

PRIVATE GOES PUBLIC: STUDY ON GROWING SHARE OF PRIVATE LABELS IN INDIA

Sandeep Puri

Institute of Management Technology Raj Nagar, Ghaziabad-201001 India Mob:
+919910024801 E-mail: spuri@imt.edu

Dr. Harsh Dwivedi

Director-R.A. Podar Institute of Management, University of Rajasthan, Jaipur,
India E-mail: harsh_dwivedi1@rediffmail.com

Dr. Bhawana Sharma

Jaipur National University, Jagatpura, Jaipur
E-mail: drbhawana29@gmail.com

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.

KEY WORDS – Indian Retail Industry, Private labels, National brands, Retail Management

1. 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. The two distinct advantages derived from the adoption of private labels by retailers are: better margins, and increased store loyalty (Fontenelle 1996).

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

- **Higher margins in comparison to national brands:** Retailers’ gross margins on private labels are usually 25 to 30 percent higher than those on national brands.
- **Greater leverage:** Presence of private labels in the portfolio allows the retailer better negotiating power with the national brand manufacturers.
- **Opportunities to launch new innovative products:** Private labels offer retailers to launch new innovative products. Private labels can help them to have a broader range of products at various price points. Retailers can also use private labels to provide variety to the customers.
- **Creation of strong customer loyalty:** Private labels help to differentiate the products of one retailer from those of others, resulting in increased customer loyalty towards a particular retail chain.
- **Greater control on the supply chain:** Retailers can have a greater control on the supply chain with their own private labels. They can

have less stock outs and better customer satisfaction leading to improved customer loyalty.

Private label brands which were first introduced almost 100 years ago in few product categories, had seen an extraordinary growth in past few decades (Tarzijan, 2004). Private label brands are no longer a feature primarily of retailers in the developed countries, as was the case for decades. 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).

The brisk proliferation of private labels is dramatically changing the competitive environment in the retail trade. 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. 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 reasons for the increased growth of private labels in the global retailing.

2. INDIAN RETAIL INDUSTRY

Retailing in India is booming in line with InfoTech and is becoming a key contributor to service economy. As per AT Kearney's report 2010, India's retail market is US\$ 410 billion and is expected to rise to US\$ 833 billion by 2013 and to US\$ 1.3 trillion by 2018, at a compound annual growth rate (CAGR) of 10 per cent. 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. 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.

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.

3. 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.

Rao (1969) questioned Cunningham's results. Rao argued that although store loyalty may increase the probability of purchasing the sponsored private labels, consumers usually do not distinguish among private labels offered by competing retail chains. Instead, Rao argued that consumers who are prone to buy private labels do so at whatever chain they happen to patronize.

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. At equal prices, consumers preferred the national brand to a private label (Narasimhan and Wilcox, 1998). 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 deducted 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.

4. PRIVATE LABELS IN INDIA

Private labels of leading retailers in India are:

Big Bazaar

Tasty Treat: Breakfast cereals, noodles, pasta, soups, jams, pickles, ketchup and fruit beverages

Fresh n Pure: Ghee, cheese and butter.

CareMate: Diapers and paper napkins

CleanMate: Home care products

EasyDay

Great Value: Flour, dry fruits, spices, ketchup cereal and tea

Equate: Hand sanitizer, Nail polish remover

Mainstays: Plastic containers, kitchen accessories, stationary

MORE

More: Staples

Feasters: Ketchups, jams, chips, cookies

Kitchen's Promise: Ready-to-eat

Enriche: Soaps and conditioners

110%: Detergents

Reliance Retail

Reliance Select: Flour, salt, sugar, rice, noodles, tea etc

Reliance Value: Cereals, Rice

Dairy Life: Dairy products

Good Life Moments: Tea

Good Life: Juices

Dazzle: Toilet cleaners

Spencer's:

Tasty Wonders: Breakfast cereals and snacks

Clean Homes: Home cleaning products

Collage Studio: Range of stationary

UnI: Fashion Accessories

Maroon: Home Essentials

Vishal Retail:

V-Fresh: Jam, Ketchup, Cornflakes, Juices, Pickles, Pure Ghee, Mustard Oil, Wafers, Chips and Squashes

V-Needs: Staples such as rice, whole wheat flour.

5. FACTORS TRIGGERING THE GROWTH OF PRIVATE LABELS

Factors triggering the growth of private labels in India and International market are:

5.1 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.

5.2 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:

- i. 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.
- ii. 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.

5.3 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.

6. 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.

REFERENCES

1. Ashley, S. (1998). How to effectively compete against private-label brands. *Journal of Advertising Research*, Vol.38 No. 1, 75-82.
2. ATKearney Publications, Global Retail Development Index 2010 .www.atkearney.com (Assessed on 27/1/2011).
3. Baltas, G. (1997), "Determinants of store brand choice: A behavioral analysis", *Journal of Product & Brand Management*, Vol. 6 No.5, pp.315-24.
4. Batra, R., Sinha, I. (2000), "Consumer-level factors moderating the success of private label brands", *Journal of Retailing*, Vol. 76 pp.175-91.
5. Bellizzi, J.A., Kruckeberg, H.F., Hamilton, J.R., Martin, W.S. (1981), "Consumer perceptions of national, private and generic brands", *Journal of Retailing*, Vol. 57 pp.56-70.
6. Chaniotakis, I. E., Lemperopoulos, C., Soureli, M., (2010), "Consumers' intentions of buying own-label premium food products". *Journal of Product and Brand Management*, Vol. 19/5, pp 327-334
7. Cheng, J.M.-S., Chen, L.S.-L., Lin, J.Y.-C., Wang, E.S.-T. (2007), "Do consumers perceive differences among national brands, international private labels and local private labels? The case of Taiwan", *Journal of Product & Brand Management*, Vol. 16 No.6, pp.368-76.
8. Chetan Bajaj, RajnishTuli, Nidhi V Srivastava (2005), "Retail Management", PP459-460, ISBN 0-19-566986-X.
9. Corstjens, M., and Lal, R. (2000).Building store loyalty through store brands.*Journal of Marketing Research*, Vol.37 No.3, 281-291.
10. Cunningham, R.M. (1961), "Customer loyalty to store and brand," *Harvard Business Review*, Vol. 39, pp. 127-37.

11. Dobson, P.W. (1998), "The Economic Welfare Implications of Own Label Goods", mimeo, University of Nottingham.
12. Fitzell, P. (1992), *Private Label Marketing in the 1990s*, Global Book Productions, New York, NY.
13. Fontenelle, S.M (1996), "Private labels and consumer benefits- The Brazilian Experience", *Advances in Consumer Research*, 23, pp 97-103.
14. Hoch, S.J. and Banerji, S. (1993), "When do private labels succeed?," *Sloan Management Review*, Summer, pp. 57-67.
15. *Invading Private Labels*, Retail Biz, Sep. 2004, p. 19.
16. Kumar, Nirmalya, & Steenkamp J. (2007) *Private Label Strategy: How to meet the store brand challenge*, Boston: Harvard Business School Press.
17. Lamey, L., Deleersnyder, B., Dekimpe, M., & Steenkamp, J. (2007). How business cycles contribute to private-label success: Evidence from the United States and Europe. *Journal of Marketing*, 71(1), 1-15.
18. Lincoln, K. and Thomassen, L. (2008), *Private Label: Turning the Retail Brand into Your Biggest Opportunity*, p. 6, Kogan Page, London
19. Narasimhan, C., & Wilcox, R. (1998). Private labels and the channel relationship: A cross-category analysis. *Journal of Business*, 71(4), 573-600.
20. PLMA International, http://www.plmainternational.com/en/private_label_en3.htm. (Assessed on 2/12/2010).
21. Quelch, J.A. and Harding, D. (1996), "Brands versus private labels: fighting to win," *Harvard Business Review*, January-February, pp. 99-109
22. Raghuram G., Bibek Banerjee and Abraham Koshy, 1999. "Food World (B)", Case, Indian Institute of Management, Ahmedabad. p.5.

23. Raju, J., Sethuraman, R., &Dhar, S. (1995). The introduction and performance of store brands. *Management Science*, 41(6), 957-978.
24. Rao, T.R. (1969), "Are some consumers more prone to purchase private brands?," *Journal of Marketing Research*, Vol. 6, November, pp. 447-50.
25. *Recession, Recovery and Store Brands: What Consumers Are Saying Now* (2010), PLMA Consumer Research Report. http://www.plma.com/share/press/FOR_IMMEDIATE_RELEASE/PLMA_Recession_Recovery_and_Store_Brands.pdf (Assessed on 24/2/2011).
26. *Retailing Industry in India*, available at: <http://www.indiaonestop.com/retailing.htm>(Assessed on 14/3/2011).
27. Richardson, P., Dick A.S. and Jain, A.K. (1994), "Extrinsic and intrinsic cue effects on perceptions of store brand quality," *Journal of Marketing*, Vol. 58 No. 4, pp. 28-36.
28. Rosen, D. (1984). Consumer perceptions of quality for generic grocery products: A comparison across categories. *Journal of Retailing*, 60(4), 64-80.
29. Steiner, R.L. (2004), "The Nature and Benefits of National Brand/Private Label Competition", *Review of Industrial Organization*, 24, 105-127, 30.
30. Sundel, H.H. (1974), "An experimental analysis of consumer attitudes toward grocery products under manufacturer's brands, nationally distributed private brands, and locally distributed private brands," unpublished doctoral dissertation, Saint Louis University.
31. Tarzijan, J., (2004). Strategic effects of private labels and horizontal integration, *International Review of Retail, Distribution and Consumer Research*, 14(3), 321-335.
32. *The Global Staying Power of Private Label* (2010), <http://blog.nielsen.com/nielsenwire/consumer/the-global-staying-power-of-private-label/> (Assessed on 2/5/2011).