

---

## Private Label Brands: Conceptual framework

**Manoj Das**

Assistant Professor,

Institute of Management Technology, Hyderabad.

### Abstract:

Research on private label brands has been increasing over the past few decades. This may be attributed to the growth of retail industry, increasing proliferation of private label brands at stores due to their advantages such as higher margins etc. for retailers. In this article we seek to propose a framework for understanding the decision making model influencing the purchase of private label apparel brands.

**Keywords:** Private label brands, Retail, Consumer behavior, Retailers image

### Introduction:

With the growth of organized retailing in India, private labels is now a thing to watch out for in the near future, for they are poised to be game changers and giving a tough time to national brands. Hence, it has attracted the attention of several researchers who seek to understand the role and timing of Private Label products in the life of the retailer a little better. But at the very onset we have to resolve a debate as to what qualifies as private? It is not merely some product with the store/ retailer's name on it. It has to signify something more than that. The consumer must perceive it to be as something distinct and unique rather than just a 'Product in a pack'.

Private Label Brands (henceforth PLBs) –often referred to as “store brands,” or “own brands” – can be defined as brands which are owned, controlled, and sold exclusively by a retailer (Raju et al. 1995). Private label brands which were first introduced over 100 years ago in few product categories, have seen an impressive growth in last two decades (Tarzijan, 2004). Average dollar market share of PLBs has increased markedly (Ailawadi and Harlam 2004), and PLBs are now the No. 1 seller in 240-plus grocery categories, amounting for around a quarter of total categories sold, with major retailers (and increasingly smaller retailers) viewing PLBs as a core piece of retailing strategy. Accordingly, PLBs have achieved remarkable levels of consumer acceptance. Some examples (Dowdell and Tarnowski 2006): approximately 85 percent of private label buyers say that it's a good alternative to branded offerings, 59 percent of consumers say that it's “just as good” as national brands, and approximately 90 percent of consumers feel comfortable serving private label to their guests.

### Reasons driving private label growth:

- Increasing concentration among retailers,
- An improved quality perception among consumers,
- Increasing social acceptance of private labels consumption



Given this context, our objectives are twofold:

- a. To summarize the existing literature by identifying two themes. The first theme is related to retailer motivations, such as enhancing profitability or enhancing customer loyalty. The second theme is related to retailer decision points, such as concerns with perceived quality and efforts to name brands successfully, impact of store image.
- b. To identify fruitful areas for future research.

**Retailers Motivations:**

**Benefits of private Labels**

- higher margins than the branded products
- Differentiate your stores from competitors' , offer something unique
- Greater freedom with pricing strategy
- Freedom to create and schedule your own marketing plans
- Create stronger customer loyalty
- Positions yourself better in economic downturns

copyright: www.retailrise.com

Source: Abril Carmen, "Sleeping With Your Enemy: Private Labels and National Brands, Who Innovates?" Feb 5, 2010. Forbes India.

Retailers are driven by the motive to increase profits and growth by trying to find a balance between National Label brands (henceforth referred to as NLBs) and PLBs. Dhar et al. (2001) have cited category management as a retailer dynamic which has grown in importance over the last 2 decades. They cite two main category methods that retailers can utilize to increase category profitability: (1) increasing current consumers' category purchase profitability, and (2) increasing in-store traffic. In their opinion these measures would help in increasing sales.

However, while considering this whole issue the importance of NLBs should not be undermined. Ailawadi and Harlam (2004) have found that there exists an inverted U-shaped relationship between store-brand share and profit exists.

A strong PLB program can enable retailers to achieve more than their “fair share” of a category’s total sales (Dhar et al. 2001), and retailers that outpace competitors in a particular category (i.e., have high category development index (CDI) scores generally have strong PLB programs (Dhar and Hoch 1997). At this point, it is difficult to conclude that PLBs can permit stores to achieve Dhar et al.’s (2001) second method of increasing category profits: bringing new consumers into a category. Research suggests the benefit of a strong category PLB program doesn’t extend to a boost in store traffic (Pauwels and Srinivasan 2004). It would also appear highly unlikely that a PLB will get consumers to try a category they never have before, given the previously aforementioned positive roles of consumer involvement and familiarity, and the negative role of risk, associated with PLB sales.

How will the retailer arrive at the decision as to which brands to promote more the NLBs or PLBs because ultimately the whole thing boils down to profit and it has been the NLBs which have been making profits for so many years, but there’s I also the feeling of own brand about PLBs Hence whether retailer motivated by a feeling of “My Store Brand” is an interesting area which needs to be explored further.

#### **Retailer/Store image:**

Consumers may evaluate products using a combination of various intrinsic and extrinsic variables. (Miyazaki, Grewal and Goodstein 2005). Intrinsic attributes refer to the tangible component parts of the physical product that contribute to its functional performance and core benefits (Du Plessis and Rousseau 2003; Grohmann, Spangenberg and Sprott 2007). However, in today’s highly competitive markets most products are worth more than the sum total of their physical attributes and the raw materials they are made of. Extrinsic properties refer to any attributes existing in addition to the core benefits (Du Plessis and Rousseau 2003, Miyazaki et al 2005) and comprise of different aspects such as price, brand name as well as retailer’s reputation (Grohmann et al 2007, Roggeveen, Grewal and Gotlieb, 2006). Identification of these attributes helps in augmenting and tailoring products to meet the explicit needs of specific consumer segments. Du Plessis and Rousseau (2003) have equated the tailored augmented product to a brand, which is often more significant in the consumer’s mind than the actual physical product. This is also applicable to brands which are associated with specific retailers.

Ailawadi and Keller (2004) have identified the key dimensions associated with a retailer’s image. These include: access, price and promotion, in-store atmosphere, cross category product/ service assortment as well as within category brand/ item assortment. In a meta-analysis, Pan and Zinkhan (2006) include these dimensions into three broad antecedent categories for retail patronage, namely product-relevant factors (such as product quality, price, and product assortment), market-relevant factors (such as store atmosphere, store image, service quality and convenience) and personal factors (such as demographic variables).

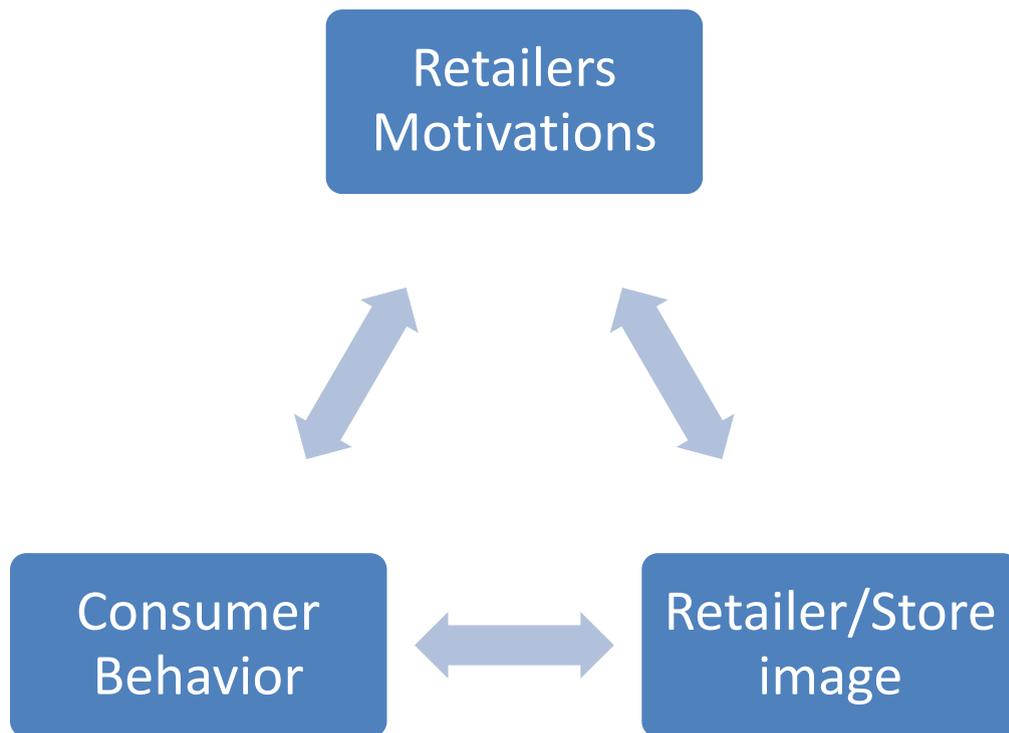
Taking into account all the above details it is interesting to note how retailers would use their/store image to form a connect with the consumers. How do they plan their store layouts and designs to increase footfalls? (Grewal et al. 2003; Keller and Ailawadi 2004; Pan and Zinkman 2006) And last but not the least how do consumers form a mental dimension as proposed by Gad(2001) which relates to how consumers perceive their brands to be the extensions of their own personalities.

## **Consumer Behavior:**

The major determining factors which have an effect on consumer buying behavior are:

- a) **Price vs. quality:** One of the major concerns for a retailer is to decide whether he wants to compete against a NLB on price versus quality (Ailawadi, Pauwels and Steenkamp 2008) and also to understand the price quality association (Batra and Sinha 2000). Previous research has suggested that the price variation between NLB vs. PLBs exist due to the perceived quality differential between them (Sethuraman and Cole 1999). Concerns regarding maintaining quality over different categories exist when competing against multiple companies producing different products. The importance of this consistency cannot be overstated; a high-quality PLB not only implies a high degree of relative quality to national brands, but low quality variability in the PLB product itself (Hoch and Banerji 1993). Price gaps have a strong influence on PLB sales (Dhar and Hoch 1997), but an interesting finding by Aggarwal and Cha (1998) is that the decisive price is the national brand price and not the PLB price ; if national brand price falls below a buyer's absolute maximum threshold, she will buy it; if not, she will buy the PLB.
- b) **Promotions:** Traditionally companies have relied on in store presence as well as word of mouth for driving sales but now they are also promoting sales through promotional activities like frequent advertising. The retailer's optimal reaction to competitive advertising effects in the channel depends on two factors: (1) the price competition level between the store and the national brands and (2) the strength of the competitive advertising effects. From the retailer's perspective, the main advantage from boosting his competitive advertising investments seems to be driven by increased revenues from the private label. (Karray and Martin-Herran 2008).
- c) **Freshness and habits:** National brands were perceived as being higher in quality, widely distributed, fresh, healthy, and offering more product choices, whereas in contrast store brands were perceived as low-priced alternatives (Dolekoglu et al. 2008).
- d) **Packaging:** Packaging is often referred to as a silent salesman. (Pildtch 1957) As the retail environment becomes saturated with competitors vying for consumers' attention, packaging now has to work harder than ever if the product is to be noticed through the congestion of competitive products (Milton, 1991). Alongside this challenge, retailers are faced with the realization that consumers not only differ in how they perceive brands but also in how they relate to these brands (Fournier, 1998; Muniz and O'Quinn, 2001).
- e) **Perceived risk:** PLB purchases in a category increase when consumers perceive reduced consequences of making a mistake in brand choice in that particular category, and when that particular category has more search than experience characteristics. (Batra & Sinha 2000). As perceived risk is an important factor in consumer decision its study is important for a marketer( Bettman, 1973; Dunn et al., 1986; Richardson Jain, & Dick 1996; Shannon and Mandhachitra 2005, Ashok Kumar and Gopal 2009),

As shown above in the review of literature of previous studies, there are many deterministic factors to be taken into while purchasing PLBs. The proposed study is aimed at developing a theoretical decision making model influencing the purchase of private label apparel brands.



**Figure 1: Proposed Model of Factors driving PLBs growth**

We propose the following hypotheses:

Hypotheses 1: Retailers Motivation has a positive effect on driving PLBs growth.

Hypotheses 2: Retailer/Store image has a positive effect on Private label sales.

Hypotheses 3a: PLBs are chosen if the price differential is less than NLBs and they are perceived to be of lesser quality than NLBs.

Hypotheses 3b: Promotions have a positive effect on Sale of PLBs.

Hypotheses 3c: PLBs have a greater perceived risk than NLBs..

Hypotheses 3d: Packaging has a positive effect on Sale of PLBs.

#### **Implications and future directions:**

PLBs are a phenomenon which is here to stay, retailers now need to develop specific strategies and try to form a connect with the consumers thereby blurring the line between the NLBs and PLBs. Especially in a country like India where so many different types of consumers are present and the industry is still evolving along with consumer behavior, a successful PLB strategy would turn the tables in the favor of retailers. As the PLB environment becomes increasingly complex, academic research must keep pace tracking the changes and coming out with solutions if possible.

## References:

Aggarwal, Praveen and Taihoon Cha (1998), "Asymmetric Price Competition and Store vs. National Brand Choice," *Journal of Product and Brand Management*, Vol. 7, Issue 3, pp. 244-253.

Ailawadi, Kusum and Bari Harlam (2004), "An Empirical Analysis of the Determinants of Retail Margins: The Role of Store-Brand Share," *Journal of Marketing*, 68 (January), 147-65.

Ailawadi, Kusum L. and Kevin Lane Keller (2004), "Understanding retail branding: conceptual insights and research priorities," *Journal of Retailing*, 80, 331-42.

Ailawadi, K. L. and Kevin Keller (2004), "Understanding Retail Branding: Conceptual Insights and Research Priorities," *Journal of Retailing*, 80, 331-42.

Ailawadi, K.L., Pauwels, K. and Steenkamp, E.M. (2008), "Private-label Use and Store Loyalty," 72 (November), pp 19-30.

Ashok Kumar, S. and Gopal, S. (2009), "Diffusion of Innovation in Private Labels in Food Products," *The ICFAI University Journal of Brand Management*, 6(1), pp 35-56.

Batra, R., Sinha, I. (2000), Consumer-level factors moderating the success of private label brands, *Journal of Retailing* 76 (2), pp175-191.

Bettman, J.R., (1973). Perceived risk and its components: A model and empirical test. *JMR, Journal of Marketing Research* (pre- 1986) 10 (2), 184-190.

Dhar, Sanjay K. and Stephen J. Hoch, (1997), "Why Store Brand Penetration Varies by Retailer," *Marketing Science*, 16 (3), 208-27.

Dhar, Sanjay K, Stephen J. Hoch, and Nanda Kumar (2001), "Effective Category Management Depends on the Role of the Category," *Journal of Retailing*, 77, 165-84.

Du Plessis, Flip P.J. and Deon Rousseau (2003), *Buyer Behavior: A Multi-Cultural Approach*, 3rd ed. Cape Town: Oxford University Press

Dunn, M.G., Murphy, P.E., Skelly, G.U., (1986). Research Note: The Influence of Perceived Risk on Brand Preference for Supermarket Products. *Journal of Retailing* 62 (2), 204-216.

Dolekoglu, C.O., Albayrak, M., Kara, A. and Keskin, G. (2008), "Analysis of Consumer Perceptions and Preferences of Store Brands Versus National Brands: An Exploratory Study in an Emerging Market", *Journal of Euro marketing*, 17(2), pp 109-125.

Dowdell, Stephen and Joseph Tarnowski (2006), "Going Public with Private Label," *Progressive Grocer*, 85 (9), 34-36.

Fournier, S. (1998), "Consumer and their brands: developing relationship theory in consumer research", *Journal of Consumer Research*, Vol. 24 No. 4, pp. 343-73.

---

Gad, Thomas (2001), 4-D Branding: Cracking the Corporate Code of the Network Economy, London: Financial Times Prentice Hall.

Grewal, Dhruv, Julie Baker, Michael Levy and Glenn B. Voss (2003), "The effects of wait expectations and store atmosphere evaluations on patronage intentions in service intensive retail stores," *Journal of Retailing*, 79, 259-68

Grohmann, Bianca, Eric R. Spangenberg and David E. Sprott (2007), "The influence of tactile input on the evaluation of retail product offerings," *Journal of Retailing*, 83(2), 237-245.

Hoch, Stephen and Shumeet Banerji (1993), "When do Private Label Brands Succeed?" *Sloan Management Review*, 34 (4), 57-67.

Karray, S. and Martin-Herran, G.(2008), " Investigating the relationship between advertising and pricing in a channel with private label offering: a theoretic model", *Review of Marketing Science*, 6, pp 1-37.

Milton, H. (1991), *Packaging Design*, Bourne Press Ltd, Bournemouth

Miyazaki, Grewal and Goodstein (2005), "The Effect of Multiple Extrinsic Cues on Quality Perceptions: A Matter of Consistency," *The Journal of consumer research*, 32(June), 146 - 153.

Muniz, M. and O'Guinn, T.C. (2001), "Brand community", *Journal of Consumer Research*, Vol. 27 No. 4, pp. 412-32.

Pan, Yue and George M. Zinkhan (2006), "Determinants of retail patronage: A meta-analytical perspective," *Journal of Retailing*, 82(3), 229-43.

Raju, Jagmohan S., Rej Sethuraman, and Sanjay K. Dhar (1995), "The Introduction and Performance of Store Brands," *Management Science*, 41 (6), 957-78.

Richardson, P.S., Jain, A.K., Dick, A., (1996). Household store brand proneness: A framework. *Journal of Retailing* 72 (2), pp159-185

Roggeveen, Anne L., Dhruv Grewal and Jerry Gotlieb (2006), "Does the Frame of a Comparative Ad Moderate the Effectiveness of Extrinsic Information Cues?" *Journal of Consumer Research*, 33(1), 115-22.

Sethuraman, Raj and Catherine Cole (1999), "Factors Influencing the Price Premiums that Consumers Pay for National Brands Over Store Brands," *Journal of Product & Brand Management*, 8 (4), 340-51.

Shannon, R. and Mandhachitara, R. (2005), Private-label grocery shopping attitudes and behavior: A cross-cultural study, *Brand Management*, 12(6), pp 461-474.

Tarzijan, J., (2004). Strategic effects of private labels and horizontal integration, *International Review of Retail, Distribution and Consumer Research*, 14(3), 321-335.

<http://www.privatelabelpet.com/advantages/index.htm>

---