Chapter 5
Private Labels at the Service of Retailers’ Image and Competitive Positioning: The Case of Tesco

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ABSTRACT
Since their introduction decades ago by retail companies, private labels have passed through several stages of market penetration and customer acceptance. For retailers, private labels have become valuable instruments for image creation and competitive positioning. They also have been a key factor in facilitating internationalization and the decision to expand to other countries. This chapter traces the evolution of private labels, from their origin to the present, placing emphasis on the strategies that retail distributors use to obtain and maintain competitive positions. As an illustration, the authors examine the case of the Tesco grocery retail chain, following it from its establishment in the United Kingdom to its most recent expansion into South Korea. The case demonstrates the role of private labels in the company’s evolution and international expansion and thus reveals the strategies followed in developed versus developing markets. Deep knowledge of customers, enables companies to obtain a lead position in markets and build an image associated with innovation and added value.

INTRODUCTION
Since the introduction of private labels several decades ago, retail managers have continued to modify their private-label strategies to adapt to changes in consumer markets. They have shifted, from focusing on value and tier-based product ranges to meeting varied consumer needs. Their efforts have paid off: Private labels have become key strategic resources for defining company images and gaining competitive

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advantages. Private-label use accordingly has evolved beyond lower price offerings, to serve more consumer needs and price segments. Private labels also are gaining ground in emerging markets, as multinational retailers adapt their best practices to the fastest growing markets worldwide (PR Newswire, 2013).

This evolution in turn is leading to two kinds of private-label strategies that depend on market type. In more developed markets, value is giving way to quality, and retailers are adjusting their portfolios to enlarge and rebrand standard private labels. In emerging markets, retail consolidation and the entry of multinational retailers into developing countries are both driving private-label penetration. Multinational retailer expansion is accelerating the pace of private-label use, and manufacturers are being advised to account for this trend in their strategic plans (PR Newswire, 2013). Thus in both settings, private labels are shaping company images and helping ensure a competitive positioning.

This chapter describes the evolution of the private label, from its introduction to the present time, taking into account some differences that have arisen in relation to degrees of market development. In addition, to illustrate the theoretical contents of the chapter, the case of the retailer Tesco will be described. The analysis of this distributor will be performed as an example of the different strategies that retailers can follow when entering new markets and implementing diverse private label strategies. Keeping in mind that all of these strategies must meet customers' needs and provide them with the desired value, Tesco has implemented different private label strategies. Hence, aside from developing the concept of the endorsed brand in the local and other foreign markets, Tesco followed a different strategy in South Korea. The particular private label strategy chosen was implemented along with the development of the Internet and mobile channels. The chapter finishes with some conclusions, future research directions and managerial recommendations.

BACKGROUND

To trace the evolution of private-label use through the decades, we describe both the initial strategies in the marketplace and the contemporary private-label situation. Specifically, we distinguish between more developed markets and emerging markets; the latter are targets of the internationalization efforts launched by companies. We will perform our analysis with an emphasis on the grocery industry, one of the most active users of private labels.

Evolution of Private Labels in More Developed Markets

Store brands originated as cheaper alternatives to national brands, oriented to appeal to price-sensitive consumers (Corstjens & Lal, 2000). In the retail grocery context, various aspects encourage consumers’ brand choices (e.g., Beilizzi et al., 1981; Bettman, 1974): perceived product quality, familiarity, and convenience. Private labels were competitive mainly due to the lower prices they offered (Baltras, 1997; Cunningham et al., 1982; Putsis & Dhar, 2001). Consumers tended to associate poor quality, or at least quality lower than that of manufacturer brands, with these low prices (Richardson et al., 1994).

Following several peaks and valleys in the sales of these store brands, they eventually and successfully emerged as powerful alternatives to manufacturer brands (Raju, Sethuraman & Dhar, 1995), offering similar quality at lower prices (Gómez & Rubio, 2008; Martínez-Ruiz & Jiménez-Zarco, 2009). In some industries, including groceries, this success resulted from repositioning strategies that expanded store brand assortments and intensified their promotion (Pauwels & Srinivasan, 2004). These strategies
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