

## A STUDY OF PRIVATE LABELS OF ORGANIZED RETAIL STORES IN SOUTH RAJASTHAN

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### ABSTRACT

*As private labels are offered by a specific store, it is a challenge for the retailer to make the best marketing mix. The increase in market share of private label brands has been attributed to growth of organized retail. The paper studies an association between the variables such as quality, number of categories, store name as private label name, innovative private labels promotions and price differentials between national brand and private label. Paper also examines contribution of private labels in terms of total sales and the growth rate in prominent sectors.*

**Keyword:** *Organized Retail, Private Labels, Sales Growth*

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## 1. INTRODUCTION

The BMI India Retail Report for the third-quarter of 2010, forecasts that the total retail sales will grow from US\$ 353 billion in 2010 to US\$ 543.2 billion by 2014. With the expanding middle and upper class consumer base, there will also be opportunities in India's tier II and III cities. The greater availability of personal credit and a growing vehicle population to improve mobility also contribute to a trend towards annual retail sales growth of 11.4 per cent. Mass grocery retail (MGR) sales in India are forecast to undergo enormous growth over the forecast period. BMI further predicts that sales through MGR outlets will increase by 154 per cent to reach US\$ 15.29 billion by 2014. This is a consequence of India's dramatic, rapid shift from small independent retailers to large, modern outlets.

According to a McKinsey & Company report titled 'The Great Indian Bazaar: Organized Retail Comes of Age in India', organized retail in India is expected to increase from 5 per cent of the total market in 2008 to 14 - 18 per cent of the total retail market and reach US\$ 450 billion by 2015.

### 1.1 Private Labels

Private labels are brands owned, merchandised and sold by retailers themselves. These can be categorized into store brands, store sub-brands & Umbrella brands. They are also called in-store or own brands. Private labels are unique to a particular retailer and they can be divided into a number of categories where the retailer's name is evident on packaging. From apparel, healthcare products and furnishings to consumer items, they are making their presence felt in a variety of retail items in India.

Emulating international counterparts, where private label are increasingly gaining significance, most department stores, supermarket chains, hypermarket chains and discounters in India are promoting private label products. The fundamental reason for this is the much higher margin and profitability on such products, compared with branded alternatives. Indian retailers are increasingly hoping to ride on the attractive proposition of private label products that promise higher quality, lower prices and 100 percent availability to consumers and at the same time offer up to three times higher operating margins to the retailer. The increase in market share of private label brands has been attributed to growth of organized retail.

The role of private labels is gaining significance in the developing markets too. In India there is a growing trend towards acceptance of private label brands and thus their penetration is on the rise especially in the apparel, consumer durables, home care and FMCG segments. India is still an under-branded country and in each category there is still a lot of scope for growth, this is where the private label comes in and the story is looking good so far.

## **2. MAJOR DRIVERS**

- a) Customers will be happier if the quality product is made available at a reasonable price irrespective of whether it is delivered by a branded manufacturer or retailer. But they are always burdened with promotional expenses incurred by national brand players. Retailers seek an opportunity to pass this benefit to customers by developing in-house private labels in order to avoid marketing expenses.
- b) Higher Margins Private label goods are cheaper to produce than branded goods. Besides, due to the lack of advertising and marketing expenses they provide double advantage to the retailer when it comes to the profit margins.
- c) Stronger Customer Loyalty as the private label offerings increase and the quality is assured; a high sense of loyalty is cultivated among its customer base. So in the long run, the private labels become an important tool for the retailer to establish its positioning and strategically attract the target customers to its outlet.
- d) Differentiation: Through private labels, retailers get a chance to bring in unique products in their supply chains that have not been branded before.
- e) Freedom with Pricing Strategy: A retailer promoting a private label has the added benefit of greater freedom to play with pricing strategies, as a result of which these are overall cheaper than brand leaders.
- f) Positioning during economic downturns: The growth of private labels is likely to continue in the current financial environment as cash-strapped consumers' perception of the products as a cheaper option changes.

## **3. MARKET ANALYSIS**

Private labels globally, are contributing 17 percent of the total sales. As per the AC Nielsen report, penetration of private labels worldwide as shown in the figure 2.

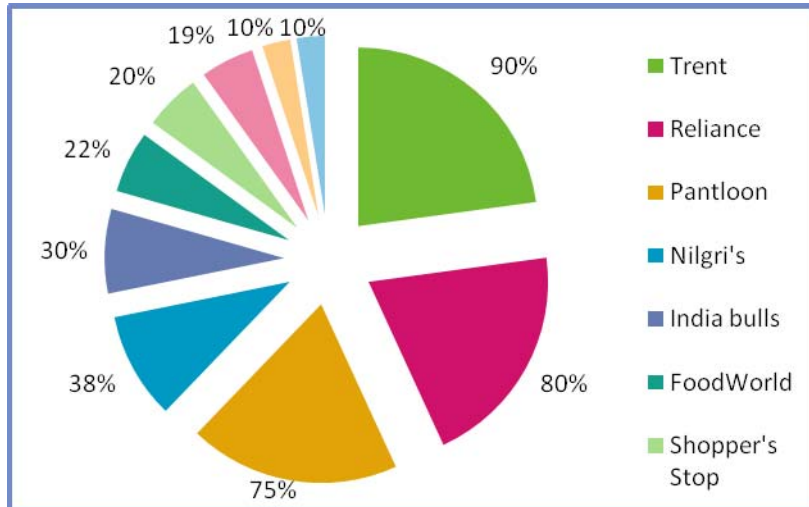


Figure 1: Snapshot of retailer’s depth of private labeling (2009)

Source: Images Retail Report 2009, quoted in KPMG’s Indian Retail: Time to change Lanes Report

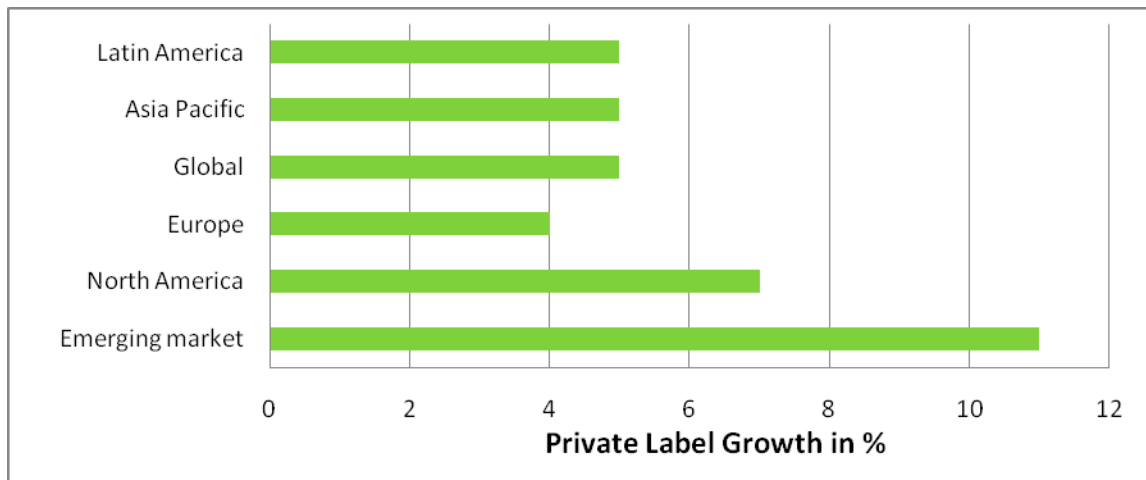


Figure 2: Private label growth rate (2009)

Source: Images Retail Report 2009, quoted in KPMG’s Indian Retail: Time to change Lanes Report

### 3.1 Private labels in Asia Pacific

*The Power of Private Label 2005* Executive News Report by ACNielsen. Based on ACNielsen data collected from 14 product areas containing 80 categories in 38 markets, Private Label goods comprise 17 percent of total value sales for the 12 months ending the first quarter of 2005, up from 15 percent as reported in a similar ACNielsen study published in 2003. (Table 1)

A 2010 global online survey conducted by The Nielsen Company reveals that 60 percent of consumers across 55 countries from Asia Pacific, Europe, North America, Latin America and Middle East/Africa (consisting of countries from Saudi Arabia, Pakistan, United Arab Emirates, Egypt and South Africa), say they are stocking cupboards with more store brands as a result of the economic downturn. Across the regions, Latin America led the way at 66 percent and the Middle East/Africa/Pakistan area trailed at 51 percent.

**Table-1 Private label shares and growth rate by product area (in percentage, based on value sales)**

<b>Product Area</b>	<b>Private Label Share</b>	<b>Private Label Growth</b>
<b>Refrigerated food</b>	32	9
<b>Paper, plastic and wraps (PPW)</b>	31	2
<b>Frozen food</b>	25	3
<b>Pet food</b>	21	11
<b>Shelf-stable food</b>	19	5
<b>Diapers and feminine hygiene</b>	14	-1
<b>Health care</b>	14	3
<b>Non alcoholic beverages</b>	12	3
<b>Home care</b>	10	2
<b>Snacks and confectionary</b>	9	8
<b>Alcoholic beverages</b>	6	3
<b>Personal care</b>	5	3
<b>Cosmetics</b>	2	23
<b>Baby food</b>	2	13

In most Asian markets, private label is still relatively undeveloped with only Hong Kong having a share above 5 percent overall. There has been significant investment by many leading retail chains into launching new private label products over the last five years and they are gaining acceptance particularly in the basic commodity categories. In these categories, such as cooking oil, rice, bathroom tissue, market shares can reach up to between 20 percent and 30 percent in some countries.

According to report, Asian consumers are still largely brand loyal and retailers will need to increase their private label marketing support to build consumer trust in their own brands. During the economic downturn in 2009, there was strong private label growth in many countries. For example, in Thailand, private label grew by over 25 percent, as shoppers increasingly looked for value when buying grocery

products. In the Pacific markets of Australia and New Zealand, private label is much more established with the majority of households regularly purchasing private label products, which account for up to one-quarter of all supermarket sales.

Currently the Indian retail segment is witnessing the emergence of corporate houses like RPG enterprises, TATA, ITC, Future group. Given the attractiveness of Indian retail sector, the retail chains were keen enough to enter this growing market and introduce private labels in different product categories.

#### **4. LITERATURE REVIEW**

Ailawadi and Keller (2004) identify at least four tiers of private label brands. These include low quality generics; medium quality private labels; somewhat less expensive but comparable quality products; and premium quality private labels that are priced in excess of competitor manufacturer brands. The authors suggest that successful retailers will adopt more than one tier of private label brand if they are to achieve wide scale market coverage. According to Kumar and Steenkamp (2007), half of private label brands are copycat brands. These brands essentially attempt to imitate the packaging and content of first tier manufacturer brands.

Fernie et al. (2003) have identified various advantages to retailers for the development of a private label brand: (1) increased profitability through cost saving and increased margins; (2) increased store loyalty and creation of a distinct corporate identity; (3) opportunities to seize new market ventures; and (4) increased bargaining leverage with suppliers. Furthermore, according to Herstein and Gamliel (2006), private label brands can assist in developing loyalty to a retailer and in the creation of a distinct corporate identity for a business. Veloutsou et al. (2004) support this view, yet emphasise that as a result, careful managerial practices for these brands should be implemented in order to maintain retailer brand equity. Consumers tend to associate the retailer with its respective private label brand. Therefore negative perceptions of the retailer may impact negatively on its fascia (that is store) brand and vice versa (Ailawadi and Keller, 2004).

Labeaga et al. (2007) contend that private labels assist building loyalty by differentiating the retailer. These brands are available at one retailer exclusively whilst manufacturer brands are available at many competing outlets. Regular consumers of private label brands are confronted with psychological costs when switching retailers as their preferred private label choice is no longer available. As a result, consumers who change retailers undergo demanding cognitive processes by evaluating other brands, including unfamiliar store brands, in choosing a new

product. Thus, research indicates that consumers who purchase private label brands regularly do not only become loyal to that particular brand but also to the retailer through which it is sold (Collins and Burt, 2003). Raju et al. (1995) assert that retailers have become more proficient at managing their private label brands.

The model developed R.C. Natarajan on private labels propagates that whenever there is low competition among national brands and stiff competition between national brands and store brands, private labels have better choices for acceptability. Where store brand is witnessing strong competition from national brand, the chances of store brands positioning along with national brands are high. The same can be achieved by vigorous promotions and shelf space displays. The model was developed with the assumptions that the switching cost of the customer is low and that it is technically viable for the retailer to introduce his own brand.

As per Marcel ad Lal (2000), a research on building store loyalty through store brands, revealed that when customers are sensitive to product quality and brand choice, then quality store brands introduced by retailers can be used as an instrument to create store differentiation and thereby develop store loyalty and store profitability. This holds well for packaged goods categories and not for cheap private labels.

Private brands introduction is more feasible for the retailers when there is gap between the marginal cost and average cost of the national brand. As national brand manufacturers spend more on promotion, it is more likely that average cost exceeds the marginal cost. The difference gives scope for the national brands. Private labels are more feasible when heterogeneity is observed in the market share of national brands. The same is true when prices of the national brands are high and varying among the brands. Some of the situations where private label seek an opportunity to be introduced have also been mentioned.

## **5. RESEARCH OBJECTIVE**

To study the factors driving the customers to stores. Study also tries to find out the effect of store name, quality, pricing, promotion for private label on store loyalty. Research also highlights the percentage contribution of private labels in terms of total sales and growth rate in sectors such as apparels, food, grocery, life style and consumer durables.

### 5.1 Research methodology

An exploratory study has been carried out to get the clarity of the objectives by interacting with the customers and organized retailers. In the first phase an exploration of factors driving the customer toward the store is studied. In the second phase, the association between the variables such as quality, number of categories, store name as private label name, innovative private labels promotions and price differentials between national brand and private label son the store loyalty are studied. The third phase focuses on contribution of private labels in terms of total sales and the growth rate of private labels in prominent sectors such as apparels, Food and grocery, life style and consumer durables.

Primary data was collected by a survey method through a structured questionnaire. Customers who came out of the retail stores were approached for monitoring the questionnaire. Popular retail outlets like shoppers stop , life style , west side , pentaloons , subiksha , big bazaar , vivek and food world and others were considered for the study. The secondary data has been collected through news dailies, magazine, journals and internet.

## 6. DATA ANALYSIS

We perform a Person ` chi-square test used to test the Hypothesis. The summary table of the result of data analysis is given below:

Table 2: summary table for hypothesis and result of test

	Hypothesis	Result
H1	Number of categories in private labels and store loyalty are independent of each other	Rejected
H2	Usage of store name for private label and store loyalty are independent of each other	Accepted
H3	Innovative private labels and store loyalty are independent of each other.	Rejected
H4	Store loyalty and price differential between national brand and store brand are independent of each other	Rejected
H5	There is no significant relationship between private label promotions and store loyalty	Rejected

## 7. FINDINGS AND DISCUSSION

It was found that certain private labels with their superior quality are able to position themselves in the minds of the customer. So, quality plays a major role in driving the customer towards the



store. Customers prefer one stop shop and it becomes all the more important for retailers to carry more categories and satisfy different needs of customers. as number of categories are motivators to shoppers. It is derived from the survey that the store name is not a necessary condition to enhance the store loyalty; the most of the retailers carry individual brand names which are catchy and appealing to the customers with attractive packaging .for e.g. tasty bite, pure and fresh are some individual private labels from big bazaar. With innovative products, retailers are able to differentiate themselves from others and position themselves uniquely in the minds of the customers.

Price sensitiveness of Indian customer will make the entire retailer to rethink on the pricing strategy, wider the price gap between the national brand and private label , the chances of acceptance of the private label are more. Most of the retailers are carrying individual brand names, in-store promotions plays a major role in pulling the customers. From the survey , it was found that variables such as quality, number of categories, innovativeness, price gap , promotion , has strong association with store loyalty while the doter name as private label name has no association with store loyalty.

For instance, Future Group has already tasted the success with its Tasty Treat brand, Frito Lay in the potato chips segment. Its Care Mate in the baby diaper segment has left behind Huggies in the in-store sales. At Spencers, diapers and agarbattis sell more than market leaders across the store chain. Experts comment that when it comes to local tastes and preferences, private label brands have an advantage over national brands and this reflects in the increasing percentage share of these goods in Indian retail chains.

**Contribution to total sales and Growth:** The average percentage contribution of private labels in total sales of the store is around 18 percent. It was observed that different categories are growing at different rates; apparel is growing at the rate of 33 percent consumer durables are growing at the rate of 12 percent, food and grocery are growing at the rate of 28 percent and life style products are growing at rate of 7 percent

From the study, it was found that 56 percent of the respondents believed that private labels are good alternatives to national brands. The study also highlighted that 62 percent of the respondents feel that private labels are able to position themselves significantly in the minds of the customers and are gaining acceptance.

## 8. CONCLUSION

Private labels are slowly becoming the protagonist in the big Indian retail growth story. Taking cue from the West, Indian retailers are also churning out newer ways to increase their profit margins. With Indian customers increasingly accepting these private label brands, they would soon be major contributors to the profits of Indian retailers. The future of private labels is dependent on the retailers ability to overcome key challenges such as adaptive supply chain practices, quality infrastructure, co-operation, hybrid marketing channels , talented professionals, accelerated growth in new categories, blurring dividing lines between private label and national brand and more manufacturing know –how.

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