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A Study of Private Label Brands and Organized Retailing with Reference to Indian Market in Different Perspectives: Theoretical Overview

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***Abstract*: Private Labels, also known as in-store brands, are those products that are owned and mostly sold by the retailers. By having Private Labels, retailers can eliminate the middlemen and thereby reduce the costs. Private Label is a hot concept today and retailers are introducing their private labels to gain market share. For instance, Pantaloon's Food Bazaar introduced its private label, Tasy Treat, in the snacks category which has gained a significant share in the market today. Over the past few years, private label brands have penetrated into the Indian markets and most arguably have begun to dominate the national brands. This article evaluates the impact of private labels on the national brands in the Indian retail markets. Private Label goods were considered cheap and low on quality and as inferior substitutes of premium branded goods. It simply represented for the retailer one among many ways to earn some extra money owing to the higher margins from selling his own brands. The scenario today has changed significantly. With improved quality and customer acceptance, Private Labels contribute significantly to the bottom line of retailers across segments. Recession was a major boost to the spread of private labels. The perception that they are a cheaper option and thus they will help to exercise control over-spending led to a passive promotion of own-branded goods amongst cash strapped customers. It concludes that although the national brands may go through phases of valley and peaks, but with the immense potential of the Indian retail sector, the opportunities are ubiquitous for both the national brands and the private labels.**

***Keywords*: Brands, customer acceptance, Organized retailing, Retailing**

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1. Introduction

One of the new things seen in the Indian retail Industry is the growth of Private Brands in the organized retail. This paper discusses about the Private Brands in Indian Retail Industry. It mainly focuses on the importance of private labels to a retailer, some of the well-known private brands in Indian retail Industry, the growth potential of private brands, and performance of private brands with some examples. Organized retail is on the threshold of a boom in India. But as companies line up to grab a bigger and bigger slice of the retail pie, another battle is likely to change the face of the industry, the one between the manufacturer brands and the retail chains private label brands, which are far from being just cheap generics. Private labels, or store brands, are those owned and sold by retailers in their stores typically at a lower price because of minimal marketing and advertising expenses. Worldwide experience shows that as retailers become more powerful, they have increasingly focused on their own brands at the expense of manufacturer brands. The major advantage coming with a private label to retailer is that is the factor of differentiation that a retailer can have with private labels. But in order to create such differentiation the retailer should be successful in positioning the private label against the national brand in such a way that a private label should be considered as equivalent as or better than the national brand. So reaping the benefit of such differentiation is a long term strategy for a retailer, as creating a private label as equivalent as or better than the national player is a long term process and involves a lot of commitment in terms of time and efforts from the retailer. Observing the growth of organized retail in India, there is enormous potential for the growth of private labels in India. Indian organized is witnessing heavy investments from well know business establishments in India like TATAs, Reliance, ITC, Godrej, Birla Group. At the same time foreign retail majors like Walmart, Tesco, Carreforre, are also entering/ have entered the retail sector observing its immense potential. All these players have their private labels in the Indian retail. Private labels have come a long way over the last three decades. They started with retailers wanting to offer cheaper substitutes. Retailing in India is still very primitive. At the moment, private labels are less than 5 per cent of the retail business and still have a long way to go. But Indian retail is extremely attractive for investors and it offers a proposition that can't be seen anywhere else in the world. Only in China and India can retail chains have as many stores as they have in the US. 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. By this it can be understood that a retailer need to be careful when he is coming with more number of private labels in his stores. Customers expect more choices; they need private labels along with various national players in a product category. Even if the private labels are doing good sales as compared to national brands, the retailers need to focus on national brands in order to retain the customers for long run.

Product categories like FMCG, Fruits, vegetables which may be bought on daily basis a good quality can draw a premium price from the consumers at the higher end who are not very sensitive to price as compared to quality. This section of consumers wants the best of products and would not hesitate to spend on a private brand which is not well established in the market and would willingly pay a premium price for such brands provided they get a better quality. Thus the option of private branding may be suitable for a organized retailer trying to compete with the local seller catering to the high end consumer. However if we look at the bottom of the pyramid which is a massive consumer section of Indian socio-economic continuum we find the presence of generic competition. There is the reality of minimum wages and a high price sensitivity which makes the consumer balance between his desire to use branded products from well-known retailers and his income. For these consumers quality means acceptable level of performance across categories. And hence these consumers may balance their budget by having a trade-off by buying branded commodities across product categories. The consumer may buy a few branded products and compromise in the other product categories for unbranded offerings. Hence there is a massive potential of developing private labels suitable to the various segments. Big Bazaar has already started developing such private labels with regard to durable categories. Thus, a review of previous studies undertaken in the area of Private Label's indicates that, research has been more limited on the consumer-level factors that make Private Label's differentially successful across product categories. Also the effect of demographic variables on customer perception and preference for private label brands across different product categories has hardly been researched. Given the lack of studies undertaken in the area of understanding Indian customers' attitude and perception towards private label brands across product categories and the effect of demographic variables on this perception, the present study has been undertaken to gain an insight into how customers in India, perceive and evaluate private label brands in comparison to national label brands. The findings of the study will be helpful for retailer's to understand the importance of various factors in being successful with customers in the private label brands category.

2. Objectives

Objectives of the research paper are mentioned below:

- To study the emergence of private label brands at different level in Indian marketplaces.
- To find the growth potential of private label at long run to create sustainability for retailers.

3. Review of literature

There are numerous advantages for retailers in developing their own brands, for example, higher mark-ups, control in managing and promoting the brand, exclusivity in selling to customers and hence escalating customer loyalty to the store, enhanced haggling positions vis-à-vis national brand producers and establishing closer contacts with consumers (Corstjen and Lal, 2000; Chinlagunta et al., 2002; Fearne, 1998; Narashimhan and Wilcox, 1998; Sayman et al., 2002). However, problems arise when manufacturers are also producing and developing their own brands. Moreover, manufacturers use retailers to distribute, to sell and in many cases, to promote their brands at the points of sales. Hence for the manufacturer, the retailer who owns a private label becomes a double agent (both a client and a competitor): on the one hand, serving as the seller, providing the manufacturers' brands to the consumer, while on the other hand, competing with manufacturers with the retailer's store brands (Obina et al., 2006). Therefore, it is not surprising that the growth of private labels has generated friction and dilemmas for both manufacturers and retailers (Cheng Wu and Jen Wang, 2005; Cotterill et al., 2000; Pustis and Dhar, 1999; Quelch and Harding, 1996). For retailers, the main dilemma, once having decided to develop and sell their own brands, is who will be their supplier, i.e., their manufacturer, Johanson and Vahlne (1990) suggested that the internationalization of the firm could be seen as a process in which the enterprise gradually increases its international involvement. This process evolves through the interplay between the firm's acquired knowledge regarding the foreign markets and its commitment of resources to these markets. Local retailers can more easily provide their suppliers with information regarding their customers' preferences and tastes and direct them to produce the required adaptations that are essential for product sales. Moreover, retailers that already have their own brands will be more familiar with customer tastes since they have the marketing and producing information of their private labels and are better aware of customer responses to any changes or promotional activities. Launching new markets can be a long and difficult task, especially where there are many competitors or the market is dominated by a major firm. Other crucial barriers are cultural differences, differences in legal regulations, and conditions of product use (Timmor and Zif 2005, Walters 1986). Joining forces with a retailer can mean quicker penetration and sales for new firms looking to enter the market by manufacturing for private labels. Multinational or big domestic retailers can also be attractive for overseas market leaders due to their ability to get solid orders. Multinational retailers can also enable producers to enter several markets in parallel, with no need for massive promotional efforts other than some adaptation of product packaging or meeting of regulation requirements. From the transaction cost perspective (Bello et al., 1991), a firm's decision about distribution and integration are geared to minimize the sum of transaction and product costs (Aulakh and Kotabe, 1997; Klein et al., 1990). When a firm exports its own brand, e.g., Heinz, Toshiba, Orbit, substantial costs accrue due to marketing communication expenses, for example advertising, sales promotions and presentations at points of sales. In this manner, producing for overseas private labels can be efficient in terms of cost saving, since the firm transfers a major portion of the marketing function to another firm – the retailer. This can be more cost-effective for short-term cash flow issues.

Being flexible and supporting the overseas distributor (wholesaler, retailer) have been shown to have a positive affect on the export result (Bello & Williamson, 1985; Cavusgil et al., 1994; Fiegenbaum and Karnani, 1991; Timmor and Zif, 2005). Such supports can be expressed through financing the marketing activity, supplying advertising and sales promotion materials or producing for their private labels. Differentiation through own brands is a pervasive objective among retail practitioners; for example, as Moberg (2006) states, "with PLs, we can better differentiate ourselves and our brands. We can increase customer loyalty." However, recent evidence has suggested that there are limits to this approach (Ailawadi, Pauwels, and Steenkamp 2008). Moreover, there are indications that consumers consider PLs a group of similar brands with common demand drivers across chains (Ailawadi, Neslin, and Gedenk 2001; Bonfrer and Chintagunta 2004) or, as observed by Richardson in an experimental setting, that consumers "perceive no differentiation between … store brands" (Richardson 1997, pp. 393–94). This study complements recent studies by Ailawadi, Pauwels, and Steenkamp (2008) and Hansen and Singh (2008), which also involve the possibility of PLs to differentiate from rival retailer-owned brands. Both these studies investigate the association between PL buying and store patronage. In the current study, the central issue is how PL experiences in one chain shape consumers' subsequent quality beliefs about the PL of a rival chain and its choice share vis-à-vis NBs. Thus, our study differs from those of APS and HS not only because we focus on cross-retailer effects through learning dynamics but also because we use a different outcome metric—a PL's choice share relative to NBs within a specific category and store, when the consumer is in that store and has decided on a category purchase.

A. Fundamental challenges

Private-label growth is partially driven by what's available on store shelves; that is, it's an offer-driven market. Globally, nearly six in 10 (59%) respondents agree they would buy more private label if a larger variety of products were available. It is a misconception, however, that increasing the breadth of assortment will automatically drive sales. Retailers must pursue the right selection, not just a bigger selection. Consequently, necessary delisting decisions should be taken with great care.

Replacing name brands that are declining in share with private-label products that deliver better margins usually comes at the expense of small- and mid-sized name brands. Typically, category leaders are not challenged by private-label cannibalization; rather, the number two and three brands often face the greatest threat to sales. For example, in the U.K. today, on average, 40% of sales come from the category leader, 41% from private label and 19% from all other brands. In the U.S., where the retail market is more fragmented, 31% of sales come from the leader, 17% from private label and 52% from all others. Retailers must manage their shelf space carefully. Removing too many high-penetration, high frequency or strong niche brands from store shelves can drive shoppers to the competition. Optimal usage depends on the market and the category. In the U.S. and Europe, consumers are more accepting of private-label products and, therefore, their comfort threshold is lower: only one-third of North American (33%) and European (35%) respondents believe retailers have too many private-label brands on the shelf. In developing markets, where the number of private-label brands is significantly less and the comfort threshold is higher, more consumers feel there are too many private-label brands on retailer shelves (50% in Asia Pacific, 60% in Africa/Middle East and 54% in Latin America). Correspondingly, more than half of respondents in developing markets also think retailers have eliminated too many name-brand products, driving them to shop in multiple stores. To determine an optimal assortment strategy, a keen understanding of market dynamics and consumer consumption patterns is necessary. While the right assortment varies by market, one factor is critical for all consumers: Consumers want to comparison-shop. Nearly three-quarters (73%) of global respondents prefer to see name-brand and private-label items next to each other on the store shelf so they can easily review prices.

B. Growth of Private label

Private label is most developed in Europe, particularly in the Western markets. Private label accounts for $1 of every $3 spent in the consumer packaged goods (CPG) market. Switzerland has the highest private-label share (in the region and around the world) at 45%, followed closely by the U.K. and Spain at 41% each. Private label is less developed in eastern and central Europe, where share varies greatly from a high of 24% in Poland to a low of 5% in Ukraine. Private label has become an essential staple in consumers' shopping baskets and perceptions are overwhelmingly positive in the region. Seventy percent of European respondents believe private label is a good alternative to name brands and 69% believe they offer good value for the money. Just under one-third (30%) believe private label is not reliable when quality matters. Europe provides a strong model for how retailers can successfully develop and grow private-label brands. The region's successful private label retailers have invested in brand management activities like those of their manufacturer peers, building significant brand equity and recognition for their products by providing value with standard and premium offerings for consumers at all price points. Importantly, they are also innovating to address unmet consumer needs. This suggests Europe also illustrates some important truths for name-brand manufacturers. Most importantly, private label does not represent the demise of name brands. Share of basket for even the heaviest private label buyers hits a tipping point around 50%, and the most developed markets are at saturation levels. Private-label share in Switzerland and the U.K. has remained around 45% for the past 10 years. With dollar shares of 17.5% in the U.S. and 18.4% in Canada, North American private label is just above the average global share of 16.5%. Since the recession ended, growth of private-label brands in the U.S. has been fairly flat as name brands stepped up both promotional activity and innovation efforts to protect share positions and to drive growth. The country's private-label share increased only 1.3 percentage points between 2009 and 2013. In Canada, private-label share has also been stagnant because shoppers have increasingly turned to promotions to save and name brands drove more sales through savvy pricing strategies. The social stigma of private label has virtually disappeared in the region. The majority of shoppers are pleased with private-label products, calling them a good alternative to name brands (75% of Americans, 73% of Canadians), a good value (74% of Americans, 66% of Canadians) and at parity with name brands on quality (67% of Americans, 61% of Canadians).

4. Conclusion

The growth of private labels has provided opportunities for small and medium-sized manufacturers across a range of industries. Rather than competing directly with larger national brand companies and incurring the related advertising expenses, manufacturers can grow by marketing their products and supply chain expertise to retailers. Businesses who create private label goods act as the manufacturing arm for their retail customers, but success requires that private label manufacturers meet the unique demands this market places on them—demands usually faced by much larger companies. Many invested heavily with an intention to cash-in by selling out had the retail sector opened up to foreign investment in a big way. Cost control and the bottom-line consciousness were never on the agenda. "It can be easily generalize and say that no retailer in the country really made money. They were all victims of huge leverages." "Funding is the biggest issue for retailers. They are borrowing at 14-15 per cent and this is a high cost of borrowing," was quoted by the global research firm, KPMG in a recent study titled 'Indian Retail: Time to Change Lanes' that lead and symbolizes the downfall of the retail sector in the country. One of the main reasons for the wide introduction of the private labels is the conflict between the retailers and the manufacturers. Many a times, manufacturers supply low quality products to the retailers in a bid to earn extra profits. Thus retailers prefer to have their own in store brands to ensure that the customers are satisfied and are not supplied with low quality products.

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