PrestigeBrands

A Prestigious Approach

Brand owner Prestige Brands embraces leading brands and leading contract manufacturers to achieve its highly flexible, low-cost – and successful – operating model.

BY Jill Rivkin

The adjective prestigious can be defined by another well-received word — influential. And the noun prestige can be defined by a handful of powerful synonyms — status, standing, esteem and regard, among others. So for seven-year-old Prestige Brands Inc., with offices in Irvington, N.Y., and Jackson, Wyo., owning the number-one or number-two brands in its core categories under the Prestige Brands name is a perfect fit.

Competing in the over-the-counter (OTC), household goods and personal care segments, Prestige Brands reports that 78 percent of the company's revenue is generated by the number-one or number-two share brands. These brands, though often in smaller, less competitive niche segments, are still very much household names — Compound W, Chloraseptic, Clear eyes, Cutex and Comet, among many others, make up the Prestige Brands portfolio. And while the $319-million Prestige Brands outsources all of its manufacturing, distribution and research and development, the approach to sales, marketing and product development certainly would be defined as influential.

"If you look at the industry, many companies have high-stake assets — plants, labs, distribution centers — lots of capitalization on the balance sheet," says Lieven Nuyttens, senior vice president of operations for Prestige Brands. "We don't have that so we are very flexible. When companies have high-stakes R&D and high infrastructure and want to acquire brands, there is a very high complexity of integration. Because we use an outsource model, we are very flexible. … And, we'd like to leave [running plants] to those who do it best."

But, company execs say, there should be no question as to whether or not Prestige Brands is involved in every step of the process — with all of its vendors, suppliers and contract manufacturers — all of the company's "partners."

Assurance Matters

There is no lack of control, Nuyttens says emphatically. "We control the controls. We work very closely with our manufacturers and have very close agreements with all of our vendors so that even though we don't own the entire production process or supply chain, we control it and have processes in place," he says.

Prestige Brands has a quality assurance group in house, points out the company's director of contract manufacturing Kevin Harris. "Our quality assurance group does a very good job of managing the quality of other groups — making sure there are processes in place. We don't actually do it, but we provide checks and balances."

"It's the definition of the term quality assurance," Nuyttens adds. "We assure the quality is there."

And given that Prestige Brands reports 4.1 percent average annual organic growth rate since its inception in 2001, the brand owner's approach to its relationship with its contract manufacturers — about 30 of them, currently — seems to be working.

"The key word is partnership," Nuyttens says.

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With 29 major brands in total — and many, many SKUs within those brands — Prestige Brands execs say there is no set growth figure or guideline as to how often the company acquires a new brand. "We have simple integration," Harris says. "Our model allows us to quickly integrate brands and do it with flexibility. With a contract manufacturer, you can ramp up and ramp down more quickly than you could with internal assets."

Acquisitions and product innovation plans are dictated by what the market shows, adds Dean Siegal, Prestige Brands' director of investor relations and

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And, of course, economies of scale, Harris adds. "As we look across our supplier base, we're looking to leverage economies of scale, rationalize and consolidate our supplier business. With our existing products, as well as when we acquire a new brand, we're looking to where we can build upon a partnership."

Building Brands

Prestige Brands' operating model has a keen focus on sales, marketing and product development; however, where the model is particularly unique is that the company does not focus on developing brands from the ground up, rather focuses on acquiring existing brands that are no longer the focus of the current owner.

"We have key acquisition criteria for brands," Nuyttens says. "We look for meaningful consumer awareness, a brand that we can grow and there has to be extendable innovation. When we buy the brands, we have to be able to re-brand or renovate the line and add extensions."

In summary, Prestige Brands' brand acquisition criteria are: overall category (the company has a bias toward OTC given its high success and high margins), consumer awareness, extendable innovation and national distribution potential.

communications, pointing to some of the company's recent successful new products such as the extensions of the Comet and Murine brands.

The company took the established strength of the Comet brand, for example, and added new fragrances, including lemon, orange and lavender, which appeal to the ever-growing number of ethnic households in the United States, as well as more specialty-oriented retailers. On a larger scale, the company launched Comet Mildew Spray Gel to compete in the $75-million mildew stain-remover category. Since the product form is a gel, it sticks to the mildew longer than the traditional liquid delivery system and helps clean more effectively.

In the ear care segment, Prestige Brands is pressing into a newer OTC category — preventative ear care — with its well-established Murine brand. The company's new Murine Earigate product allows consumers to prevent earwax buildup using the product's patented reverse-spray technology.

"Murine is one of our oldest brands, and it was a dormant brand," Nuyttens says. "And now it's very vibrant."

The acquired brands and product innovations should also be accretive within the first year, Siegal adds. "We don't make acquisitions just to add to our bottom line — the acquisition has to be strategic and compatible, and ideally have the ability to create internal synergies. If we already

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make a product that is similar to our latest acquisition, we can bring that in and create economic synergies."

Contract Relationships

Given the fact that Prestige Brands outsources, the task of finding contract manufacturers is taken extremely seriously. Nuyttens says there are five "buckets" into which company execs place potential partners' skills: commercial strategy, financial background, technical capabilities, quality assurance, and supply, production and service levels.

"Before we accept a supplier, we have an extensive supplier-selection process. They know the process upfront and they comply with it — it's a collaborative effort," Nuyttens says.

In some cases, Prestige Brands will acquire a brand or product from a company and will continue to work with that manufacturer — the former owner — at least for some period of time. Based on legacy and cost analysis, each situation is evaluated, of course considering the capabilities of the company's existing contract relationships.

"It really depends on the brand we acquire," Nuyttens says. "Some brands are very technologically specific, and sometimes there is a long-term relationship that we would have to honor."

[LEADING BRANDS

Prestige Brands holds the number-one or number-two share in most of the segments in which the company plays.

BRAND	MARKET POSITION	CATEGORY	U.S. CATEGORY SIZE ($MILLIONS)
OVER-THE-COUNTER (OTC)			
Wartner/Compound W	#1	Wart Removers	$120
Chloraseptic	#1	Sore Throat Spray/Liquids	$55
new-skin	#1	Liquid Bandages	$25
The Doctor's	#1,#2	Dental Accessories	$48
Clear eyes	#2	Allergy/Redness Eye Drops	$195
Dermoplast	#2	Pain Relief Sprays	$19
HOUSEHOLD GOODS			
Chore Boy	#1	Metal Soapless Scrubbers	$18
Comet	#2	Abrasive Cleansers	$212
PERSONAL CARE			
Cutex	#1	Nail Polish Removers	$60

Source: Prestige Brands, Information Resources Inc. dollar sales, adjusted for Wal-Mart, dollar store and club store sales.

Diversified Sales

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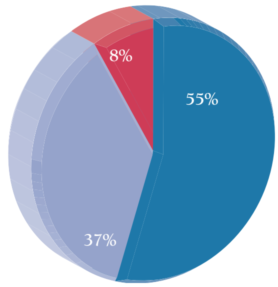
Prestige Brands generated $319 million in sales for its fiscal 2007, divided between three primary segments.



OTC
$174.7 million

Household
$119.0 million

Personal Care
$24.9 million

When it comes to product development, a similarly intense relationship with contract manufacturers arises given Prestige Brands' model to outsource the technical R&D.

"It really is a combined effort between our marketing group, new product development group and operations group," Siegal says. "Most of the new product-extension ideas come from marketing, go to operations and product development, and they talk about if and how we can do it. Then, together they approach the appropriate contract manufacturer to ask if they can develop it for us, and at a set price."

"Marketing, new product development and operations define a product or an innovation and go out to vendors with it," Nuyttens adds. "It's a true partnership between in-house capabilities and external capabilities from our vendors."

And, thanks to the size of the company, Harris assures they are a priority for their contract manufacturers. "We like to own the number-one or number-two brands in the segment so when we work with contract manufacturers, our brands command enough volume that we're not the one getting bumped off the line," he says.

Thanks to aggressive plans, leading brands and committed management, it seems having a contract relationship with Prestige Brands generates the status, standing and esteem the company's name entails.

"We really look to our suppliers to truly partner with us," Nuyttens emphasizes, "in the true sense of the word. We see them as an extension of our business model, and we want to work together on innovation, quality assurance and continuous improvement — that's true partnership. You can only do it that way — you cannot do it with purchase-order based relationships. … We want to build our partnerships, and for us, building means growing together."