

The Private Label: Retailers' Value Proposition And Strategic Tool Of Differentiation

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"Worldwide, Annual Private Label Sales Are One Trillion Dollars."

-Nirmalya Kumar

Jan-Benedict E.M.Steenkamp, 2007

INTRODUCTION

Private Labels i.e. retailer's own brands are nurtured over the years by organized retailers especially in developed countries. Private labels have already established themselves across merchandise categories in food and grocery retail stores in matured markets. In India, organized retail is expanding across metro and major cities. Major retailers have introduced their store brands essentially in budget and copycat form. Review of literature highlights consumer preference towards private label as an alternative to national brands. It's considered as retailers' value proposition for customer.

The Private Label is a retailer's strategic tool while negotiating with manufacturers of national brand. Differentiation and Innovation strategies applied to private labels holds the key to success. Research highlights preference of Indian consumers towards national brands essentially due to their trustworthiness and quality factor. It poses a challenge for retailers. The field survey attempts to enlist the different private brands offered by organized food and grocery retailers in India. In the present scenario, retailers need to maximize their efforts in positioning of their private brands. To remain competitive in medium to long run, retailers have to develop value added private labels rather than offering of budget and copycat private labels alone. Attractive pricing and promotion strategies of private labels allure customers towards private brands and now, it is a part of the consumer's basket.

REVIEW OF LITERATURE

A private label can be defined as a brand name owned by a retailer or wholesaler for a line or a variety of items under controlled or exclusive distribution (**Euromonitor, 1998**). A private label is characterized by being a product produced, improved, processed, packed or distributed exclusively by the organization that has the brand control (**AC Nielsen, 2002**). It can carry the company's name or use other brands not associated to the company's name. Still, due to these characteristics and their appeals, the market for private label has grown in the last few years (**A C Nielson, 2004**). Retailer private labels, are often also referred to as own labels, store brands, or distributor-owned brands (**Nirmalya Kumar & Jan-Benedict E.M.Steenkamp, 2007**).

✿**Global Growth And Scenario Of The Private Label:** In an international review, the Boston Consultancy Group (2003) reveals that in countries such as UK, Belgium, Germany, France, Spain, Italy and the USA, the share of store brands increased substantially between 1997 and 2002, in some cases to over 30%. According to A C Nielsen (2001) and Agricultural and Agri-Food, Canada (2001) countries as diverse as Canada, Australia, Philippines, Hong Kong, Mexico, Chile have experienced the same phenomenon of private label growth.

The bulking up of retailers that started then has changed the balance of power between brand manufacturers and retailers. Twenty five years ago, consumer packaged goods manufacturers would dwarf their retail customers in size. This is no longer the case (**Nirmalya Kumar & Jan-Benedict E.M.Steenkamp, 2007**).

The following table shows retailers dominance over manufacturers in size (In terms of Sales).

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Table 1: Retailers Dominate Manufacturers On Size

	RETAILERS				MANUFACTURERS	
	Company	Total Sales(\$ billion)	Private Label %	Private label Sales (\$billion)	Sales (\$ billion)	Company
1	Wal-Mart	316	40	126	75	Nestle
2	Carrefour	94	25	24	69	Altria
3	Metro Group	73	35	26	57	P & G
4	Tesco	71	50	36	51	Johnson & Johnson
5	Kroger	61	24	15	50	Unilever
6	Royal Ahold	56	48	27	33	Pepsico
7	Costco	53	10	5	26	Tyson Foods
8	Target	53	32	17	23	CocaCola
9	Rewe	51	25	13	20	Sara Lee
10	Aldi	43	95	41	18	L'Oreal
11	Schwarz Group	43	65	28	18	Japan Tobacco
12	ITM	42	34	14	17	Danone

Source- M +M Planet Retail, 2005, "Fortune Global 500, "Fortune, July 24, 2006, 113-120

THE PRIVATE LABEL- RETAILERS' VALUE PROPOSITION

Private Labels aims at offering better value for the customers with lower mark ups. Retailers' sourcing of merchandising is based on target market segmentation. Customers select merchandising based on their needs, desires as well due to special lower price offerings compared to national brands. As per Chandan Chavadi, Shilpa Kokatnur (2008), the rise of private label in different categories has given boost to the retail industry. It is understood; private labels not only increase profits but also improve value for the customers. As the customer does not see any tangible value in some of the manufacturer brand offered by the store, it gives scope for retailers to introduce the private label. Private labels seek an opportunity to deliver a value plus product, thereby satisfying the ego needs of the customers.

The above argument of researchers would force national brand manufacturers to examine the features, benefits and value addition and positioning of their products (brands) in customers' mind. Variety in each category of F & G product broadens choice and selection for consumers. According to a study conducted by A C Nielson (2005) on private labels in India, it was found that 56% of the respondents believed that private labels are good alternatives to national brands. The study also high lighted that 62% of the respondents feel that private labels are good value for money. The findings show that the private label is being considered as one of the alternative in decision making process as well customers perceive it as value for money. Pilot and main survey conducted by researchers in Pune, indicate that majority of the respondents prefer national level brands over private labels. The study points out the low awareness of private label amongst consumers. Variance and limitation of city and national level research need to be considered.

Another interesting fact is that the customers find private label value proposition attractive, especially in recessionary period.

✿**Private Label Growth Is The Price:** Private-label products are usually priced 15 percent to 40 percent lower than branded products (Stern; El-Ansary; Coughlan, 1996).

THE PRIVATE LABEL-A STRATEGIC TOOL

Retailers plan business strategies to counterbalance and as a counter strategy against national brand manufacturers. Over the years, the private label has become a strategic tool for retailers, especially in developed countries. In recent years, introduction of own labels, increasing share of private label in customers' product basket and converting few private labels into power brands has become a major strategy for retailers. Private labels are increasingly being used to differentiate and to counter balance the power of their suppliers (Coughlan et al., 2001). The Private label (PL) is the retailer's own brand product. Primary objective of introducing PL is to gain leverage during negotiation with national level brand manufacturer for extra margin. Increasing bottom-line by introduction of low cost and higher margin private label range is the key objective. A private label category covers grocery items, FMCG and processed food

categories.

Their private label is nurtured over the years by retailers. Its branding, packaging, pricing and overall positioning has become a strategic tool for retailers to bargain with national brand manufacturers as well in creating space in consumers' product basket. Methodology of retailers in introducing store brands is quite systematic. Research has been done to understand and examine its broader aspects. Private label introduction in low price category and premier range is putting a lot of challenges for national brand manufacturers, especially in developed countries.

OBJECTIVES OF INTRODUCING THE PRIVATE LABEL

Retailers with own labels as well planning to have their own labels, target strategic objectives in their business plan. Primary objectives of introducing private labels are as follows:

- ✿ To get better bargaining power while negotiating with national brand manufacturers.
- ✿ To provide better value to customers in terms of product offerings with lower mark ups'.
- ✿ To increase profitability on a gradual basis.
- ✿ To create powerful own labels in order to gain more market share.
- ✿ To enhance Store Image.
- ✿ To create Store Loyalty through unique private label offerings.

Retailers in developed countries focus upon such objectives. Over the years, they have achieved some of these strategic objectives very successfully.

RESEARCH OBJECTIVE OF THE STUDY

- ✿ To understand the awareness and preference of customers towards Private labels.

FIELD SURVEY OF RETAIL CHAIN STORES OF PUNE

Nationalized retailers have spread through various branches in Pune city. Two stores of each retailer within the same area were selected. The Research covered stores in city areas such as Kothrud and Aundh. Purposive convenience sampling method was adopted. In India, married people are involved in food and grocery purchasing. Therefore, married people were selected as respondents. The sample needs to be optimum, which fulfills the requirement of representativeness and reliability. Hence, sample selection process, which met the above mentioned criteria, was followed. A total of 465 respondents from ten retail stores responded to the questionnaire. **Pune city has five national level retailers namely : Reliance Fresh, Food Bazar (Big Bazar), More, Spencer's and Vishal Mega Mart.**

PRIMARY DATA

Research topic and objectives were kept in mind while collection of a primary data. Formulation of questionnaire was done by keeping the objectives of the study in mind. Careful attention was given to make the questionnaire simple, clear and unambiguous before administering it on a large scale.

KEY POINTERS

- a. Quality of private label brands
- b. Customers preference

Hypothesis: National Brand is preferred over private label brands.

STUDY UNDER OBJECTIVE AND HYPOTHESIS

1. Positioning Of Private Label Brands:

- a. Are you aware of private label brands?
- b. Please specify, which private brands you use.
- c. Are you satisfied with the performance of private label brands?

2. Preference And Performance Of Private Label Brands:

- a. While purchasing a product, do you prefer national or private brands?

Table 2: Binomial Test

		Category	N	Observed Prop.	Test Prop.	Asymp. Sig. (2-tailed)
Q12_4	Group 1	1	355	.77	.50	.000 ^a
	Group 2	2	109	.23		
	Total		464	1.00		
a. Based on Z Approximation.						

b. Reason for selecting either national or private brands.

✿ **Hypothesis: National level brand is preferred over the private brand.**

✿ **Non Parametric Tests : Hypothesis Testing with Binomial Test.**

DATA INTERPRETATION

To check the hypothesis “**National level brand is preferred over the private brand**”, the researchers applied binomial test. Help of experienced statisticians was taken for interpretation. The mean for group 1 i.e. national brands is 0.77 and the mean for group 2 i.e. private brands is 0.23. From the difference between the means of group 1 and group 2, it can be concluded that there is a difference between the preference of the national brands and the private brands. Further, national level brand is preferred over the private brand as mean for group 1(0.77) > than mean for group 2(0.23) with the p-value=0.000 which is statistically significant.

Thus the hypothesis: “National level brand is preferred over the private brand” is accepted.

Pilot and main survey findings show that customers' preference is for national brands. National brand preference is primarily due to factors such as quality, reliability, and trust. To understand awareness and preferences of private label merchandise, respondents were asked certain questions. Findings and interpretation regarding private label are as follows.

Table 3: Awareness of Private Label

Response	Numbers	Percent
Yes	314	67.52
No	91	19.53
Not Sure	60	12.00
	n=465	

Source: Field Data

Private level awareness amongst respondents stands at 67.52 percent, whereas 19.53 percent respondents are in not aware category. Tally of respondents who are not sure is 12.00 percent. Combined category of no and not sure stands at 31.53 percent. Retailers need to create awareness regarding their own products amongst customers in order to gain mileage in private label strategy. Performance of the private label is another important criterion, which needs to be ascertained. Data was collected to understand the significant aspect of private label performance i.e. satisfaction of respondents towards performance of private labels. The following Table 4 covers this aspect.

Table 4: Performance of Private Labels

Response	Numbers	Percent
Yes	156	33.54
No	78	16.77
Not Sure	221	47.52
Not Applicable	10	2.15
	n=465	

Source: Field Data

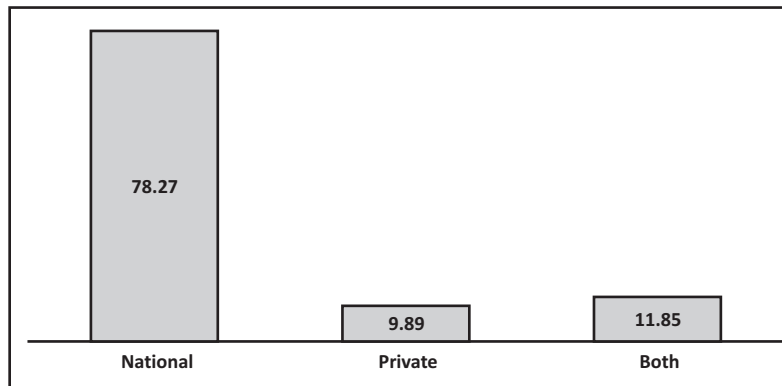
33.54 percent are satisfied with the performance of private labels. 16.77 percent respondents have responded as No,

Table 5: Preference Of Respondents Towards Brands

Response	Numbers	Percent
National	364	78.27
Private	46	9.89
Both	55	11.85
	n=465	

Source: Field Data

Figure 1: Preference of Brands



whereas 47.52 percent are not sure about the performance of these products. Overall, about 65 percent of the respondents felt the need of performance improvement by private labels. This poses a challenge for retailers to track satisfaction level of respondents towards product performance in order to gain advantage on this strategic aspect.

Therefore, Hypothesis is accepted i.e. National Brand is preferred over the private label.

The Table 5 depicts the preference of respondents towards national or private brands. Respondents prefer national brands. The preference of national brand is 78.27 percent, whereas 9.89 percent customers prefer private brands. Another category of preference of both the brands is 11.85 percent. Lower price is essentially the criteria for private brand selection. **The primary reason for selecting national brands is due to factors such as quality, trust worthiness, reliability and brand experience over the years. Where as, private labels are preferred by price sensitiveness segment of customers.**

PRIVATE LABEL IN F & G RETAIL IN INDIA

Organized Food & Grocery retail has grown across the country in recent years due to entry of corporate houses such as Reliance, Future Group, Aditya Birla Group, RPG group, Vishal Mega Mart, TATA and ITC. Over the years, these retailers introduced their own labels across the category. Private Label is still at a nascent stage in India compared to developed countries. However, especially in the last two years, phenomenal growth of private labels is visible across product categories. Store brands follow budget and copycat types. Premier Private Label in fantasy category is still in the offering.

Private label growth in F & G retail varies as per product category. Store labels in personal care, home care, snacks and confectionary, cereals and packaged grocery categories is growing. Retailers have developed products in these fast moving categories. Strategic thrust on branding, pricing and promotion of private label is done. Own labels' visibility inside the stores and its shelf space occupation, has become prominent. Attractive pricing and promotion schemes like 25% free, buy 2 get 1 free, product bundling (combo pack) force customers to pay close attention. Look-a-like packaging, special pricing and promotion impact consumer buying decision process. Private Labels are slowly occupying a part of the consumer's shopping basket.

The following Table no 6 shows retailer wise private brands and merchandise category.

The spread and wide range of private label brands across categories shows its growth in Indian retail. Private brands have posed tough competition for national level brands in each category of Home Care, Personal Care, Dairy Products,

Table 6 : Retailers and Private Label Brands

Retailer	Private Brands	Merchandise
Reliance Fresh	Sudz	Washing Powder, Detergent Soap
	Scrubz	Dish Washer Bar
	Externa	Hand Wash, Liquid Soap
	Mopz	Floor Cleaner
	Reliance Glow	CFL Lamps
	Reliance Select and Reliance Value	Salt, Pulses, Sugar ,Atta and Dals, Pulses
Spencer's	Smart Choice	Cookie, Juice, Liquid Washer, Paper Rolls and Napkins, Scrubbers
	Right Value Grocery	Sugar, Poha, Dals, Pulses
Vishal Mega Mart	V. Clean ,V. Mate, V. Fresh	Liquid soap, Detergents, Floor Cleaner, Washing Powder
More	Feasters	Noodles, Soups, Chips
Retailer	Private Brands	Merchandise
More	110%	Toilet Cleaner, Surface Cleaner
	PESTEX	Pest Control
	Enriche	Soap, Hair Oil, Shaving Cream, Gel
Food Bazar	Fresh & Pure	Dairy Products -Butter, Ghee, Dahi
	Food Bazar	Sugar,Tea,Cereals
	Premium Harvest	Dals, Pulses
	Tasty Treat	Jams, Sauces, Corn Flakes
	Caremate	Hand wash and Shampoo
	Cleanmate	Cleansers, Floor cleaner
	Saach	Tooth Paste

Source: Field Survey by Researchers

Cereals and Packaged foods. Customers buying decision has become bit difficult with this wider assortment of National and Private Brands.

BENEFITS OF PRIVATE LABELS FOR RETAILERS AND CONSUMERS

Retailers' major benefit is higher gross margin earning on private brands. Operational benefit includes control on quality, supply chain and ease of merchandise movement. As per Marcel and Lal (2000), a research on building store loyalty through store brands revealed that when consumers are sensitive to product quality and brand choice, then quality store brands introduced by retailers can be used as an instrument to create store differentiation, thereby developing store loyalty and store profitability. This holds well for packaged goods categories and not for cheap private labels.

The research highlights that store brands and national brands play complementary roles, while the former becomes a source of store differentiation and loyalty; the latter plays the role of increasing the price of store labels thereby contributing towards store profitability. The above research findings of role of private brands on store choice and store loyalty do not apply to the certain extent in India. Consumers are benefitted to a large extent due to wider choice in merchandise assortment. Variety of private brands impacts price reduction of national brands, thereby benefitting the consumers.

CHALLENGES FOR RETAILERS

Development of private labels is an uphill task and a time consuming process. Retailers' face many challenges such as selection of category, sources of manufacturing, development of newer and newer products, maintaining quality and

supply chain. They need to beware of national brand quality, pricing, loyal customer base and especially their marketing experience. Estimating cost and benefit analysis covering the entire supply chain requires expertise, which many retailers lack in this initial stage.

According to Chandan Chavadi, Shilpa Kokatnur (2008), there are many precautions and challenges the retailers have to undergo in order to develop a store brand. One more challenge for the retailers is to strike a balance between quality and price. In order to match the quality of the national brands, retailers need to invest heavily in developing the product. As the product is confined to its retail chain stores, it may lead to diseconomies of scale. Managing economies of scale is a big challenge for the private label manufacturer. The study conducted by Nirmalya Kumar & Jan-Benedict E. M. Steenkamp (2007) has advised retailers to note the following four critical factors while undertaking private label manufacturing decision.

1. Retailers typically extract from brand manufacturers many additional discounts and off-invoice allowances such as slotting allowances, listing fees, promotion deals, advertising and merchandising allowances, credit for return of unsold merchandise. These are absent in private label case.
2. Brand manufacturers provide various free services like transportation, warehouse, store labour and merchandise help for retailers. For private labels, the retailer usually bear all the cost of these services.
3. Manufacturers' brand usually retail at a considerably higher price than private labels. Thus, even when the net margin as a percentage on manufacturing brand is lower, the absolute \$ profit per unit sold may still be higher than for store brands (e.g. 20% of \$ 2.00 is higher than 25% of \$ 1.50).
4. Shelf-space turnover referred to as velocity, is often much higher for manufacturer brands.

Despite these challenges, research by Nirmalya Kumar & Jan-Benedict E.M.Steenkamp (2007) indicates retailer gross margins on private label manufacturer brands are 25-30 percent higher.

CONCLUSION AND IMPLICATIONS FOR RETAILERS

Indian consumers prefer national brands over private label due to quality and trust worthiness factor. Hence, retailers need to focus on upgrading quality of private labels. Efforts for **Positioning** of private label in consumers' mind is a time consuming process. Therefore, developing quality products and trustworthiness is a big challenge. Indian retailers need to focus on value added quality private label rather than introducing budget and copycat private labels alone. Quality private labels would then become a competitive advantage for retailers.

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