In the fall of 2008, Scott Hansing, MBA ’01, acted on a bold idea. He was a member of a sales team in Minneapolis for the household products company, SC Johnson, stationed in an office next to Target Corp. headquarters, and the team’s assignment was to sell to the retail giant.

What Hansing pitched to Target executives was this: SC Johnson would use one of its recently acquired subsidiaries, the Caldrea Company, to make a line of environmentally friendly premium cleaning products for Target. The line would include dish soap, all-purpose cleansers, candles, and other household products.

After some initial talks, Target bought the idea. The retailer and manufacturer collaborated on the new products, which were designed with fragrances, packaging, and pricing that differ from Caldrea products sold in other stores. In March 2010, Target launched the Caldrea Essential Collection.

"Caldrea products had been mainly in smaller retailers, mom-and-pop stores," Hansing recalls. "We saw an opportunity for growth by taking it into a retailer with national distribution. At the same time, Target was looking for unique brands. If a product can be found best at a specific retailer, then the consumer is most likely to shop there to purchase the product."

The Caldrea Essential Collection line, now in its second year, has boosted the bottom line of both retailer and manufacturer. "It worked out well for both of us," Hansing says.

Such partnerships are part of today’s shifting retail landscape of product manufacturers, retailers, and consumers. Retail today is dramatically different from what it was for most of the 20th century. And powerful forces buffeting the industry portend continued change in years to come.

"The relationships involving manufacturer, retailer and consumer have no definitive start and end," says Rob Hill, ’91, senior vice president at Nielsen, the global marketing information services company. "It is ever-evolving."

Cooperating and competing to reach consumers

For product manufacturers and retailers, incentives to work together are strong now, according to Ocean Spray Cranberries chief executive Randy Papadellis, MBA ’81. "Our goals are similar," he says. "They want to sell as much product as they can, and we want to sell as much product as we can."

But conflicts arise in the dynamic environment. "There are disincentives to cooperation," says Associate Dean Randy L. Allen, senior lecturer in management. "The retailer wants to have a store that is attractive to consumers with a variety of products. The manufacturers clearly want more of their products versus someone else’s."

Consumers also are more discerning. The prolonged economic slump has had a profound effect on consumer behavior; battered by four years of economic distress, they do not part with their dollars easily. They are placing new demands on those who make and sell products. They want goods to be produced and distributed in ways that are both friendly to the environment and responsible to society.

"The recession shifted consumer purchases within categories," Hill says. "The big shifts were away from luxury items or merchandise customers really didn’t need and toward the center of the store." Consumers bought more flour, sugar, and vinegar to cook things themselves, and they also bought more alcoholic beverages, according to Hill. "People want to treat themselves to a nice meal, but they can’t afford to go out, so they’ll eat at home and have a glass of wine."

According to Larry Ruff, MBA ’82, chief strategy officer for Levi Strauss & Co., consumers are not necessarily looking to buy the cheapest product. "There is a stronger focus on value," he says. "It can be thought of as price, and it can be thought of as quality. For
As population shifted outward from cities, retail moved from downtown to suburban shopping centers. Stores got dramatically bigger. Retail ownership also changed, from small, private companies to large, publicly held corporations with a mandate to deliver profits.

“It happened in fast food, home improvement, and groceries,” Sainsbury says. “It happened pretty much across the board. Now there was a new boss speaking, one who was really attentive to earnings.”

Information shifts to the retailer

As the retailers grew, they began to act more like the companies that had been supplying them. “They started to hire smart people from the manufacturers or develop them themselves, and they started to really look at data,” Sainsbury says.

To deliver profits, retailers had to maximize sales, which prompted retailers to begin collecting and analyzing data about their customers. “It used to be that the person with the most information was the product manufacturer,” Papadellis says. “Now, it is the retailers who have more information about consumer behavior, product movement, and micro-demographics.”

Sainsbury was working at Frito-Lay in the 1980s when he saw the balance shift from manufacturer to retailers. He was involved in launching the Tostitos brand when stores began demanding to be paid for shelf space. “Retailers were saying to us, ‘We’re not just a pass-through anymore. We own this space, and it has value.’ ”

Assistant Professor of Marketing Manoj Thomas saw the change also. “Graduates in marketing from a business school like ours used to go to places like Unilever and Proctor & Gamble and become brand managers. Now we have people who are going to retailers and doing the exact same thing there,” he says.

In the past, retailers could not survive without products from the big manufacturers, according to Hansing. “The mom-and-pop stores had to have Proctor & Gamble products,” he says. “Now, a company like P&G can’t survive without their products being in Wal-Mart.”

Power over the product

SC Johnson’s decision to deploy a sales team outside Target headquarters is an approach used by many product makers. Most big manufacturers today have operations near the headquarters of big retailers. More than 600 suppliers have set up shop in Bentonville, Arkansas, the corporate home of Wal-Mart.

“We are literally in the building across the street,” says Hansing, who is now SC Johnson’s marketing manager for the Raid insecticides.

the manufacturer, it means making sure the brand quality is what it needs to be.”

“Consumers are being more conscious in their decisions,” says Ruff. “In some cases, they are buying less. In some cases, they are being more deliberate. There also is an increasing focus on sustainability.”

Kraft Foods CEO and Chairman Irene Rosenfeld ’75, MS ’77, PhD ’80, says, “There’s been a significant shift during this downturn to value — with a capital V. In fact, we view the current environment as an opportunity to invest in quality, marketing, and innovation to enhance the value proposition of our brands.”

From big brands to big retail

For much of the 20th century, retail relationships were simple: Big brands dominated. Using national advertising and print and broadcast media, companies such as Proctor & Gamble, General Foods, and Kellogg’s marketed their products directly to consumers.

“The retailer was almost seen as a pass-through,” says Scott Sainsbury, MBA ’77, owner of the retail consulting firm Beacon Associates. “Manufacturers worked with retailers on promotions, but the manufacturer then really held the upper hand.”

In the 1970s and 1980s, several broad trends in American business and society would turn this basic retail relationship on its head.
In matters of product design and features, manufacturers now typically defer to the big retailers.

“The power is wielded by the representative of Wal-Mart or other large retailers,” Professor Thomas says. “Wal-Mart is in a position to say, ‘This is the kind of product we want.’ The manufacturer will have to come up with it.”

The new world of retail has produced an unusual job: the category captain or category manager. Category captains are employed by the product manufacturer, but, in effect, they work for the retailer. The category captain’s job is to manage all of the products in a retailer’s category — including those of competitors.

“It is something that’s arisen over the last ten years,” says Associate Dean Allen. “A category captain is really a phenomenon of the mass retailers, such as drugstore and grocery chains.”

The category captain decides what products go into the section. Often, though not always, the category captain comes from the strongest brand in the category.

“What’s really strange is that those people have to wear two hats,” Sainsbury says. “They are paid by the manufacturer, but they also may represent the retailer and have to act on the retailer’s behalf. Sometimes they are asked by the retailer to provide information and not share it with their own boss.”

The risks and rewards of going global

To counter Big Retail, manufacturers have found strategies of their own. “One way to turn the relationship back in your favor is to get bigger yourself,” Hansing says.

Product manufacturers have grown through acquisitions and mergers, and also by expanding overseas, something retailers have found difficult.

SC Johnson, a mid-size manufacturer, sells products in virtually every country around the world. “There are not a lot of retailers that are global,” Hansing says. “The bigger we can be, the better we can work with the retailers in each of the countries we compete in.”

Product makers have found other advantages in going global. A product developed in one country often can be sold in other countries. Packaging and marketing often can be transferred to other countries with minor alterations.

But the global marketplace can create problems for manufacturers, especially when...
global demand is weak and variable, and prices for raw materials are rising.

“Because of the economic uncertainty, many types of retailers are demanding shorter lead times from suppliers,” says Vishal Gaur, professor of manufacturing management. “They ask manufacturers if they can postpone order placement to a later time.”

Manufacturers are also in a bind with prices, according to Gaur. Prices for the commodities that manufacturers need to make products have been rising, but manufacturers are afraid to pass the increases on to retailers.

“Manufacturers worry that the retailer will start sourcing from somewhere else,” Gaur says, adding that this fear is warranted. “Retailers are unwilling to pass on price increases to their customers because they are afraid demand will drop, so they have become more willing to change suppliers.”

Private labels expand
Emblematic of the shift in power from manufacturer to retailer is another important trend: the proliferation of products made under the retailer’s brand.

“They are common in the grocery industry, but it is happening in other industries too,” Gaur says. “Even department stores have brands of their own.”

Says Allen, “The trend has been going on for a long time, but it has been increasing as there has been retail consolidation. It’s easier to justify with bigger volume because you can get better prices.”

Other manufacturers selling products in their own stores have met with varying degrees of success. Apple, Nike, Microsoft, Dell, and Reebok all have opened retail outlets.

’Til next time...
Private labels now enjoy a better reputation, according to Hill. “The quality of the corporate brand from a packaging and content and functionality standpoint is very strong now,” he says.

For the product manufacturer, trying to compete directly with the store brand is unwise, according to Papadellis. “We don’t try to dissuade a retailer from selling their private label,” he says. “Our data suggest there is a consumer who prefers private label based on price, and there’s a consumer that prefers a branded product. There’s less interaction between the two than one might think.”

For manufacturers, a boost from technology
Despite their setbacks in recent years, manufacturers have gained new tools as they look to the future. By using the Internet and social media, manufacturers can bypass the retailer altogether and connect directly with consumers.

“Brands now are able to reach their consumers through social networks or by setting up their own Internet sites or through Internet shopping,” Gaur says. A social media strategy can give product manufacturers a competitive edge, according to Ruff of Levi Strauss. “It has to do with how your brand shows up and engages consumers. It means being more transparent and more accessible.”

Retailers also have turned to the Internet and social media, but for retailers with brick-and-mortar stores, the track record has not been good, according to Gaur. No retailer can ignore the Internet. But Amazon.com is so dominant and the price competition so high, that it is challenging to convert it into a profitable venture and integrate it with brick & mortar stores,” he says.

Online sellers have another big advantage, according to Stephen Barlow, MBA ’77, a former grocery chain owner who now owns a shopping center in southeast Minnesota: For most transactions they don’t have to collect sales tax.

“For retailers, the sales tax was not a big deal unless you were near the border,” Barlow says. “Now, it is a huge deal because of Internet sales. You are spotting somebody three to seven percent. In retail, that’s quite a bit.”

New leverage for the customer
Consumers, too, have been part of the wave of change in retail. And consumers are no longer passive players. With social media, smartphones, and other technological advances, shoppers have gained new clout. They can and do demand greater transparency from both manufacturers and retailers.

“I would argue that the shopper now has the power and more control than anybody who sells to them,” says Martin Cregg, president and chief executive of ChaseDesign, Inc., in Skaneateles, N.Y.

When they make their purchase decisions, consumers have more tools than ever, according to retail specialists. Smartphones are proliferating, and smartphone applications can yield a wealth of product information. With a smartphone a consumer can not only compare prices but also access reviews by other consumers, as well as social media, ratings from magazines, or testing Web sites.

“You are going to be able to scan a bar code, and it is going to tell you more about the product in an instant than you would ever have learned from advertising or traditional forms of consumer communication,” Papadellis says.

“Shoppers can get information they have high confidence in without ever talking to anyone in the store,” Cregg says. “Shoppers can assess whether or not they’re being treated fairly, whether another retailer has the item in stock, who has the best price, and what the satisfaction is with the product after purchase. This tells me the shopper is in control.”

William Lee, MBA ’03, vice president of retail marketing for Nickelodeon, says reaching consumers today is a complex undertaking yet a rewarding challenge. “It requires lots of communication and lots of collaboration. There is a lot of innovation now in retailing, in social media, and in packaging. It’s an exciting time to be in this industry.”


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— Scott Sainsbury, MBA ’77, retail consultant and owner of Beacon Associates