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STUDY OF FACTORS PROPELLING THE GROWTH OF PRIVATE LABELS IN INDIA

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ABSTRACT

The views of shoppers toward the brands have changed over the last few years. Private labels are no longer a feature primarily of retailers in the developed countries, as was the case for decades. Private labels have emerged as a key weapon for retailers and have started to play a vital role in the battle for control of the distribution channel and customer loyalty. This paper seeks to investigate the factors driving the growth of private label brands in the India. There are a number of factors explaining the substantial development of private labels in the Indian market. It is no longer enough for retailers to produce low cost imitations of national brands, retailers need to generate a strong store identity along with enhanced customer loyalty by offering good quality private label brands.

KEYWORDS

Indian Retail Industry, National brands, Private labels, Retail Management

INTRODUCTION

Private label products are capturing an increasing share of Indian retailing on the back of booming economy, rising inflation, retail consolidation and an improved image. Private labels have emerged as a key weapon for retailers and have started to play a vital role in the battle for control of the distribution channel and customer loyalty.

Lincoln and Thomassen (2008) define private label simply as, "brands owned and sold by the retailer and distributed by the retailer." According to the Private Label Manufacturers' Association (PLMA), Private labels 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.

Key benefits for a retailer of having their private label brands are:

- Retailers do not earn high margins on the National Brands whereas retailers' gross margins on private labels are usually 25 to 30 percent higher than those on national brands.
- To gain control over shelf space, and correspondingly, reduce the number of national brands on the shelves or lessen the dependence of the store on national brands
- It allows more control over pricing strategies
- Retailers can have their own marketing plan and can control their own inventory
- Control over-sales, marketing, distribution, also over-product distribution with private label products.
- Since the products are available from the retailer, customer will not go anywhere else to find private brand at lower price.
- Helps retailers to have bargaining power with manufacturers
- To reach out to more consumers by drawing their attention and reinforcing the store image
- To differentiate themselves with regard to price and product diversification when compared to competing stores
- Helps retailers to gain channel efficiency

To summarize, a Private Label strategy is one that can enhance category profitability, increase the negotiation power of the retailer and create consumer loyalty. The marketing efforts of retailers across the world, and their competition with local manufacturers, have introduced private labels in almost every product category, and have made them available in both developed and emerging markets. It appears today that Europe and North America have maintained their position as the most vital markets, with an aggregated private label share of sales reaching 23 and 16 percent respectively, but with a moderate growth rate (5 percent). In comparison, private labels in emerging markets have achieved growth of up to 11 percent, and currently account for 6 percent of sales. As a general observation, the level of concentration of the retail industry and the market share of private labels are positively correlated. Moreover, in almost all categories, private labels now compete with national brands.

Private labels share is usually strongest in goods categories like milk, eggs, rice, wheat, cereals and sugar or in those with little differentiation. Private labels share is the lowest among product categories where there is strong marketing support for national brands (e.g., noodles, toothpastes, chocolates, cold drinks) and in those which require a high-level of innovation (e.g., soaps, washing powders, and cosmetics).

Private labels have emerged as a key armament for retailers and have started to play a vital role in the battle for control of the distribution channel and customer loyalty. There are a number of reasons explaining the substantial development of private labels all over the world. Among other benefits, private labels add diversity to a retailer's product line in a category; a retailer utilizes them as a measure of exclusivity to differentiate from manufacturers' brands; and the retailer gross margins on their private labels are higher than those obtained on national brands. Apart from providing higher retail margins in comparison to national brands (Ashley, 1998), private labels added diversity to the product line in a retail category (Raju et al. 1995). Authors studied the factors propelling the growth of private labels in Indian retailing.

INDIAN RETAIL INDUSTRY

Retailing in India is booming in line with InfoTech and is becoming a key contributor to service economy. Yet, the industry is to un-tap the huge potential in Indian soil as the market witnesses a tremendous change in consumer preferences, tastes, abandoning life style. India's market offers tremendous promise because of its huge population base. The share of retail trade in the country's gross domestic product (GDP) is currently around 12 per cent, and is likely to reach 25 per cent by 2012. Thus, with the growth of organized retail in India, the private labels are also expected to grow as experienced in many developed countries. The prospects of private labels in India offer an interesting opportunity for the retailers to understand the motivations of consumers behind choosing private labels.

A greater proportion of retail industry in India is being occupied by unorganized sector with only 5% share of organized retail meaning opportunity for organized retailing is immense in India. Many retailers like Reliance, Big Bazaar, MORE, Westside, Shopper's Stop are stretching their strengths to increase their share in the organized sector. At present, it has emerged as a super organization by accumulating its own consumer base, who are ready to buy whatever retailers sell irrespective of brands (Big Bazaar, Reliance, Spencer, Vishal, More, Shoppers Stop, Life style, West End, Food world, EasyDay etc. to name a few). This poses a serious threat to existence of national brands of all FMCG and Life style products as most of the mega retailers have started selling their own private labels brands, which restricts the shelf space for national brands in their stores. This is also forcing national brand manufactures to increase their promotional spend.

REVIEW OF LITERATURE

Research on private label brands has been of considerable interest to the retailers, brand managers and academicians. One stream of research in this area deals with the factors associated with the adoption of private label brands by consumers. Cunningham (1961) examined the relationship between store loyalty and the purchase of private label brands for a sample of 16 products. Using purchase history data for 50 families, Cunningham measured the percentage of grocery expenditures devoted to store brands and calculated a store loyalty index, which he defined as the proportionate number of times a housewife visited the same store consecutively to purchase a product.

Sundel (1974) used a taste test and measured whether consumers perceive differences in quality between nationally and regionally distributed store brands of bread and canned corn. No significant differences were found. These results suggest that consumers regard store brands to be largely undifferentiated in the market. Sundel noted, however, that national brands were perceived to be superior to regional or local private labels.

Also employing a taste test format, Richardson *et al.* (1994) assessed whether consumers' quality perceptions of two locally distributed store brands of five products differed. They found no difference in quality perceptions between the store brands even when real price differences were revealed and the ingredients of the competing store brands were disguised. These findings suggest that the competing store brands were perceived to be the same not only in terms of brand image but also in terms of real product quality.

The other major stream of research on private label brands deals with the competition between private label brands and national label brands. This stream of research has tried to identify that how either private label brands or national brands could differentiate from each other. Initial research identified quality, pricing, and advertising as main bases of competition. Hoch and Banerjee (1993) contested the general perception that a private label's primary attraction was the significant price discount relative to the national brands, at which they were sold. They emphasized the role of quality in the private label purchase decision. They found evidence to support the notion that perceived quality of a private label brand was much more important than the level of price discount in determining the private-label category share. Even as retailers made efforts for serious quality improvements (Baltas, 1997), the poor quality perception has continued with private label brands.

Quelch *et al.* (1996) found that in the case of manufactured products being introduced under private labels, the characteristics that enable store brand introduction are: (a) inexpensive, easy, low risk purchase for customer (b) easy to make from commodity ingredients (c) perishable, therefore local supplies are favored (d) category sales are growing fast, enabling the private brand's garnering reasonably high volumes and (e) low number of national players dominating the category so the retailer feels the need to reduce dependency on them.

Chaniotakis *et al.* (2010) showed that consumers' purchase intention is directly affected by consumers' attitudes towards private labels of olive oil, which in turn are influenced by consumers' perceived benefits, economic situation, brand loyalty and trust. Dhar *et al.* (1997) predicted the three important key determinants of store brand share. They are consumer factors, Retailer factors and the Manufacturer factors. From this it can be deduced that both supply and demand factors determine the store brand effectiveness.

Raju *et al.* (1995) suggest that retailer's profits will increase more likely in product categories consisting of a large number of national brands. They explain that the profitability of a store's brand depends more on the directness of high competition between the private brand and the leading national brand, as against a high competition among national brands which is detrimental to the store brand.

The strategic role of Private Labels to distributors and retailers has increased in importance throughout the 1990s. Once positioned on the basis of price or value for money, Private Labels are now marketed by many firms using a "quality" focus. The success of such a strategy is especially evident in Europe where retailers such as J. Sainsbury have achieved dominance over national brands (Fitzell, 1992). Research shows that the store brand market is largely depend on the degree to which retailers are successful in communicating a quality rather than a low price image to consumers (Richardson *et al.*, 1994). Cunningham concluded that his results may suggest that there is a positive association between store loyalty and loyalty to the brands sponsored by the store. (Cunningham 1961)

Customers are more sensitive to price when it is easy to compare competitive offerings. So retailer try to store unique offerings whose prices cannot be compared and, therefore, they can charge higher prices. (Chetan Bajaj *et al.*, 2005). Among consumers, one obvious reason for the popularity and growth of private labels is their price advantage over national brands (Batra and Sinha, 2000). However, high quality seems to be more important in determining private labels success than lower price (Hoch and Banerji, 1993; Sethuraman, 1992).

One of the interesting phenomena concerning private labels is the fact that their growth has been highly uneven across product categories (Hoch and Banerji, 1993). Though some of the studies have compared quality perceptions of private label brands with national brands (Bellizzi *et al.* 1981, Rosen 1984), there have been a few studies which examined the ways to improve the quality perceptions of private label brands. Apart from providing higher retail margins in comparison to national brands (Ashley, 1998), private labels added diversity to the product line in a retail category (Raju *et al.* 1995). Authors studied the reasons for the increased growth of private labels in the global retailing.

PRIVATE LABELS IN INDIA

According to Kumar and Steenkamp (2007), private labels are growing faster than manufacturer brands. They are everywhere across different categories and they now compete on quality. The main USP of private labels is their customization according to the needs of customers. They are then promoted by various means including innovative packaging, promotional schemes, and placement within the retail store. It is observed that private labels work best in categories that are not technology driven. This is the rationale for strongest share of private labels in categories like milk, eggs, rice, wheat, cereals and sugar or in those with little differentiation. On the other hand share of private labels is the lowest among product categories where there is strong marketing support for national brands (e.g., toothpastes, chocolates, cold drinks) and in those which require a high-level of innovation (e.g., electronics, detergents, and cosmetics).

According to India retail report 2009, the private label market in India is estimated to be around Rs 1200-1500 crores. Overall, in India, Private Label brands constitute 10-12 percent of the organized retail product mix. Retailers like Trent, Reliance and Pantaloon are having 90 percent, 80 percent and 75 percent of private label brands representation in their stores, respectively. Table 1 represents private labels of leading retailers in India.

TABLE 1: LEADING RETAILERS AND THEIR PRIVATE LABELS IN INDIA

Big Bazaar	EasyDay	MORE	Reliance
Tasty Treat	Great Value	More	Reliance Select
Fresh n Pure	Equate	Feasters	Reliance Value
CareMate	Mainstays	Kitchen's Promise	Dairy Life
CleanMate	Home Trends	Enriche	Good Life Moments
Sach	Mainstays	110%	Good Life
Premium Harvest			Dazzle
			Sudz

FACTORS PROPELLING THE GROWTH OF PRIVATE LABELS

There are a many factors influencing the growth of private labels: an increased concentration among retailers, an improved quality perception among consumers, and a rising social acceptance of private labels consumption. In addition, the current economic downturn has further boosted the appeal of private labels because of their price utility. In India there is an increasing trend towards acceptance of Private Label brands and thus their penetration is on the rise especially in the Apparel, Consumer Durables, Home Care and FMCG segments. Major Factors propelling the growth of private labels in India are:

- **REVAMPED IMAGE OF PRIVATE LABEL BRANDS**

Private label brands have come a long way from their original image of low cost alternative to national brands. The introduction of premium products and products that serve to specific market segments has changed private label market dramatically. Retail stores are increasingly looking to ramp up private label penetration in order to enhance margins and provide greater differentiation on the selling floor. Private labels are heavily featured in opening price point ranges in order to meet the shopper's demand for lower prices, or "value." But many of the major chains especially as they become more adept at designing and sourcing fashion-oriented product are looking at private labels to replace lagging national brands in moderate and better classifications. Moreover, these retailers woo elite consumers and frequent buyers.

While economic pressures are driving many value-conscious customer buying decisions, one factor having good impact on private label purchasing is a strong push from retailers and marked improvements in both quality and selection. The retailers use national brands to build traffic and divert it towards the store brands. Retailers create their own labels and capitalize on the Store brand value they have created through unique service and better consumer care. Although most of the private labels still compete on a generic basis, offering low cost alternatives to national brands, many retailers' private labels are now becoming synonymous with good quality and innovation. Retailers have started to distinguish themselves from others on the basis of their private labels.

- **ECONOMIC RECESSION**

Consumers purchase brands during recession and boom times but their preferences change. Economic recession in 2008-09 had contributed to the growth of private labels in a big way. The deep and prolonged recession pressed many customers to replace their national brands with private labels. The uncertainty in economic environment enhances the appeal of private labels to price sensitive consumers and private labels tend to do better during these times but once the customers have more spending power, they will go back to their preferred national brands. Customers prefer to buy on price during recessions but they still prefer brands they can trust, since no one wishes to throw their money away.

Some of the critical findings of PLMA research report 2010 are:

- Consumers continue to turn to store brands in supermarket categories where they had previously only purchased a national brand product. More than four in ten (43%) report they have recently forsaken a familiar national brand for a private label counterpart, a marked increase since the GfK study conducted in June 2009 when only 35% said they had done so.
- 97% respondents compared store brands favorably to their previous national brand choices in the same categories. About 49% said that their new private label selections compared "very favorably" in comparison to their earlier national brands. This is a dramatic increase from the June 2009 study when only 26% reported that.

It was commonly believed that when the economy picked up, consumers returned to buying national brands (Corstjens and Lal 2000, Lamey et al. 2007). A 2010 global online survey conducted by The Nielsen Company reveals that 60% of consumers across 55 countries from Asia Pacific, Europe, North America, Latin America and Middle East/Africa; say they are buying more private label brands because of the economic downturn.

The economic downturn encouraged many customers to try private labels for the first time, and once they tried, they found that not only was the pricing right, but the quality of these goods met or exceeded their expectations. In spite of the pace of economic recovery, retailers all over the globe continue to have an incredible opportunity to convert consumers to private labels for the long term.

- **INFLATION**

Price is always an important factor in consumer decision-making; this is true of private label and national brands. No consumer wants to pay more than necessary for products purchased. The recent rise in inflation has also encouraged many customers to move towards Private labels as they provide more value through sales promotions. The expectation is that private label sales will increase as consumers look for savings.

- **CONSOLIDATION OF RETAIL TRADE**

The most critical factor behind the rise of the global private label market has been the development and consolidation of retail chains all over the globe. A concentrated retail sector facilitates the development of private labels (Dobson, 1998, Steiner, 2004). Private labels give a strong bargaining power to the retailers against the manufacturers of national brands. Private labels in particular, serve as a competitive tool in obtaining price concessions from these manufacturers. International retailers like Carrefour, Tesco, and Wal-Mart, operating with strong private labels, are expanding rapidly into developing markets. This has greatly enhanced the availability of private label products and has forced the local retailers in these countries to develop their own private labels to remain competitive.

The impact of a concentrated retail trade can be seen especially in the UK, which is considered to be most developed private label market in the world. In the UK, competition is intense at store level, as customers are quite loyal to their retailer's private labels. Successful retailers have established a bond with the shoppers by offering products with added value, mainly in categories where national brands do not suffice. On the other hand, the fragmentation of US grocery retailing has limited the development of its private label market. Although the US is one of the largest private label markets in absolute terms, still its share of total sales of private labels does not compare with many European markets.

In India also, the increased availability of retail space, rapid urbanization and qualified manpower are boosting the growth of Indian retail and in particular the food and grocery sector.

FUTURE OF PRIVATE LABELS IN INDIA

Private labels are in a position of power and are showing lot of potential to design meaningful change in the Indian retail environment. With improved product quality, Private Label products are grabbing the market share from National Brands, and this trend is likely to continue in the future. The greatest potential for private labels lies in developing markets like India where retail chains with well-developed private label ranges are growing rapidly.

Although growth for private labels is expected in all most all sectors, the highest growth in share is anticipated in the ready meals sector. Growth of private labels will be guided by the trends towards busier lifestyles, quality and convenience, innovation in product ranges will help to expand further. The future of private label seems to be very bright, as long as retailers continue to be creative in launching their private labels. It is no longer enough for retailers to produce copycat products of national brands, retailers need to generate a strong store identity along with enhanced customer loyalty. They need to improve their margins and compete effectively both with national brands and private labels.

No one can deny that the Indian retail industry is one of the most attractive globally. It is still at a nascent stage, and holds a lot of promise for the future. It is also certain that private label brands will continue to increase their share in Indian retail, and are expected to play a vital role in the future strategy of all Indian retailers.

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