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Store Brands in Organized Retail : An Insight

Abstract

Gone are the days when store brands or private labels were considered cheaper alternatives and copycats of national brands. Just as is the case with any brand building activity, building a store brand or private label requires strong amount of customer orientation and an innovative strategic approach. Across the globe, it has been found to be a potent weapon for retailers to create differentiation and strong customer loyalty. They have also been found to enhance category profitability and negotiation power of retailers. There are several product categories where private labels or store brands have been found to earn greater revenues compared to national brands.

In India, the significance of store brands is fast increasing. It is not just the grocery retailers that are developing various private labels in order to cater to regional palettes but also the apparel retailers like Pantaloons and Shoppers Stop, who are developing their own clothing line. In all, the prospect for store brands looks quite promising as it seems to be an attractive proposition not just for the retailers but also for the customers.

Introduction

Across the globe, the demand for store brands is fast increasing. Some of the probable triggers behind the trend have been the rapid emergence of youth shoppers who are willing to experiment and have sufficient amount of disposable income. Also, retailers have often been found to make compromises in terms of allocation of shelf space or credit terms when they go for stocking national brands which they have found to minimize while adopting the private label strategy. It has been generally observed that store brands are priced 20%-30% lower than the national brands. Moreover, if properly created, private labels can contribute handsomely to the sales revenues of a store. In the US, private labels contribute to 15% of sales; while in Canada and Europe, private labels

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account for 25% to 50% of sales revenues. In the international markets, in certain product categories, store brands have surpassed the national brands in terms of sales and are by and large an established phenomenon as such. However, in India, the strategy of store brands is still at a nascent stage. It accounts for 3%-4% of the retail market in terms of revenue generation and there are presently only a big corporate houses like the Future Group, The Tatas, the Rahejas and the Birlas that have successfully adopted the store brands strategy.

Store Brands: Meaning and Strengths

Store brands, also called private labels are products that are developed by a retailer and are available for sale only through that retailer. The brand names of such products are owned by the retailer.

Across the globe, store brands have been found to create strong differentiation in the markets. By assuming innovative names and packaging features, store brands have often been found to garner more attention of shoppers vis-à-vis national brands. This has often translated to reduction in price competition.

Further, it has been observed that after using the product once, shopper often tend to buy and use it again. In other words, private labels often trigger repeat purchases and generate customer loyalty.

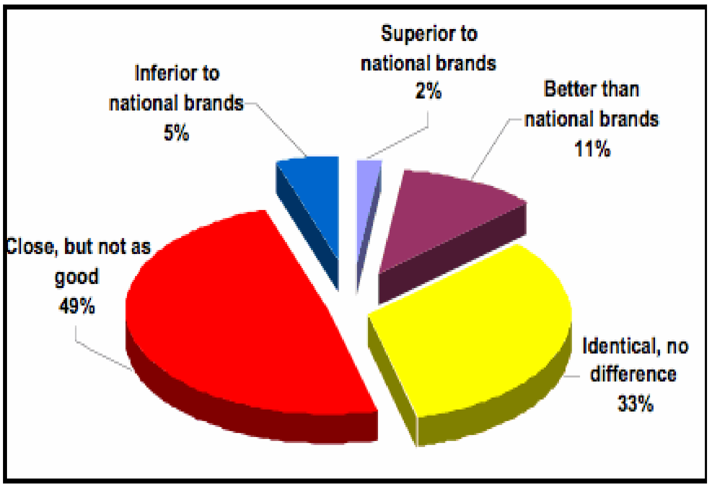
Since store brands are often manufactured and marketed by retailers themselves, cost of acquiring them and inventory holding costs are greatly minimized which translates into higher margins for retailers. Store brands pose to be an attractive proposition for retailers in this context.

Store brands that are launched after thorough consumer research have often been found to address some of the most important requirements of customers. Customers often seek greater value thus while buying store brands rather than national brands that are launched based on the feedback of a greater populace. Since store brands have the capacity to appeal to regional tastes and temperaments, niche markets are better served through store brand strategy.

Perception on Store Brands

Globally, customers have been found to possess varying perceptions regarding store brands **(Exhibit-I)**. The perceptions often have to do with the product category. For low-involvement purchases or where the purchases are not extremely critical to the health of individuals, customers have been found to readily experiment with private labels and have often in the long run preferred private labels over national brands but situations have been quite different otherwise. Globally, refrigerated food, paper, plastic and wraps and pet food are few product categories that have witnessed the maximum demand for private labels while for product categories like cosmetics and baby foods, customers have largely been loyal to national brands. Market research reports have revealed that a very small segment of customers have either called private labels superior to or inferior to national brands. Majority of the customers are of the opinion that store brands are almost similar to national brands but then they are inferior compared to national brands when it comes to quality.

Exhibit-I
Store Brands and Customer Perceptions



Source: http://www.hartman-group.com/img/hartbeat/legacy/2006_08_30fig1.gif

Why Retailers go for Store Brands?

Store brands offer certain definite advantages. Firstly, through store brands, a retailer assumes greater control over the development process of a product which allows him to gain more control over his business. Private label strategy is an effective option for a retailer in case he wants to market high quality products. There are no competitors in the market for any store brand which motivates sales people to sell the product to customers. There are significant cost savings to be considered for store brands vis-à-vis national brands. Globally, private labels offer the following categories and extent of cost advantages:

Suppliers Cost Saving	:	10.6%
Lower Supplier Margin	:	18.8%
Retailers Purchase Saving	:	29.4%
Lower Retail Price	:	19.3%
Higher Retail Margin	:	10.1%

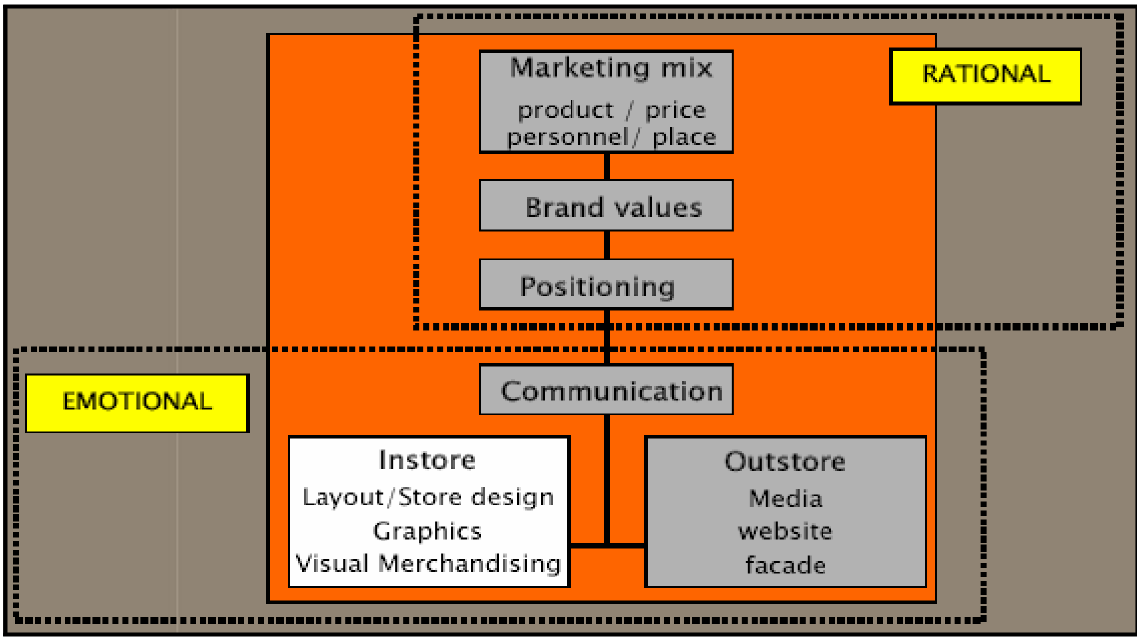
Process of Store Brand Development

There are certain key steps of developing a store brand:

- Benchmark the Brand Leader
- Look-a-likes
- Category Segmentation
- Space Allocation
- Selective Listing of Brand Leader SKU's

There are various key ingredients that go into the making of private labels or store brands **(Exhibit-II)**. They can be mainly classified into types – rational and emotional. Apart from conforming to the 4Ps of marketing viz. product, price, place and promotion, any successful store brand needs to possess brand values and distinct positioning. All the above mentioned elements constitute the rational ingredients of store brand building. The key element constituting emotional ingredient is communication. A store needs to communicate to customers both within and outside the store. Media plays an important role as far as communicating with customers outside retail stores is concerned. Visual merchandising plays the defining role as far as communicating with customers within the store and creating a favorable appeal for a store brand is concerned.

Exhibit-II
The Ingredients of a Store Brand



Source: http://www.presston.com/contenidos/prensa/anceco/Jos%20de%20Vries.pdf

There are certain critical elements that need to be taken into consideration by retailers both before as well as during the introduction of private labels. The first and foremost requirement for a private label to be successful is that it needs to launched after adopting suitable targeting strategy. Generally, it has been observed that retail stores target the middle income and the high income group with their own brands as because these segments visit retail stores frequently. In other words, the 'consuming class' and the 'climbing class' are two consumer segments that offer lucrative opportunities to retailers as far as store brands are concerned.

Before a store brand is introduced, a retailer needs to identify the relevant needs and wants of customers. The needs and wants can be identified either by conducting a survey on the target customers or the information can be obtained through a few key customers. The demand gaps have to be identified and products need to designed accordingly by retailers in order to successfully tap the demand gaps.

Besides the quality aspect another key factor that needs to be considered by any retailer before introducing its private label is the pricing strategy. Until and unless a store brand is launched to fill a significant demand gap of customers, a premium pricing strategy is not followed by retailers. The extent to which retailers reduce the prices of their private labels depend upon the product category in which a particular brand is launched. Generally, store brands are priced a third lower than national brands. However, emerging markets have the largest differential in this context **(Exhibit-III)**.

There needs to be a well-thought positioning strategy before a private label is introduced by any retailer. Generally, retailers across the globe follow two kinds of strategy while positioning their store brands. One of them is the differentiation strategy where retailer launch quality brands that differentiate them form national brands. Sam's Choice from Wal-Mart is one example which can be cited in this context. But then more than 50% of private label introductions are based on imitation strategy where retailers introduce a me-too product in comparison to a well recognized national brand.

Packaging is another aspect which retailers need to focus on. Since store brands are not advertised in the mass media, packaging of products should be such that when customers browse through the merchandise in a store, they should be attracted to private labels due to their packaging and design. The packaging should be in tune with the tastes and temperaments of the two major consumer segments frequenting the retail stores.

The sales people on the shop floor needs adequate product training when it comes to store brands since they are the people who will be handling customer queries regarding store brands. Customers generally will have no idea about the functions of a brand until and unless they visit a store and the sales people should be so trained that they can actually act as substitutes for mass-media advertising.

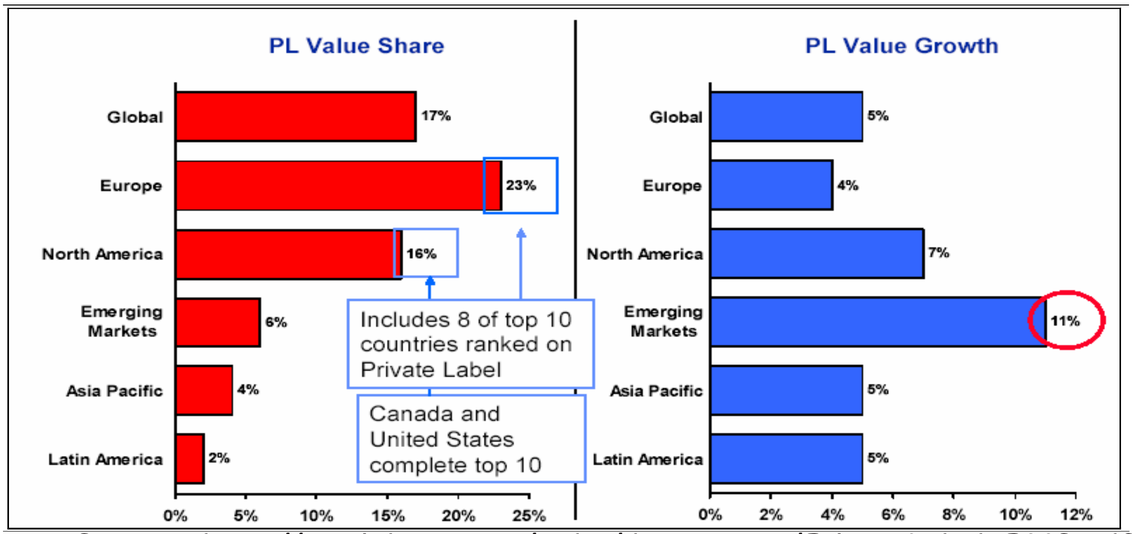
During the introduction of store brands, promotion plays a major role. Strategies like advertising, personal selling, sales promotions and publicity play a significant role in introducing a store brand to its customers. Advertising on signages, handbills, posters within the store can be some effective means to make the consumer aware about the arrival of some latest store brand. Customer feedback enables a retailer to understand the implications of launching a store brand. Such an exercise allows a retailer to make tangible changes to the store brand if required in order to improve the quality of the brand.

Store Brands: The Global Scenario

In recent times, sales of store brands outpaced manufacturer brands in two-thirds of the countries across the globe. Sales of private labels increased by 5% overall in these countries while manufacturer brands grew by just 2%. Europe has been found to occupy the 'numero uno' position as far as value share of private labels is concerned while emerging markets witnessed the fastest growth in value of store brands **(Exhibit-V)**.

Exhibit-V

Private Label Value Share and Value Growth



Source: http://at.nielsen.com/pubs/documents/PrivateLabel_RMS.pdf

The growing presence of discount chains and supermarkets across the globe has been the reasons for the significant growth of private labels. Store brands account for almost 95% of sales of Aldi, the German discount retailer. One major reason behind Europe being the leader as far as private label retailing is concerned is the presence of a large number of discount retailers in countries like Germany, France and the UK **(Exhibit-VI)**.

Exhibit-VI
Discount Retailers and their Percent Sales in Store Brands

UK		**Germany**		**France**	
Safeway	47	Aldi	90	Carrefour	20
Tesco	51	Rewe	22	Auchan	16
Sainsbury	54	Tenglemann	19	Intermarche	29
Asda	54	Metro	14	LeClerc	18
Somerfield	36	Markant	6	Casino	23
National Av.	**45**		**33**		**22**

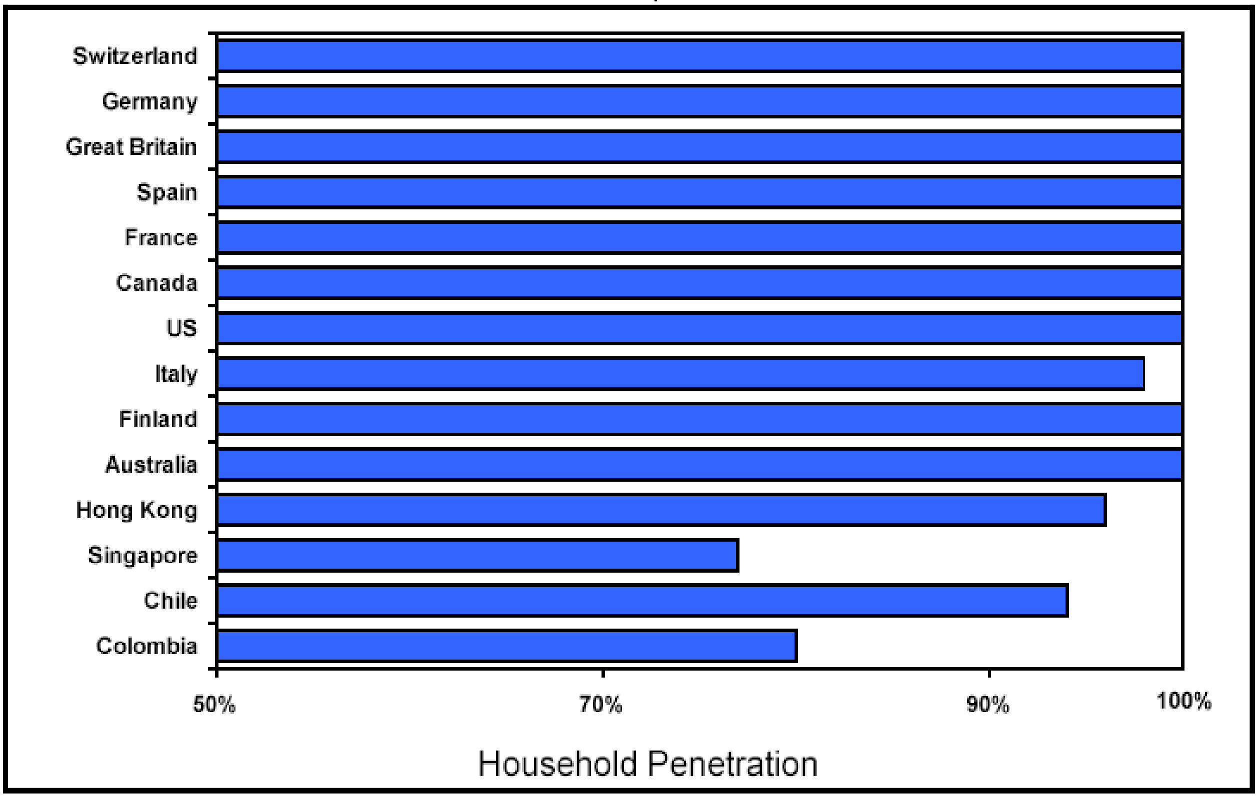
Source: http://PrivateLabel/DickBell/Oxford/2005.pdf

In various European countries and in the US, all consumers were found to purchase store brands. In other words, 100% household penetration was reported in these countries **(Exhibit-VII)**.

Source: http://at.nielsen.com/pubs/documents/PrivateLabel_RMS.pdf

Exhibit-VII

The Penetration of Private Labels



Store Brands: The Indian Scenario

In India, store brands presently contribute to a turnover of INR 700 crores. There are various retail entities that have launched their private labels in the recent past and most of them have been either from the food or from the apparel industry. However in India, people's awareness level regarding store brands is pretty low and hence when it comes to acceptance, they shy away from store brands and want to stick with the tried and tasted national brands. The requirement thus for the organized retailers is to educate the customers and under their buying behavior properly in order to make inroads into their perceptual territory.

Nirmalya Kumar (Kumar), director of the Aditya Birla India Centre at the London Business School puts it, "...organized retailing in India is still at a nascent stage and private labels occupy less than 5 percent of the total Indian market." Echoing similar opinion, Jan-Benedict Steenkamp, professor of marketing at University of North Carolina observed, "The highly fragmented nature of the Indian retail market has limited the growth of private labels in India."

In Indian context, it has been observed that when it comes to local tastes (in food products), people prefer private labels or store brands as because they are not just reasonably priced but also cater more to local palettes. Food Bazaar did something similar with its Tasty Treat line of food products that included pickles, ketchup and jams. The move contributed to 5%-10% of its overall sales. Speaking on the areas where store brands have an advantage over national brands, Arvind Chaudhury, CEO of Food Bazaar observed, "When it comes to local tastes and preferences, private label brands have an advantage over national brands. For example, the mustard kasundi (sauce), which is very popular in east India, is not sold by any national manufacturer, but only through small regional players. We [identified this niche] and introduced our private label brand Tasty Treat Kasundi to customers looking for a quality offering which cannot be met by small regional players."

Indian retailers in the organized sector have been found to offer quality products at competitive prices. Food Bazaar was found to launch a premium health salt and priced it like an ordinary salt. Food Bazaar followed differentiation strategy and tasted success with it as it was found to enjoy 40%-45% market share in its category among all the Food Bazaar outlets. However, experts within the industry have different opinions regarding private labels. While some feel that private labels in India have lots of challenges to counter and hence lot of caution needs to be exercised by the entities of the organized retail sector when it comes to developing and introducing private labels, there are others who are quite optimistic about the emergence of store brands.

It has been widely felt that private labels as of now will yield returns only if they are introduced in niche demographics. Moreover, the retailers should be cautious that such introductions are not made in highly branded spaces or in high-involvement product categories. In this context, Samar Singh Sheikhwat, vice-president marketing at Spencers Retail said, "We are developing private labels in unbranded spaces, which are currently dominated by the unorganized market. Spencers Retail has a chain of 320 supermarkets across the country, and houses 25 private labels, which contributes to a quarter of the turnover." He added, "Currently we are staying out of high involvement and high technology products as these require a high level of trust, and it will take a while before consumers accept [our] brands in these categories."

Although retailers like Food Bazaar have introduced products like Mustard Kasundi after suitably identifying a demand gap, it will be too early to forecast the consumer behavior if and when such products are launched as extensions to brands like Maggi and Kissan. After all, these have been household brands for decades and consumers have developed a deep trust in such brands. How will store brands compete to sustain in such a scenario is a critical issue to consider.

Many experts feel that Indian consumers need to be educated so that they accept the logic behind the making of store brands. Today, most private labels are introduced in food categories like grains, peas, beans and lentils which are normally bought from local markets in less hygienic packing formats. The value addition that organized retailers are imparting to such products is hygiene which needs to be highlighted. Retailer like Food Bazaar have been observed to go a step further in educating customers and winning their trust as far as their private labels are concerned. Arvind Chaudhury of Food Bazaar observed, "Many Indians believe in the age old tradition of 'chakki atta' (making and using freshly ground wheat flour). Hence, in most of our stores we have a person grinding wheat in front of our customers to educate the shopper that the branded atta (wheat flour) we sell is also freshly ground, and packaged to retail its aroma."

With the increasing number of organized retail outlets across the country and the increase in the disposable income among the Indian middle-class, private labels do have a very promising future. The rising power of the youth in the country and their tendency to experiment with new products and services is another favorable trend for private labels. But then, for the private labels to thrive in India, the Indian organized retail industry needs to undergo a significant makeover. As Nirmalya Kumar puts it, "A key factor in the growth of private label brands in India will be retail consolidation. Developing a private label brand has huge fixed costs and to be able to absorb these costs, Indian retail chains will need to scale up."

Prospects of Store Brands

Over the years, store brands have been found to offer customers not just cheaper alternatives but also quality products. Quality products at competitive prices are what have made customers to adopt private labels globally and in India. Store brands have offered retailers greater flexibility and customers with enhanced choices. Consumers in the niche markets have valued the importance of store brands. In the days ahead, store brands are set to surpass the national brands in terms of sales in various product categories. While there are certain brands that have over the years achieved heritage status and durable customer loyalty, there are large number of brands where customers are price-sensitive and are more of a fence-sitters (ready to make a switch anytime). It is in these domains that private labels are set to make a mark provided they are effectively promoted by retailers.

Conclusion

There are many challenges however facing organized retailers in India as far as store brands are concerned. One of the foremost challenges facing the private labels is that organized retailing in India is yet to develop in a big way. Majority of customers across the country still shop at kirana stores and they trust the neighborhood vendor for their shopping needs. There is a very powerful bonding that exists between the kirana owners and the customers. In the present scenario thus, acceptability of private brands by a significant chunk of customers is a distant possibility. Apart from managing the psychology of customers and countering their resistance new brands, entities in the organized retail sector have various other challenges. Supply chain efficiency, overcoming high initial fixed costs and upgrading management operation with the aid of technology are some of them. The above said factors have either a direct or indirect role to play as far as private labels are concerned. However, with the growth of organized retailing, innovative solutions will be devised for promoting store brands which in turn will witness their growth and acceptability.

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