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CUSTOMIZING ENTERPRISE BRAND RESONANCE THROUGH PRIVATE LABELS

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ABSTRACT

Growth in private label sales appears to be coming more from new buyers making the change to store brands. Customers benefit from private labels' lower prices, which are often significantly less than those of national brands. This combination, while beneficial to retailers and consumers, can put substantial pressure on the manufacturers of branded goods, who have to compete against their own customers (the retailers) for market share. In this contest the research was carried with an aim of identifying the cost consciousness level and customization level created by the private labels. The result of the study underlines the concept of using private label with brand equity value of the retail outlets. The private labels can be used by the retailing units having good reputation, experience and brand resonance. However private-labels will create impressive value only in long-run.

KEY WORDS

Cost consciousness level, Customization level.

1. INTRODUCTION

Consumers have switched to private label on an "unprecedented scale". In an IRI study conducted in 2008, 91% of shoppers said that they will buy some private-label products. Retailing in India is still very primitive. Only in China and India retail chains have as many stores as they have in the US. In no other country can one imagine companies having 5,000-6,000 stores of their own. By 2011, most retail chains will have close to 5,000 stores in India. A profit of Rs 5 lakh a store a month would mean a profit of Rs 250 crore. Ten such companies would mean profits of Rs 2,500 crore with their combined turnover being more than Rs 25,000 crore. In the next 20 years, the richest Indian or one of the top three richest people in India will surely be a retailer. Private labels will have a huge role to play in this. As much as 50 per cent of Indian retail will be occupied by private labels. Similarly, the downturn provides that extra motivation for many consumers to finally make the move to private labels. Previously they feared the negative halo that surrounds store brands, now the change looks smart - not cheap. As a result, the growth in private label sales appears to be coming more from new buyers making the change to store brands. This has an important long-term impact on brands. Once families become accustomed to private labels, it will be hard to reel them back into branded products.

Private labels offer several benefits to both retailers and customers, driving the segment's rising popularity. For retailers, margins on private label goods are an average of 10% higher than those on similar branded products. Customers benefit from private labels' lower prices, which are often significantly less than those of national brands. This combination, while beneficial to retailers and consumers, can put substantial pressure on the manufacturers of branded goods, who have to compete against their own customers (the retailers) for market share.

2. STATEMENT OF PROBLEM

Retailers with high degree of market power carry private label substitutes for national brands in order to capture more profit from the vertical structures they share with brand manufacturers. But private labels are not a generic competitor, because the retailer that sells them is also the national brand's customer. The private label as a category has been growing by 30-35 per cent year-on-year. Future Brands, which owns 18 trademarks in segments like apparel, FMCG and consumer electronics, is aiming to achieve a turnover of Rs 750 crore from the private trademarks. Globally owned brands contribute 17 per cent of retail sales with a growth of 5 per cent per annum. International retailers like Wal-Mart and Tesco have 40 -55 per cent own label brands in their stores. In Aditya Birla Retail the segment accounts for around three per cent of its total sales but they are targeting 10-15 per cent in the next two to three years. Bharti Enterprises, is eyeing 30 to 40 per cent growth in its private label segment in the next five years. At present, the private labels contribute to 8 to 9 per cent to the company revenues. Most retailers are eyeing 20 to 40 per cent growth in their private label segment in the next three years. As much as 50 per cent of Indian retail will be occupied by private labels. In this context, the research is undertaken.

3. OBJECTIVES OF THE STUDY

The primary aim of the research is to identify the factors that influence the customers to move towards private label products. Secondary objectives are as follows:

- To identify the factors that influence to buy private labels as compared to national brands
- To identify the input pricing strategies of marketing private labels and
- To find out the cost consciousness level and customization level for the private labels.

4. REVIEW OF LITERATURE

Stephen J. Hoch (1996) considers alternative strategies for national brands to respond to private label encroachment, including doing nothing, distancing themselves through quality innovations, fighting back by reducing price gaps, and establishing several "me-too" strategies. Rajeev Batra (2000) examine how different determinants of perceived risk help explain variations in purchasing preferences for national brands versus private label (store) brands (PLBs), across twelve different product categories. The present research aims to identify the penetration strategies used by the retailers to expand their private label segments. Mills (2005) research interprets private label marketing as a retailer instrument for overcoming the double-marginalization problem inherent in the distribution of well-known manufacturer brands. Retailers with some degree of market power carry private label substitutes for popular national brands in order to capture more profit from the vertical structures they share with brand manufacturers. Bontemps (2003) study the price response of national brands to the development of private labels and conclude that private labels have a significant effect on national brands prices. Private labels are developed in value innovators and premium categories by most retailer for profit maximization and customer loyalty (Anuja,2009). They have shaped consumer behaviour, transformed the market place, and redefined the rules of engagement with their competitors and suppliers.(Kumar, 1998) Marcel research portrayed that a quality store brand policy is profitable only if a significant portion of shoppers buys the national brand (Marcel, 2000). Jorge (2000) research provides an analytical framework of retailer-manufacturer interaction that focuses on retail competition between a national brand and private labels and suggests that private labels decrease prices to consumers, wholesale prices, national brand manufacturer profits and the double margin of the vertical structure and increases retailers' profits. The present study focuses on the customer side and enables the retailer to find-out the product category that needs to have private labels.

5. METHODOLOGY

To study the factors that influence the consumers towards private labels are studied with primary data collected from 1250 consumers in 25 shopping malls in Tamil nadu. The table- 1 shows the different stages used in analysis.

Exhibit 1

Methodology

S.No	Stage	Objective	Input	Process	Output
I	Sampling -	To find out the	Malls list	Retail units	25 chain type

	Identification of retail units	organizations that are using Private labels	from Chennaitrade mart.com	having at least 20% private labels	retail units were identified
II	Pilot Study	To enable to prepare interview schedule	30 questions were examined	Pilot study from 100 respondents	Interview Schedule
III	Sample Size	To fix sample size	Customer Data base maintained by the retailers	Confidence Interval Approach	1105 - 1298 Fixed as 1250
IV	Reliability Analysis	To filter the Sample	Responses of 3 questions	Reliability test based on Scalogram analysis	1140 responses were selected
V	Validity Measurement	To validate the responses with retail units	1140 responses	Validity measurement	1028 responses
VI	Factor that influence purchase of private labels	To filter the insignificant factors	Responses of all variables – Interval scaled Data	Factor Component analysis	3 factors established
VII	Customer Perception	To represent the perceptions	Perception data based on	Multidimensional scaling Analysis	Two dimensions

	Measurement	of respondents spatially towards product	similarity ratings		were identified

6. PRIVATE LABELS IN INDIA

Private labels in India are poised to heavy growth. Store-brand labels in apparel industry in India are on a complete upswing. With more and more retailers offering products under their own private labels, consumers have not had it so good as far as shopping for apparels is concerned. Private label products encompass all merchandise sold under a retailer's brand. That brand is the retailer's own name or a name created exclusively by that retailer. Marketing managers struggle between cost-saving standardization for a mass market and high-cost customization for a specific niche to improve consumer-acceptance. Given the technological developments in recent times, standardized products no more enjoy unique selling propositions as imitations cannot be prevented from entry. Organizations continuously strive to find a method of creating unique selling proposition (USP) to retain their existing customers and acquire new customers. A popular private label changes the status of the retailer from a customer to a competitor for a national brand marketer. When customers are competitors, standard predatory strategies and tactics may not be appropriate; instead, there is a premium on creating a successful basis for coexistence. This calls for improvisation in the elements of marketing strategy of the national brands. Manufacturers of national brands need to look for ways of carrying out business due to the potential loss of business resulting from such local onslaughts. In India, private brands have attracted attention primarily only in the last decade.

Store brands are the only set of brands for which the store is entirely responsible. Thus, the store has to bear all the costs (development, sourcing, marketing effort, time, risk and promotion) and it reaps all the rewards of the brand's success. It is intuitively evident that a store will enter into that product category that has (a) high profit margin (b) low entry barrier to labelling and (c) low switching cost to the consumers, which may be either monetary of affective. 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 favoured (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. The retailer's profits will increase more likely in product categories consisting of a large number of national brands.

Apart from these benefits, the retailer also gets a chance to test its product marketing capabilities, track the categories more closely and do the long term category planning. Lets have a look at one such example, around 2 years back, country's largest organized retailer Future Group(Big Bazaar) had a tussle with PepsiCo's Frito-Lay. The company decided not to accept the unilateral terms of Frito-Lay (which had more than 50% market share in potato chips category in those days), and instead took the bold step of removing all the company products from its shelves. This actually proved to be a blessing in disguise for the company as its own private brand "Tasty Treat" filled the void and in fact emerged as a category leader cornering around 16% of business across big bazaar stores. The group also has its own cola brand with the same name ("tasty Treat Cola") which gives a tough competition to the two cola majors. Buoyed by these successes the company now plans to launch other FMCG products and is even offering its products to the open markets and other retailers. In store labels are at least 5-20% cheaper across various categories. This is because they cut out middlemen costs and pass on the benefit to the consumer. But this is not only about price any more; private labels have come a long way over the last three decades. Globally, the biggest change has been the entry of premium private labels. By offering high quality products, many private labels are actually charging more than the regular manufacturers. In India retailers are increasingly putting their weight and marketing muscles behind their private labels. The worsening economic condition has also forced them into looking for ways of combating increasingly intolerant manufacturers and retaining higher profits through means like private labels. Financially strained consumers are also more likely to try these 'value for money' products. Previously many retailers were reluctant to actively promote their private labels, fearing this could damage their brand as a retailer (make them look like a downscale discounter) and strain their relationship with manufacturers. Manufactures are responding with increased promotional activity and new marketing campaigns. But they are fighting as hard as they can against any "new deals" for retailers. They know that if they go down that path there's no turning back once the economy picks up.

7. INPUT PRICING OF PRIVATE LABELS

The growth in private label is likely to slow, although a shift in consumers' loyalty from branded to own-label lines is "permanent", .As a result, value has become the overriding objective for retailers looking to develop their private labels, with major retailers such as Carrefour, Tesco and Metro Group exploiting this opportunity with "fighter" ranges designed to slow rampant discounter growth, At the value end, the fighter ranges will lose momentum and shelf space, as the novelty factor wears off, although they will not disappear altogether. Nonetheless, the research company said that, even with fighter brands' diminishing importance, FMCG producers are not yet through the worst. Private labels are generally priced 15% lower than their branded counterparts, offering the retailer an incremental margin over the earnings from a national FMCG brand. Traditionally, private labels have performed well in low-branded categories such as rice, sugar and salt. According to data from the Future Group, the potato chips category is dominated by brands such as Frito lay, Future Group's Tasty Treats has registered second place with an in-store share of 22%, falling back by a small margin. In the Namkeen (ready-to-eat snacks) category, driven by brands such as Haldirams, Tasty Treats has become a top seller at the group's Food Bazaar outlets with a 21% in-store share. The company's Care Mate diaper brand has clocked a share of about 41% in a category known to be built by brands such as Huggies. The group plans to grow into a Rs 10,000-crore consumer products company by 2012, with private labels contributing a third of its revenue. RPG Group's Spencer's Retail, which sees private labels accounting for 25% of its revenue over the next two years from 10% at present, sees a similar trend. Brands, as retailers show up with market leading in-store sales figures. Take, for instance, Aditya Birla's retail arm More, whose Feaster's private food label outsells iconic instant noodles brand Maggie across many zones. More currently sees its private labels accounting for about 5% of total revenues, but expects this to jump to 15-20% soon. Private labels are generally priced 15% lower than their branded counterparts, offering the retailer an incremental margin over the earnings from a national FMCG brand. Traditionally, private labels have performed well in low-branded categories such as rice, sugar and salt. According to data from the Future Group, the potato chips category is dominated by brands such as Frito lay, Future Group's Tasty Treats has registered second place with an in-store share of 22%, falling back by a small margin. In the namkeen (ready-to-eat snacks) category, driven by brands such as Haldirams, Tasty Treats has become a top seller at the group's Food Bazaar outlets with a 21% in-store share. The company's Care Mate diaper brand has clocked a share of about 41% in a category known to be built by brands such as Huggies. The group plans to grow into a Rs 10,000-crore consumer products company by 2012, with private labels contributing a third of its revenue.RPG Group's Spencer's Retail, which sees private labels accounting for 25% of its revenue over the next two years from 10% at present, sees a similar trend.

New pricing and promotion strategies will be needed to bring consumers back into the brand fold. There is no question that brands will always have a place in our retail marketplace. But, it's not clear how companies will be able to re-energize their brands and re-capture those who have spent some time on the Private Label side of the aisle.

8. FACTORS INFLUENCING PURCHASE OF PRIVATE LABEL PRODUCTS

Eleven factors were identified. The factors are filtered by factor analysis. Q-sort scale was developed to sort the perceived values of customers and classify them into five categories. The expecting values from customer's perspective are listed as quality, second brand, perceived quantity, desired assurance, tangibility, reliability, assurance, competitive pricing, mark-down pricing, trust and sophistication. The average score less than 2.5 are filtered out. Thus, quality, second brand, reliability, assurance and sophistication variables are filtered out. The value of Kaiser-Meyer-Olkin statistic is 0.594. Bartlett's test of sphericity was used to examine the hypothesis that the variables are uncorrelated. Since, KMO is greater than 0.5 and the variables are significantly correlated, factor analysis was considered as an appropriate technique. Principal component extraction method was used. Three factors are established and mentioned in table 1

Table-1

Customer Perception Factors

Factors Established	**% Variance Explained**	**Variables**	**Loadings**
Customization	26.14	Perceived quantity Desired assurance Tangibility	0.668 0.627 0.609
Pricing	18.40	Competitive pricing Mark-down pricing	0.680 0.648
Trust	15.85	Trust	0.557

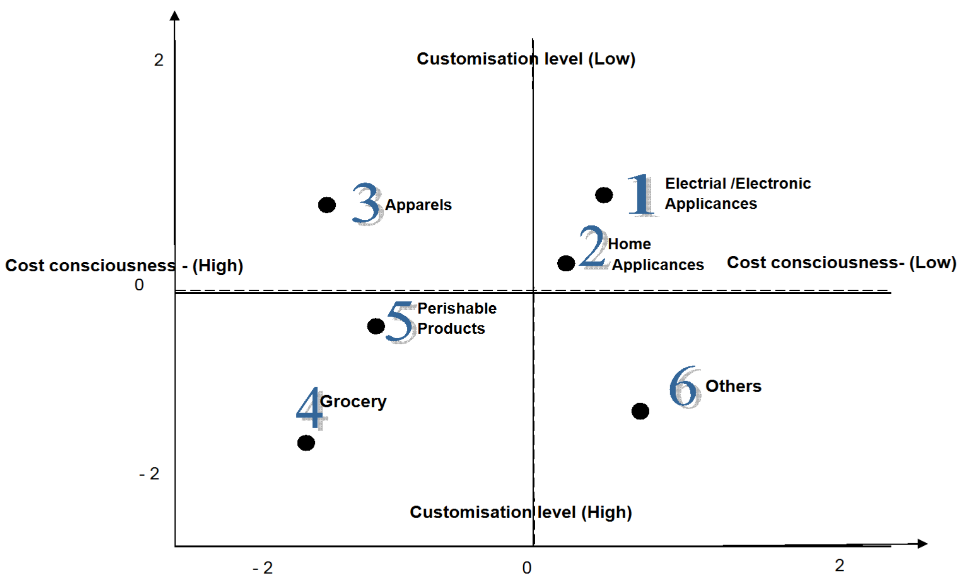
Since factor 1 seemed to capture the different methods of customizing the customer requirements, it was named as 'customization. Factor 2 seemed to represent the pricing strategies of private labels. Hence, it was named as 'pricing'. Factor 3 portraits the trust towards the private labels by the customers.. Thus, the private labels are perceived by the customers because of customization of products, pricing discrimination used by retailers and trust on retailers.

9. SUITABILITY OF PRIVATE LABELS – PRODUCT STRATIFICATION

To identify the cost consciousness towards private label product, rank order scaling was constructed. The customers are presented with same five options and asked to rank them according to customization level.. Multidimensional scaling was used to measure the relative importance given by the respondents. The perceived relationships among the promotional attempts are represented in the spatial map(Exhibit IV). The vertical axis was labeled as customization level (High to low).The horizontal axis represents the cost consciousness level (High to low) incurred by the urban retailers. Exhibit – 3 shows the Euclidean Distance Model that measures the customer perception.

Exhibit 3

Euclidean Distance Model



The result shows that private levels for the grocery category are having high consciousness over cost and customization level. Hence it may be conclude that the private labels are moving well with regard to grocery products.

10. CHALLENGING NATIONAL BRANDS

As retailers have become more powerful and global, they have increasingly focused on their own brands at the expense of manufacturer brands. Rather than simply selling on price, retailers have transformed private labels into brands. Consequently, manufacturers such as Johnson & Johnson, Nestle, and Procter & Gamble now compete with their largest customers: major retail chains like Carrefour, CVS, Tesco, and Wal-Mart. The growth in private labels has huge implications for managers on both sides. Yet, brand manufacturers still cling to their outdated assumptions about private labels. Most important, they lay out actionable strategies for competing against--or collaborating with--private label purveyors.

11. PROJECTION FOR PRIVATE LABEL

Private retailers will occupy 50 per cent of the market the world over. At 50 per cent, they begin to saturate. In countries such as Switzerland and the UK, private labels have reached this limit and these markets have saturated. But they will continue grow in the other countries till they reach the same level. And this will happen very soon in India, too. Private labels are giving established fast moving consumer goods brands a run for their money. Though private labels comprise 10 to 12 per cent of the overall FMCG volumes, analysts said they were recording double-digit growth annually and could pose problems for the big players in the near future. In food and beverages, for instance, Aditya Birla Retail's Feasters Noodles Family pack contributes 40 per cent of the revenues from the category. Aditya Birla's private labels cover seven brands and over 290 products and variants. Spencer's and Future Group private labels have double-digit market share in food (10-20 per cent) and beverages (8-10 per cent), home care (10 per cent) and personal care (10 per cent). Spencer's sells private labels under the Spencer's Smart Choice name. It is targeting 20 per cent market share across the categories in the next three years. Spencer's has a 0-20% market share in food; 8-10% in beverages; 10% in home care and personal care. Pantaloon's Fresh n Pure, Cleanmate, Tasty Treat, Caremate, Sach have 15-40% market share in the respective categories. In international markets, private labels contribute to more than 55% of store value in FMCG sales

12. CONCLUSION

Private labels are often designed to compete against branded products, offering customers a cheaper alternative to national brands. Though the public generally used to see them as low-cost imitations of branded products, private labels have overcome this reputation and achieved significant growth in recent years. The most commonly known private label goods are the “store brands” sold by food retailers, though this is just one example of many. Department stores, electronics stores, and office supply retailers all offer private label products or services. The result of the study underlines the concept of using private label with brand equity value of the retail outlets. The private labels can be used by the retailing units having good reputation, experience and brand resonance. However private-labels will create impressive value only in long-run. The brand proposition created by the private labels leads to create enterprise brand resonance rather than product brand resonance. Hence it will create brand heritage value for the enterprise.

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