

Increasing Interest of Consumers toward Private Label Brands

Dr. Shweta Choudhary, Assistant Professor, Shri G.S. Institute of Technology and Science, Indore, Madhya Pradesh, India

ABSTRACT

Branding allows producers to differentiate their product from that of their competitors and assists customers in their selection of an appropriate product. Thus to brand owners, a brand is a valuable yet intangible asset mainly used as a differentiation device, whilst to brand users a brand may create an emotional bond. There are two main types of brands – Manufacturer brands and Private-label brands.

Manufacturer brands are created by producers and bear their chosen brand name. The producer is responsible for marketing the brand. The brand is owned by the producer. The positioning of the brand is decided by the producer. Private labels, often referred to as in-house brands or store brands, are those that are owned by the retailers themselves. For example, Shoppers Stop has several in-house brands such as STOP, Kashish, LIFE, Vettorino Fratini, Elliza Donatein and Acropolis.

Objective- *The present paper offer valuable insights to retailers, national brand manufacturers and private label manufacturers, enabling them to learn the triggers for product manufacturing from the perspective of private label manufacturers.*

Methodology- *The present research is conceptual paper based on secondary data.*

Findings- *The studies in the research suggest that cross-shopping is more popular amongst the retailers who positions in the value. In order to discourage cross-shopping the retailers positioning on low price needs to differentiate private labels in a better manner.*

Key Words:

Branding, Manufacturer brands, national brand, Private labels.

INTRODUCTION

In India Retail Industry stands 5th largest in the world with a growth rate of 12% p.a amounting \$353bn. Recently in a sharp contrast to the prior periods focus on private label brands is increasing. The concept of Private label brands has evolved significantly over time. Private label brands refers to those goods which are typically manufactured or provided for sale by one company under another company's brand. As per Private Label Manufacturers' Association (PLMA), "Private Label products encompass all merchandise sold under a retailer's brand. That brand

can be the retailer's own name or a name created exclusively by that retailer". Private label brands previously known as generic product offerings faced tough competition with national brands on the basis of price-value relationship. Private label brands were options with low price & were not trusted quality wise. Buyers under the illusion that cheaper refers to inferior quality fail to generate confidence in private label brands. Yet they got strong support from retailers because of involvement of nominal marketing efforts & high profitability margins. Over the years the private label brands have surpassed national brands in many instances.

Private label enable the retailers to provide significant price advantage to the shoppers approx 15-30% lower as compared to the manufacturer brands. The inclination of customers towards private label brands mainly depends on individual difference variables & demographic factors. Enhancement of store image, profitability & safeguarding their business share are the main factors behind retailer's perception in promoting private label brands.

Are Private Label Brands nothing but Just another National brand?

Many a time private label brands are assumed to be just another national brand which is not very true. There are certain x factors which make private label brands different from national brands.

- **Decision Making:** In case of national brands the retailers have no control or little control regarding quality, brand reputation, wholesale costing etc but in case of private label brands retailers play a crucial role. Retailers risk absorption in case of private label brands is vital. The responsibility of product development, brand image, marketing, inventory investments etc firmly falls on retailer's shoulder.
- **Share:** The private label brand is the only trademark that book lion's share in product categories. Even the prime packaged product company's name do not recurs throughout the retail as many times private label trademark recurs. Many a time companies use different brand name for different categories or even if share a common brand name in multiple categories still lag behind private label brand in variety of categories.
- **Shelf Placement:** Considering the concept of "Merchandise well handled is merchandise half sold" the retailers display the private label brands at

premium shelf space. Further retailers place private label brands just right to the leading national brand it substitute considering the fact that around 90% of people are right handed. The marketing efforts & involved in national brands are much higher as compared to private label brands.

- **Trade Deal:** In case when trade deals are offered by national brands to retailers less than 50% of the wholesale price reduction is bagged by consumers while in case of private label brands the share is 100%.

Private Label Brands have almost all the elements of a big label—a brand name and exclusivity. May be they lack a few things, like a big advertising budget and a sporty price tag. But still, they are big and are in the market to stay. In fact, chances are that they comprise nearly 40% of our shopping bags while we shop at retail outlets like Westside, Shoppers Stop, Reliance Fresh, Big Bazaar and so on. Be it Tata's Westside, Kishore Biyani's Big Bazaar or RPG Group's Spencer's, everyone is betting big on private labels for they are fast becoming one of their major revenue spinners.

Private labels, often referred to as in-house brands or store brands, are those that are owned by the retailers themselves. For example, Shoppers Stop has several in-house brands such as STOP, Kashish, LIFE, Vettorino Fratini, Elliza Donatein and Acropolis.

Private Label Brands Prospects for market Success:

In adopting a private branding strategy, distributors must first make an in-depth examination of the private brand's prospects for market success. Such an examination should take into account variables such as:

- **The intensity of competition in the market-** The amount of competition that retailer's brand will have to face is an important consideration. The competition may be with other Private Label Brands and national brands on various fronts as such of quality, prices and choice available.
- **The advantages and disadvantages of marketing chains-** The Private Label Brand's retailer has to make comparison with manufacturers of national brands in terms of size, depth of product assortment, and the expertise in various product categories.
- **The prices of private brands and those of national brands-** In case if the prices of national brands are very close to private brand, consumers focus can be on national brands which will adversely affect the private brands.
- **The level of promotion prevailing in the market-** If the manufacturer of national brand goes for intensive promotion, Private Label Brands will be hampered severely.

After having an in-depth examination of the private brand's prospects for market success with due account of the above mentioned variables, distributors then have to implement a private branding strategy. In doing so, they must first choose the right manufacturer to produce the private brands for them. The distributors should consider the manufacturer's experience and seniority, its economic robustness, the stability of labor relations at its plants, and its commitment and loyalty to agreements.

Market Review:

Retail can be considered as one of the most dynamic, fast paced upcoming segment in India. Indian market with many international, national & regional players is witnessing market penetration of private label brands. They are growing popular day by day. As per study conducted by AC Nielson on Global Private Label out of total Indian survey respondents around 56% consider private label brand a better alternative to manufacturer brands. AC Nielson (2006) in his study "Asia Pacific Retail & Shopper trend" said that although private labels are a fairly recent phenomenon in India, it is a trend that is catching up very fast. As per this report around 69% percent of the shoppers of supermarkets were aware of private labels. As per Image Retail Report 2009 private label brands represent 10 to 12% of organized India retail. India has been ranked third by management consultancy, A.T. Kearney on its Global Retail Development Indexing 2010.

The share of private label goods has increased in every country. The share of private label brand was 41% in Spain in the year 2010 while in UK private label accounted 49.2% of UK grocery sales in year 2011. In France the share of private label brands stabilized in first half of 2010 after two year of growth in 2008 & 2009. In spite of critical economic conditions in France demand for private label brands stabilize.

Private Label Brands Vs National brand:

- ✓ **Risk:** Private label brands carry more risk as compared to national brands as national brands are more promising due to consistent quality consumer gets with each purchase.
- ✓ **Margin:** The profit margin obviously is more in case of private label brands. Due to less or no marketing/ promotional expenses retailers enjoy higher profit margin as compared to national brands.
- ✓ **Slotting Allowance:** In order to make themselves visible slotting allowances has to be born by national brands while this is not the case with store brands.
- ✓ **Quantities:** As compared to national brands retailer purchase large quantities of private label goods. Contract is mainly signed for lump sum quantities.

- ✓ Examples of private label brands : Shoppers Stop, Westside, Walmart, Myntra.com etc

Examples of National Brands: Toyota, Ford, Nike, McDonald`s etc.

Consumer`s Propensity to purchase Private Label Brands:

As per Veloutsou et al. (2004), shoppers have their own perception on different brand of products, every product has its special features or characteristics and it will affect the purchasing behaviour of consumers. As per Morris (2002), the most successful retailer has more private label branding strategies and the retailer is normally the stronger firm. Retailers with strong private label brands will have better financial results (Morris, 2002). The most successful retailer is one who understands the key factors affecting consumer`s attitude towards private label brands. Consumer`s propensity to go for private label brands can be broadly classified in following ways:

- **Demographic Factors:** Examples of demographic factors includes Income, family size, age & education.
 - ✓ **Income:** As per Richardson et al., (1996) when income of consumer is less, private label brand perception tends to be significantly higher. It is because private label brands are cheaper compared to national brands thus low income group prefer private label brands. Dar and Hoch (1997) in their study showed that the share of private label brand market increases in areas where the residents are less wealthy.
 - ✓ **Age:** Richardson et al (1996) in his study have reported that older consumers are more prone to the purchase of private label brands as compared to younger ones because of their greater shopping expertise. They just do not blindly rely on brand names for quality factor. It can b said that older shoppers have a better perception of private label brands as compared to young generation.
 - ✓ **Family Size:** Asians tends to have extended or joint families. As per Richardson, Dick & Jain 1996, larger households seem more prone to buy private label brand.
- **Individual Difference Variables:** It includes degree of reliance consumers put on extrinsic cues (like brand name, store name, country of origin, price etc). Those shoppers who are more dependent on such cues prefer national brands to private brands. Consumers' tolerance of ambiguity also plays a vital role in making purchase decision. Those shoppers whose tolerance level is low prefer safer national brands.
- **Consumer`s Perception:** Consumer`s perceptions which includes degree of perceived quality variation, level of perceived risk, and perceived

value for money, as well as the degree of consumer knowledge about any product category greatly influence their marketing pattern. Greater awareness & knowledge the chances to prefer Private Label brands.

Advantages of Private Label Brands:

Private label brands have grown at double the rate of national brands from 1997 to 2005 in terms of sales as per report issued by global business advisory firm Alix Partners. Private label brands are one of the hottest trends of today. Benefits of PLs from retailer`s perspective are as follows:

- **Brand Devotion:** Private label brands gives retailers an opportunity to create there own unique image with more loyal customers.
- **Consumer Tailored:** Retailers can design product name, logo, labels as per their will & wish. Further as per consumer`s demand retailers can also design the size & packing of the products.
- **Control & Management:** Here the steering is in the hands of retailers. From marketing to distribution, from pricing to packing all are in the hands of retailers. They are the rule makers.
- **Profitability Ratio:** As compared to other brands the margin ratio in case of private label brands is approx 10% higher. Retailer due to lower price can earn high profit.
- **Exclusivity factor:** Shoppers will get private label brands only at retail store & not from anywhere else. Once the customers are satisfied with the product they hardly will go elsewhere because they will not find it any where including internet.

Reasons for the production of Private Label Brand from the manufacturer`s perspective:

The various reasons for the production of store brands are: production and economic-financial; market and competition; and relational:

- **Production and economic-financial reasons:** The production of store brands allows manufacturers to take advantage of excess capacity, increase experience, achieve economies of scale and consequently, reduce unit production and distribution costs.
- **Market and competition reasons:** Manufacturers very often start producing a store brand motivated by the existing competition among manufacturers to produce Private Label Brands. Manufacturer who does not produce a store brand and who decides to increase the price of its leading brand will generally suffer a loss of profit, since there is a consumer segment that will purchase Private Label Brands. Therefore, the manufacturers' total profits will increase through the production of both brands.
- **Relational reasons:** Manufacturers may decide to produce store brands in order to improve their

relationship with retailers. This can contribute positively to the merchandising of manufacturer brands. Distributors receive information referring to the purchasing habits of consumers and changing tastes of the customers via bar-code readers, salespersons reports etc, which can be of great help for the manufacturers.

Leading manufacturer brands must increase the distance from store brands by implementing innovations and by strengthening brand image and should not produce store brands on the basis of competitive motives. That store brands represent a considerable risk especially for manufacturers of leading brands.

Future of Private Label Brands:

Private label market witness global growth during the year 2013, even the countries like Turkey & Poland which lag behind in private label brands significantly marked their presence. Private label brands are no more considered as “Cheap Alternative” to other brands but have emerged as a latest trend. Product Differentiation has been identified by the retailers as a key factor to make their product effective & acceptable. Developments have been witnessed in the areas like product development, packaging & category merchandising. Aggressive improvement can be marked in packaging, designing & labeling the products to make them consumer friendly. Usage of vibrant colours, nostalgic & vintage visuals ease the retailers in drawing shopper’s attention. Packaging innovations are bringing private labels at par with the branded versions.

Based on the concept of differentiation retailers are attempting to make their product unique & appealing. From aggressive promotions their area of concern has shifted to enhancement of value & quality. Apart from up gradation of current products retailers are exploring new areas. For example Pearlfisher has introduced Waitrose LOVE life Prep & Portion – an innovative new range of kitchen utensils which will help the consumers with portion control & also in preparation of healthy meals.

A dramatic change can be experienced in the pattern of shopping owing to introduction of e commerce, mobile etc. A strong correlation has been traced between private label sales & macroeconomics environment. High unemployment rates & lack of consumer confidence tends to accelerate private label sales. In near future both the indices are not expected to improve drastically due to which private label growth shall remain sturdy. As per an online survey done by a Nielsen company in 2010, 60% of respondents go for private label brands during the recession period & out of those 60% around 94 % continues to purchase private label brands even after the improvement of the economy. Owing to enlargement in investments in private label brands new level of sophistication can be witnessed.

CONCLUSION:

Globally private label brands also know as Store brands are growing at a much faster rate than traditional goods brands. For example the market share of private label brands has touched 32% in Germany, 28% in France, 46% in Switzerland & 42% in UK. As per a report published by consulting firm Deloitte, consumer’s perceptions and attitudes toward private label brands are changing significantly; and offers insight into the notion that spending less for private label brands doesn’t mean consumers are settling for less from private label brands.

Own Brands another name for private label brands are no more considered as recession related phenomenon. It has been proved by the figures that store brands continue to grow over the period even after the end of economic crises. Brand management tactics & strategic product modernization is accelerating this trend. The period of Hard Sell has concluded. This moving trend of private label brands will continue into the foreseeable future & by the year 2025 home brands another popular name for private label brands are expected to take the position of largest market segment. It is the need of hour that national brands in order to compete with private label brands shall further leverage their core strength.

LITERATURE REVIEW:

- **Luiz Moutinho** examines the question- “Should national brand manufacturers produce private labels?” in the editorial taken from journal of Modeling in Management Volume: 2 Issue: 1 2007. Anecdotal evidence shows that this is a common question for managers in different industries and countries. This paper focuses especially on the effects of producing private labels on manufacturers' profits when their provision may affect both the consumers' perception of the quality of the private label and the national brand manufacturer's costs.
- **Marguerite Moore and Jason M. Carpenter** in their research on “A decision tree approach to modeling the private label apparel consumer” in Marketing Intelligence & Planning Volume: 28 Issue: 1 2010 profiles the private label apparel consumer using demographic and behavioral predictors.
- **Murat Hakan Altintas, Serkan Kiliç, Gokhan Senol and Feride Bahar Isin** in a study on “Strategic objectives and competitive advantages of private label products: Manufacturers' perspective” taken from International Journal of Retail & Distribution Management Volume: 38 Issue: 10 2010 determine which strategic objective factors

have significant effects on competitive advantage of private label manufacturers in Turkey.

- **Sylvie Laforet**, The University of Sheffield, UK in a study on “British grocers’ brand extension in financial services” taken from *Journal of Product & Brand Management* Volume: 16 Issue: 2 2007 aims to examine consumer fit perception, risks and brand trust in retail brand extension in financial services.

The analysis allows for different degrees of competition in the retail market, and for linear and non-linear pricing. The author shows that national brand manufacturer’ gains from producing private labels are increasing with the concentration of the retail market. The results presented in this paper may help managers to identify key variables that may affect the profitability of producing private labels.

The article assists retailers and the like in their brand extension decision making and implementations. The article contributes to retail/brand extension/corporate branding literature, brand extension in high/low-involvement product, perceived fit, risks and trust relationship in brand extension.

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