7- "P"s of Private Label Brands

Exploring retailer's perspectives to understand the impact of Privet Label Brands on retailer's perceived bargaining power and consumer's patronage loyalty behavior towards retailers

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ABSTRACT

The definition of private label branding has evolved significantly over time. Some would argue that the term "private label" is a misnomer of great proportions. There is no question and doubt that the words "private label" acknowledges the birth, history and existence of generic and store brands. Yet, the term does not adequately and comprehensively capture the extent to which private label has progressed. Today's retail marketers are managing their proprietary brands with the same combination of care and innovation as manufacturers of for their national brands. Retailers that attempt to gain ***competitive advantages*** *against their rivals are inclined to develop their own branded (privet label) products. Although this strategy is differentially used in different countries, retailers' brands are named such things as private label (PL), own brand, in-house brand and store brand. Cutting the story short Retailers' branded products, are those which the retailer owns and sells only in their own stores, and called as "private label products.*

At this point, it is very important to understand retailers' ***strategic objectives*** *for developing private label products. Thus, in this study, a questionnaire was administered to different retailers with different categories & merchandise mix. Like any new product, private label entry increases competition within a category leading to downward pressure on both wholesale and retail prices. But, given the higher margins for private labels and potential bargaining benefits for retailers, they have incentives to promote and help private labels gain market share. The paper addresses two questions: First, do private labels enhance a retailer's bargaining power vis a vis national brands by virtue of their relatively higher control on the* ***marketing mix*** *of their own brands? Second, given the higher* ***profitability*** *and potential increase in* ***bargaining power****, does the retailer strategically set retail prices and promotions to favor and strengthen the private label in order to derive* ***patronage loyalty****?*

Hence, the main aim of this research is to show the primary dimensions of retailers' objectives and the strategic perspectives in developing private label products and to make contributions to the domestic-foreign literature.

Keyword- Privet Label Brands, Own brands, Store brands, BATNA- Best Alternatives to Negotiated Agreement

Introduction-

Retailers that attempt to gain competitive advantages in the midst of intensive competition in the retailing sector tend to develop their Privet label (PL) products as a competitive strategy. In the literature, branded products that retailers create, develop, own and sell only in their own stores are called private label products. Exponential increase in the positive attitude & buying tendency of consumers toward private labels makes this subject a focus of interest for retailers, especially in recent years in India. Various studies in many school of thoughts have examined this subject both generally (retailer-manufacturer) and from a basically theoretical perspective. Store brands have become increasingly important to retailers as a way to differentiate their brand, obtain higher profit margins and offer consumers more value and wide choice for selection. Retailers have developed more comprehensive product specifications for private label offerings, and store brand product manufacturers have responded with improved technology, innovation and capability in their production facilities. Store brands are generally held to the same standards and regulatory requirements as national brands, with the additional scrutiny of the retailers' own Quality Assurance (QA) program. Therefore, successful retailers and manufacturers work closely together to ensure their private label products are truly national brand comparable, and seek independent test laboratories to make objective assessments for quality, regulatory compliance, performance and safety.

However, there are very few empirical studies that specifically explain the objectives of developing private label products from the retailers' perspective. In reality, it's the retailer who is closest to the customer and the one who is on the best platform to understand their psychology and to create relationships of lasting value. Retailers understand consumer choices, preferences and budgets, with the result that they are redrawing the structure and composition of their merchandise ranges and promotion plans. Successful retailers are the ones drawing on a combination of brands and their own exclusive brand label products to deliver a more attractive balance of product portfolio, merchandise mix, category and assortment that will meet each customer's needs while growing business profitability.

Hence the key to successful marketing management for today's retailers is to understand the contribution and role of their proprietary or "own" brands in the long-term business strategy and marketing mix of the retail store. Strategic privet label brand management on all fronts of marketing mix goes hand in hand with endeavors to establish **sustainable points of difference** in each aisle and segment within the store. It also spurs decisions about how to appropriately define the retailer's "own" brand portfolio in order to galvanize consumers to connect and reconnect with its franchise in a compelling manner to obtain customer loyalty value .

Objectives-

There are several studies about private labels in the literature however to our knowledge, a very few published literature have specifically focused to understand retailers' opinions in very subtle manner. Therefore, this study has been designed to explore of the dimensions of retailers objectives and perspectives in developing private label brands.

The objective of this article is also to highlight the retailer's strategic perspective which acts as BATNAs- Best Alternatives to Negotiated agreement- in negotiation with national players. This new paradigm of private label thinking requires that retailers consider an arsenal of often overlooked business and branding tools to further success.

Literature review-

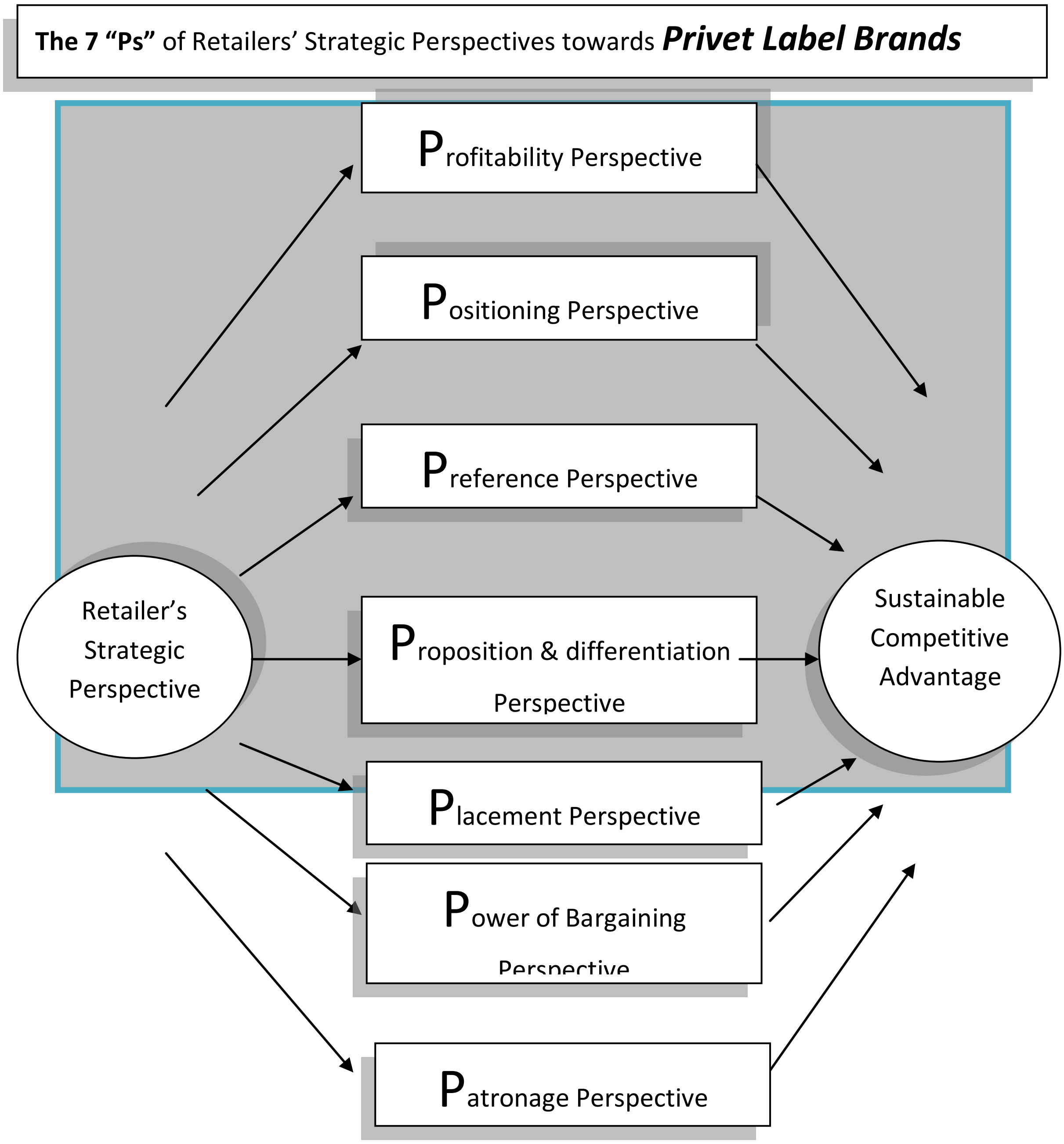
With the increasing importance of brands and branding issues for enterprises, retailers have begun to develop their own branded products just like the manufacturers' brands or national brands that were created, developed, financed, and owned by manufacturers. The brands that wholesale dealers or retailers own are called private labels. (Lamb et al., 1992: 236). According to another definition, private labels are the brands that are owned and controlled by a retailer (Sayman/Raju, 2004: 279). The terms such as own brand, own label, retailer's brand, distributor's brand, and store brand are widely used synonymously with the term private label. The most important characteristic of these brands is that they are presented for sale only in the store of the retailer who owns a brand. (Dick et al., 1997: 18; Berman, 1996: 352). With private labels, retailer is responsible for the activities like developing the brand, obtaining a financial source, and storing and marketing the product. In addition, retailers can constitute their private labels with different product types or different product categories (Tamilia et al., 2000: 10). Private labels are considerably less expensive than national brands, so they are known as "convenient brands for the budget."

As mentioned in the introduction, bargaining power represents the ability or skill of a party to bargain for a greater share of the pie (Iyer & Villas-Boas, 2003). A party with no power deals with more powerful opponents, whereas a party with complete power deals with powerless opponents and is thus able to bargain the entire subject of a deal (Svejnar, 1986). There are several important factors which determine who has the power in the negotiations, those factors will be discussed in this paragraph.

Firstly, a highly important factor which determines bargaining power is product uniqueness. If a manufacturer's product is unique, then the bargaining power is higher for the manufacturer. On the other hand, if a manufacturer's product is standard, then the bargaining power is higher for the retailer (Porter, 1979). To make a product more unique, a manufacturer can provide a consumer with more information and thus improve its bargaining power (Dukes, Gal-Or & Srinivasan, 2005). The power of a national brand manufacturer in the negotiations depends on the "added value‟ a national brand has to a retailer. When a national brand is unique, then the "added value‟ is high and the national brand manufacturer has a better position in the negotiations (Scott-Morton & Zettelmeyer, 2004).

Secondly, product importance is an important factor. National brands are preferred to private labels by consumers and if a retailer cannot find a comparable product to the national brand, then the bargaining power of the retailer is low (Narasimhan & Wilcox, 1998). So if a product is important for a retailer, then the bargaining power of a manufacturer is high (Porter, 1979).

The 7 "Ps" of Retailers' Strategic Perspectives towards *Privet Label Brands*



(The Conceptual framework**)**

1) ***Profitability Perspective-***

Privet labels are highly profitable. The profits earned from them are almost double than those of from third party brands.

Salil Nair

Private labels provide higher margins than national brands (Hoch and Banerji 1993, Sayman et al 2002, Narasimhan and Wilcox 1998, Ailawadi & Harlam 2004, Pauwels and Srinivasan, 2004).

Private labels can provide high profit margins, as they are better presented in the store and are sold at lower prices than are national brands (Parker/Kim, 1997: 221; HOCH, 1996: 89; Quelch/Harding, 1996: 107). By controlling the advertising and promotion costs of private label products in the market (Delvecchio, 2001: 240), retailers can offer discounts to consumers in great quantities. Private labels offer lower prices, owing to their manufacturing costs, inexpensive packaging, minimal advertising, and lower overhead costs (Dick et al., 1997; 18).

According to Corstjens and Lal (2000), presentation of private label products that have high quality can be an instrument for retailers to generate store differentiation, loyalty, and profitability.

For instance, Carrefour actively markets its private label products and positions these products as high-quality alternatives to national brands. Carrefour seems to understand that positioning private labels on the basis of lower prices may signal lower quality rather than greater value (DICK et al., 1995: 21).

In the past, "Private label brand" was a moniker for consumer products that were comparatively low priced with lower value. Retailers fostered them as they represented a growth engine because of high returns in terms of profit margins and overall profitability on a relatively small investment.

2) Proposition & Differentiation Perspective-

> "I have long believed that differentiation through exclusive product and brands is one of the key elements to creating an exciting and productive retail environment.'' Marvin Traub, CEO Marvin Traub Associates
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> *Marvin Traub Associates is a marketing and consulting firm founded in 1992.Prior to his career in consulting; Mr. Traub was CEO and President of Bloomingdale's for twenty-two*

Retailers develop their private label products by taking into account consumers' wants and needs. Private labels, as a part of strategic marketing plans, provide a better focus for consumers and differentiate the retailer from its rivals. Retailers are the same as one another in their merchandise resources, colors, styles, assortments, and also usually prices and presentations. However, retailers that present their private labels using branding techniques separate themselves from the competition and differentiate themselves (Tamilia et al., 2000: 16-17). Private labels are considered a fundamental tool for a successful differentiation strategy (Dodd/Lindley, 2003: 346). Thus, retailers that give consumers a different choice with their private label products are able to have a different position in the market (Fernie/Pierrel, 1996: 49). Retailers have the power of high pricing for their private labels due to their rivals' selling only national brands (Erdogan, 2003: 28-29). Retailers primarily have to take account of the fact that a brand has an image and that that image is in consumers' minds. They also have to look at which brands have which positions in consumers' minds. If they want to compete successfully, the action point must be consumers' minds (Baris, 2003: 59-61). Thus, it will be possible to reach more consumers, and retailers that get a position in consumers' minds with their private label products will be able to occupy a different position in the market compared with their rivals (Vahie/Paswan, 2006: 69).

Hence today's private label brands need to embody the attitude and demeanor of an "own" brand. "Private Labels" are relevant to the broadest set of audiences. The trade feels an affinity and desire for the "proprietary" brand to prosper. The consumer is loyal to "own" brands and seeks them out as an integral part of his/her lifestyle which nourish there association and connects them with the brand persona. The retailer, in turn, celebrates and nurtures the "Private Label" brand as a vital embodiment of its brand proposition that will build and sustain a greater degree of loyalty.

3) Positioning Perspective-

> It is imperative for modern retail to develop retail equity than brands. If we have strong Privet brands in our store, that itself becomes a strong differentiator.
>
> Atulit Saxena

The concept of Privet Label Brand is actually an extension of brand concept. A brand image is defined as the sum of total brand associations held in consumer memory that lead to perceptions about the brand (Keller 1993, in Vehie and Paswan, 2006). Vehie and Paswan (2006) categorized

privet label brand image into two dimensions which are quality & affection.

Retailers that cannot be easily imitated by rival retailers and that can build a different store image will have also obtained an important competitive position. From this point of view, the store image (being the result of functional and psychological characteristics) for the retailers influences the buying decision period and consumers' behavior (Ünüsan et al., 2004: 48). Some studies have shown that consumers have positive attitudes towards private labels if they have a positive image of the retailer (Dodd/Lindley, 2003). The retailers that constitute their product assortments with high quality national branded products and have a good image can also reinforce their image by presenting their private label products (Shenin/Wagner, 2003: 201). If they have high-quality private label products in stock that are wanted by consumers, they can reinforce their image. Although retailers have a powerful image, they cannot build a brand image that is less desired by consumers, or even not desired by them at all. Retailers must have this fact in their consciousness.

Hence there has been a rapid shift in mindset about the role and requirements for today's private label brands. Retailers are evolving to a new definition and greater focus for these proprietary offerings to elevate their stature and influence on the current and future business strategy.

E-tailers are also choosing to raise the bar on their differentiation to get around the price conundrum. Fashion e-commerce site, Jabong, a multi-brand shop, set up a 15-member fashion design studio in London to design all its private labels. While e-tailers choose to source locally, there is a steady trend of players focusing on upping the design ante.

Myntra, another multi-brand store, has tied up with Italian fashion house, Parabellum, led by popular designer, Vani, to work on a new brand. Pure-play private labels portal, Donebynone, sells clothes, shoes and accessories under its own name, it resorts to stylized photography and presentation of its offerings, positioning itself as a chic option for young buyers.

4) Preference perspective-

Besides, stocking these high-quality national branded products in addition to private labels can develop consumers' preferences about the retailer's image and also both of them can obtain the retailer as a brand over time (Ailawadi/Keller, 2004: 337; Dodd/Lindley, 2003: 346). In addition, retailers must pay attention to other cues about product quality associated with private labels, like the attractiveness of packaging, labeling, and brand image, as well as the image of the store itself which may transfer to consumers' perceptions of private label quality (Dick et al., 1995: 15). Meanwhile, the name or the retailer's logo may be put on the products' packages. Thus, consumers' interest can be attracted not only to products, but also to retailers (Sparks, 1997: 157; Dodd/Lindley, 2003: 346; Burt, 2000: 885). Private label products with retailers' names placed prominently on the packages become a means of advertising for the retailers' own stores (Özkan/Akpinar, 2003: 25) and carry the retailers' name to consumers' homes (Omar, 1999: 215). For this reason, retailers may grow as a brand by using their names and logos on the products' packages (Dodd/Lindley, 2003: 346). They may also increase retailer loyalty (Corstjens and Lal 2000; Sudhir and Talukdar 2004; Ailawadi, Pauwels and Steenkamp 2008; Seenivasan, Sudhir and Talukdar 2009) engendering retailer differentiation and greater long-run retail profits. Hence it is in a retailer's interest not only to introduce private labels but also help it achieve a high market share and consumer preference.

> We differentiate our products by launching styles which are not available in the market. We have brought out celebrity designs by the likes Rohit Bal.
>
> Pravin Sinha,

Category management and brand management need to work together to fuel the marketing strategy. One cannot be replaced by the other. Both product and positioning points of difference set the "Private Label" brand apart in consumers' minds. A consumer-centric approach is at the heart of "own" brand development and elevates above the product-centric thinking of the past.

In order to have a consistent and compelling brand voice, retailers need to understand the contribution and role of proprietary or "own" brands within their business and also within the lives of their consumers. "Own" brand products, branded communication and expressions should all be developed in accordance with this thinking.

5) *Placement Perspective-*

Shelf space is a room which is allocated to different products in shelf. Shelf space is a precious asset for the retailer. Meanwhile it is a very challenging job for the retailer to allocate proper space to the products. Shelf space allocation directly impacts the retailer's profit. Retailer allocates more space to those brands which contributes more to his profit.

A retailer can theoretically favor store brands against national brands, because it has the power to set the retail marketing mix (price, shelf space position and promotion) of not only the private label, but also those of national brands (Hoch and Banerji 1993, Raju et al 1995; Hoch 1996; Narasimhan and Wilcox 1998; Dhar and Hoch 1997).

When the national branded manufacturers increase their products' prices without a reason, retailers can increase their control of shelf space by enlarging it, and can thereby compete with national brands (Savasci, 2003: 90). Retailers, by marketing their private labels, reduce the number of national brands in the shelf space (Oubina et al., 2006: 746). Retailers also have the advantage of presenting low-cost private label products and introducing more price alternatives to consumers (Omar, 1999: 215).

As much as shelf is allocated to brands, it raises market share equally, "share of shelf = share of market" (Norm Borin, n.d.). Due to the introduction of Private Label, manufacturer is dependent on retailer for shelf space (Natalia Rubio, 2008). Inverse relationship has found between Private Label market share and its profitability. The reason is that, manufacturer has limited resources in which he has to establish the terms of trade with the retailer. If manufacturer is unable to fulfill the requirements and demands of the retailer then retailer allocates less space to National Brands. This result, in giving more prominent proportion to the Private Label, and will get huge market share from the National Brands (Wilcox, 1998). Space elasticity is greater for Private Label as compared to national brands. Negative relationship has been found between market share and space elasticity (Curhan, 1972).

Manufacturers suppose that retailers support unequal competition by giving more space to the Private Label as compared to National Brands. Private Labels are sited at more profitable place than National Brands. Private Labels occupy more space disproportioned to their market share. Private Labels imitate the features and appearance of National Brands, in this way Private Labels look like the National Brands and customers are motivated to buy Private Labels. When retailer introduces the Private Label, it replaces the National Brands from the shelves and gives maximum possible space to its own brands (Fernandez Nogales and Gomez Suarez, 2005).

Shelf Placement is an important resource for the retailers and also an alternative to concede in negotiation with national brands. Retailers want to effectively allocate shelf space to its brands. Retailer places both types of brands in the shelf e.g. private and national. Allocation of shelf space is critical task for the retailer. Retailer places private labels in the shelves for gaining higher margins. While the purpose of placing national brand is to enhance the brand image of Private Label, and store.

6) Power of Bargaining Perspective-

Many argue that private labels provide strategic bargaining power to retailers against manufacturers in negotiating supply terms for national brands. Better supply terms could include lower wholesale prices (Narasimhan and Wilcox 1998, Sayman, et al 2002, Ailawadi & Harlam 2004) or better trade deals (Giblen 1993, Lal 1990). Scott-Morton and Zettelmeyer (2004) formalize the bargaining benefit with an analytical model. They argue that retailers are able to get bargaining power with store brands because they can imitate the leading national brand in a category. This strategic positioning gives the retailer the greatest disagreement payoff in negotiations with manufacturers, leading to better terms in negotiations.

At the same time, retailers use private labels as a tool in order to control the channel and lessen the dependence of the store on national brands (Tamilia et al., 2000: 25-26). Through this practice, developing and marketing private label products against national brands (and also manufacturers), retailers increase their bargaining power (Tarzijan, 2004: 321- 322).

Hence these strategically developed and positioned Private Label brands- can be used as the Best Alternatives to negotiated agreement (BATNA) - and acts as generals on the negotiation army which fights in favor of the retailers in negotiation with national brands/manufactures.

7) Patronage Perspective-

"Development of exclusive and private label brand programs, which are customer centric, is strategic and tactical when executed with a clear vision to design, develop and source products that drive sales and margin growth. A well-executed strategy is the perquisite for a successful company positioned for market leadership, offering product differentiation which will ultimately drive customer loyalty…"

Nancy Marino: Strategy Consultant and industry leader

Nancy has hands on experience at senior positions with organization like Sara Lee, Sears Roebuck, Associated Merchandising Corporation (currently Target Stores Sourcing), Frederick

Private labels also allow retailers to fill the gaps in their product assortments that the manufacturers have neglected. Clearly, retailers use private labels in order to reinforce the store image and to get a position in the consumer's mind. This has resulted in diverting loyalty from the brand to the store (Tamilia et al., 2000: 17). If the retailer is successful with its private label products, or if its private label products are chosen by consumers, they will have to return to the same store to buy private label products (Steiner, 2004: 112). This is because private label products are only sold in the store of the retailer who owns the brand (Dick et al., 1997: 18). The retailers that develop relationships between consumers and private label products and gain an advantage over their rivals will also support efforts toward developing new products (Jonas/Roosen, 2005: 639). Because the feedback process of learning consumers' reactions toward private label products works in retailers' favor, this period carries with it important data that the retailers will use in developing new products.

Conclusion-

The key to successful marketing management for today's retailers is to understand the contribution and role of their private label or own or proprietary brands in the long-term business strategy and marketing mix of the retail store and consider both the supply and demand side of the equation. Strategic brand management goes hand in hand with these endeavors to establish sustainable points of difference and salience in each aisle and segment within the store. It also spurs decisions about how to appropriately define the retailer's Private label brand portfolio in order to galvanize consumers to connect and reconnect with its target audience in a compelling manner.

The Private Label- Paradigm Shift-

Private label brands have obviously become a more instrumental priority for today's retailers. They are starting to diversify and differentiate their offering beyond the expected, enabling them to compete more effectively in existing product categories and foray into new and different product categories that have traditionally been dominated by national and/or international brand players.

Today with the context of burgeoning growth in e-tailing we can find many instances, private labels have surpassed a national brand's capacity to deliver on visibility, consumer interest, involvement and appeal. Proprietary brand decision makers are often able to command close to parity or parity pricing for their private labels, without articulating cost as the differentiating factor. This represents and establishes a point of departure from the past: there is an acknowledgement that today's proprietary brands have the ability to transcend the negative baggage and problems of traditional store brands, creating unique, resonant benefit propositions and brand salience for consumers.

Retailers are beginning to recognize that they cannot simply rely on national branded products to draw consumers into their stores and achieve sustainable loyalty. This is due to the fact that manufacturers' product brands often have the ability to transcend geographic location, distribution channel or retailer s. Due to this pervasive presence of national brands, consumers need not have a strong relationship with a particular brick-and-mortar or online store establishment to have access to these products. It is only the private label brands, which have exclusive availability at a specific retailer that can be a magnet to draw people into its store versus others and accrue direct meaning and patronage loyalty to the overarching banner.

When "Private Label" brands are appropriately created and steered, they have the potential to reach their pinnacle of success. In doing so, they create an impeccable persuasive connection with consumers, drawing them into a retail store, but more importantly, becoming an essential, preferential experiential and indispensable lifestyle choice that they embrace over the long-term.

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