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THE BATTLE OF PRIVATE AND NATIONAL BRANDS: STRATEGIES TO WIN A LOSING BATTLE AGAINST THE PRIVATE BRANDS IN INDIA

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ABSTRACT

Once treated as inferior, substandard and poor man's products, the private brands are now proving to be the new game changers in a vibrant Indian retail sector, threatening to pose an existential threat to the various national brands. By adopting the value pricing, better quality through upscaling, high safety standards, customized packaging, differentiation and leveraging the brand equity of the retailers they have significantly grown over the last decade across the world in general and particularly in India. This sudden surge of private brands in India have necessitated the new strategy paradigm for the national brands who are increasingly facing the tough situation of eroding market share, dwindling profits and increased hostility with the retailers, who were once their loyal customers.

This new strategic reality facing the national brands manufacturers is to find the answer to the pertinent questions like: should they fight the expansion of private labels aggressively or adopt the defensive position? Should they risk the symbiotic relationship with the retailers by taking aggressive measures against the private labels? Should they partner with the big retailers and cash on the market opportunity or resort to discounting to stem the decline in the market share? Therefore, the present paper intends to probe the emergence and surge of private brands in India, the reasons for their astounding success in India and recommend the strategies for the national brands to stem the onslaught of private brands in the vibrant Indian retail sector.

KEY WORDS: National Brands, Store Brands, Value Proposition, Value Flanker, Brand Identity

INTRODUCTION

The growth of private brands in India is not as rapid, eventful and spectacular as in the other part of the world but it's nothing short of an impressive surge in their market share over a period of few years. Once perceived as lowly, poor quality, substandard and poorly packaged products meant for the poorer sections of the society are now proving to be pots of gold for the retailers across the world in general and India in particular. This sudden revolution of private brands in India is not brought by the singular ground breaking event but by the culmination of various factors in the vibrant Indian retail sector. The continuous improvement in the technology of production, packaging, improving brand image of the retailers, the variety seeking consumers, soaring inflation and uncertain economic conditions have forced the tide in favour of private brands who through continuous innovation and up scaling are posing a credible threat to the profitability and market share of the established national brands in Indian retail sector.

On the other side, the slow but steady onslaught of the private brands have created a new strategic reality for the manufacturers of national brands, whose market share and profitability are jeopardized by the success of private brands. Moreover, the surge of the private brands is forcing an uneasy relationship between the national brand manufacturers and profit seeking retailers with their own array of private brands. The dilemma faced by the national brand manufacturers is twofold; if the national brand manufacturers chose to aggressively tackle the growth of private brands they may risk the symbiotic relationship with the retailers and if they choose to be passive spectators their revenue, growth and profitability will be compromised. Therefore, the present paper intends to ascertain the growth and surge of private brands in India, the reasons for their success in the crowded Indian retail sector and recommends the strategies for the national brand manufacturers to tackle the growing threat of competition from the private brands in India.

WHY PRIVATE BRANDS MATTER: REVIEW OF RELATED LITERATURE

The cursory look on the available literature related with the emergence and success of the private brands across the world would help to understand and unravel the puzzle of surge of private brands across the world in general and India in particular. David Aaker (1991)[1] opined that the brand can be a distinguishing name, symbol, logo, trademark used to differentiate the goods and services from the group of sellers trading in identical goods and services in the market. King (2007)[2] opines that the product is something manufactured in a plant, whereas a brand is something that is bought for a price by the consumer. Ezrachi and Bernitz (2009)[3] in their article demonstrated the following differences between the private and national brands which are explained in table-01.

Table-01: Private Brands V/s National Brands: Main Differences

Particulars	National Brands	Private Brands
Consumer Complaints/Ownership and risk of failures	Belongs to suppliers	Belongs to distributors and retailers
Uniqueness and difficulty in copying	High	Low
Brand Identity	Narrow and always constant	Stretched and somewhat consistent across categories
Research and Development Drive	High	Low

Time Frame	Long term/sustainable	Retailer dependent
Consumer Advertising and Promotions	High	Low
Distribution	Widely available	Available in own stores
Price Profile	High	Low/medium
Consumer Loyalty	High	High but to the retailer not to the product
Buyer/Seller Relationship	Traditional Selling/Buying	Long term common objective
Coordination and info sharing between buyer and seller.	Medium	High

Source : Ezrachi and Bernitz, 2009.

Keller (2008)[4] revealed that private brands are nothing but the products marketed by the retailers and other members of the distribution chain in a business. In one of the earliest studies on private brands Cunningham (1961)[5] revealed that there is a significant positive relationship between store loyalty and loyalty to the brands sponsored by the retailers. Frank and Boyd (1965)[6] were one of the earliest scholars to examine the demand for private brands and found out that there was not much difference between the families consuming private and national brands in terms of their socio-economic and total consumption characteristics. Morris and Nightingale (1980)[7] are of the opinion that the diminishing quality gap between the national and private brands is one of the significant factors behind the spectacular growth of the private brands across the world. McGoldrick and Marks (1987)[8] suggest that consumers prefer the guarantee offered by a familiar store name on a product than the uncertainty and the risk of an unfamiliar minor national brand. Richardson, et al (1994)[9], are of the opinion that it is the value price or price advantages enjoyed by the private brands propel them for superior performance against the national brands. According to Messinger and Narasimhan (1995)[10] the huge growth in the expansion of the private brands is due to the factors like increased retailer concentration, higher profits and more proficiency of retailers in managing the private brands as a part of their retail format which is continuously evolving. Gutwilling (2000)[11] is of the opinion that the private brands not only provides the point of competitive difference, creation of loyal shoppers but also results in attractive returns on investment advantages.

McGoldrick (2002)[12] argues that there are many factors such as emotions, impulsive purchase, instant need, brand image of the retailers which influences the consumer to go for the private brands. In another study done by Jiang (2003)[13] it is the strong positive correlation between the store image and the perceived quality of the brand commodities which influences the customers to purchase and consumer the private brands. Hsu (2007)[14] in his study opined that the perceived risk for private brands increases with the degree of perceived quality concern across brands in a product category. Whereas, Glynn and Chen (2009)[15] opines that it is variance of quality, price consciousness of the consumer, price-quality relationship, brand image of the retailer and brand loyalty of the consumers which provokes them to purchase the private brands .

According to Kumar and Steenkamp (2007)[16], there are four types of private labels: generics, copycats, premium store brands and value innovators (see Table 2).

Table-02: Four Types of Private Brands

	Generic Private Brands	Copy Cat Brands	Premium Store Brands	Value Innovators
Examples	No Name and Black & White packages. Soap, shampoo and bread.	Walgreens shampoo Osco vitamins Quil Office Products	The Body shop Tesco Finest Godiva	Aldi H&M IKEA
Strategy	Cheapest & undifferentiated	Me-too at a cheaper price.	Value Added	Best performance-price ratio.
Objectives	Provide customers with a low price option and expand customer base.	Increased negotiating power against manufacturer and increase retailer share of category profits.	Provide added value products. Differentiate store. Increase category sales. Enhance margins.	Provide the best value. Build customer loyalty to store. Generate word of mouth.
Branding	No brand name or	Umbrella store brand or	Store brand with sub brand or	Meaningless own

	identified as first price label.	category specific own brands.	even private brand.	labels to demonstrate variety.
Pricing	Large discount below 20-50% of brand leader.	Moderate discount 5%-25% below brand leader.	Close to or higher than brand leader	Large discount 20%-50% below the brand leader.
Category coverage	Basic functional product categories.	Originates in large categories with strong brand leader	Image forming categories often fresh products.	All categories.
Quality to brand leader	Poor quality	Close to brand manufacturers	Quality on par or better. Advertised as better.	Functional quality on part with brand leader but with removal of “non-value adding’ product features and imagery.
Product development	None, product put up for contracts to manufactures with lagging technology.	Reverse engineered using manufacturers with similar technologies	Considerable effort to develop best products with similar or better technology.	Considerable effort and innovation in terms of cost-benefit analysis.
Packaging	Cheap and	As close to	Unique and	Unique but

	minimal	brand leader as possible.	source of differentiation.	cost efficient.
Shelf placement	Poor, less visible shelves	Next to brand leader	Top-eye catching positions.	Normal as all over store.
Advertising/promotion	None	Regular price promotions	Featured in advertisement but limited price promotions.	Store now own label advertising, normal promotion schedule.
Customer proposition	Sold as cheapest priced product	Sold as same quality but low price.	Sold as best products on markets.	Sold as best value-price of generics but objective quality on par with brand leader.

Source : Kumar and Steenkamp(2007)

Scott-Morton & Zettelmeyer (2004)[17] in their article mentioned that though the national brands continuously positioning themselves at a safe distance from the private brands, but it becomes profitable for the retailers to position their private brands very close to the national brands. In other study Steiner (2004)[18] admitted that the modern retailers are adopting a two tier strategy in both low price and a premium line for their private brands. Ailawadi & Keller (2004)[19] reported that a large number of retailers are introducing a range of private brands to span the range of price equality positions. In one of the seminal works on the private brands Kumar & Steenkamp (2007)[20] revealed that modern retailers have introduced the price segmentation to their private brands offering low, standard and premium priced products within a carefully managed store brand portfolio. Sayman & Raju (2004a)[21] argued that it is more profitable for a retailer to introduce multiple private labels in categories where existing national brands have similar market shares and are not price sensitive to each other, and that it is optimal to position each private label close to a different national brand. ACNeilsen (2007)[22] in their study on the private brands admitted that the private brands in their product life cycle begin as "me-too" and cheaper brand alternatives and climb the value chain to end up as a innovation leader in the long run. The below given graph demonstrates the life cycle of the private brands in the modern retail.

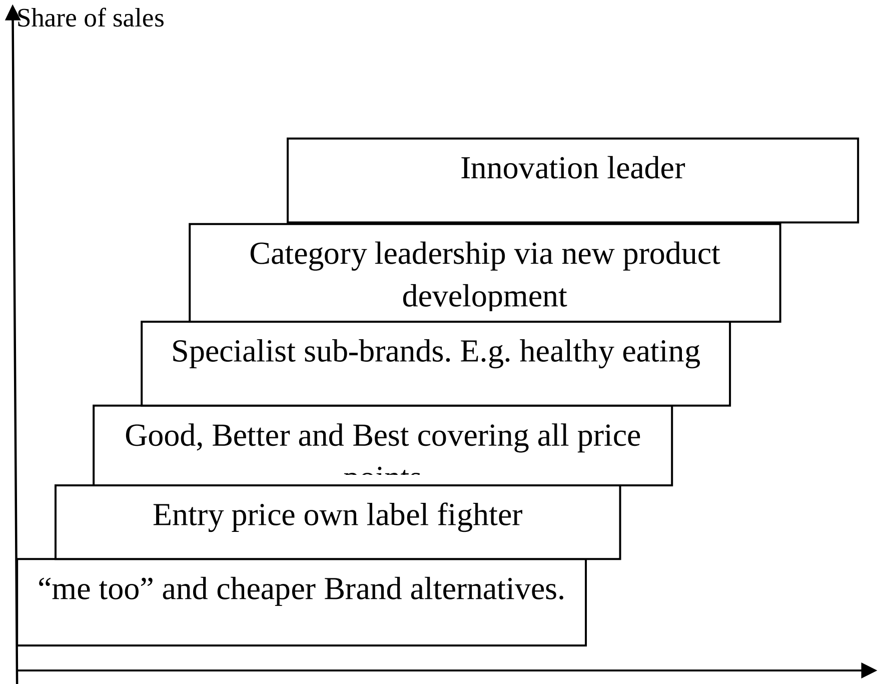

Figure-01: Life Cycle of Private Brands

Time and Investment Source: AC Nielsen, 2007.

THE REVOLUTION OF PRIVATE LABELS IN INDIA

The beginning of the 20^{th} century has witnessed the emergence of manufactured brands led by Coca-cola, Disney, Johnnie walker, Johnson & Johnson, Nestle, Procter & Gamble and Unilever etc. The reason for the surge in the manufactured brands can be attributed to the vibrant consumers who were more increasingly becoming more resentful towards the inconsistent and poor quality products sold by the local factories. (Kumar and Steenkamp, 2007)[23] The newly emerging all powerful media in the form of newspapers, billboards, radio, television and internet played the role of catalyst for the popularization and growth of the manufactured brands. The new found acceptance, popularity and prosperity has not only made the manufactured brands as the darlings of new consumer led economy, but also made them arrogant towards the retailers. The retailers were given the hobson’s choice of “take it or leave it” as the manufactured brands were confident of their brand equity, customer loyalty, innovation and mass advertising to reach out to the brand conscious consumers.

The sudden shift in the balance of power was witnessed in the later part of the 20^{th} century to begin with the commodities like toilet papers, beans, laundry detergents, toilet cleaners, apparel etc which were normally low-customer involvement categories. Initially, the success of the private brands across the world was dismissed as recessionary phenomenon during the operation of business cycles. But this myopic opinion of the manufactured brands laced with the arrogance was proven wrong by the huge acceptance and popularity of private brands by consumers both in the times of recession and prosperity. On the other hand, the private brands have made a remarkable improvement in the quality, packaging, production based innovations, which resulted in the more acceptance and usage of private brands amongst the consumers. The global trend in the acceptance and usage of private brands in times of both recession and growth is explained in the below mentioned graphs 02 and 03.

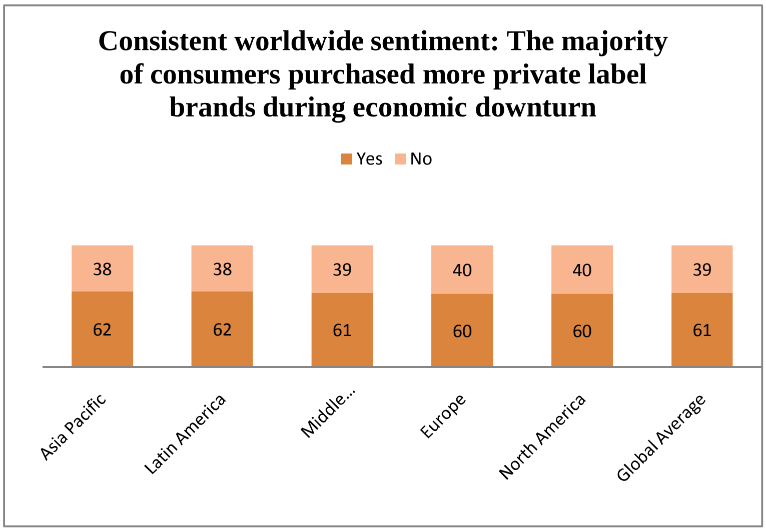

Figure-02: Purchase of Private Brands during Economic Downturn

Source: AC Nielsen Global Private Label Report, March 2011.

The above figure 02 exhibits the consistent worldwide sentiment of consumers towards the private brands during the times of economic downturn or recession. Around 60% of acceptance of private brands in all the major regions of the world demonstrates the popularity, acceptance and imperative of usage and acceptance of private brands during the economic slowdown. From the analysis of the above figure it can be inferred that economic hardships will make the consumers more price and value conscious across the world and the private brands would be the most sought after products when the consumers were cautious about their spending. Moreover, the price competitiveness enjoyed by the private brands could be the major advantage of the private brands against the national brands during the times of economic recession. The findings from the above figure reiterate the statement of Harvard Professor John Quelch who reportedly said “Private label generally goes up when the economy is suffering and down in stronger economic periods”.[24]

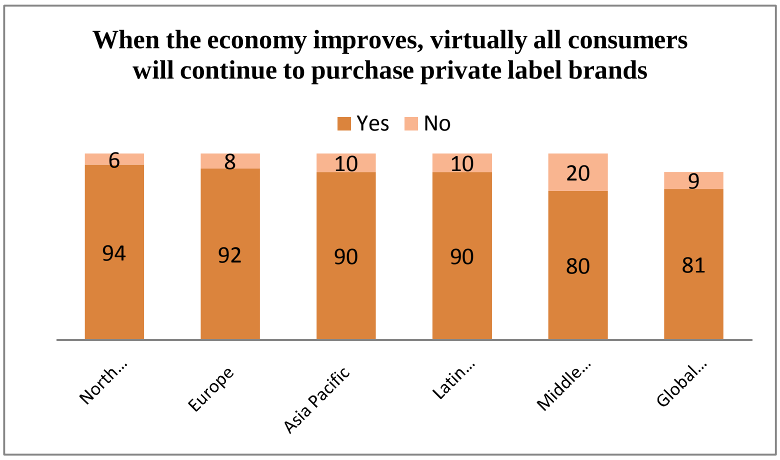

Figure-03: Purchase of Private Brands after the Economy Improvement

Source: AC Nielsen Global Private Label Report, March 2011.

The Figure -03 clearly indicates the remarkable penetration possibility of private label brands even after the revival of the economy. This signifies that private label brands have utilized the time of recession period effectively to occupy the space in the minds of consumers. The increased usage of private brands during the times of economic hardships will get more acceptance in the minds of the consumers who don't hesitate to stay with the consumption of private brands even after the economic recovery. Therefore, it can be inferred that the share of private brands increases extensively and furiously during the economic recession, but the proportional decline is not assured during the times of recovery as the consumers will become loyal to the private brands because of enhanced consumer satisfaction with the private brands. The global average of 81% of acceptance of private brands even after the recession explains the onward march of private brands across the business cycles in the world. Hence, the national brand manufactures now can't afford to dismiss the private brands as pure recessionary phenomenon but should treat them with respect as a formidable rival in the coming years.

PRIVATE BRANDS IN INDIAN SCENARIO; A CASE OF THREE MAJOR RETAILERS

The figure 04 represents the market share of private brands owned by the future group in product categories ranging from floor cleaners to spices and packaged food items. From the careful analysis of the below given graph it can be understood that the future group owns a formidable market share in the product categories like toiletries, packaged food and cleaners which normally doesn't command the superior emotional involvement of the consumers. Though, market share of future group is bit less in other categories but would definitely signify the march of private brands over their much fancied counterparts i.e., national brands. The success of the private brands owned by the future group reinforces the findings of Kumar and Steenkamp (2007) that the evolution of the private brands begins with the generic products then graduating into the copycat brands and gradually culminating into the premium-lite brands and premium price brands.

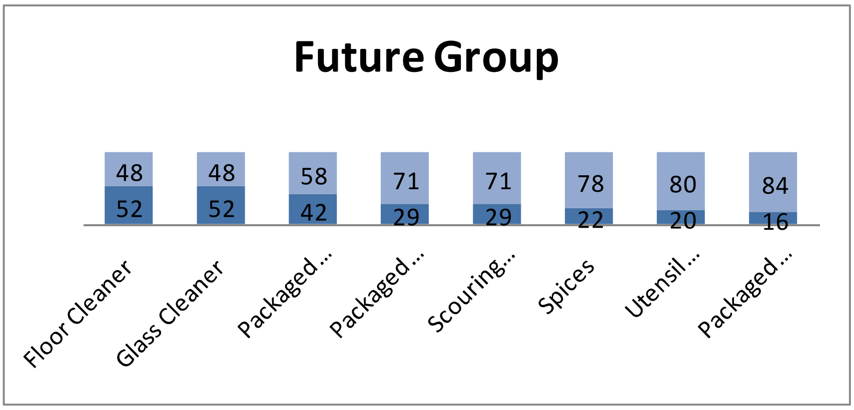

Figure -04: The Market Share of Private Brands owned by the Future Group

Source: The Economic Times. 6th February, 2012.

Figure-05 demonstrates the market share of private brands owned by the Bharti Retail. Bharti Retail, wholly owned subsidiary of Bharti Enterprises, one of India's leading business groups, operates neighborhood stores "Easyday Market" and "Easyday Hyper" providing consumers a wide assortment of quality products at low prices. The careful study of the below given graph mentions the substantive market share of private brands owned by the Bharti Retail in the generic product categories like, toiletries, cleaners, packaged food products, spices etc.

Figure-05: The Market Share of Private Brands owned by the Bharti Retail

Source: The Economic Times.

From the analysis of the above graph on the Bharti Retail, it can be said that the private brands begins their march by first focusing on the generic brands, which doesn't demand high emotional involvement of the consumers. But gradually once they taste the success in the form of generic brands would venture into manufacturing the copycat brands and finally they take on the national brands by introducing their own private premium brands. Though, the market share of private brands owned by the Bharti Retail is full of low priced and low consumer involvement commodities, but it cannot be denied that Bharti Retail has made great strides in both quality of private brands and the market share. The empirical studies conducted across the world would definitely justify the evolutionary path and success of the Indian private brands in the vibrant Indian retail sector.

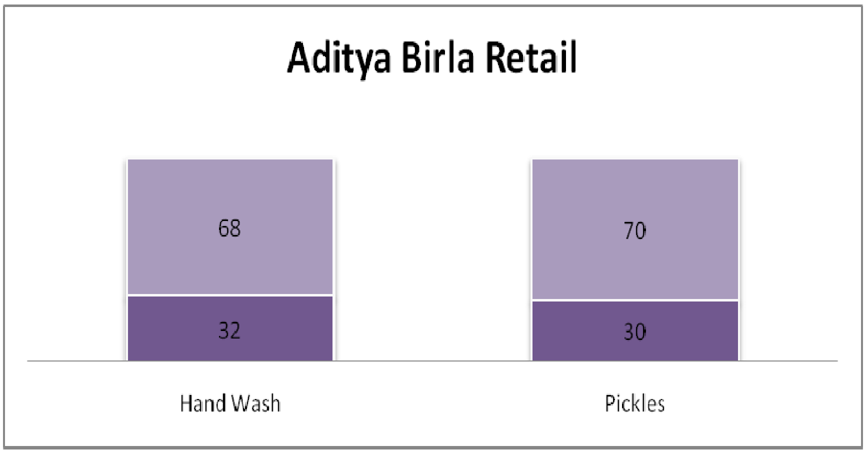

Figure-06: The Market Share of Private Brands owned by the Aditya Birla Retail

Source : The Economic Times.

The above drawn figure-06 demonstrates the market share of private brands owned by the Aditya Birla Retail which entered into the Indian retail sector on May 2007 by launching their own brand of stores called "More". Currently there are 575 supermarkets and 12 hypermarkets branded as "More Megastore". The clinical review of the above figures suggest that the Aditya Birla retail possess an enviable market share in the product categories like Hand wash and pickles when compared to the other national brands. Aditya Birla Retail CEO Thomas Varghese says its More Value and More Choice brands have got good traction after the firm repositioned its private labels two years ago. Its private label pickles, with the widest range of regional variants, outsell the likes of Mother's Recipe and Priya Pickles in More outlets. Handwash, toilet and floor cleaners and disposable tissues are among the other segments where More brands are among the best sellers.[25]

STRATEGIES TO WIN A LOSING BATTLE AGAINST THE PRIVATE BRANDS IN INDIA

In a path breaking study on the private brands, Hoch (1996)[26] provided an overview of the strategic options open to the national brands to counter the attack of the private brands mentioned in the below given figure no. 07. Though, Hoch mentions that these strategies are neither mutually exclusive nor exhaustive, they represent the most common strategic options for use. With suitable modifications and customization the same model can be used for understanding the strategy scenario available for the national brands in India.

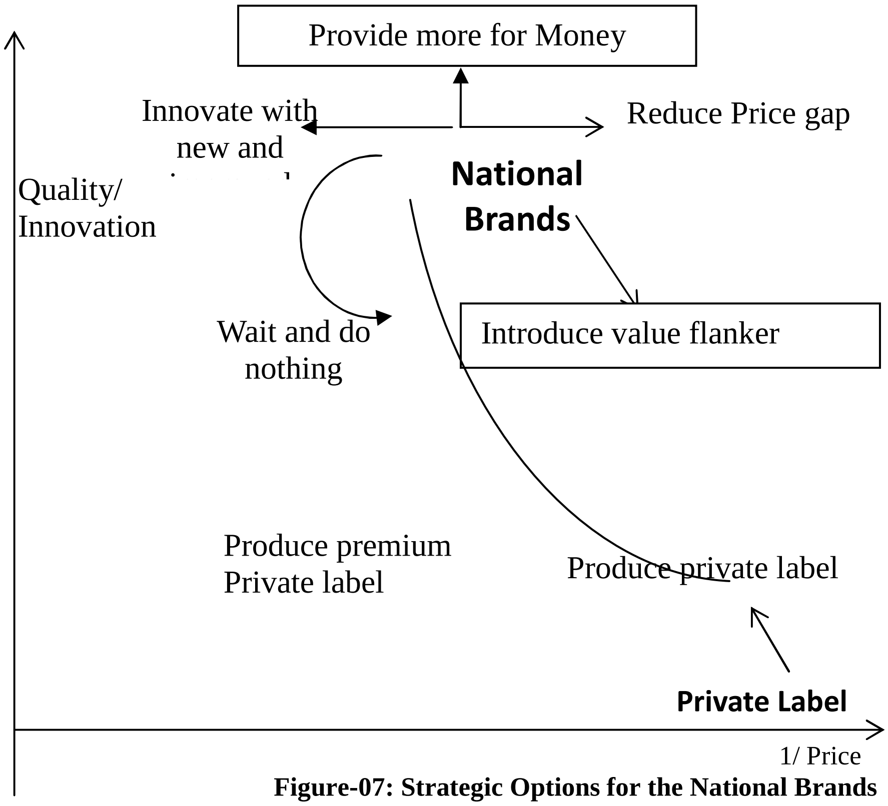

Figure-07: Strategic Options for the National Brands

Source: Hoch, 1996.

The national brands challenge is exacerbated by the inherent conflict for national brands in treating retailers as customers or competitors. The areas of conflict are multitude. Retailers are inclined to devote the best shelf space to their own bands, while national brands obviously disagree. Retailers may feel that they benefit from a large price gap between their own private label and leading national brands, while national brands are wary of such a strategy. National brands desire a high pass-through for their price promotions, while retailers may feel that they gain more by pocketing these promotions rather than passing them on to customers, especially since the profitability of many promotions for retailers is small at best. Therefore, keeping the Hoch (1996) model as the yardstick, an attempt has been made to suggest the strategies for national brands to counter the sudden surge of private brands in the retail sector of India.

Table- 03: Marketing Strategy Implications for National Brands

Strategy initiative for the National Brands	Suitability/ Feasibility of Strategy	Likely Impact/ Outcome
Wait and do nothing	Low	The lead time of waiting for national brands has already been crossed and resulted in the onslaught of private brands on the market share of national brands. The further delay in action on the part of national brands will result in the erosion of their market share.
More Value for Money	High	The further invasion of the private brands towards the higher value chain can be prevented from introducing the incremental value to the existing product or by introducing a radical novelty to provide more value for money for the value conscious consumers.
New and Improved Products	High	It is essential that the national brands should adopt the twin strategies of waterfall (sequential) rollout strategy for radical new products and a sprinkler (simultaneous) launch strategy for the incremental new products. This will help the national brands to cater to the needs of the mundane, routine customers also the needs and demands of those customers who are high in dispositional innovativeness.
Reducing the price gap between Private and National Brands	Low	The successive reduction in the prices of national brands will erode their profits and profitability. Hence, it is better for the national brands to build an emotional chord and relations with the consumers than trading off product performance in the face of

		price and cost pressures.
Introduce a value flanker to stem the growth of Private Brands.	High	The introduction of a value flanker is advisable for the national brands as it will allow them to counter attack the private brands from the price point of view. Moreover, the national brands can leverage the parent brand image in consumer acceptance and penetration. This will also results in the prevention of private brands moving up in the higher value chain.

CONCLUSIONS

In the ever changing dynamics of the Indian Retail sector it is better for the national brands to have the realistic expectations of countering the private brands as there is no silver bullet to solve all the problems and challenges emerging from the private brands. The most realistic option and strategies for the national brands are to continuously innovate in product development, no compromise with the quality of the products (as the private brands also seeks to scale up the value chain) usage of effective marketing communications to strengthen the marketing channels to highlight the perceived and real superiority of the national brands and sustained differentiation through either perceived image or technical superiority. Finally, the national brands have the higher ground and as long as it can invest in image building/advertising, customer relations and innovation it will be rather easy to defend its position.

At the same time, there has been ample scope for further research in the field as the numbers of corporate case studies considered under this paper are relatively less and related only to the few product categories of ever-changing Indian retail sector. Secondly, the findings of the present paper which has adopted the qualitative research methodology can be augmented or improved by the adoption of quantitative methodologies in future research. More research is clearly needed in understanding and evaluating the impact of the reaction-strategy on performance of both national and private brands needs to be studied separately. Finally, there is a huge scope for further research in probing and evaluating the future retailer-national brands relationship as better understanding of the changing dynamics between the two would help the managers to evolve their own counter-strategies and create their own scenario planning.

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