Marketing of Private Labels: Strategies and Initiatives

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ABSTRACT

Private labels are developed and sold by retailers and wholesalers. Private labels are gaining in importance and are competing with established brands. Private labels succeed because of certain critical factors. Such brands differentiate themselves and add value so that customers choose such brands over established brands. Companies selling private labels adopt a number of strategies and initiatives to succeed in the competition. The study discusses all these aspects, the reasons for success of private labels, and the measures such brands adopt to achieve business excellence. Academicians and practicing managers will be able to appreciate the importance of and the impact created by private labels. They might suggest effective strategies and initiatives so that customers are delighted by private labels and such brands succeed in the long run.

KEYWORDS

Critical Success Factors, Differentiation, Exclusive Brands, National Brands, Store Brands, Value Addition

1. INTRODUCTION

Retailers and wholesalers develop their own brands which are called private-label brands. Private-label brands are also called a reseller, store, house, or distributor brand (Trabelsi, 2020). Marks & Spencer, The Body Shop, and Benetton carry mostly own-brand merchandize. Private labels are gaining in importance at present. In grocery stores in Europe and Canada, store brands account for as much as 40 percent of the items sold (Martinelli, De Canio, & Marchi, 2019). In Britain, Sainsbury and Tesco which are two of the largest food chains, have more than half of their sales in the form of store-label goods. The percentage of private-label sales is also high in the European markets of Germany and Spain (Derqui & Occhiocupo, 2019).

Private labels are store brands owned by retailers, challenge manufacturer brands, whether global or country-specific (Muszyńska, 2019). European customers prefer store brands more than American customers (Levitskaya, 2016). In the food retailing sector in Britain and many other European
countries, private labels owned by natural retailers increasingly confront manufacturer brands. The grocery stores in Britain and the supermarkets of Europe are flooded with private-label products which include blackberry jam, vacuum cleaner bags, smoked salmon, and sun-dried tomatoes (Dovleac, 2016). Private brands have captured nearly 30 percent of the British and Swiss markets and more than 20 percent of the French and the German markets. Private-label market share has doubled in the last five years in some European markets (De & Singh, 2017).

The importance of private labels cannot be overemphasized. Although private labels are gaining in importance, very few studies have aimed at conducting a comprehensive study about the various aspects of private labels, the strategies, and the initiatives companies selling private labels should adopt to succeed in the competition. The study aims to address this research gap.

The objective of the study is to understand the importance of private labels, the reasons for the acceptance and the popularity of private labels, and the strategies and the initiatives adopted by companies selling private labels.

The methodology adopted is the conceptual and the qualitative analysis of the literature on private labels. The latest and the relevant literature were analyzed to understand the various aspects of private labels. Primary data was not collected and empirical analysis was not done in the study.

The novelty and the contributions of the study lie in the fact that an in-depth study of the various aspects of private labels is done. Private labels are becoming important and are having a major impact in the choice of brands. Private labels compete with established brands at present. Due to various reasons, customers sometimes prefer private labels to established brands. It is emphasized how private labels create differentiation and add value for customers. Also, the elderly people have requirements and preferences which are different from that of others. Private labels differentiate their brands and create innovation to cater to the requirements of the elderly. Such aspects are highlighted in the study. Both academicians and managers will be able to appreciate the various aspects of private labels, the reasons for the growing importance of private labels, the impact created by private labels, and the various strategies and initiatives companies which sell private labels adopt to achieve business excellence.

The study is structured as follows:

Section 2 discusses about the roles and the impact of private labels. Section 3 highlights the critical success factors for private labels. Private labels require differentiating themselves from other brands and also require to add value to the brands. These are discussed in sections 4 and 5 respectively. Section 6 discusses about the different strategies adopted by companies selling private labels to achieve business excellence. Section 7 discusses about the salient points of the study with sub-sections 7.1 and 7.2 highlighting the theoretical implications and the managerial implications of the study respectively. Section 8 concludes the study with sub-sections 8.1 and 8.2 highlighting the limitations of the study and the avenues of future research respectively.

2. ROLES AND IMPACT OF PRIVATE LABELS

Private labels are gaining in importance now-a-days than established brands. Manufacturers of name brands are running scared because of private labels. Recessions and economic downturns result in increase of sales for private labels. Customers become cautious in spending during recessions and also when recessions get over. Once some consumers switch to a private label, they do not always go back (Sinapuelas, 2018). But some experts believe that 50 percent is the natural limit on how much private-label volume to carry because consumers prefer certain national brands and many product categories are not feasible or attractive on a private-label basis. Some of the products in which the sales of private labels are high include packaged meats, fresh produce, paper products, medications and remedies, bread and baked goods, and milk and cheese (Jayakrishnan, Chikhalkar, & Chaudhuri, 2016).

Intermediaries sponsor their own brands for a number of reasons. First, these brands may be more profitable. Intermediaries may influence manufacturers with excess capacity to produce private-label
goods at low cost (Singh & Singla, 2018). Private labels are manufactured with the initiatives of intermediaries. So, the total costs reduce drastically. These costs include research and development, advertising, sales promotion, and physical distribution. Since the total costs are less, private labels can generate a higher profit margin (ÖZhan, Akkaya, & Habiboglu, 2020). Private labels allow retailers to differentiate themselves from competitors and gain substantial competitive advantage (Górska-Warsewicz et al., 2018). Retailers develop exclusive store brands in certain categories which are preferred by price-sensitive customers. These preferences give retailers increased bargaining power with marketers of national brands.

Private labels or store brands are different from generics. Generics are unbranded, plainly packaged, less expensive versions of common products such as canned peaches, salt, sugar, paper towels, or spaghetti (Czeczotko, Górska-Warsewicz, & Laskowski, 2020). They offer standard or lower quality at a price that may be as much as 20 percent to 40 percent lower than nationally advertised brands and 10 percent to 20 percent lower than the retailer’s private-label brands. It is possible for private-label brands to charge lower prices because of lesser costs incurred in labeling, packaging, advertising, and sometimes lower-quality ingredients.

Generics can be found in a wide range of different products, even medicines. Pharmaceuticals giant, Novartis is a company which is one of the world’s top five makers of branded drugs. It produces drugs such as Diovan for high blood pressure and Gleevec for cancer. However, Novartis also produces generic drugs following its acquisition of Eon Labs, HEXAL, Sandoz, and others (Jones, Carrier, Silver, & Kantarjian, 2016).

Retailers are both collaborators and competitors for many manufacturers. According to the Private Label Manufacturer’s Association, store brands account for one of every five items sold in U.S. supermarkets, drug chains, and mass merchandizers (Singh & Singla, 2018). In one study, seven of ten shoppers were of the opinion that the private-label products they bought were as good as, if not better than, their national-brand counterparts. Respondents also agreed that virtually every household purchases private-label brands from time to time (Liu, Sprott, Spangenberg, Czellar, & Voss, 2018). The stakes involved in private-label marketing are high. A one-percentage-point shift from national brands to private labels in food and beverages is estimated to add $5.5 billion in revenue for supermarket chains (Liu et al., 2018).

Private labels gain in importance during economic difficulties in the target markets. During economic downturns, consumers become thrifty and prefer to buy less expensive and “more local” private brands (Gómez-Suárez & Abril, 2020). This strategy allows retailers to outsource production while still appreciating the advantages of a local brand. Private labels are beneficial for retailers. Retailers receive higher margins. In return, private labels receive more shelf space and strong in-store promotions. This also increases customer appeal because private labels are quality products at low prices (Choi, 2017). On the other hand, manufacturer brands are premium priced and offer the retailer lower margins than they get from private labels (Milberg, Cuneo, & Langlois, 2019).

Global brands require pricing themselves competitively to maintain market share. Global brands should also provide real customer value to remain in the competition. Global marketers must examine the adequacy of their brand strategies to deal with the competition. This effort may make the cost and efficiency benefits of global brands even more appealing.

3. CRITICAL SUCCESS FACTORS FOR PRIVATE LABELS

Retailers have increasing market power in the battle between manufacturers and private labels. Shelf space is scarce for brands in supermarkets. Many supermarkets charge a slotting fee for accepting a new brand to be displayed in the shelves. Such fees cover the cost of listing and stocking the brands. Retailers also charge for special display space and in-store advertising space (Mandal, 2016). Retailers display their own brands more prominently. They also make sure that their private labels are well stocked (Tsafarakis, Saridakis, Matsatsinis, & Baltas, 2016).
Retailers make substantial investments to develop store brands. Retailers make sure that store brands have high quality, and attractive and innovative packaging. Supermarket retailers are adding premium store brand items (Kopanidis, Robinson, Reid, & Üy, 2016). Kroger’s switched to new vendors to supply better-quality cheeses, meats, and veggies for its upscale private-label pizza. Sales increased because of this initiative. The supermarket chain started commanding more than 60 percent of the premium pizza market (Tran, Guzmán, Paswan, & Blankson, 2016).

Store brands and private labels are growing in importance now-a-days. Retailers get credit for the success of private labels and store brands. However, such brands are also benefited from the weakening of national brands (Gümüş, Geçti, & Yılmaz, 2020). Private labels and store brands are succeeding because their prices are lower than that of national brands. Also, many consumers have become more price sensitive. This trend is reinforced by the continuous barrage of coupons and price specials that has trained a generation to buy on price. The features and the quality of the best brands in a product category get duplicated. Such duplications reduce the scope for physical product differentiation. Companies cut down their marketing communication budgets. It becomes difficult for companies to create any tangible differences in brand image (Yrjölä, Hokkanen, Määttänen, & Saarijärvi, 2020). A steady stream of brand extensions and line extensions blur brand identity at times and lead to a confusing product proliferation.

Many manufacturers of national brands are fighting back and competing with private labels and store brands. National brands adopt a number of strategies and tactics to compete more effectively with private labels (Brüggemann, Olbrich, & Schultz, 2020). Leading national brands invest significantly in research and development after gaining customer insights, bring out new brands, line extensions, features, and quality improvements. They undertake marketing communication programs and invest in strong “pull” advertising programs to maintain high brand recognition and consumer preference and to overcome the in-store marketing advantage private labels can enjoy (Mandal, 2016).

Established brands partner with major mass distributors in a joint search for logistical economies and competitive strategies that produce savings for both sides. The brands eliminate all unnecessary costs. Such elimination allows national brands to charge lower prices and command a price premium. Prices are set such that the prices are commensurate with the consumers’ perception of value (Olbrich, Jansen, & Hundt, 2016).

Brands understand the importance of creating a strong customer demand. When Walmart decided to pull Hefty and Glad food bags from its shelves, selling just Ziploc and its own Great Value brand, Hefty and Glad stood to lose because the retail giant accounted for a third of its sales (Dunphy, 2016). Consumers were not satisfied and complained about their loss. They switched and started shopping from other stores. Walmart understood the consumer reactions and put the brands back on the shelves (Dunphy, 2016).

Brands should ensure that the positioning is appropriate and effective (Kethüda, 2020). Despite holding a hefty 60 percent price premium over its private-label competitors, Pepto-Bismol gained market share during the recession (Braxton, Muehling, & Joireman, 2019). The company undertook an advertising campaign which portrayed the product as an effective multipurpose “insurance policy” for gastro-intestinal maladies. The campaign was popular with customers who were value-conscious (Braxton et al., 2019).

Researchers, Jan-Benedict E.M. Steenkamp of the University of North Carolina and Nirmalya Kumar of London Business School offer a number of strategic recommendations for manufacturers to compete against or collaborate with private labels (Steenkamp & Kumar, 2009).

Manufacturer brands should fight selectively to win against private labels and add value for consumers, retailers, and shareholders (Muruganathan & Priyadharshini, 2017). This typically occurs when the brand is number one or two in the category or occupying a premium niche position. Procter & Gamble modified its product portfolio. It sold off various brands such as Crisco, Jif peanut butter, and Sunny Delight juice drink shortening, in part so it could concentrate on strengthening its 20-plus brands with more than $1 billion in sales (Pande & Narayan, 2019).
Brands should aim at creating win-win relationships with retailers. They should develop strategies which complement the retailers’ private labels. For example, Estée Lauder partnered with Kohl’s and created four brands (American Beauty, Flirt, Good Skin, and Grassroots) exclusively for Kohl’s to help the retailer generate volume and protect its more prestigious brands in the process (Gijsenberg & Nijs, 2019). Manufacturers sell through Lidl and Aldi which offer high discounts, to generate increased sales by finding new customers who have not previously bought the brand (Caro, Kök, & Martínez-de-Albéniz, 2020).

Brands should do continual innovation to beat private labels. Continual innovation results in regular launching of new products. This keeps the manufacturer brands remain relevant and fresh. Firms should also periodically launch radically new products and protect the intellectual property of all brands (Chimhundu, 2018). Kraft doubled its number of patent lawyers to make sure its innovations were legally protected as much as possible (Rai, 2019).

Manufacturer brands should create winning value propositions by imbuing brands with symbolic imagery as well as functional quality that beats private labels (Cuneo, Milberg, del Carmen Alarcon-del-Amo, & Lopez-Belbeze, 2019). Many manufacturer brands are able to provide equal or better functional quality than private labels. Manufacturer brands should also ensure that the prices set are appropriate indicators of the benefits perceived by customers (Cuneo et al., 2019).

Retailers or store brands are also called private-label brands. These brands are related to the products which are developed by retailers (Trabelsi, 2020). In most of the cases, retailers manufacture the products and perform all the activities related to the products. In some other cases, they develop the design and specifications for their retailer or store brands. Manufacturers produce the products according to the design and specifications (Dennis, 2020). Some national brand manufacturers work with retailers to develop a special version of their standard merchandize offering to be sold exclusively by the retailer (Dennis, 2020).

Store brands were not popular in the past and the sales were limited (Hsiao, Wang, Wang, & Kao, 2020). However, in recent years, as the size of retail firms has increased through growth and consolidation, more retailers have the scale economies to develop private-label merchandize and use this merchandize to establish a distinctive identity (Hsiao et al., 2020). Manufacturers express interest and are willing to accommodate the needs of retailers and develop co-brands for them. At Stop & Shop, 70 percent of sales in some stores come from store brand options (Kay, Wu, Wall-Bassett, Yen, & Myers, 2018). Retailers like Costco and Trader Joe’s build their brand identities around their store brands.

4. DIFFERENTIATION OF PRIVATE LABELS

Retailers find it difficult to distinguish themselves and to create a brand identity. It is difficult to do these because competitors can purchase and sell many of the same popular brands. Retailers require differentiating their brands. Retailers develop and sell private-label brands to overcome such challenges. Private-label brands or store brands are those brands and products developed and marketed by a retailer and available only from that retailer. For example, if a customer desires to purchase a Giani Bernini leather handbag, the customer has to go to Macy’s (Molinillo, Ekinci, & Japutra, 2019). This provides a substantial competitive advantage for retailers when they sell private labels.

In addition to private labels, retailers work in collaboration with suppliers to develop an exclusive brand (Hara & Matsubayashi, 2017). An exclusive brand is a brand that is developed by a national brand vendor, often in conjunction with a retailer, and is sold exclusively by the retailer (Sun & Gilbert, 2019). For example, cosmetics powerhouse, Estée Lauder sells two brands of cosmetics and skin care products – American Beauty and Flirt. Estée Lauder has tied up with Kohl’s and the two brands are sold at stores of Kohl’s. The products are priced between mass-market brands such as CoverGirl or Maybelline (sold mainly in drugstores, discount stores, and supermarkets) and Lauder’s higher-end brands (sold primarily in more fashion-forward department stores such as Macy’s and
Dillard’s) (Gijsenberg & Nijs, 2019). Such initiatives create a win-win situation both for the brands and the retailers. The brands receive exposure and promotion and get sold. Also, selling of established brands improves the visibility of the retailers.

Exclusive brands offer a number of benefits. Like private-label brands, exclusive brands are available at only one retailer. Exclusive brands provide name recognition similar to that of a national brand. Exclusive brands have a number of disadvantages too. Manufacturers find it difficult because the product can be sold to only one retailer. This limits the scope of doing business for manufacturers (Calvelli & Cannavale, 2019). From the retailer’s perspective, the disadvantage is that it has to share its profits with the national brand manufacturer, whereas with a private-label brand, it does not. However, companies selling exclusive brands and retailers collaborate with each other because the advantages outweigh the disadvantages.

5. VALUE ADDITION IN PRIVATE LABELS

Established retailers adopt a number of initiatives to understand changing customer requirements and preferences (Awad & Mohsen, 2020; Jin, Ji, & Gu, 2016). They keep track of how shoppers are buying in their stores. Many retailers previously sought to stock a focused product assortment. At present, retailers shift their inventories to feature more seemingly mismatched items (Liu, Xiao, Tian, & Wang, 2020). For example, shoppers at Home Depot wanted charcoal to go along with the new grills they had just bought, and laundry detergent to use with their new washer/dryer combos. Home Depot expanded its offerings of such consumer goods (Mandal, 2020). There are other instances which may seem even less convergent. Staples stocks coffee pods, because office employees and home-based workers rely on their single-serving machines for a caffeine boost. At the same time, Staples also provides personal deodorant and shaving cream. With the help of such initiatives, Staples hopes that people looking for toner will also appreciate the convenience of purchasing some basic necessities in the same store (Mandal, 2020). Customers need not visit another retailer to purchase such items.

Now-a-days, customers find it more convenient and comfortable with online buying (Indiani & Fahik, 2020). Like all other retailers, Home Depot is increasing its investment in its e-commerce operations this provides customers access to more than 600000 items, whereas its largest store can carry only 35000 products. Customers can also opt for in-home delivery of bulky products such as sinks or patio sets. They do not require to visit the stores, buy the bulky items, and carry the heavy items home on their own. It has also set predictions for what it believes to be the fastest movers online: quick purchases such as light bulbs and extension cords, combined with big, heavy items such as appliances (Mandal, 2020).

E-commerce initiatives allow Home Depot to have a greater appeal to its business customers (Epstein, 2018). Online ordering enables a contractor to put together an e-commerce order for the project it has scheduled for the next day, then stop by the store to pick up the entire supply on the way to the project site (Maryati, Purwandari, & Solichah, 2018).

Private labels are taking a number of initiatives to understand and address the consumption habits of the elderly (Özsungur, 2020a). In today’s world, technological developments and age-related consumption tendencies differ. So, all brands should address such issues. Consumption behaviours are influenced by the effects of decreases due to aging on technology and the environment. The effects of differentiation of consumption behaviours and the processes determine the choices and the preferences of the elderly. A new idea of gerontology in the context of entrepreneurship, elderly-technology interaction, and digital service innovations is gaining in importance (Özsungur, 2020a). Private labels should understand the consumption processes of the elderly and their relations with different brands. Innovation should be introduced in products and brands after understanding these aspects (Özsungur, 2020b). Private labels will be able to add value for the elderly after a thorough understanding of these aspects.
6. STRATEGIES BY COMPANIES SELLING PRIVATE LABELS

Companies selling private labels adopt a variety of strategies and initiatives to promote such brands. Private labels are becoming popular now-a-days, and it is important that companies selling private labels understand the various strategies which they should adopt to sell their brands. The strategies adopted by Loblaw from Canada and Sainsbury from Britain are mentioned below.

Loblaw from Canada is one of the most successful supermarket retailers with private labels (Geyskens, Keller, Dekimpe, & de Jong, 2018). Loblaw gained importance since 1984 when its President’s Choice line of foods made its debut. People associate the term “private label” instantly with Loblaw (Li & Chen, 2018). The Toronto-based company’s Decadent Chocolate Chip Cookie quickly became a Canadian leader in the product category. It showed how innovative store brands could compete effectively with national brands by matching or even exceeding their quality. It has adopted a finely tuned strategy for its premium President’s Choice line and its no-frills, yellow-labeled No Name line (which the company relaunched with a vengeance during the recent recession). The strategy helped differentiate its stores and build Loblaw into a strong brand in Canada and the United States. Loblaw is licensing the President’s Choice line which has become successful, to non-competitive retailers in other countries (Li & Chen, 2018). Loblaw has developed a “good, better, best” brand portfolio and also introduced an “affordable luxury” line of more than 200 President’s Choice food products under a distinctive “Black Label” design (Li & Chen, 2018). Each of the products – from eight-year-old cheddar and ginger-spiced chocolate sauce to bacon marmalade – has a story behind its origin and is marketed based on information such as where it is from, who produces it, and why it is chosen. Loblaw wanted to capitalize on the overall strength of its private labels. Loblaw tried to communicate about its products better with the target market by launching a Food Network reality television show, Recipe to Riches. In the show, contestants are encouraged to have their homemade recipes developed into an actual President’s Choice product available to purchase the very next day at Loblaw’s stores (Li & Chen, 2018).

Sainsbury is one of Britain’s largest grocery retailers with 420 stores. The best shelf space is reserved for its own brands. A typical Sainsbury store has about 16000 products, of which 8000 are Sainsbury labels. Private labels account for more than two-thirds of store sales for Sainsbury (Loy, Ceynowa, & Kuhn, 2020). Sainsbury believes in continual innovation and launches 1400 to 1500 new private-label items every year. It also eliminates those items which are no longer popular (Lessassy & Jolibert, 2020). It launched its own Novon brand laundry detergent. The brand gained market share instantly. In the first year itself, the sales surpassed that of Procter & Gamble’s and Unilever’s top brands. Novon became the top-selling detergent in Sainsbury stores and the second-best seller nationally, with a 30 percent market share (Laffy & Walters, 2016). Sainsbury is able to achieve this level of success because it offers 15 percent margin on private labels. The operating profit margins of Sainsbury are as high as 8 percent, or eight times the profit margins of their U.S. counterparts (Murcott, 2018).

7. DISCUSSIONS

Private labels are gaining in importance in recent times and are competing with established brands. Customers prefer private labels over established brands for a number of reasons. All these are discussed in the study. Private labels play an important role and have an impact in business. The success of private labels depends on a number of critical factors which are discussed in the study. Companies selling private labels differentiate their brands and add value so that customers prefer private labels over established brands. The companies also try to understand the specific requirements and preferences of the elderly and incorporate innovation in private labels so that the elderly are satisfied. Companies which sell private labels adopt a number of strategies and initiatives to achieve success. All such strategies and initiatives are discussed. The latest and the relevant literature related to private labels
were referred to understand the latest developments. The discussions done in the study have a number of theoretical implications and managerial implications which are highlighted below.

7.1. Theoretical Implications
Academicians may understand the various aspects of private labels. Private labels are gaining in importance, are creating an impact, and are becoming more popular than established brands due to several reasons. They will understand these aspects and will be able to suggest better strategies and initiatives to be adopted by companies selling private labels.

7.2. Managerial Implications
Managers will realize and acknowledge the roles and impact of private labels in the present business scenario. Private labels are becoming more popular and important than established brands. The success of private labels can be attributed to a number of critical factors. Managers should understand these factors, differentiate private labels, and add value to private labels. They should also formulate strategies and adopt initiatives which will help private labels to flourish.

8. CONCLUSIONS
The study focused on the various aspects of private labels and aimed at analyzing the various factors which contribute to the success of private labels. Companies selling private labels differentiate themselves and add value to their products so that they are able to compete with established brands and sometimes become more popular than established brands. They adopt a number of initiatives and strategies which allow them to establish private labels in the markets.

8.1. Limitations
The study conducted a qualitative and conceptual analysis of the literature on private labels to understand the various aspects of private labels and the strategies and initiatives adopted by companies selling private labels. Primary data was not collected and empirical analysis was not done in the study. Collection of primary data and empirical analysis might generate results which are actionable.

8.2. Avenues of Future Research
Researchers may collect primary data related to various dimensions of private labels, conduct empirical analysis, and arrive at initiatives and strategies which are actionable. They may also study and analyze the latest and the relevant literature on private labels, understand the latest developments, and suggest initiatives which will help companies selling private labels to establish their brands and achieve business excellence.

REFERENCES


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