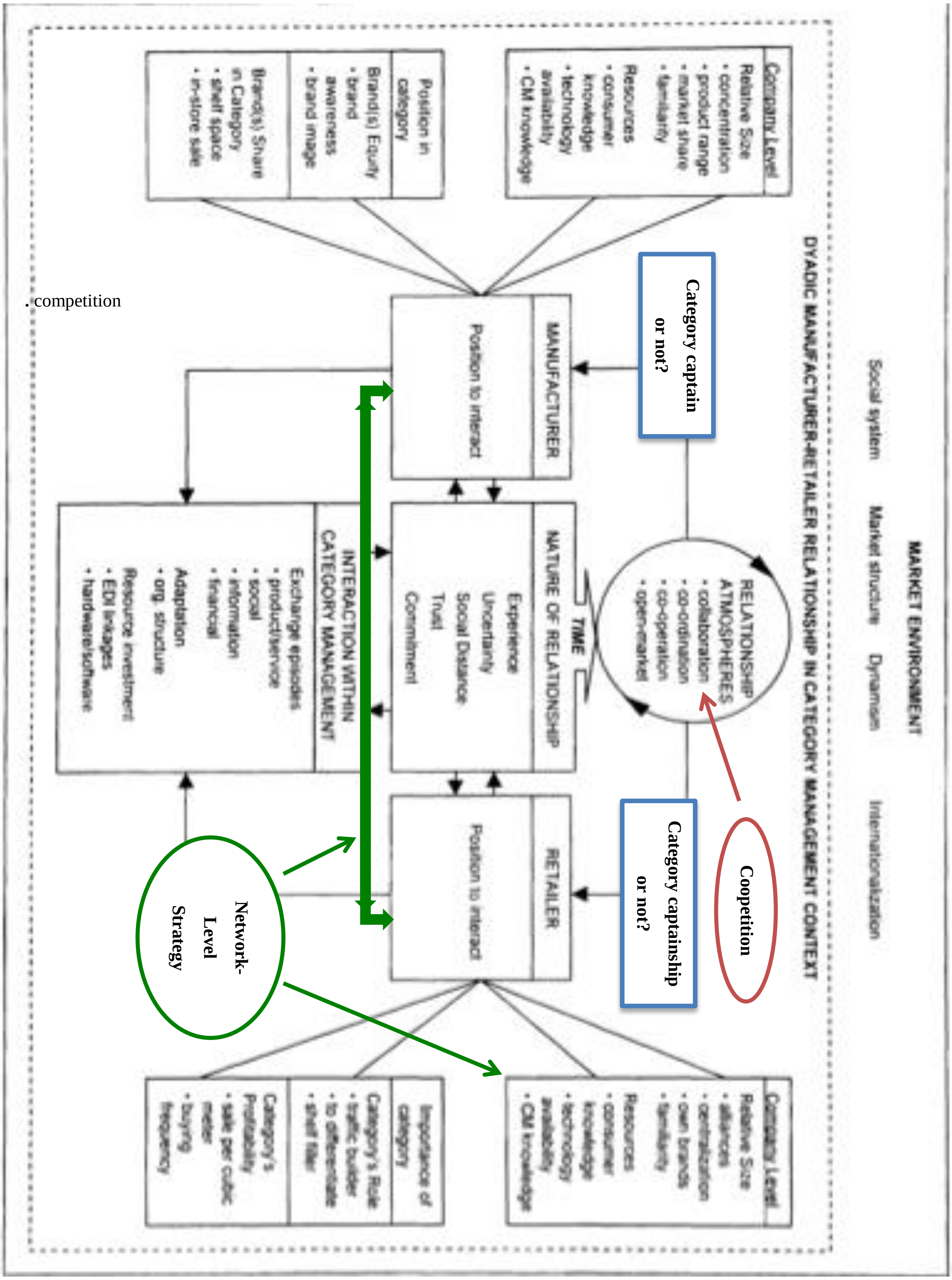


Figure 18. The category management interaction framework (modified from McLoughlin, Damien. and C. Horan (eds.), *Proceedings of The 15thAnnual IMP Conference*, University College, Dublin 1999)

Appendix 5: Relation between triangular dependency and relationship atmosphere framework

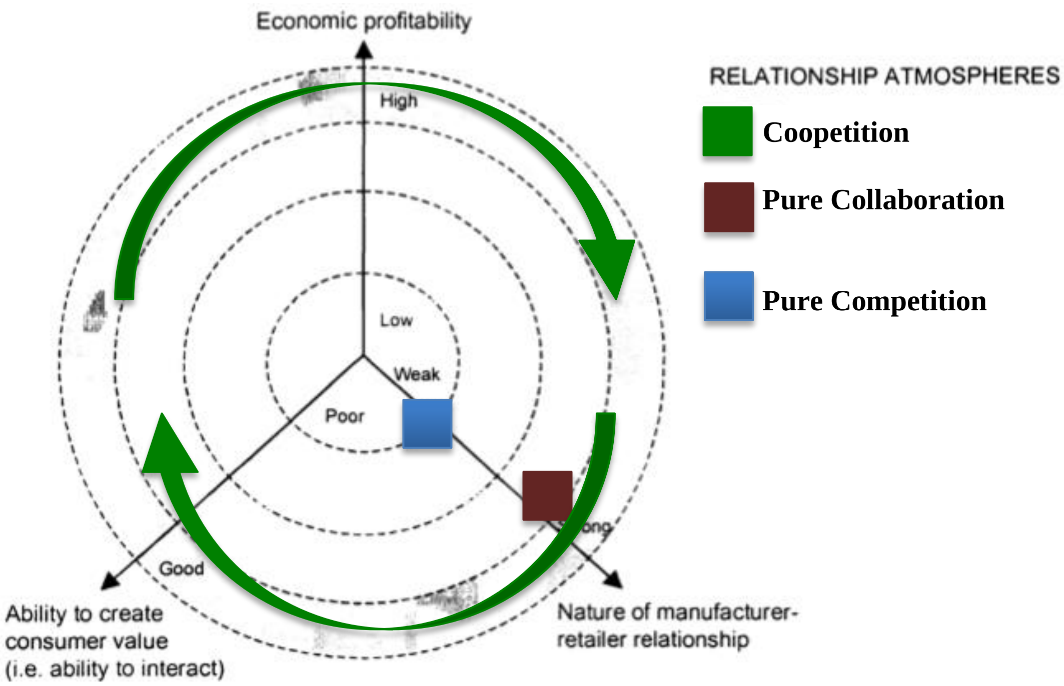


Figure 19. Relation between triangular dependency and relationship atmosphere framework (modified from McLoughlin, Damien. and C. Horan (eds.), Proceedings of *The 15thAnnual IMP Conference*, University College, Dublin 1999)

Appendix 6: The Category Management tools from Colgate+ Carrefour partnership (Category Captainship)

Figure 20. The linear organization in the virtual store (Source: ECR Conference (2004). Category Management is Here to Stay, Brussels)

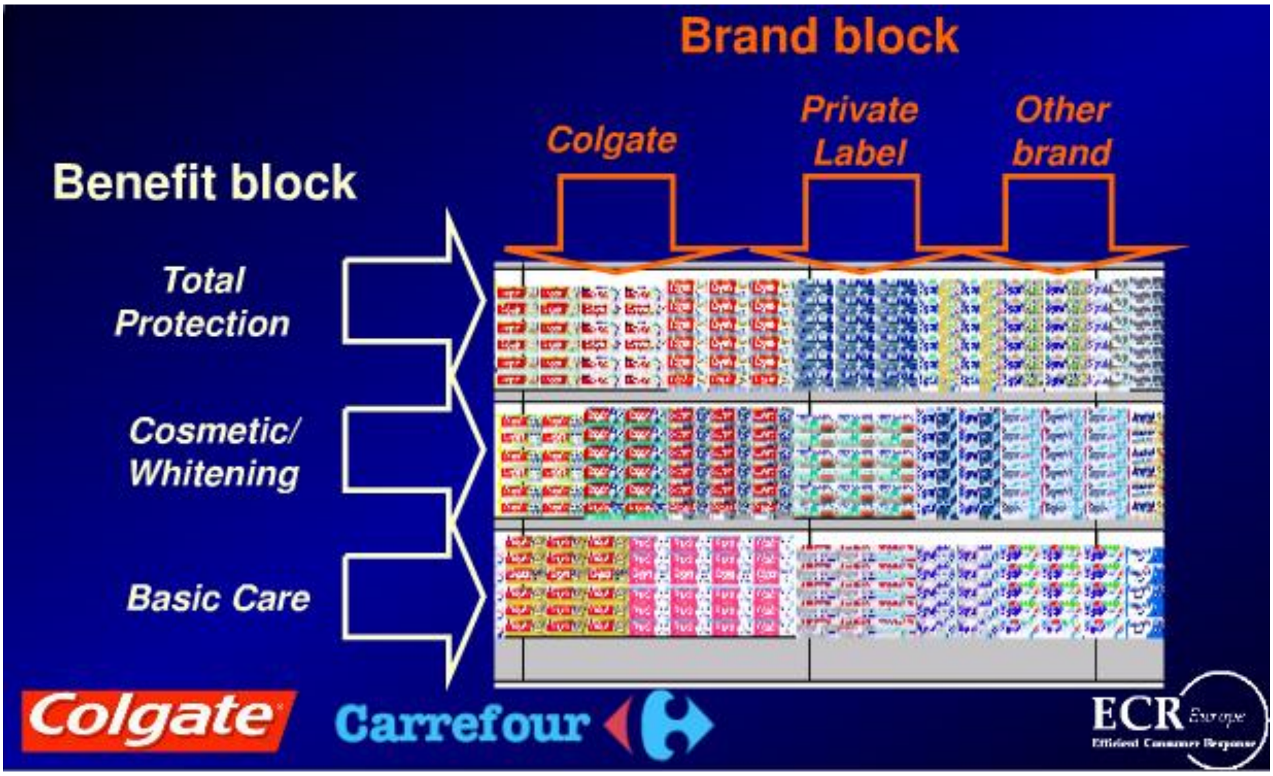


Figure 21. Brand and Benefit Blocking (Source: ECR Conference (2004). Category Management is Here to Stay, Brussels)

Figure 22. Promotional Support (Source: ECR Conference (2004). Category Management is Here to Stay, Brussels)

Figure 23. In-store support activities for sales (Source: ECR Conference (2004). Category Management is Here to Stay, Brussels)

Figure 24. The controlling, analysis and implementation frameworks (Source: ECR Conference (2004). Category Management is Here to Stay, Brussels)

Figure 25. The virtual store (Source: ECR Conference (2004). Category Management is Here to Stay, Brussels)

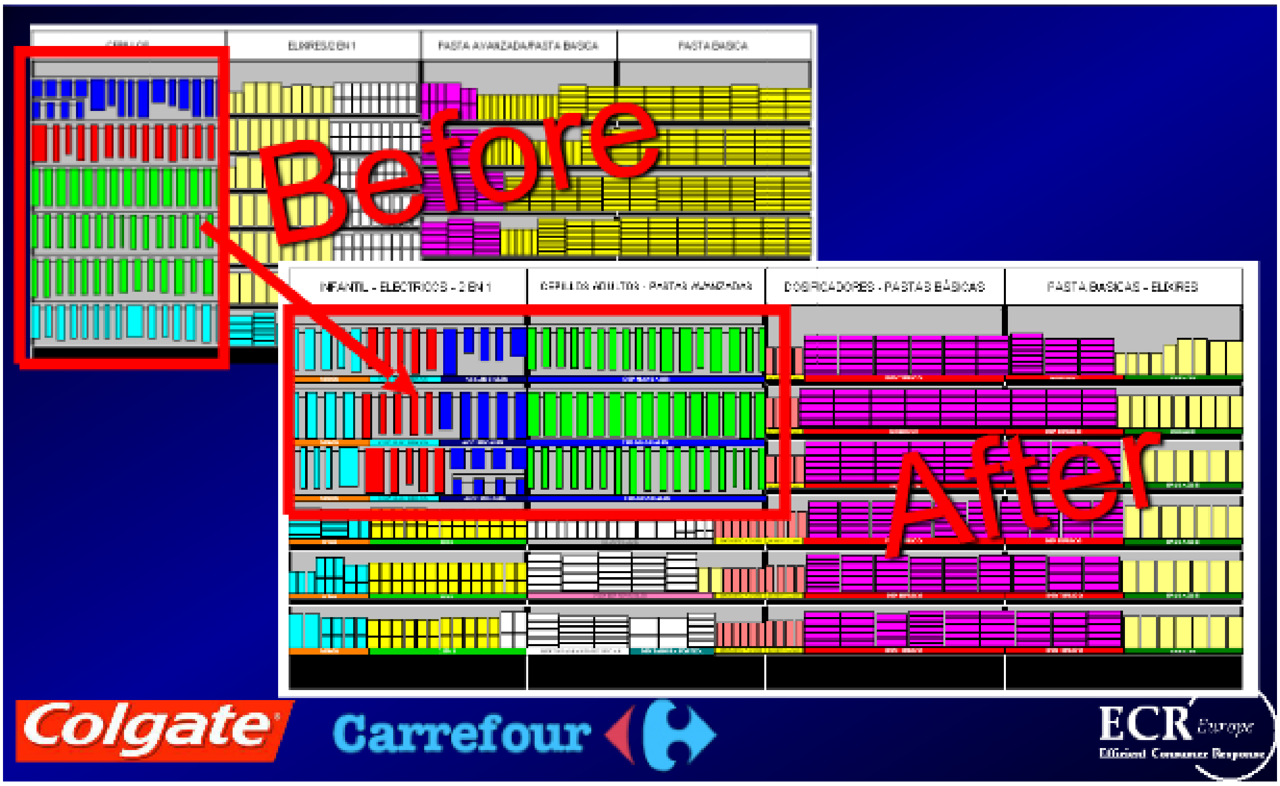


Figure 26. The Virtual Store (before and after) (Source: ECR Conference (2004). Category Management is Here to Stay, Brussels)

Appendix 7 : The Carrefour-Colgate Partnership Results

Figure 27. The category growth versus benchmark category (Source: ECR Conference (2004). Category Management is Here to Stay, Brussels)

Figure 28. The categoy initiatives (Source: ECR Conference (2004). Category Management is Here to Stay, Brussels)

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Preliminary Thesis Report

The World Crisis and the Fast-Moving Consumer-Goods Industry: A Network-Level and Co-opetitive Approach

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ABSTRACT

Managers need to understand that networks should be an important part of their strategy and that cooperation and competition should be intertwined in the business context. Firms can obtain knowledge, learn from the experiences and share resources with other actors in their business networks.

This paper aims to contribute towards the networking-level strategy and co-opetition literature by using the category management approach. Given the examples of Hamel et al., Baden-Fuller and Lorenzoni and Gulati et al. on these concepts, I intend to present a different approach on the light of Fast-Moving Consumer Goods Industry to show that both Retailers with their Private Labels and Big Companies with their A-Brands can be profitable in every economical situation, overcoming some problems that each one of them have, by learning from each other and engaging in a co-optative behavior, not only by growing their own profits but also making the industry grow.

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1. Introduction

In this paper I intend to present an approach to the Fast Moving Consumer Goods industry and Category Trade Management using the theories of Networking Level Strategy and Co-Opetition.

Various authors have linked private-label performance to economic conditions. For example, Quelch and Harding (1996, p. 99) observe that "private-label market share generally goes up when the economy is suffering and down in stronger economic periods." Likewise, Nandan and Dickinson (1994) state that during difficult economic times, the popularity of private labels tends to increase, whereas in periods of relative economic prosperity, the share of national brands increases. What can companies do to protect themselves from the fluctuations on preferences and available income? What can companies do to achieve a status on people's life in order to increase their resistance to leave? and, finally, what can they do to tackle their main opposition in the crisis times – the Private Labels? Cooperate or Compete? Why not both?

The main research question that I will try to answer within this paper is how can the Networking Level strategy in association with the Co-opetition strategy can change the game of Category Trade Management in order to make the economy grow.

The main problem definition relies on the fact that, in the last years, with the European crisis, the role of the A-Brands has changed. With less money in their pockets, families tend to forget about the benefits of the products, their quality or healthiness, focusing progressively on price. Private brands, in this scenario, have changed and evolved into a much more broad and powerful concept: they have gained a sizeable share of global grocery sales and further growth is predicted for the future (Ailawadi, Pauwels, & Steenkamp, 2008). These brands, owned and controlled by retailers, have become a significant threat to national brand manufacturers as the quality gap between the two closes (Herstein & Gamliel, 2004).

In fact, in crisis times, unemployment rates rise, having obvious impacts on the industry, not only reducing the consumption capacity of the population, as it affects the popularity of branded products, but also favouring the products that offered promotions and low-premium, as a matter of logic savings. Even if not affected by unemployment, social consternation, the precariousness and the smart shopper thinking apply to a growing trend. And this is all about Private Labels.

First of all, I intend to make a tapered approach on this issue and present the main modifications in the industry, namely the growth of private brands. In a further phase, and using mainly theory on the Network Level, after a careful analysis of the Business and Corporate levels, I pretend to explain how both Private and A-Brands can achieve their goals in this industry at the same time they compete on it – the so called Co-opetition, a mix of cooperation and competition.

In this sense, I intend to find alternative ways to find an equilibrium in this industry, where Private Labels and A-Brands can achieve a "quasi win-win situation", by betting on each one's strengths and to enlarge the cake (read range) at the same time enlarging the slice (read market share).

The mains question to answer during this "How can Big A-Brands engage in a dualistic behaviour with Private Labels in order to achieve a sustained growth and sustained competitive advantage in order to protect themselves from the fluctuations in preferences and income"?

As we can see through all reports of the Big A-Brands, in this time of crisis, their sales, market share and growth are shrinking. This is the main problem: the diminishment of sales in value and volume. Adding this, the main threat in these times is gaining territory: the Private Labels.

The importance of Category Management appears in this process, since it refers to decisions on the Category, both for supplier and buyer, with their brands always in mind. In fact, firms cannot isolate themselves from their environment, but must actively engage in relationship with suppliers and buyers, while selectively teaming up with other firms inside and outside the industry to attain mutual benefit. But while they are collaborating to create a joint value, firms are also each other's rivals when it comes to dividing benefits. These opposite demands placed on organizations are widely referred as the pressures from competition and cooperation (e.g. Brandenburg and Nalebuff, 1996; Lado, Boyd and Hanlon, 1997).

With Category Management, both firms will be able to stretch the categories in order to position their products in the different ranges of the market, offering the clients different value proposals and being able to offer different products, associated with less risk. It appears as a retailing and supply management concept in which the range of products purchased by a business organization or sold by a retailer is broken down into discrete groups of similar or related products; these groups are known as product categories.

In fact, how can Big A-Brands capitalize in their own advantages related to the Private Labels? In these point I want to go deep into the competition part, after had presented the cooperation one. The main focus will be in how would a retailer, rather have a high-profit on select items or build a long-term business strategy that brings loyal customers to their store, which the answer may affect how they approach private label products. Private label suppliers typically produce a wide variety of products for many retailers across multiple categories. They typically don't have the same category expertise or commitment to quality as that of a branded manufacturer, whose build a long-term, unique relationship with the client.

The natural channel was built on the backs of brands. They provide excitement in the category by encouraging consumers to shop their brands. Innovation comes from brands and branded manufacturers. They also support retailer-marketing initiatives and many give back to their communities. Branded items offer the promise of trust and consistent quality while private label typically varies greatly between retailers. Brands are customized or uniquely crafted to address specific customer needs and wants. They encourage consumers to "trade up" and are responsible for category growth.

As we can see, both players are facing problems, one more in a short-term (A-brands and the financial results of today days) and another in a long-term (Private labels and their lack of consumer loyalty in the future).

Applying some of these trends to the Fast-Moving Consumer-Good Industry, I intend to focus my analysis on the interactions between the Private Labels (DOB's) and the Big Brands (A-Brands).

Applying the Relational Actors, Objectives, Factors and Agreements theory from de Wit and Meyer (2010), I want to analyse, in the "skin" of Big A-Brands, namely Unilever in Portugal, how the Downstream Vertical and Horizontal Relations with the Private Label owners can be lifted, since these actors act as supplier and client as well as same industry incumbents.

The Relational Objectives will be analysed at the light of linking relations, mainly regarding supplier-buyer relations and how they can be managed. But, above of all, I will try to apply the relation in the industry, since it is where the biggest problem resides.

After that, I will analyse the Relational Factors, like legitimacy, urgency of the relationship, frequency associated and power of each one of the actors.

Basically my idea is to do research on how the rise of these private labels influenced the decisions of the biggest firms, like P&G, Unilever or Nestlé and how they can engage in cooperation associated with competition. I intend to focus mainly in the Portuguese case, as well as explain how these brands "destroy" the categories.

By these I want to explain how the main brands had to change their approach to the market, with a smallest range of products, at a less competitive price, comparing to the DOB's and how can they defend themselves from this menace by entering into partnerships, networks and alliances, at the same time as being competitors of these products.

Regarding this theme, I want to research on the possible solutions for this present situation, mainly regarding how the big brands can develop relationships with the retailers, increasing synergies and presenting advantages for both players in this industry (FMCG). This research intend to find a middle term to networking theory, where there are no strategic centres, but there is a common goal in enlarging the pie at the same time there is a competition to enlarge the slice.

2. Literature Review

The Literature Review will function, in this phase, more like a Literature Overview. I decided to divide this part into two major themes: Co-opetition and Network-Level Strategy (namely focusing on the Chapter 7 of Witt and Meyer). As a starting point, I intend to briefly present in this chapter a summary and little analysis of relevant documents and cases that have been written in these subjects, using them as a conducting line to present my approach, that mixes these two concepts in the consumer-goods axis.

Bonaccorsi (1992) argues that firms do not operate independently but maintain networks with comparable firms. Styles and Ambler (1994) emphasize the importance of a firms business networks in providing information and resources to the firm.

There is a growing body of research in strategy that covers the behaviour of firms engaging in strategic networks, but, in spite of the importance of them in a firm's internationalization there is still a shortage of research in this area (Chetty,1994; Blankenburg et al., 1996). As will be developed in a further paragraph, there is a growing trend to write about M&A's and joint ventures, forms of alliances that are in vogue these days (Harrigan, 1985; Kogut, 1988; Bruner, 2003). More recently, research on strategic blocks (Nohria and Farcia Pont, 1991), learning in alliances (Hamel et al., 1989), interfirm trust (Gulati, 1995; Zaheer and Venkatraman, 1995), network resources (Gulati, 1999) and strategic groups (Freire, 2008), have examined interfirm relationships from a variety of theoretical perspectives and outcomes. This growing attention given to the strategic networks shows the also growing importance of it and highlights the need for focusing the research in this topic.

First of all, I decided to start with the Network-Level approach. I will try to focus on the firms' downstream vertical relations as well as direct horizontal relations, both approaching learning, linking and lumping activities. With these points, I will try to show how the company can combine all decisions and actions to provide its clients more value than the competitors in a sustained way.

Researchers on strategic networks (e.g. Ford 1990; Gadde and Mattsson 1987; Hakansson and Johanson 1993) have transposed the social exchange perspective on social networks (e.g., Cook and Emerson, 1978; Emerson 1972) to business networks (Anderson, Hakansson and Johanson, 1994) (Chetty, 2008).

Using the social exchange theory, strategic networks are defined "as a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualized as collective actors (Emerson 1981)" (Anderson et al. 1994, p.2, Blankenburg Holm, 1997, p. 1036). These actors include competitors, suppliers, customers, distributors and government (Axelsson and Johanson, 1992 ; Sharma and Johanson, 1987).

Within this theme, much research has been made, mainly regarding the strategic alliances, mergers & acquisitions, etc. This trend is a focus of attention these days, being the M&A's in Investment Banking a source of numerous projects and money circulation.

Hamel et al. defend that strategic alliances can strengthen companies against outsiders even as it weakens one partner vis-à-vis the other. Cooperation becomes then, a low-cost route for new competitors to gain technology and market access. This argument arises even more in industries with big investments in production (e.g. aeronautics, pharmaceutical), that take much money to develop new products and to penetrate new markets, that few companies can go it alone in every situation. Hamel et. al (1989) also believe that there are simple but powerful principles that companies need to follow when entering in a network level strategy. First of all, firms need to know that collaboration is competition in a different form – the so-called Co-opetition, that will be developed further in this chapter; Secondly, the sense of harmony is not the most important measure of success, since conflicts decide which competitor will be better in the end; Thirdly, the cooperation has to have some limits, in order to defend themselves against competitive promise, mainly in the front-office employees, in a daily basis; Finally, the learning part of the alliance is the most important. More than using the competitors or other elements in the value chain as a way of avoiding investments, learning from them is paramount. As Hamel et al. say, "It is not devious to absorb skills from your partner – that's the whole idea. We must digest their skills".

Basically, the alliances have a main point: a company must emerge from them more competitive than when it entered it. Hamel et al. give three main conditions for mutual gaining (that it is, somehow, impossible): on one hand, the partner's strategic goals converge, while their competitive goals diverge. In the case of consumer goods, this is very important, since neither side shall invade the other's market, leading to a clear upstream/downstream (in my case, a low-range/high-range) division of effort; On the other hand, the size and market power of both partners is modest compared with industry leaders, which doesn't apply to this case, as the industry leaders are the main focus of the analysis. In the case I want to research, the companies are both market leaders or at least their products are direct competitors, creating a new approach to the same problem. With this, I can start to see that some of the companies that I will analyse will have different outcomes in the end of each network-level strategy; Finally, Hamel et al. argue that each partner believes it can learn from the other and, at the same time, limit access to proprietary skills, creating a constant paradox and a "healthy fight" to achieve the desired outcome. This "fight" happens, as was said before, in a daily basis, with the interaction of engineers, marketers and product developers: who says what to whom, who get access to what facilities, who sits on what joint committees.

Basically, Hamel et al. defend that it is necessary to put learning in a higher path. In the short-run, the quality and performance of a company's products determine its competitiveness. Over the longer-term, however, what counts is the ability to build and enhance core-competences – distinctive skills that spawn new generation of products. This point will be very important for the A-Brands to assume a leader position in the market, with a long-term proposition to their clients.

Lorenzoni and Baden-Fuller (1995) then introduce a concept of Strategic Centre to Manage the Network of partners. Their approach focus on the company being a leader in the network, managing partners, developing core skills and competences of partners to make them more effective and competitive and borrowing ideas from them.

In the case I am analysing there is no Strategic Centre, since both companies are strong players in the industry. Even though, some point may be taken from this paper, since the authors are still focusing the learning part. Baden-Fuller and Lorenzoni is that moving quickly from ideas to the market by a simultaneous learning process with partners offers a competitive advantage over other developers. They say that competitive success requires the integration of multiple capabilities (e.g. innovation, productivity, quality, responsiveness to customers) across internal and external organizational boundaries. This is the main point in a merger, acquisition, alliance or formal agreement - learning

Even though, the authors argue that skill transfers between parties did not always result in mutual benefit. One defense contractor explained that their experience of skill transfer nearly always meant that the partner was strengthened and became a stronger rival. Hamel et al. also found that the unwary partner typically found its competences were "hollowed out" and that its collaborator became a more powerful competitor. That is where companies must be careful and, before every alliance or other strategic networking activity, "gather the troops" and present a careful planning and a clear strategic action.

For overcoming this problem (or, at least, part of it), firms must create a notion of partnership, which creates a learning culture and have the ability to perceive the full business idea and understand the role of all the different parties in many different locations across the whole value chain. In one hand, leveraging the skills of partners is easy to conceive but hard to implement, since it takes many partners to effectively make the system work, but the negative behaviour of only few can bring the whole system down. On the other hand, formal contracts are relatively inflexible and are suitable only where the behaviour is easy to describe and is relatively inflexible, but the relationships are creative and flexible and so very difficult to capture and enforce contractually. This approach is very important to the work I am pointing to present. In fact, both players in the industry (DOB's and A-Labels) are not likely to make formal contracts that will lead to inflexibility and so the informal behaviours are the main object to focus on. For example, Benetton franchising system relies on unwritten agreements, relying on trust and with clear expectations, saving a great deal of time and expense.

Finally, Lorenzoni and Baden-Fuller state, "*Of all battles firms face, the most difficult is not the battle for position, nor is it even the battle between strong and weak firms following the same strategic approaches. Rather, it is the battle between firms adopting different strategies and different approaches to the market*". This statement applies perfectly to my research, since A-Brands and DOB's approach and strategize differently in the same market.

Most organizations view their joint ventures and subcontractors as beyond the boundaries of their firm and even those involved in alliances do not think of partners as an integral part of the organization. Strategy conception and implementation of ideas is shared between the partners, creating a "network theory", where all the participants communicate multilaterally across the whole of the value chain (Johanson and Mattsson, 1988).

Continuing the analysis of Strategic Networks papers, Gulati Nohria and Zaheer, (2000) argue that the networks of interfirm ties are very important in examining fundamental issues in strategy research, introducing the concept of strategic networks in the context of industry structure, positioning within an industry, inimitable firm resources and capabilities and dynamic network constraints and benefits. In fact, researchers see firms as autonomous entities striving for competitive advantage from either external industry sources (Porter, 1980) or from internal resources and capabilities (Barney, 1991), which is inadequate in a world in which forms are embedded in networks of social, professional and exchange relationships with other organizational actors (Gulati, 1998; Galaskiewicz and Zaheer, 1999). These networks "encompass a firm's set of relationships, both horizontal and vertical with other organizations – be they suppliers, customer, competitors or other entities – including relationships across industries and countries" (Gulati, Nohria and Zaheer, 2000). These strategic networks are composed of inter-organizational ties that are enduring, of strategic significance and include strategic alliances, joint ventures, long-term buyer-supplier partnerships and host of similar ties.

Strategic Networks potentially provide a firm with access to information, resources, markets and technologies with advantages from learning, scale and scope economies; and allow firms to achieve strategic objectives, such as sharing risks and outsourcing value-chain stage and organizational functions (Gulati Nohria and Zaheer, 2000). But, as was said before, for a strategic alliance to have a longterm impact, learning must be on focus.

Garcia-Pont and Nohria (1999) and Zaheer (1999) argue that the location of firms in the interfirm networks is an important element of competition beyond the traditional models of competitions, that focused on strategic variables such as scale, advertising intensity, etc. (Porter, 1980). In fact, competition is more intense among actors who occupy a similar location relative to others – similar network positions - but is mitigated if actors are tied to each other. Adding that, there is an idea that the source of value creating and capabilities should extend beyond the boundaries of the firm, presenting a novel perspective for the RBV and VRIN models (Gulati, 1999; McEvily and Zaheer, 1999). In fact, there is a "new" source of creation of valuable, rare, inimitable and non-substitutable value-generating resources that lies in a firm's network of capabilities (Gulati, Nohria and Zaheer, 2000).

Advancing to the Co-opetition concept, I intend to give a brief overview on what has been written, having in mind that this concept is intrinsically linked with the

Networking-Level Strategy and the strategic networks I have been talking about. Co-opetition combines the advantages of both competition and cooperation into a new dynamic which can be used to not only generate more profits but also to change the nature of the business environment in the company's favour. Co-opetition occurs when companies interact with partial congruence of interests. They cooperate with each other to reach a higher value creation if compared to the value created without interaction, and struggle to achieve competitive advantage.

Often co-opetition takes place when companies that are in the same market work together in the exploration of knowledge and research of new products, at the same time that they compete for market-share of their products and in the exploitation of the knowledge created. In this case, the interactions occur simultaneously and in different levels in the value chain. Real long-term business success comes not solely competing successfully within your current industry bit also from being an active participant in shaping the industry's future (Branderburguer & Nalebuff, 1997).

Actually, business is cooperation when it comes to creating a pie and competition when it comes to dividing it up. (**See Appendix 1**) We cannot confuse this concept with collusion, where there is no pie enlargement, only division. Companies are complementors in making markets competitors in dividing markets up and understanding cooperation is as important as understanding competition.

Using the Value Net (Branderburguer & Nalebuff, 1998), we see that customers and suppliers play symmetric roles in the process of value creation and competitors and complementors play mirror–image roles (competitors are the substitutes). (**See Appendix 2**)

Adding this, Dagnino & Padula (2002) stress that co-opetition does not simply emerge from coupling competition and cooperation issues, but rather it implies that cooperation and competition merge together to form a new kind of strategic interdependence between firms, giving rise to a co-opetitive system of value creation. Co-opetition is a way of defining a strategic game of interaction which models the whole 'interplay range' in detecting firms interdependence.

In fact, whereas both competitive and cooperative perspectives focus on entirely diverging and converging interest structures, since it takes into account firm interdependence on the base of partially congruent interest structures, co-opetition represents an "integrative theoretical bridge", which stretches to join the two contrasting mentioned perspectives. Indeed, co-petition strategy refers to a kind of interfirm strategy,which consents the competing firms involved to manage a partially convergent interest and goal structure and to create value by means of co-opetitive advantage.

According to Dagnino & Padula (2002) and regarding typology of interfirm co-opetition, there are two basic forms: dyadic co-opetition and network co-opetition. I will focus on the Dyadic co-opetition, that refers to firm dyads or simple two-firm relationships, mainly because I decided to reduce the overall set of companies to a comparison between two (one retailer and one big brand) in order to simplify the approach. This relates to:

> a) co-opetition (both competitive and cooperative) relationships between the same two firms along one single level of the value chain (i.e., strategic consortia as R&D consortia). This is what we have termed ‘simple dyadic co-opetition’;
>
> b) co-opetition (competitive and cooperative) relationships between the same two firms along several levels of the value chain (i.e., a number of firm dyads in the automobile industry who cooperate on car R&D and/or production and compete in car distribution). This is what we have named ‘complex dyadic co-opetition’.

Focusing in the relationships between two firms along several levels of the value chain (e.g. Unilever and Jerónimo Martins competing in Portugal), it is argued that these agreements assume different forms and focus on cooperation in R&D and manufacturing of one or more product lines while distribution generally remains competitive. The alliances above are widely known under the press common label of “allied in costs, rival on markets” or “marry nobody, collaborate with everybody”.

Finally, Dagnino & Padula (2002) state that a strategy of co-opetition, rather than encouraging value appropriation or rent-seeking behavior, nurtures value creation and favors an entrepreneurial oriented behavior (Rumelt, 1987) by firms or within a single firm. In Hirschman’s (1970) terms, co-opetition is voice-based as opposed to exit-based market-based relationships.

Concluding, where Subcontracting relationships are usually deeper and more complex and many firms share their notions of strategy with their subcontractors, but the sharing is nearly always limited, Alliances demand even greater level of commitment and interchange, and its common for firms involved in alliances to exchange ideas about strategy and to look for strategic fit and even reshaping of strategic direction and Networks can be thought of as a higher stage of alliances, for in the strategic centre there is a conscious desire to influence and shape the strategies of the partner and to obtain from them ideas and influences in return (Baden-Fuller & Lorenzoni, 1995).

My approach will be a mix of them with a group of firms within the FMCG industry, that play in equal levels of the value chain, with different approaches and positioning in the market, inserted in a system that has the flexibility and freedom the market coupled with long-term “holistic relationships”, ensuring the requisite strategic capabilities across the whole system.

3. Research Methods and Design

The main reason to choose this theme was the fact that I worked Unilever-JM as a summer intern in the Category Trade in the Food Department. This internship allowed me to work directly with this subject, mainly with retailers, private brands and A-Brands in the context of crisis, getting some important insights to do this work. It also gave me the connections I needed to find the right people to answer the questions I intend to bring to this work. Adding that, the growing importance on the topic of strategic networks, as was said before, gave me a even bigger motivation to try to achieve new findings in this area. Despite of this attention, even with some authors focusing on the importance of co-opetition in recent papers (Branderburguer & Nalebuuf, 1997; Ladom Boyd &Hanlon, 1997; Gnyawaly Madhavan, 2001), scientific investigation on co-opetition has not gone much far farther beyond naming or claiming it, being the theme an under researched one, giving me an extra motivation to go on with this thesis.

The research process begins with the formulation of the purpose of the thesis. After a brief period of exploratory research, I formulated the research question.

The first method I decided to use was the conduction of interviews to players in the industry and more specifically in the company I’ve chosen, as well as consumers and retailers. Adding that, I decided to get some external opinion on this subject, mainly through interviews with consultants with previous experience in the consumer goods industry.

With this I will be able to face the three sides of the industry and recommend a more pondered approach.

- 1st Step: I entered in contact with Unilever-JM, a Portuguese company established in Lisbon, where I worked in as a Summer Intern. I interviewed the Heads of the mains areas of the company (Foods, Personal Care and Home Care) as well as the Planning and Sales responsibles. I brought some questions but I am still waiting for the written answers.
    5. How did Unilever - namely their management area - react to the crisis and the growth of Private labels?
    6. Do you think it would be possible - namely through Category Trade Marketing - making agreements (formal or informal) between key representatives of DOB's (Private labels) and A-Brands (big brands, which includes Unilever)? If yes, how? Do you think that these agreements allow a "spreading" of the range of market?
    7. Do you think that is possible a win-win situation between the DOB's and A-Brands in a market where the two are positioned differently with similar products but quite distinct value propositions? How?
- 2nd Step: I want to reach some other players in the industry, mainly on the Retailers side (I would like to contact Jerónimo Martins employees that I know) to have a broad sense of the market. I already sent the questions, since I had no ease of access to their collaborators.
    5. How did Jerónimo Martins - namely their management area - react to the crisis and the changing consumption pattern of people?
    6. Do you think it would be possible - namely through Category Trade Marketing - making agreements (formal or informal) between key representatives of DOB's (Private labels) and A-Brands (big brands, which includes Unilever)? If yes, how? Do you think that these agreements allow a "spreading" of the range of market?
    7. Do you think that is possible a win-win situation between the DOB's and A-Brands in a market where the two are positioned differently with similar products but quite distinct value propositions? How?
    8. How do you consider your investment on R&D? High, Medium or Low?

- 3rd Step: Interview some consultants with experience in the area of Consumer Goods to get some external insights on this industry.
    5. How did the all sector react to the crisis and the growth of Private labels and the exchange of consumption patterns;
    6. Do you think it would be possible to make agreements (formal or informal) between key representatives of DOB's (Private labels) and A-Brands (big brands, which includes Unilever)? If yes, how? Do you think that these agreements allow a "spreading" of the range of market?
    7. Do you think that is possible a win-win situation between the DOB's and A-Brands in a market where the two are positioned differently with similar products but quite distinct value propositions? How?
- 4th Step: Gathering and organization of the information to apply to my case.

After the literature review I formulated hypothesis that will be confirmed by the both the answers given by the players. Adding that, I decided also to conduct a survey to the consumers in a further phase. This survey will, in addition to the questions to the players, confirm the hypothesis of the changing consuming patterns.

- H1: people turn to Private Labels in the crisis times and to A-Labels in the prosperity time.
- H2: firms prefer the competitive environment and avoid the cooperation landscape, fearing the appropriateness of knowledge by their rivals

In this further phase I intend to analyse the collected data out of the sources I mentioned above and combine these with the hypothesis and formulate a conclusion, where I intend to give my opinion on managerial implications, limitations and suggestions for a future research.

The main research question to answer during this thesis is “How can Big A-Brands engage in a dualistic behaviour with Private Labels in order to achieve a sustained growth and sustained competitive advantage in order to protect themselves from the fluctuations in preferences and income”?

4. Preliminary Findings

The preliminary findings will have as base, the Fast-Moving Consumer Goods industry case.

First of all, like a number of business cases and experiences have shown, value creation is reached by combining competition and cooperation, a ambivalent behavior that has been termed 'co-opetition'. Since this behavior strategy brings the promise to explain strategic network interdependence among firms by means of a 'co-opetitive system of value creation', where competition and cooperation are both considered and coevolving.

Regarding the new situation, the big A-brands have now to manage the categories in a smarter, efficient and innovative way, since these private brands reduce the category value. In fact, these brands faced a new challenge in how to spread each category value, to increase their opportunities and range inside each category, being the final decision on how they can engage with retailers and uplift and get the most out of their relations, at the same time they provide the client with the best service and a unique value offer in a way they can achieve a win-win situation.

Both companies playing in the extremes of the range of products can and have to achieve a situation where they increase not only the size of the slice but also the total weight of the cake. There is a need for cooperation in the sense that Retailers and their Private Labels are shrinking the range, limiting the gains in the industry, and they need to understand that.

As stated in Dagnino & Padula (2002), I discovered that, while firm and interfirm co-opetition may be a matter of short or long-term standpoint, co-opetition strategy proves really helpful to the creation of knowledge and economic value. Even if in a short time period a co-opetition strategy may add to firms involved more value than conventionally does a traditional competitive structure:

(a) This differential value may be only a small fraction more than the one that is gained by sheer competition.

(b) Since we consider co-opetition as variable-positive-sum game structure, this co-opetitive differential strategic value in relation to a pure competitive framework may accrue to one only of the two (or more) actors involved, thereby raising an equality problem in balancing the rents accumulated.

Adapting this to the industry of FMCG, I found a starting point with this information. First, it is of great importance that all the players in the network understand that they need to engage in the co-opetitive behavior not only to enlarge the pie but also to enlarge their slice; secondly, these firms have to take a long-term approach if they want to get out of this network with a stronger position than before and co-opetitive behavior allows them to do that; finally, firms need to base their intentions on learning from the competitors, more than treating them as inferior or subsidiaries.

5. Conclusions

The conclusions will be presented after the results from the surveys and the interviews are completed.

For now, some few conclusions can be stated, but they are part of the preliminary findings chapter.

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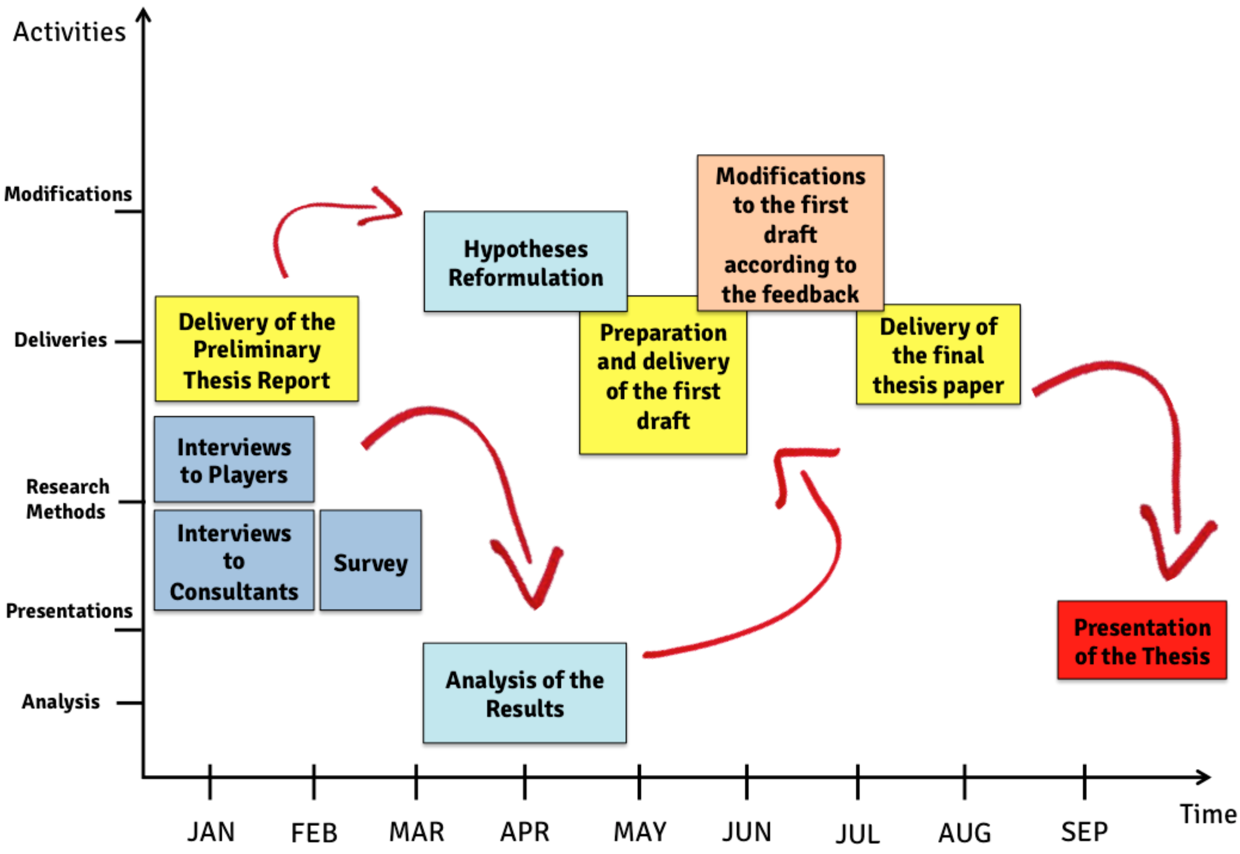
7. Activity Spreadsheet



March

- Reformulation of the Research Methods, Design and Literature Review.
- Gathering of the data collected in interviews: Retailers and Big Brands.
- Case Study preliminary redaction
- Reformulation of the Research Question I want to address.

April+May

- Meeting with the supervisor to check the status of the proposed changes (week 14/15)
- Preparation of the first draft: reaction of Introduction, Preliminary Findings and Case Study conclusion.
- Gathering of the remaining interviews: Consultants.
- If necessary conduct more interviews on the players.
- Gather of all the information available and development of stronger Preliminary Findings and Conclusions chapters.

- Delivery of the second draft (31st May).

June

- Regarding the feedback from my supervisor, make the necessary arrangements and make changes to the work.
- Prepare the final version and make solid arguments to deliver the final thesis report: Conclusions.

July

- Delivery of the final thesis report (1st July)

August

- Preparation of the final thesis presentation

September

- Final thesis presentation

Appendix 1

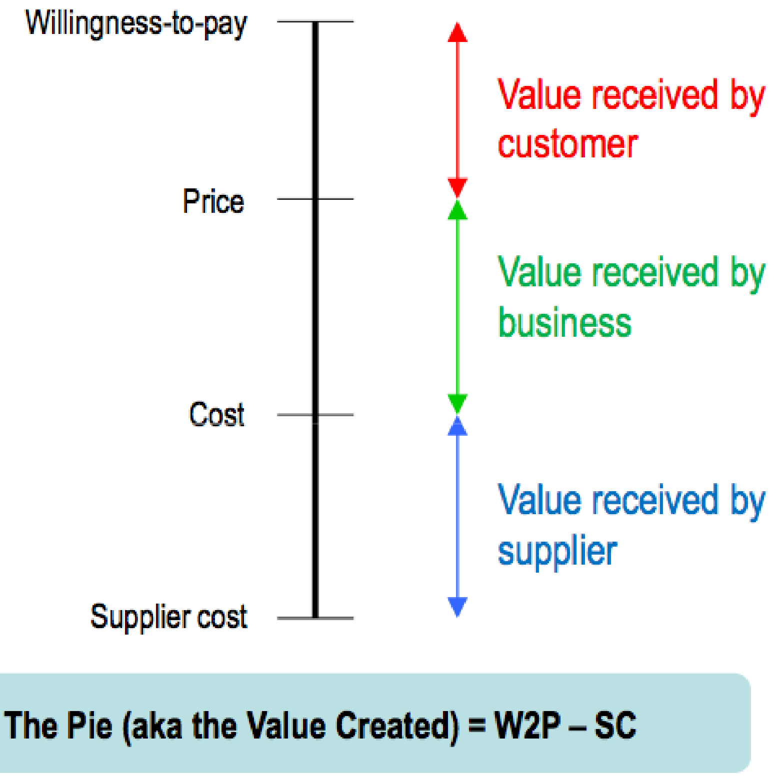
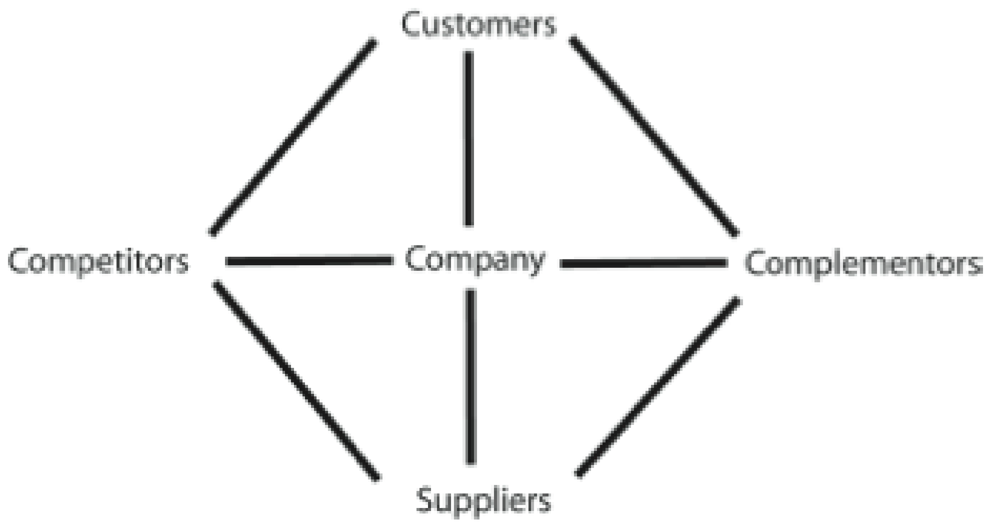


Diagram from "Value-Based Business Strategy," by Adam Brandenburger and Harborne Stuart, *Journal of Economics & Management Strategy*, 5, 1996, 5-24

Appendix 2

The Value Net



Brandenburger & Nalebuff (1998)

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