



ISSN 2278 – 0211 (Online)

Understanding Private Label Brands

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Abstract:

The phenomenal growth of private labels worldwide calls for extensive research in this area. This paper critically reviews the prior research in the area of private labels. While doing so, it traces the origin and growth of PLBs, probes the PLB consumer behavior, explores how they benefit retailers, identifies their critical success factors, highlights the private label revolution and attempts to envision their future.

Keywords: Private labels, retailers, national brands

1. Introduction

A private label brand is a brand that wholesalers and retailers develop (Kotler et al. 2009). According to the Private Labels Manufacturers' Association the private labels "...encompass all merchandise sold under a retail store's private label. That label can be the store's own name or a brand name created exclusively by the retailer for that store. In some cases, a store may belong to a wholesale buying group that owns labels which are available to the members of the group. These wholesaler-owned labels are referred to as controlled labels." (PLMA). Having appeared more than a century ago in US they are now ubiquitous and are described as a global phenomenon (ACNielsen 2005; Herstein and Gamliel, 2004). PLBs constitute 15% of the sales of fast moving goods worldwide, including 17% in the United States (AC Nielsen, 2010 data) and more than twice this figure in some European countries (e.g. Switzerland at 46%, United Kingdom at 43%). In India, PLBs constitute 12% of the total retail product mix and are expected to grow substantially (KPMG India Report 2009). The increasing dominance of PLBs has led to the shrinkage of retail space for national brands (NBs). They have now become a serious competitive threat to NBs (Bao, Bao and sheng, 2011) and possess the power to push them off the shelves if they are not leaders in their product categories (Lambin, Chumpitaz and Schuiling, 2007). According to Kumar and Steenkamp (2007) "retailers now position their private labels as brands in their own right".

2. Origin and Growth of PLBs

PLBs emerged between 1840 to 1860 in USA. They were pioneered by grocery retail chains like A&P, The great Atlantic and Pacific tea company (Hoch and Banerji, 1993). In fact, they were a major retail innovation and according to Fitzell (1992) the possible trigger for it is the entrepreneurial pride. In the words of Doug Rauch, the president of Trader Joe's "we could put our destiny in our own hands" (Forbes, 2006). They are now well accepted in most countries across the globe. In fact, Herstein and Jafee (2007) emphasize that PLBs will be a critical challenge to national brands even in the emerging markets. However, in some markets like Australia, they are still viewed with suspicion by buying public (Kerlake, 2001). Nevertheless, in many countries, PLBs have moved into premium market and consumers are willing to pay for the extra quality (Dunne and Narsimhan, 1999 and AC Nielsen 2005).

3. Why People Buy PLBs?

Low prices attract customers towards PLBs. Especially, the Price-conscious customers have positive attitudes toward PLBs and are ready to buy them (Chintagunta, Bonfrer, and Song, 2002; Sayman and Raju, 2004). Also, consumers believe that PLBs are a good alternative to national brands (AC Nielsen 2005). Increasing number of consumers perceive that PLBs are on par with national brands in terms of quality and feel comfortable buying them (Burton et al., 1998; Fitzell, 1992; Quelch and Harding, 1996). In fact, 70% of US and European customers think that PLB quality to be at least as good as leading National brands (AC Nielsen, 2005). Interestingly, several consumers assign greater weight to PLB quality than price while making within-category comparisons (Hoch and Banerji, 1993). Moreover, many consumers derive quality, emotional and price-related value from PLBs (Walsh and Mitchell, 2010). Batra and Sinha (2000) emphasize that PLB buying increases as the 'consequences of making a purchasing mistake' declines. Finally, Attitude towards PLBs positively affects the intention to buy especially in product categories that have little social risk attached (Zielke and Döbelstein, 2007).

4. How PLBs Benefit Retailers?

Retailers earn higher gross margin on PLBs than NBs (Richardson et al 1996; Vahie and Paswan 2006). Their variable costs are low as they purchase most PLBs at wholesale prices that are slightly above marginal costs (Liu and Wang, 2008). They also spend far less on product launch, selling and image building for PLBs (Liu and Wang, 2008).

PLBs bestow formidable bargaining power against the NB Manufacturers (Baltas, 1997). In fact, they gain price concessions from NBs through the threat of launching me too PLBs at lower prices (Agarwal and Cha, 1998; Putis and Dhar, 1999).

They regularly enhance overall product category profits even in categories with several NBs (Vahie and Paswan, 2006). In fact, alluring PLBs and PLB price promotions can increase primary demand and boost NB sales (Cheng et al; 2007). Vahie and Paswan (2006) observe that PLB introduction is likely to increase retailers' profits if there is low cross-price sensitivity among NBs and high cross price sensitivity between NBs and PLBs.

PLBs also boost store loyalty (Liu and Wang, 2008). Moreover, store loyal customers tend to be less loyal to NBs and developing more such customers increases PLB sales (Cotterill and Putsis, 2001).

Most importantly, they help in differentiating and positioning the retailers (Baltas et al, 1997; Richardson et al, 1996; Cotterill and Putsis, 2000). Liu and Wang (2008) assert that retailer's employ PLBs as a strategic tool to create a differentiated image for the store. However, while introducing new PLBs they must ensure congruence between the new PLB image and the store image.

Finally, PLBs attract both price sensitive and value-conscious Customers (Chintagunta et al, 2002; Sayman and Raju 2004). They significantly increase retail foot falls.

5. Success Factors for PLBs

Market structure factors play a key role in the growth of PLBs across countries. Well developed modern trade and logistical structure along with reasonable penetration of global retailers, especially global discounters are the essential conditions required for diffusion and growth of PLBs. (Cuneo et al, 2015).

PLBs thrive when there is large NB- to -PLB price differential (Sethuraman and Cole, 1999). They also flourish when cross-price sensitivity is low among NBs and high between NBs and PLBs.

Maintaining high and consistent quality is critical for PLB to succeed (Semeijn, 2004). In fact, PLBs with quality equivalent to that of NBs enjoy a price premium (Mills, 1995). Therefore, retailers devote more shelf space to high quality PLBs (Raju et al. 1995).

PLBs with similar positioning as NBs prosper (Bonferer and Chintagunta 2004; Sethuraman and Cole 1999). The me-too positioning bolsters retailer's negotiation position with NB manufacturers (Agarwal and Cha 1998; Amrouche and Zaccour 2007)

When PLBs are carried in many regional stores they tend to be more successful due to economies of scale (Sethuraman and Cole, 1999).

PLBs flourish when they extend to various categories as it allows for economies of scope in areas such as promotional activity (Cotterill and Putsis Jr, 1999). Extending a PLB into different categories signals expertise, trustworthiness and commitment to market, which in turn builds a positive brand image (Coe 1971; Cotterill and Putsis Jr 1999)

An upbeat store image coupled with pleasing store atmosphere encourages favorable customer evaluation of PLBs (Collins-Dodd and Lindley 2003; Semeijn et al, 2004; Sudhir and Talukdar, 2004). In addition, a high-end store image induces price-based quality inferences that influence customer preference for PLBs (Gomez and Benito, 2008; Ham, 2002).

PLBs bloom in markets with substantial presence of lower-income households (Collins-Dodd and Lindley, 2003). In general, low-percapita income households use lower priced PLBs to extend their highly limited budget (Putsis and Dhar 2001). They tend to be more price sensitive when a high NB to PLB price differential exists (Bell, 2005).

Presence of large number of PLB-prone consumers accelerates the growth of PLBs. PLB-proneness includes PLB familiarity, reliance on extrinsic cues to judge quality, intolerance for ambiguity and low believed quality variation between NBs and PLBs (Hoch 1996; Swan 1974; WU and Wang 2005).

In general, PLBs thrive in categories with fewer competing NBs (Richardson et al 1996; Hoch and Banerji, 1993)

6. The Private Label Revolution and the Future of PLBs

Fortunately, the rivalry between PLBs and NBs enhances consumer welfare (Steiner, 2004). The consumer has benefited immensely due to the private label revolution. The improved product quality, increased price value combinations and multiplied product choice are the definitive outcomes of this uprising. Kumar and Steenkamp (2007) have rightly pointed out that "the private label revolution has helped empower the consumer." But, this increasing trust of consumers in PLBs can be a serious threat to complacent NBs (Hoch and Banerji, 1993). Hence, national brands will need to be more innovative and more service-oriented than ever before.

Most retailers have mastered building strong private labels in several categories. In fact, Private label marketing appears to be shifting from its usual no-frills/low-cost strategy to one which more closely resembles a national brand-marketing strategy (Halstead and Ward, 1995). Ryan, Thomas J observes that PLBs are being treated like national brands, with respect to their labeling, advertising and their display in retail stores. Certainly, PLBs will thrive as long as they provide real value to the customers (Kumar and Steenkamp 2007). However, they must restrain from raising prices at the cost of losing their competitive advantage (Halstead and Ward, 1995). And, in categories with high experience attributes they must also endeavor to bring down the perceived risk of the consumers through providing objective information about product ingredients and manufacturing quality on the package label. (Batra and Sinha, 2000).

PLBs have outpaced the growth of NBs in many countries (Ac Nielsen 2005). Steiner (2004) rightly points out that “the private labels of large retail chains possess unique competitive weapons to constrain the market power of powerful national brands”. Undeniably, PLBs with their lean cost structure, good product quality and competitive pricing will continue to be a major challenge to NBs.

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