



## The virtual company: Keys to a successful brand label partnership

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### Introduction

With rapid advancements in automation technology, more customers are seeking single-source responsibility for integrated solutions. Therefore, companies aspiring to be solution providers need to offer a wider variety of products to meet this requirement. Frequently, this requirement extends outside a company's core competencies or demands product development or manufacturing resources that are not readily available.

For a manufacturer facing this challenge, a viable business alternative is to source the product from a company that is an industry leader or manufacturing specialist and then market the product under its own brand. A "brand label" product is one that is manufactured by one company but sold under another company's name or brand. Brand label products or services (sometimes referred to as "private label" or "sourced product") are common to many industries, from food products, to customer service help lines, to automation controls and components.

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## Problem/issue

1. The company identifies a market need or business opportunity, but may not be in the position to invest in the necessary resources to develop and produce this product or service.  
Potential resource needs – research and development, capital equipment, production know-how and certifications/approvals
2. The manufacturer may want to control product replacement in a critical system to maintain quality, safety, or integrity of its sophisticated design after commissioning. A brand label product with a unique part number could ensure that when a part needs to be serviced or replaced, that part will be provided by the original manufacturer and meets the system's critical specifications.

## Solution

Source a product from an industry-leading manufacturer that has already made the investment in developing this product and has the manufacturing capacity and the experience to support a brand label strategy.

The benefits of implementing a brand label strategy may include any combination of the following:

1. Decrease time to market
2. Leverage core competencies – “The Virtual Company”
3. Significantly reduce investments and risk
4. Reduce costs
5. Improve supply
6. Improve growth strategy

## Managing communications and expectations

When two companies are in the early stages of investigating a branding partnership, open communication and discussion of responsibilities are necessary. A successful brand label relationship requires that both parties clearly state, understand, and agree on expectations. If this is not accomplished, the relationship, and ultimately the brand labeling effort, will become a challenge and utilize more resources from both companies than originally expected.

Developing clear expectations and exchanging detailed information at the start of the process will increase the prospect for a successful brand label partnership. Because the prospective partners frequently discuss sensitive and confidential information during this investigative phase of negotiations, a nondisclosure agreement should be executed.

A brand label strategy should be embraced by both companies as a strategic partnership and not be perceived as a traditional vendor-supplier relationship. This distinction is important because of the investments both companies will need to make. In addition, the interdependency between both companies is critical to the success of the program and requires a high degree of trust to be established if the program is going to be considered a success.

What are these “shared responsibilities” required for a successful brand label partnership? Shared responsibilities include all the activities that support a successful product marketing effort, from product design and development through market introduction and order fulfillment. Each company in the partnership has defined responsibilities in this process and needs to address each step effectively. Table 1 defines each company's typical individual and shared responsibilities.

**Table 1: Defining responsibilities**

Manufacturing company's responsibilities	Marketing company's responsibilities	Mutual responsibilities
Build a quality product	Provide adequate sales and marketing support	Forecasting
Produce the product to precise and consistent specifications	Train the sales channel	Logistics
Fulfill the needs of the supply chain	Train the service and product support teams	Product lifecycle management

The manufacturer's duties include producing a quality product to precise and consistent specifications and fulfilling the needs of the supply chain. The company that will market this brand label product needs to provide adequate sales and marketing support, promotion, training of its sales channel, service, and product support teams. In this mix of duties and activities, there are also mutual responsibilities, including forecasting, logistics, and product lifecycle management.

Due to this very close and interdependent relationship, a “virtual company” is established. The virtual company is composed of different aspects of the two companies in partnership, performing their individual as well as shared responsibilities.

Figure 1 shows the typical brand label value chain. While the manufacturing organization supplies the technological know-how, the marketing company provides the sales, marketing service and support effort. The remaining business components are necessary functions for each organization or shared activities. This graphic defines the virtual company established in support of a brand label partnership.

The manufacturer of the product must have the capability, capacity, and expertise to produce a quality product, while the company receiving the brand label product must provide the necessary sales and marketing activities. While each company has different responsibilities, their collective efforts and resources form the virtual company. As in any company, communications are vital between departments, providing a smooth flow of product from manufacturing to the end customer.

As illustrated in Figure 1 below, a virtual company is organized into primary and support activities. Through a brand label

partnership, both companies retain their respective support activities, with the exception of technology development. Only the manufacturer provides this support activity.

The primary activities become distributed or shared between the manufacturer and the company receiving the product and define the most critical activities for a successful partnership.

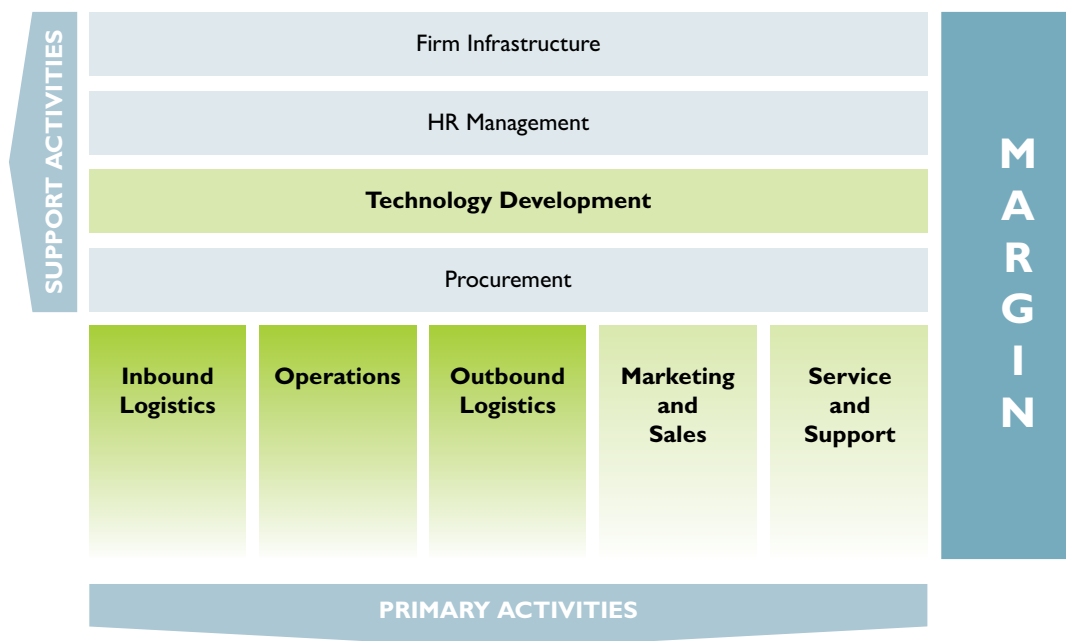
## Primary activities

**Logistics** refers to the flow of goods and inventory. In most cases, both companies will have existing logistical processes and resources in place that they will use to move the product from one or more manufacturing locations to one or more shipping locations of the purchasing company. The purchasing company, in turn, will then ship products to customers or distributors.

Ensuring that both companies can move products seamlessly through their logistics operations can require a fair amount of time. Issues such as packaging, package markings, package quantities, and methods of shipment all need to be determined and agreed to. In some instances, the manufacturer should ship sample packages prior to actually shipping the product to determine if the receiving company can receive the products into inventory. This avoids the need to return the product for any necessary, but unforeseen, marking revisions.

**Operations** traditionally refers to the manufacturing process. The more the branded product aligns with existing manufacturing processes and production constraints, the less likely errors or deviations will occur throughout the life of the program, thus minimizing production costs.

It is important for both companies to define and agree to a process for defining product attributes, including product marking, package marking, package quantities, manufacturing order quantities



**Figure 1:** The brand label value chain (adapted from Michael Porter's “Purchasing and the value chain”)

and minimum order quantities. Depending on the product to be produced, understanding issues such as change-over time and change-over costs can help determine whether or not products can be produced at desired costs and what the production quantities need to be.

Once a process is defined and agreed to, implementation of developing the new products can be started. Both companies should recognize that the definition of a new product or products is an iterative process. Typically, drawings will be generated, reviewed and then approved. During the course of this process, it is possible that changes will be initiated that will require additional rounds of review and approval.

Implementing a formal review and approval process will provide an audit trail of what has been approved and by whom. The ability to access revision changes over time can prove valuable to both companies as unexpected or unforeseen circumstances arise in the future. Additionally, it is important to have a single repository of engineering drawings. This should define what exactly is to be produced, how the product is to be marked, and how the product is to be packaged, including what information is to appear on the package label.

Documentation can also be vitally important, depending on the complexity of the product. Some products may require any combination of a user manual, data sheet or instructions. These, too, need to be defined and processes established to create the necessary and supporting documentation for the new brand.

A product that most closely matches each company's operations will generate the most value and maximize profits.

**Marketing** activities obviously play a vital role in a successful brand label partnership. The selling company needs to allocate resources to product introduction, training of the sales channel, promotion and all activities normally associated with a successful product launch. Without a well-designed marketing plan, sales will not meet expectations.

After initially identifying a product market need, the seller must develop a plan to launch this product under its own brand. The seller has to perform the standard marketing activities, including developing the positioning strategy and

value proposition to offer a coordinated market launch. The company will need to create typical tools such as brochures, data sheets, sales demos, and advertising and promotion materials.

Both companies in the partnership must be active in their respective roles. The manufacturer, as the product expert, should assist in the development of marketing collateral, including technical information in the form of data sheets, instruction manuals and application data. The seller can then use these materials to generate its own branded information.

**Sales** activity is the realm of the reseller; however, the manufacturer should be afforded insight into the plan at the start of the relationship. The manufacturer should have the benefit of knowing that there is a plan and investment allocated to this phase of the partnership.

Typically, the seller would employ a different sales channel than the manufacturer. This minimizes direct competition, avoids erosion of each company's market share and limits cannibalization of the product (line). This could be an alternate distribution channel, or depending on how the product is positioned, it might be sold by the company's direct sales force or as part of a larger system or application solution.

In a successful brand label partnership, the companies should communicate a similar value proposition. A product that is designed by the manufacturer based on a price/performance value proposition or quality at a fair price typically could not be brand labeled and successfully sold as an economy-priced model. As you might assume, the two companies exploring a brand label partnership should address these issues early in their discussions and proactively manage expectations. If they do not agree about a basic issue such as the one described, they might need to adjust their view or reevaluate the potential business opportunity.

Service, support and warranty issues need to be identified and addressed in the early stages of the brand label partnership. In today's competitive market, these issues significantly influence the buying decision. The customer evaluates these issues to determine total value of the product. The manufacturer and seller need to jointly define how they will manage customer needs.

The warranty is typically extended through the manufacturer due to the capabilities already in place. There is no benefit in offering redundant warranty services. However, the seller would usually provide the logistics for the warranty service, directly managing its market, and avoiding confusion or potential conflict with the customer.

Typically, a seller in the brand label partnership would assign a product manager (PM) to coordinate product issues. The PM serves as the seller's product expert and works closely with the manufacturer as a liaison. This individual would perform a wide variety of customer support duties, including:

- Integrating the new product into the organization
- Ensuring an initial level of technical support and application assistance
- Developing product selection guides
- Developing product pricing and discount schedules

The PM would provide primary service to the sales channel, with the manufacturer backing up the level of expertise. These resources protect the seller's market share and help to avoid confusion with the customer base.

The PM is also responsible, and at times takes the lead, for managing the brand labeled product lifecycle, including updates, revisions, modifications, change notices, price adjustments and, ultimately, discontinuation. Without an assigned PM, the brand label product may have limited success, forcing both parties to periodically question the viability and sustainability of the program and/or virtual company.

With this high level of market involvement, the PM is in the position to identify potential new market or product opportunities and recommend partnership expansion. The PM can provide vital feedback for the manufacturer, such as technical issues arising in the field, quality concerns and customer satisfaction with the product. The manufacturer can employ this valuable information to improve future products or services.

## Strategic management of the partnership

A key to a successful brand label partnership requires the two companies to manage the partnership strategically. Initially, cross-functional teams will need to meet frequently, sometimes as much as weekly, to ensure a smooth launch

of the product. Over time, as the new product matures, the parties will meet annually or semiannually to ensure that certain aspects of the partnership are being maintained and that goals are being achieved. If targets are not met and obstacles are identified, the two companies work together to correct these issues. Ongoing, active management of the brand label partnership is the only way to ensure that the brand label initiative will continue to provide the benefits both companies require.

Strategic management means that companies use resources to achieve their mutual goals. This is accomplished through the development and implementation of specific projects and programs. During these strategic meetings or planning sessions, the virtual company evaluates its success. If necessary, the partners can adjust the plans to achieve their goals in a changing business environment. Strategic management of the brand label partnership is a necessary component to maximize performance.

The branding issues discussed earlier (operations, marketing, selling, service and support) are related to strategic management. They must be well defined before a successful brand label partnership can be established.

Once the product is released, ongoing support is another critical aspect of the strategic management of the partnership that is often overlooked. Periodic sales and logistics review between the two partners guarantee that dialogue can take place concerning the overall progress of the branding strategy. Together, they can address issues, adjust plans and implement strategic improvements. Without this supporting effort, the brand label strategy may become stagnant and result in lost opportunities.

## Producing the product

Once the brand label partnership has been defined, the process of producing the product can get underway.

There are logical and necessary steps in the product development phase of brand labeling. A company that has a defined process established for development would be best suited to produce a product that meets the customer's needs. To produce a shippable, industrial brand label product, a virtual company needs to establish clearly defined procedures that will effectively and efficiently support the brand label partnership.

The procedure for brand labeling a product applies when technical specifications of one or more existing products remain unchanged except for product color, product label, and packaging or product marking that will identify this product as an alternate brand. Further minor modifications of the product may occur, affecting some specifications. However, a change to form, fit or function would move the project out of the scope of branding and migrate it to new custom product development.

The initial phase of producing the brand label product defines the product. A specification needs to be developed that identifies the modifications of the existing product in order to project the new brand. As mentioned, these modifications could be a different corporate color that is identified with the company in the market, a new logo or unique design, the company name, new part numbers, or new model descriptions. Each of these new design features must be described, defined, documented and agreed on. Even a specification that seems simple requires careful consideration.

Yellow is not yellow. “We would like our product to be yellow” sounds easy enough, until you have to identify and source paint, plastic resin, ink or other materials in yellow.

For example, the following is an excerpt from a well-known color technology company’s website:

In 1963, Pantone revolutionized the printing industry with the colorful PANTONE MATCHING SYSTEM®, an innovative tool allowing for the faithful selection, articulation and reproduction of consistent, accurate color anywhere in the world....Pantone’s color language supports all color conscious industries; textiles, apparel, beauty, interiors, architectural and industrial design, encompassing over 10,000 color standards across multiple materials including printing, textiles, plastics, pigments, and coatings.<sup>1</sup>

Yellow is obviously not yellow. It is defined, described, and matched for the specific application.

During the process of developing a brand label specification, both companies need to address each element of the design in specific detail. After this specification is created, the engineering team converts this specification into a

drawing. The more precise and complete the specification, the quicker the engineering department can provide the drawing for approval, moving the process forward. However, with an incomplete, confusing or ambiguous specification, this process can take longer than both parties expected, extending the development timeline.

A company experienced in providing brand label products will have a well-defined review and approval process coordinated and executed by a project team or manager. Getting too far down the development road and discovering that there are errors or inconsistencies in design can prove costly, not only in terms of rework but also in getting the product to market within the acceptable timetable. Therefore, a company with a defined procedure with milestones for brand label product development, including formal reviews, approvals and defined quality gates, will provide the best value for a brand label strategy.

The technical details that need to be addressed before the product goes into production may include:

- Agency approvals
- Accompanying documents
- Packaging quantities
- Labels
- Bar codes
- Serial numbers
- Date codes
- Other identifying marks or notations

All of these issues have to be coordinated with operations to provide efficient supply chain management, as well as ultimately providing a product that meets the customer’s needs. The process of defining these necessary details requires serious effort and coordination between the two partners. If expectations have not been managed appropriately, conflict or confusion can result. Once the two companies have defined and agreed on all technical details, the engineering department can create its drawings, and the project can move through the approval process.

After approvals are received, the development process is considered complete. Engineering drawings are then released to production, delivery schedules are established, and first articles are produced for customer inspection and final approval.



## Conclusion

A brand label strategy can offer many benefits to a company, including increased revenue, improved market perception and expanding reach into new fertile markets. However, there are associated risks with this strategy, and if the brand label partnership is not well coordinated, effectively managed or well implemented, resources can be wasted and margins lost.

If your company is looking for a manufacturing partner to help with a brand label strategy, make sure that you have clearly defined what your company is trying to accomplish. Once this is defined, identify potential partners and evaluate their resources and capabilities. While the technology of the branded product is important, emphasis should also be placed on relative market position, value propositions, production and logistics competence, and dedicated project management. If all of these elements are adhered to, the brand label partnership will lead to a successful program and a successful virtual company.

*Originally published in 2011.*

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1. "About Pantone." *Pantone.com*. Pantone LLC, a wholly owned subsidiary of X-Rite, Inc. <https://www.pantone.com/about/about-pantone>. Accessed April 3, 2019.

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