The Power of Private Label in Retail Market

Kamaladevi Baskaran
Zelus Events,
Dubai, UAE
Email: kamaladevimba@gmail.com

Abstract: Globally, own store brands or private labels are rapidly gaining share at the cost of manufacture brands. In India, where the share of organised retail is minuscule, manufacture brands still dominate. With the retail sector poised for growth, national brand manufacturers will have to contend with competition within distribution channel, which calls for revised marketing strategy locally, to thwart the threat of the private label in a store. The phenomenon also offers national brand manufacturers the opportunity to service the production needs of the private labels efficiently. The problem is India's internet-savvy consumers aren't as convinced about Private labels as their global counterparts. Consumers may be happy with the quality of private label when it comes to kitchen towels & staples like wheat flour but are wary when it comes to buying a store version of, say, baby food or shampoo. The paper has also discussed the different types branding strategies used by retailers in the developing countries. The manufacturer brands have an advantage relative to own brand where symbolic association and/or product innovation are important to customers. Conversely, where symbolic associations and product innovations are less important there is an opportunity for retailers to compete successfully with manufacturer brands if they can demonstrate comparable product quality and provide value or money. This paper deals with the power of private label in modern retail market.

Key Words: Retail Industry, Private Labels, Retailer Brands, National Brands, Retailer strategies, Retail Brand Development Strategy

I. INTRODUCTION

Anybody who's taken note of Wal-Mart's phenomenal growth in the U.S is aware that the balance of power in the market place is shifting in favour of the retailer. As if that weren't bad enough for the marketers hears another growing phenomenon that threatens to further weaken their hold on shop shelves and this is the growing popularity of private label brands which are essentially the retailers own brands.

However countries like India a lot of shoppers are only just getting used to visiting supermarkets and hypermarkets regularly for their groceries and private label is still a relatively new concept for them. Additionally, the attraction of major well-known multinational brands, supported by heavy advertising, means that the appeal of private label will likely be limited by its own "localized" nature.

Though private labels have attracted attention of channel researchers about forty years ago, in India, private brands have attracted attention primarily only in the last decade. However, research work in this area appears to leave a void. For Indian conditions, the current era symbolises the wake up call that national brand manufacturers should take note of, to effectively combat the threat of private labels. This paper assesses the recent trends in the changing scenario of distribution in India with specific reference to the growth of large retail stores and their private labels. It dwells deeper into the performance of private labels and its implications to national brands in their marketing strategy.

II. REVIEW OF LITERATURE

Modern trade retail chains and their private labels are some of the most visible elements of the transformation in Central and Eastern European countries in the last 15 years. Roman Baszun,s paper describes the situation and the potential of private labels in seven CEE countries (Hungary, Czech Republic, Slovakia, Poland, Lithuania, Latvia, Estonia) and Russia. Helen Passingham-Hughes, managing director of TNS's Asian panel network, reports on the size and growth of the private label FMCG sector in 48 countries. Worldwide private label is growing, though there are vast differences in penetration depending on retail structure, culture and geography. Seonaid Anderson and Helen Passingham's paper outlines the current status of private label in Asia and predicts the future of both brands and private label in Asia. The presence of private label in Asia is linked to the development of the trade structure by country as well as the presence of the global retailers. Thomas Bachl's paper addresses the role of private labels within the perspective of Western Europe and reviews the main factors affecting private label development within the region, the future of private labels vs. brands, and the impact of supercenters and hypermarkets in the changing equity of private labels. Just analyzing is not enough. Do Private labels really win? It may win in developed economy but still a question mark in developing economy. This paper deals with the successful nature of the private labels in modern retailing.

III. CURRENT SCENARIO IN MODERN RETAIL

Retail branding has developed to such an extent that, today, retailers are perceived as being brands in themselves rather than distributors of manufacturer brands. Many retailers have developed such a strong consumer franchise that customers are more loyal to the retailer than they are to

IJBAMR

This is an open access article under the CC BY-SA 4.0 license (https://creativecommons.org/licenses/by-sa/4.0/)

the manufacturer's brand. This shift is mainly due to the extensive development of own brands and a more marketing oriented approach to retailing. Retailers have been rewarded for their focus on customer needs and aspirations by increased level of trusts from customers. Although in the past, own-brand products were positioned as cheap alternatives to manufacturers' brands, in recent years retailers have upgraded the quality of their own branded goods.

- Growing popularity of private label brands, which are essentially the retailers' own brands.
- Recent ACNielson retail audit of private labels across 38 countries 80 product categories, in more than 2/3 of the countries surveyed, private labels grew faster than manufacturer brands.
- Consumers in developed markets (Europe & North America) are already big believers in private label, the next round of converts will come from emerging markets.
- At present modern or organized retail accounts for a bare 3% of the overall market in India.

The reasons for growing popularity of private labels are analysed as follows:

On average private labels cost a third less than comparable market brands. The reason for intense penetration of private labels in the market is retail concentration (the more the number of retailers the larger the number of retail brands). 56% of consumers in 38 countries consider private label to be a good alternative to manufacture brands. Key dimensions for own brand development are the degree of innovation, positioning (i.e., the degree of identification with the retailer and its market positioning) and strategic role of the own brand. Such clear positioning has allowed supermarkets to move the rest of their own-brand offer upmarket.

For example, Tesco's finest line of chef quality meals, which now includes fruit and vegetables and features the characteristic silver labels, small images and typeface across categories. This allows shoppers to instantly recognise that the products are of premium quality anywhere in the store. The increasingly sophisticated use of branding by retailers and their closeness to customer means that own brands will increasingly become leaders in many product areas.

3.1 New Developments In Own Brand Strategy

- ⇔ Retailers are now developing their own brand packaging to project a clear corporate signature with distinct entities on their own
- ⇔ In order for retailers to successfully position themselves against manufacturer's brands they need to communicate the improved quality of the products to customers.
- ⇔ The success of own-label products has occurred because retailers have demonstrated that they can perform the four main functions brand manufacturers perform are Identification, Information, Guarantee Of Product Quality and Symbolic Associations.
- ⇔ Identification & informational aspects of brand increase shopping efficiency, guarantees reduce consumer risk.
- ⇔ Symbolic associations on the other hand provide psychological utility to consumers and allow them to make a social statement about themselves.

3.2 Retail Brand Development Strategy

Retailers can start own-brand development strategies by beginning with generics and then moving up to re-engineered low-cost brands, store brands and finally price parity as the gain experience to built confidence in own-brand development. Follow generics by cheap store brands which are a step above generics but still of inferior quality, offering a large discount against manufacturers brands. Reengineered low-cost brands are the next step up where the retailer proactively examines the product and packaging to see how costs can be reduced, whilst offering the same functionality of the branded product. The next stage is to offer par quality store brands. In final stage retail brands take leadership roles through positioning and innovation with a price parity.

TABLE 1: PRICE-QUALITY STRATEGY

PRIVATE LABEL – PRODUCT ATTRIBUTE AND CATEGORY CHOICE	IMPLICATIONS
1. Lower price-higher quality	The most beneficial category to enter if the lower price can come from disintermediation and part of the savings can be used to enhance quality and raise the retailer's margin.
2. Lower price-lower quality	CAUTION: The retailermust know his segment. Is he inventing a new segment? He needs to be sure of the PQ-WP equation.
3. Higher price-higher quality	CAUTION: Niche. Does the retailer have customers who will paya premium for premium?
4. Higher price-lower quality	Reject

IJBAMR

This is an open access article under the CC BY-SA 4.0 license (https://creativecommons.org/licenses/by-sa/4.0/)

IV. Competition in the Competitive World

The following figure has been constructed with the underlying assumption that (a) it is technically feasible for the store to introduce its own brand (b) the competitive scenario does not change the position from one quadrant to another and (c) the switching costs for the consumers are not high.

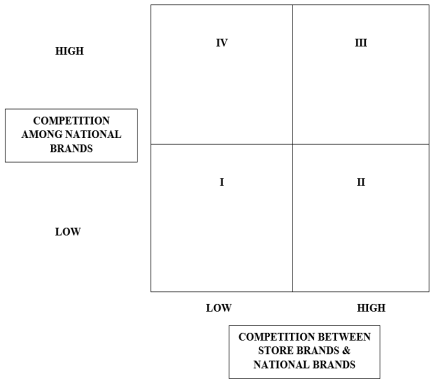


Fig 1: Competition Quadrant

Quadrant I: Low-Low: This quadrant represents a situation in store where both types of competition are low. A category that manifests low competition in both dimensions may be, unattractive for private label. Such a phenomenon may be caused by (a) high degree of commoditization (b) low importance of the product category for the customers (c) high input-output ratio in manufacturing. The retail store may never enter such a category with its own label.

Quadrant II: High-Low: This quadrant represents high competition between the store's brand and the major national brand and low competition among the national brands. This occurs when the consumers' affective attachment to national brands is high and achieving brand loyalty is a short-term process. This implies that the retail brand is in direct competition with the national brand and therefore the chances of consumers' positioning it along with the national brand are also high. The retail brand will not suffer from me-too syndrome. The store can promote it extra vigorously and the brand is likely to be among the top two brands in shelf-movement. The store is likely to witness a counter move by the national brand through extra point of sales promotion. Thus, the total profit through the product category will be high for the retail outlet. So, the store is better off launching its brand.

Quadrant III: Low-High: This quadrant represents high competition among national brands but low competition between the store brand and national brands. This happens when the national brands are highly advertised and the customers' awareness of those brands is high, both cognitive and affective, while facing the store brand on their visit to the store. Such a situation is not favourable to the store brand since the switching costs for customers is high and hence the store will find its brand positioned among fringe brands. Therefore, if the store assesses its position in this quadrant, it is better off not launching its brand.

Quadrant IV: High-High: This quadrant depicts an all-out competition among the national brands and if the store introduces its private label, it will come under direct fire as much as it will be caught in the cross-fires of the national brands. Therefore, it is expected that a store that views itself in this quadrant is better off not introducing its private label.

Essentially, a retail store introduces its own private label (a) to increase customer loyalty (b) to improve their positioning and image (c) to improve margins in the category (d) to lower prices to provide value for money to its customers and (e) to improve its bargaining power vis-à-vis national brand manufacturers who use the store for distribution. The list should also include (f) to enable the store to differentiate customers through price-quality association by premium pricing the store brand.

V. Invading Private Labels In Modern Economy

Private labels in developing countries are on a complete upswing. With more and more retailers offering products under their own private labels or in-house brands, consumers have not had it so good as far as shopping for apparel is concerned. Typically, Fast Moving Consumer Goods (FMCG) margins on Maximum Retail Price (MRP) is about 10-15 per cent on an average, but private labels work on a 20-30 per cent margin (according to Shoppers' Stop and Globus). Following the global profitability phenomenon, most retailers in developing countries have adopted the private label model. Major retailers like Westside, Globus, Shoppers' Stop, and Pantaloons have adopted a 50-80 per cent private label model. In consumer point of view, the advantages are:

- A guarantee of the same quality for a serious price differentiation
- More variety within the category
- A trusted retail name equals trust in the product
- Product provides a need based on a want, where products were missing within the category. Eg: ethnic foods, diet foods, sugar free foods and so on.

In consumer point of view, the disadvantages are:

- Low quality product. Consumers may have a prejudice to low price equalling low quality.
- Previous customer failures could effect the whole private label range in a store. Eg: if their cereals aren't good, then their jam will be the same.

VI. Marketing Strategy against Private Label

In this section, we shall view competitive strategy from the national brand's view-point. Marketing strategy will no more be restricted to boardrooms and strategy tables. The

IJBAMR

This is an open access article under the CC BY-SA 4.0 license (https://creativecommons.org/licenses/by-sa/4.0/)

real battle is taken to the war-field - the retail space - where the thick of action is witnessed. Companies no more compete solely with other companies for mind-space and shelf-space, but with their own distribution partners. Distribution management will no more be confined to managing distributors, ensuring supplies to retailers and sporadic managing of product movement from retail shelves through promotions. Managing large retail chains and mega malls will be a reality, which calls for different types of business-deals, calibre, aptitude and attitude among the boundary personnel. Pricing strategy will not be simply based on competitors' moves; it will consider how the retail outlets act as well as will react to the company's strategy. This may have a bearing on the segment-targeting strategy of national brands, due to the competition arising out of retailers' private labels. Introduction of private labels reduce advertising space at the points of sales, since the retail outlets may prefer promoting their own brands to promoting national brands. Alternatively, advertising through points of sales may become more expensive, with the retail outlets charging premium on shelf space and advertising space. These may cause a fundamental change in the approach of the national brands in their overall strategy of segmentation, targeting and positioning. Companies may revert to mass-media advertising by giving up the costlier point-of-sale advertising. In the following paragraphs, the impact of private labels on the elements of marketing strategy is assessed.

(a) Product: Introduction of private labels at retail stores implies to the national brands that the consumers have greater options among products they buy. This means that a wider product-range will be available. When the store competes vis-à-vis national brands on product range, the short term inability of the national brands to respond to the challenge is a matter to be contended with, since (i) a large enterprise requires longer time to respond with changes in product-strategy and (ii) the minimum quantity of production that enables the national brands to avail the economies of scale may not be available when it reacts to a single store. Alternatively, if a chain store introduces a premium or economy brand in a category, then the national brand gets the benefit of market testing from the experience of the store brand and can thus decide whether or not it, too, should enter that segment. Thus, store brands offer an opportunity for national brands to know about consumer-response to different variants of a product category.

(b) Price: In case the store competes with the national brand on price range, it can effectively do so, by locally promoting the price-advantage to the price-sensitive consumers and by highlighting the higher quality of the premium-range products to quality-conscious consumers through its counter-salesmen. Under such conditions, the national brand has two options: (i) it can fight the store brands on price or (ii) it may increase its prices and highlight its higher quality through national campaigns. Fighting is an option the national brand can exercise when the customers' loyalty to the national brand is greater than the customers' store-loyalty. The decision to fight price-reduction in kind has both advantages and disadvantages. The advantage is that the store brand will find it difficult to gain acceptance among consumers, if an established national brand is available at a similar price. The national brand may succeed in nipping a budding store brand. For a national brand, response to a reduction of price need not be in kind. It can respond with special consumer-offer or discount which prevents long term commitment as well as avoids reduction of price across all markets or stores. The response may be confined only to the specific store. Further, price-reduction by the national brand can cause a setback to it in the form of price-quality association. Therefore, the best response is to counter the threat with promotional offers. One common tactic is to *change customers' choices* and limiting price reductions to areas where the national brand is vulnerable, thus localizing a price war. However, fighting on price can cause vertical conflict in the distribution channel between the company and the store, a proposition that is unhealthy to the national brand's success in the long run. In all, the best response to a store's introduction of a low price brand is to resist the temptation to respond with a similar move and focus on other aspects of marketing mix.

(c) Place: Private labeling symbolizes the shift of intra-channel power downstream. Whereas the national brands have conditioned the perceptions and preferences of consumers by the quality of their brands and the content of their communication, retailers who own private labels are in a position to dictate terms to their manufacturers about the standards to be adopted in quality (and even in production process) that may provide the example of Coke and Pepsi in Canada when they refused to supply private labels to grocers in Canada. The grocers located a small company, Cott, who gained 20% market share in the process, bringing down the bigger brands' margins considerably. Well change the consumer perceptions and preferences away from the national brands. Where the specific quality of the product is not contractible by a private label owner, the retailer may contract the method of production or insist on obtaining certain certifications such as ISO. This may result in shift of certain investment costs upstream, an eventuality that the manufacturers of national brands and private brands should be aware of. In essence, the major impact of private labels may well be the increase in transaction costs for the manufacturers. Every channel arrangement is characterized by a common goal on the one hand and a channel conflict on the other. The common goal is to achieve transfer of utility from manufacturer to consumer whereas the conflict is about the sharing of costs and benefits of this transfer. Private labelling heightens such conflicts by adding a dimension of contrary marketing interests; that is, the national brand competes with the private label of the retail store for shelf space and consumer-attention. Which way the needle will tilt in this power struggle will depend on the relative degrees of brand loyalty and store loyalty. When the national brand enjoys greater brand loyalty than store

IJBAMR

This is an open access article under the CC BY-SA 4.0 license (https://creativecommons.org/licenses/by-sa/4.0/)

loyalty, the retailer is compelled to store the brand. Besides, the national brand manufacturer may be in a position to penalize an opposing retailer by supplying less quantity of such high-loyal brands or withdrawal of supplies altogether, an eventuality that may affect the image of the retailer among the public. Manufacturers of near-monopoly brands enjoy this position, vis-à-vis retailers. In a situation where the brand loyalty enjoyed by the national brand is less than the store loyalty, the retailer is in a position to dictate terms about the terms of supplies, delivery and payment in addition to further schemes and discounts. Depending upon the quantum of business the retail stores provides to the manufacturer, the manufacturer acquiesces or withdraws his dealings. Manufacturers of large national brands may be tempted by the thought that private labels can be choked if the national companies refuse to manufacture such brands. This thinking can be myopic and harm the national brands if the stores are able to locate alternate sources of supply.

(d) Promotion: As is evident from the previous paragraphs, private labels take the brand-battle to the point of sales. The national brands compete with the private labels for store's shelf-space and consumers' attention-space. With the store brands understandably getting the best shelf space in terms of visibility at eye level, strategic points such as entry point and shelf display, national brands need to compete for the same facilities at higher cost than earlier. Thus, private labeling increases transaction costs for the national brands through higher promotion costs. However, given an understanding that it may be difficult to beat the retail brand in its own store through promotion, national brands may resort to increased mass media advertising to create consumer pull. This will prove meaningful only if the national brand faces competition from private labels all over the country. Though regional mass media advertising can be increased, the cost may still prove to be supra-optimal.

VII. Experts Say

According to Frank Dell, President of Dellmart & Co., a management consultant for retailers, wholesalers and manufacturers, consumers will no longer sacrifice performance for price. "The product must perform in the same way as the branded [product]." Indeed, performance might be the only leg to stand on for private labels. For when there is no advertising or marketing spin, the product must do all the talking.

According to Kevin Hade, Vice President of Category Management at Ukrops Super Market chain in the US, Ukrops "wants to offer a product that is equal to or higher in quality to the leading national brand at a lower price."

Costco's Cynthia Glaser, Vice President and General Merchandise Manager, Private Label Non-Foods, says Costco will not develop a Kirkland Signature product unless it can make it better and cheaper: "It has to be an item that merits the time and effort that goes into it."

Retail Raj-Trent, A Tata Group Enterprise: Trent (playing into youth sentiment) boasts of retail chain Westside & Star India Bazaar. It has launched two brands for the collegiate—"Too Fast For You" for men two years back & "SRC" for women five years back at its westside stores. The two brands have seen growth in the range of 50 to 70 percent year on year. Trent sponsors college festivals & places ads in niche youth magazines like jam &JLT.

The Writing On The Wall: In big retailers like pantaloon, a good 15% of grocery sales (under the Food Bazaar umbrella) comes from own-store brands. In the case of Big Bazaar apparel, its 40%. At Shoppers Stop, the share of private labels is 18% and could go up to 25% by 2010.

VIII. Three Key Lessons Differentiating Developing & Developed Countries Retail Environment

- *Not All Private Labels Are Made Equal* - In developing countries like India, consumers may be happy with the quality of private label when it comes to kitchen towels & staples like wheat flour but are wary when it comes to buying a store version of, say, baby food or shampoo.
- *Pay Attention To Packaging* - Visual cues & Positioning provided by packaging are clearly deficient in private labels sold in Indian modern retail stores.
- *Invest In Brand Building & Awareness* - The modern trade shopper's consider private labels to be "budget brands". More than 2/3 of consumers believe that private label is for those who couldn't afford the "best brands".

IX. Future Research Prospects

Based on the foregoing analysis, the following aspects can be researched taking the retail sector in India separately:

• What are the different strategies adopted by retail stores to promote their private brands? What explains the commonalities and what explains the variations?

• How are the national (or even regional) brands disposed toward the phenomenon of private labeling? Is there a difference in the promotional practices of the national brands between the private labeled stores and others?

• Current literature, mainly based on the Western nations' experiences, deal with national brand versus retail brand as one-on-one issue. However, in reality, a national brand manufacturers / marketers sell many product categories through retail stores. In the context of multiple brand sales by a national brand manufacturer, what is the effect of the product-range sales on the power position in the channel? This aspect can be effectively studied through case study research method.

• Does private label result in better store loyalty? Or, does perceived store loyalty cause retailers to introduce store brands? Alternatively, what is the cause-effect direction between store-loyalty and private labeling?

• Are there differences in the way in which channel conflict due to store brands is perceived by the stores and

IJBAMR

This is an open access article under the CC BY-SA 4.0 license (https://creativecommons.org/licenses/by-sa/4.0/)

the national brand manufacturers? Intuitively, it ought to be so. Is there significant difference? Why?

• Has there been an impact on the prices of national brands sold in the specific store after the store has launched its own brands in a specific category?

• In what categories, store brands are imitations of national brands? How are they positioned against the original? (Premium, economy or fringe)

• How are private brand positioned in consumers' perceptual space vis-à-vis national brands?

• What research methods stores that own private brands use to collect consumers' perception about their brands? Is systematic research pursued? This can be studied through case method research.

X. Conclusion

This paper has hereby examined the power of private labels (own brands) in developing countries like India. The paper has also discussed the different types branding strategies used by retailers in the developing countries. Manufacturer brands have an advantage relative to own brand where symbolic association and/or product innovation are important to customers. Conversely, where symbolic associations and product innovations are less important there is an opportunity for retailers to compete successfully with manufacturer brands if they can demonstrate comparable product quality and provide value or money. Given the high penetration in food retailing/own brands are likely to experience higher levels of growth in food area. Private labels are therefore likely to become an integral part of retailers' strategies in all sectors of retailing. Private label awareness & acceptance in India will in part go hand in hand with the growth in modern trade. The longer consumers have been exposed to private label-in terms of number of years and penetration within product categories-the better they think about on store brands.

References

[1] "HSIL: From Homes to Malls", Images Retail, Sep.30, 2004.

[2] "FDI for Retail Brands", Business India, January 2, 2005, p.30

[3] "Into Our Own", Retail Biz, September 2004, p.17-18

[4] "Invading Private Labels", Retail Biz, September 2007, p. 19-20

[5] "The Ebony In-house", Retail Biz, September, 2008, 21-22.

[6] Boyd, Harper W., Jr. and Ronald E. Frank, 1966. "The Importance of Private Labels in Food Retailing", Business Horizons, Summer, pp.81-90.

[7] Dhar, Sanjay K. and Stephen J. Hock, 1997. "Why Store Brand Penetration Varies by Retailer", Marketing Science, Vol. 16, No.3.

[8] Dunne, David and Chakravarthi Narasimhan, 1999. "The New Appeal of Private Labels", Harvard Business Review, May, pp. 41-52.

[9] Fabian Bergès-Sennou, Philippe Bontems and Vincent Réquillart, 2004. "Economics of Private Labels: A Survey of Literature", Jounal of Agricultural & Food Industrial Organization, Vol.2 [2004], Article 3, p.5.

[10] Kotler, Philip, 2000. Marketing Management, The Millenium Edition, Prentice-Hall India.

[11] Pauwels, Koen and Shuba Srinivasan, 2004. "Who Benefits from Store Brand Entry?", Marketing Science, Vol 23, No.3, Summer, pp.364-390.

[12] Perrault, William D., Jr and E. Jerome McCarthy, 2000. Essentials of Marketing, McGraw-Hill.

[13] Private Label Manufacturers' Association (PLMA). The definition is found on their website http://www.plmainternational.com/plt/WPL-WEB-2K5-PLT_en.html

[14] Quelch, John A. and David Harding, 1996. "Brands Versus Private Labels: Fighting to Win", Harvard Business Review, Jan-Feb.

[15] Raju, Jagmohan S., Raj Sethuraman and Sanjay K. Dhar, 1995. "The Introduction and Performance of Store Brands", Management Science, Vol. 41, No.6, pp.957-978.

[16] Rao, Akshay R., Mark E. Bergen and Scott Davis, 2000. "How to Fight a Price War", Harvard Business Review, March-April, pp. 107-115.

[17] Salmon, Walter J. and Karen A. Cmar, 1987. "Private Labels are Back in Fashion", Harvard Business Review, May-June, pp.99-106.

[18] Sayman, Serdar, Stephen J. Hoch and Jagmohan S. Jaju, 2002. "Positioning of Store Brands", Management Science, Vol.21, No.4, Fall, pp. 378-397.

[19] Scott-Morton, Fiona and Florian Zettelmeyer, 2000. "The Strategic Positioning of Store Brands in Retailer-Manufacturer bargaining", Working Paper Series H (Economics), Working Paper # 10, Yale School of Management. The paper can be downloaded from http://papers.ssrn.com/

[20] Signorelli, Sergio and James L. Heskett, 1984. "Benetton (A)", Harvard Business School Case 9-685-014, p.4.

[21] Stern, Louis W., 1966. "The New World of Private Brands", California Management Review, Spring, pp. 43-49.

IJBAMR

This is an open access article under the CC BY-SA 4.0 license (https://creativecommons.org/licenses/by-sa/4.0/)