STUDY: PRIVATE LABEL INTERNATIONAL

STRATEGIC OPTIONS FOR EUROPEAN FOOD MANUFACTURERS

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Table of Contents

Table of Illustrations

Index of Tables

Index of Abbreviations

CEO:	Chief executive officer
CRM:	Customer relationship management
E:	Estimated
Eg.:	For instance
FDI:	Foreign direct investment
IFS:	International food standard
ISO:	International organization for standardization
MSI:	Marketing science institute
NB:	National Brands
OTC:	Over the counter
PLMA:	Private label manufacturers association
PLBs:	Private label brands
R&D:	Research and development
SKUs:	Stock keeping units

1. INTRODUCTION

1.1. Situation analysis and problem definition

In the food retailing as well as in the food manufacturing businesses private label brands play an important role. The growth of private label brand shares almost around the world may cause increasing difficulties for many manufacturers of national brands (also called manufacturer brands) at present and more importantly in the future. Before going into depth the following introduction should provide a first impression on private label businesses around the globe. PLMA[1]scanner[2] has given insights as mentioned hereafter.

1.1.1. North America

More than a decade ago, Wall Street told top retail management that store brand programs were the best way to achieve shoppers loyalty and bottom line growth. Management listened and private label brands moved away from generics into a broad array of premium quality private label products.

Today, Wall Street is sending another message to CEOs: As companies expand and emphasize supply chain efficiencies, it is essential, that store brand assortments cater to the special needs and tastes of different locales and ethnic groups.

This shift to a new era of product development, marketing and merchandising, is being touted by one of Wall Street's leading analysts, Mark Husson, First Vice President, of Merrill Lynch[3]. Since the early 1990s, his investment calls on retail stocks have invariably stressed the importance of strong private label brands to overall corporate performance.

Husson now warns that retailers will not be able to fully cash in on the store brand opportunity without more careful tending of their private label programs. Retailers are understandably busy dealing with the pains of consolidation, labour unrest and price

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[1] Private Label Manufacturers Association
[2] PLMA scanner is an online news magazine for PLMA members, source: www.plma.com/scanner/scanner.asp 12.05.2004/18:45
[3] Mark Husson is Vice President of Merrill Lynch, source: www.plma.com/scanner/scanner.asp, 12.05.04/20:12

competition, and may be temporarily distracted from their store brand efforts. If expansion-minded chains want to grow private label brands in their new markets they can't ignore the new realities of private label brands. According to Hussons's report, he says, that issuing a challenge to retailers and suppliers, both should become more innovative in private label merchandising and product development.

As a number of U.S. retailers consolidate towards a goal of becoming true national operators, they must simultaneously take greater care on how they present their private label brand offerings in newly-entered markets. Some retailers have already learned the hard way that it is ill-advised to assume new customers will rush to embrace the chain's entire mainstay store brand line.

Even retail consolidation will likely accelerate and bring fewer retailers, centralized buying and greater economy of scale doesn't mean it should bring a homogenized national private label program. What matters most is regional and local private label branding and product development that plays to special demographics, such as ethnicity, economies and culture.

Additionally retailers need to ask themselves, what is the private brand position in their organization? They possibly need to come to terms with a supermarket private brand paradox, that increased centralization of procurement should be accompanied by increased customization of local branding.

There obviously is a lack of innovation in private label brands from both, retailers and suppliers. Among the reason private label innovation has lagged, Hasson believes, is that it is initially expensive and hurts production efficiency. Also retail buyers and category managers have no time to be creative and vendor allowances have prevented clear thinking on categories and assortments.

A further opinion exists, that two areas of strong private label opportunity are the fresh and general merchandising departments. They believe, that retailers should look to expand private label brands in new categories and in areas with low store brand penetration. Some 80% of store brand sales comes from only 20% of categories, while 65% of private label brand sales come from 15% of customers.

1.1.2. Europe

Across Europe competitive pressures are forcing major changes in retailing as well. Once stable national markets, such as the UK and the Netherlands, are in turmoil. The extensive restructuring at Ahold[4] is shaking up competition from Scandinavia to Spain. Eastern Europe, which had held out the promise of profitable expansion, is proving to be a difficult market for many retailers and manufacturers.

The competitive situation in the UK has probably never been in such flux. The future of Safeway[5] is uncertain, and there is increasing speculation about whether Sainsbury[6] and Somerfield[7] will remain independent companies. Meanwhile, the leading health and beauty retailer, Boots, is being restructured under a new senior management.

In Germany, the difficult national economic environment is taking its toll. Some retailers, such as the drug store retailer Schlecker, are looking to expand across Europe in search of growth and profits. Lidl[8] is opening many new stores, mounting a competitive challenge to Aldi[9]. Both discounters are expanding their product ranges to compete with each other and against supermarkets.

In the Netherlands, the long-time dominance of Albert-Heijn[10] stores is being challenged by discounters and others. Moreover, the financial woes of Albert Heijn's parent company, Ahold, are creating uncertainty. The troubles at Ahold extend to Spain, where the retailer has announced plans to sell its stores there.

Several retailers have raced into Eastern Europe but have not escaped tough competition. In Poland, for example, major retailers — including Rewe, Edeka, Dohle (German retailers) and Jeronimo Martins from Portugal - have left the market. Competitive pressures also are growing in the Czech Republic, where over ten foreign retailers are battling for market share.

[4] Ahold is a Dutch retailer
[5] UK national supermarket chain
[6] see fn 2
[7] see fn 2
[8] discount store from Germany
[9] discount store from Germany, main competitor of Lidl
[10] retailer from The Netherlands

Amid all the competitive turmoil, however, there are some retailers, such as Tesco[11] and Delhaize[12], that are achieving consistent sales and profit growth in their national markets and in their international expansion. Both these retailers are placing a high priority on private label brands as a way to create a competitive advantage.

In the UK, Tesco is keeping a strong hold on the number one position in the midst of the rapidly changing marketplace. Tesco has an extensive private label program, with turnover reaching 60% of total volume.

Tesco brands are also spreading across Europe as the retailer expands in eastern and southern Europe. The retailer's strategy is to grow private label brands participation in all countries to 40% of sales by turnover.

Delhaize has achieved impressive sales and profit gains in Belgium, where private label brands account for more than one-third of Delhaize's turnover. This should increase as the retailer is introducing a new format, Delhaize City, that offers mainly private label brands products and perishables. The format, first introduced in Belgium, was recently launched in Greece. Plans are underway to expand the City banner in Germany, Romania and the Czech Republic.

Will more retailers also expand their private label programmes to succeed in the difficult market conditions across Europe? The answer appears to be "yes" in both highly developed markets, such as the UK as well as in countries where private label growth is relatively recent, such as Spain.

In the UK, Julian Hunt, Editor of The Grocer[13], believes it is the retailer brands that "are now driving much of the really successful innovation." Retailers, he said, are developing the added-value ideas that generate real growth. In Spain, ACNielsen

[11] UK leading retailer
[12] Belgium based retailer
[13] one of the leading industry journals for the European food industry

data shows that volume share for private label brands has been climbing steadily in the past few years, and now has reached 27%, a record high.

A detailed market survey “The power of Private label brands” undertaken by ACNielsen[14] will be analysed in depth later in the chapter empirical analysis.

According to a research study of seven European countries conducted by MORI, a public opinion consultancy, private label brands have achieved unprecedented acceptance with shoppers, who say, that they are now more aware of private label brands and plan to increase their purchase of them. The newest MORI study will also be part of the chapter consumer behaviour.

All the opinions mentioned above are targeting mainly retailers tending toward stronger private label presence in their stores in order to gain higher profitability, independence and securing the position as the supply chain controller.

Assuming that retailer’s objectives were and are to reach extremely high volumes per product in order to gain production efficiencies private label issues are strongly centralized rather than customized. Therefore manufacturers were solely measured at whether they would perform operational excellence or not. Innovation potential played a minor role once it came to private label brands. Considering all this, can manufacturers make use of these circumstances and future developments, and how?

1.1.3 Asia Pacific, the Emerging Markets and Latin America

They have a far less developed private label market than their European or North American counterparts. According to an executive news report from ACNielsen (Global Services issued July 2003) in each of these three less developed regions, less than 5% of their sales value was accounted for by private label brands.
However, growth in the last year was over 20% and nine from top ten fastest growing private label markets were from these same regions of Emerging Markets, Latin Amercia and Asia Pacific. Japan’s private label share is only 4% of total sales, but the growth rate for private label sales versus year ago is 23%.

[14] A leading marketing information company

1.1.4 Consumer behaviour

A consumer survey conducted by Mori[15] for PLMA[16], interviewing over 5000 buyers from households in Belgium, France, Germany, Italy, the Netherlands, Spain and United Kingdom says, that retailer private label brands are perceived positive and the consumers demonstrate through their buying behaviour, that the potential in Europe is very promising in both, in countries with high private label brand penetration as well as in countries where private label brands are at its early stage. According to the report, the familiarity with private label brands is growing in general but mostly in UK, Spain and France. 72 % of interviewees answered they would buy the same volume of private label brands as previously, 15% said they would increase and 4% would reduce private label purchases. 32% are buying private label brands often, 33% sometimes, 17% seldom and 16% never (people from all researched countries).

Young consumer are most reliable what regards private label brands. People who say, that super market private label brands would today be better known than five years ago are mostly the younger generation (aged 25 and below). The factors quality and value were measured almost even in the Mori report. The number of consumers who expressed that high quality products and more product sampling would be opportunities how to improve a supermarket’s offer was almost as high as people who would go for more price promotion and cheaper products.

Furthermore many consumers believe that the value of a private label assortment differs from supermarket to supermarket. 43% of Europeans think that there is a difference. 36% see the quality and value of private label brand assortments would be more or less the same and 21% don’t know.

42% of European shoppers perceive supermarket private label brands as brands, 31% don’t and all others don’t know. The highest perception was registered in UK where 57% of consumers say, that supermarket private label brands would be a brand and only 26% don’t believe that. The question “I wish, that my supermarket carried more supermarket labels on new product launches” was answered with “yes” by 40% and with “no” by 20% of all European interviewees.

[15] An international market survey company
[16] Private Label Manufacturers Association, HQs. based in New York and Amsterdam

1.2. Aims and expectations – Problem definition

After a comprehensive market study and theoretical input this study should provide projections for the next few years on private label brand versus manufacturer brand markets, from retailer's as well as manufacturer's point of view. Equally important it should find answers if and how far private label businesses can be used by small and mid sized manufacturers of biscuit and confectionary products actively in their internationalisation processes. Manufacturers of this size usually run local or regional brands. How can they compete when obviously stuck'n in between private labels on one hand and global brands on the other hand.

Prima vista it could be said, that a concentration on private label businesses in the new European Community-member countries could become advantageous for private label manufacturers as the share of private label brands is going to increase. But wasn't there also a lack of brands and brand awareness during the decades of communism? Supplying private label brands, where is the boarder line between loosing too much control in certain areas of the value chain and where does it support own goals and ambitions.

Does the above said mean that private label brand strategies are ideal for highly saturated markets and does it make sense to build and develop manufacturer brands in the Emerging markets? Or vice versa? Can sort of straddling in that case become a successful strategic option? The approach should target mainly the Western and Eastern European markets. Even though, other world market opportunities should be considered.

Finally this study should provide strategic alternatives and recommendations how small and mid sized manufacturers of biscuits and confectionary from Western Europe can deal with the private label issue.

2. Theoretical Background

2.1. Brands

Discussing private label brands means to put the discussion in terms of “ brands” as such first and then lightening the differences, the interdependences, possibilities and limitations of private label brands in context with national brands or manufacturer brands next.

It’s evident that brands may create major assets and value to a company or organization. "A company's brand is the primary source of its competitive advantage and a valuable strategic asset,"[17] said Aaker[18], who is generally regarded as the world's leading academic authority on branding strategy. In particular, Aaker suggests that a company consider its brand not just as a product or service, but as an organization, a person and a symbol. "It is much easier to copy a product," says Aaker, "than to duplicate an organization with unique values, people and programs." A brand personality can make a brand more interesting and memorable and can even become a vehicle to express a customer's identity. Aaker furthermore discussed the issue of dropping prices and maintaining quality perceptions. He states that perhaps the most direct approach to moving a brand down is to lower its price. Marlboro, Budweiser, and Pampers are among the brands that have recognized that their equity will not support a large price premium in the face of price-oriented competitors and powerful retailers. Thus they have value priced their products to make them competitive. However, although consumers have begun to question higher-priced brands, the reality is that the price point is still a positioning cue. That’s why pricing issues have been discussed in the introduction of brands as such. A sharp price reduction can indicate to customers that as they may have begun to suspect the brand really is not different from any other brand, and is therefore of average quality.

If premium market brands wish to move down, it is important that they retain some quality differentiation. The challenge is to start competing at a new price point without repositioning the brand as a lower-quality price brand. The key to adjusting price while retaining a quality position is to convince retailers and customers that the

[17] Building Strong Brands (The Free Press, 1996), http://groups.haas.berkeley.edu/marketing/ PAPERS / AAKER/BOOKS/build.html

[18] David Aaker is professor at the University of California at Berkeley's Haas School of Business

change does not reflect a different quality level. If prices are being dropped abruptly and un-carefully it may be perceived as a panic reaction and could cast a cloud over the brand's equity.

2.1.1. Definitions of Brands

Brands have been defined in many nuances from numerous authors while two were selected as mentioned hereafter. Vincent Grimaldi[19] defines the "brand" as follows[20]:
As such, a brand is a combination of attributes, communicated through a name, or a symbol, that influences a thought-process in the mind of an audience and creates value. As branding is deeply anchored in psycho-sociology, it takes into account both tangible and intangible attributes, e.g., functional and emotional benefits. Therefore, those attributes compose the beliefs that the brand's audience recalls when they think about the brand in its context.

The value of a brand resides, for the audience, in the promise that the product or service will deliver. Clearly, a brand can recall memories of a bad experience. The value for the audience then would be to avoid purchasing that brand.

From the perspective of the brand's owner, the value of the brand often lies in the security of higher future earnings, but may also be assessed in terms of votes for a politician, career for an executive, foreign direct investments (FDI) for a country, etc.

In conclusion, branding is the blend of art and science that manages associations between a brand and memories in the mind of the brand's audience. It involves focusing resources on selected tangible and intangible attributes to differentiate the brand in an attractive, meaningful and compelling way for the targeted audience.

Richard Linxweiler puts the definition brands in his book[21] in a very short formula:

Brand = specific product or service + the meaning for consumers (benefits, relevance, association)

E.g. The brand Marlboro = specific packaging and cigarette + cowboy / freedom / adventure / specific taste

In practice there exists a big variety of brand types. Linxweiler has summarized a brand typology and discusses the most common brand types like mono or single

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[19] Vincent Grimaldi is a strategist specialized in customer-oriented change management, he is faculty member at Baruch College's School of Business
[20] Source: www.brandchannel.com/22.05.04/21:56
[21] Linxweiler, Brand-Score-Card (2001), pp. 52 - 55

brands, group brands, umbrella brands are related to the number of brands used. Primary and secondary brands are often used to create a price differentiation. Manufacturer brands, store brands and service brands define the supplier of the brand. The type of branding could be expressed as word brand (e.g. Siemens), brand sign (4711) or brand picture (crocodile of Lacoste). Own-brand, license-brand and foreign-brand may be the indication for the producer or distributor. Furthermore he describes the brand type by the geographic dimensions like local brands, regional brands, cultural geographic brands or international brands.

2.1.2 Definition of private label brands

The PLMA (Private Label Manufacturers Association) delivers the following definitions:

Private label products encompass all merchandise sold under a retailer's brand. That brand can be the retailer's own name or a name created exclusively by that retailer. In some cases, a retailer may belong to a wholesale group that owns the brands that are available only to the members of the group.

Major supermarkets, hypermarkets, drug stores and discounters today offer almost any product under the retailer's brand. Private label brands cover full lines of fresh, canned, frozen and dry foods; snacks, ethnic specialties, pet foods, health and beauty, over-the-counter drugs, cosmetics, household and laundry products, DIY(do it your own), lawn and garden, paints, hardware and auto aftercare.

For the consumer, private label brands represent the choice and opportunity to regularly purchase quality food and non-food products at savings compared to manufacturer brands, without waiting for promotional pricing. Private label brands items consist of the same or better ingredients than the manufacturer's brands, and because the retailer's name or symbol is on the package, the consumer is assured that the product meets the retailer's quality standards and specifications.

Manufacturers of private label products fall into three general classifications:

- Large manufacturers who produce both their own brands and private label brands products.
- Small and medium-size manufacturers that specialize in particular product lines and concentrate on producing private label brands almost exclusively.

- Major retailers and wholesalers that operate their own manufacturing plants and provide private label brands products for their own stores.

2.2. Analysis and studies on private label brands in relation with national brands (manufacturer brands)

Important issues like consumer level factors (antecedents of private label attitude and national brand attitude: similarities and differences, price consciousness, perceived quality – category and consumer characteristics) as well as manufacturer's and retailer's perspectives were studied by several authors and are being discussed in this chapter.

2.2.1. Consumer Perspectives

Among consumers, one obvious reason for the popularity of private label brands (PLB), also called store brands and their growth is their price advantage over national brands[22]. Nevertheless, high quality seems to be more important in determining private label brand's success than lower price (Stephen J. Hoch and Shumeet Banerji, 1993[23]; Raj Sethuraman, 1992[24]).

Furthermore they stated, that the growth of PLBs has been highly uneven across product categories, but driven mainly from retailer and manufacturer than consumer perspectives. Research has been more limited on the consumer-level-factors that make PLBs differentially successful across product categories. Few studies that have looked at cross-category differences from a consumer-factor perspective have sometimes omitted important variables. But Paul S. Reichardson, Arun K. Jain, and Alan Dick, 1996[25]; Chakravarthi Narashimhan and Ronald T. Wilcox, 1998[26] say that Sethuraman and Catherine Cole[27] did not measure and model the crucial effect of the level of perceived risk in the product category.

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[22] According to Journal of Retailing, Volume 76(2) pp. 175-191.
[23] "When do private labels succeed?", *Sloan Management Review*, 34,4(summer). 57-67.
[24] "Understanding cross-category differences in private label shares of grocery products", Cambridge, MA: Marketing Science Institute, Report No. 92-128.
[25] "Household store brand proneness: A framework", *Journal of Retailing*, 72 (2): 159-185.
[26] "Private-labels and the channel relationship: A cross-category analysis", *Journal of Business*, 71 (4, Oct.). 573-600.
[27] "Why do consumers pay more for national brands than for store brands?" Cambridge, MA: Marketing Science Institute, Report No. 97-126, December.

In their research “Consumer-level factors moderating the success of private label brands”[28] Rajeev Batra[29] and Indrajit Sinha[30] focused on these consumer-level perceptions of inter category differences. They examined the role played by different determinants of perceived risk in explaining PLB acceptability across product categories, especially the role of search versus experience attributes in shaping the degree of such perceived risk in the product category. By conducting such a research Batra and Sinha wanted to show what has made PLBs successful overall and deliver possible implications for both, retailer’s marketing PLBs as well as the national brands that compete with them.

The findings show, that PLB-buying increases as the consequences of making a purchasing mistake declines. This effect also appears to mediate, and therefore fully capture, the effect of the second determinant of perceived risk that was studied, the degree to which the different brands in a category were perceived to vary in their quality. This suggests that the perceived consequences of making a purchase mistake are higher when the different brands in the category are seen as differing appreciably in quality. The role of the search versus experience characteristics of a category shows that consumer buy fewer PLBs if a category’s benefits require actual trial/experience instead of searching through package label information. In this model, experience characteristics lead to higher felt quality variation and higher felt consequences of making a purchase mistake. Both would lead to reduced PLB purchasing. The research indicates that the degree of uncertainty about the quality of a PLB is a key consumer worry, in considering to switch from national brands to PLBs. A product category with experience benefits, such as the taste of coffee or soft drinks leads to greater felt purchase anxiety about quality than a category with purely search attributes, such as a OTC drug using a standard, quality-certified ingredient, entirely described on the label. To use the standard expected value calculus, the degree of uncertainty about quality factor (more felt quality uncertainty if attributes are experience instead of search) impacts on the likelihood of an unsatisfactory outcome.

The Batra / Shinha study furthermore suggests about search versus experience attributes some key managerial implications. Previous prescriptions how national brands should respond to PLB have recommended to add more benefits and value,

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[28] Journal of retailing, volume 76(2) pp. 175-191, ISSN: 0022-4359.
[29] Professor of Marketing, School of Business Administration, University of Michigan.
[30] Assistant Professor of Marketing at the School of Business and Management, Temple University, Philidelphia

and to rise the level of technology (e.g., Hoch, 1996[31]; John Quelch and David Harding, 1996[32]). Batra / Shinha suggest to national brands to raise the consumer's perceived consequence and literally create anxiety of making a wrong brand choice in order to fight against strong PLB's. This might be accomplished by downplaying the *search* nature of the benefits while highlighting the *experiential* benefits involved. Translating this into tactic means that manufacturers of national brands should add unique ingredients to the national brand, stress the hedonic or sensory benefits of these ingredients, or create uncertainty about the quality of the manufacturing or assembly process used by the PLB competitor. According this study the national brand should find every legitimate way to create fear, uncertainty and doubt in the consumer's mind about the quality equivalence between the national brand and the PLB, in the hope that the resulting anxiety nudges the consumer to prefer the tried and trusted national brand over the cheaper PLB.

Retailers selling PLBs are recommended exactly the opposite. Objective information on product ingredients, manufacturing security and product quality is crucial. The packaging must show all these positive information as much as possible in order to reduce the uncertainty the consumer might feel about the quality experience on consumption. Seals of approval or other third party endorsements should support the reduction of uncertainty.

Raj Sethuraman[33] conducted a study about what makes consumers pay more for national brands than for store brands: Image or quality?[34]

He develops a model that separates the price premium that consumers are willing to pay for national brands into three components: perceived quality differential, consumer quality sensitivity, and non quality utility.

Private label brands, or store brands, have become a major force to reckon with in grocery products. They account for more than one-fifth of total volume sales in the United States and are outpacing national brand growth. Central to understanding this trend is the question: Why do some consumers purchase national brands and others purchase store brands? More specifically, why are some consumers willing to pay a price premium for national brands over store brands?

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[31] "How should national brands think about private labels?" *Sloan Management Review*, 37 (winter). 89-102.

[32] "Brands vs. private labels: Fighting to win", *Harvard Business Review*, 74 (1): 99-111.

[33] Raj Sethuraman is Assistant Professor in the Department of Marketing at the University of Iowa.

[34] MSI Report No. 00-110, 32 pages; 2000 www.msi.org

In this study, author Sethuraman investigates these questions. To begin, he suggests that consumers may be willing to pay a price premium for national brands for three possible reasons: (1) they believe that there is a quality difference between a national brand and a store brand that warrants payment of a higher price for the national brand; (2) they may be very sensitive to quality changes and are willing to pay a higher price for the national brand; (3) they may believe that there is little difference in quality between the national brand and the store brand, on average, but may still want to pay a higher price for the national brand because of their familiarity with it, its imagery, or other positive associations that go beyond quality perceptions. Sethuraman calls such imagery and positive associations *non quality utility*.

As mentioned previously the study develops a model that separates the total price premium that consumers are willing to pay into three components: perceived quality differential, consumer quality sensitivity, and non quality utility. The model is estimated using data on what consumers were willing to pay for national brands versus store brands. The dataset consists of 2,237 observations from 132 consumers on 20 grocery products.

A key insight of the study is that perceived quality differential and non quality utility, or brand image, dominate different stages of the purchasing process. Perceived quality differential (or parity) is the driving force in a consumer's decision to participate in or consider purchasing a store brand. But when it comes to deciding how much more consumers will pay for national brands over store brands, brand image or brand equity plays the primary role. In fact, consumers will pay a reasonable premium for national brands even if they believe that the national brand and the store brand are of the same quality.

2.2.1.1 Antecedents of Private Label Brand Attitude and National Brand Attitude: Similarities and Differences

Judith A. Garretson[35], Dan Fisher[36] and Scot Burton[37] conducted the study "Antecedents of private label brands attitude and national brand attitude: Similarities and differences"[38]. They stated that numerous prior studies have addressed the characteristics of the deal prone shopper or the private label brand prone consumer

[35] Department of Marketing, EJ. Ourso College of Business Administration, Louisiana State University.
[36] Department of Marketing and Transportation, Sam M. Walton College of Business, University of Arkansas.
[37] Department of Marketing and Transportation, Sam M. Walton College of Business, University of Arkansas
[38] Journal of Retailing 78 (2002) 91-99.

separately (see Batra and Sinha, 2000[39]; Richardson, Jain and Dick, 1996[40]; R.C.Blattberg and S.A.Neslin, 1990[41]). While a previous study by K. Ailawadi, S.A. Neslin and K. Gedenk (2001)[42] has identified some general similarities and differences between the two groups, Garretson, Fisher and Burton focused on deeper exploration in that field.

To them the purpose of the research acquires particular relevance when the strategic implications are considered. Especially price conscious consumers play an important role in affecting the balance of power between national brand manufacturers and retailers. In the authors' opinion retailers may employ their private label brands strategically to decrease the space available for national brands and they also may use private label brands to pressure manufacturers to compete more vigorously on price in order to win back share lost to the private label brands, while the national brand manufacturer may be seeking means to counter the increasing private label brand incursion without eroding brand loyalty through excessive price promotions. They believe that understanding more about why price oriented consumers have different attitudes toward private label brand and national brand promotions will have important implications for both manufacturers and retailers in their battle for this target market. According J.A. Garretson et al. that issue should be examined from two perspectives. The relationship between manufacturers and retailers can be characterized as both one of dependency and a struggle for channel control. Manufacturers on their end build their power through customer loyalty. Loyal consumers are more likely to pay full price for their favorite brand and look for them in any store they shop. If not found, they may shop elsewhere. If enough consumers act this way, retailers will be compelled to carry the national brands and be vulnerable to terms not open to much negotiation. Retailers on the other hand power similarly through the strength of their appeal to consumers and they have aided this end by building unique consumer interest in their stores.

Furthermore the authors mention in their study introduction that a common response to private label brands by manufacturers has been to increase promotional spending in attempts to halt the migration of value-conscious consumers. Sales promotions in recent years have accounted for an overwhelming 74% of the total marketing budget

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[39] "Consumer-level factors moderating the success of private label brands", Journal of Retailing, 76(2), 175-191.
[40] See fn 25
[41] "Sales Promotion: Concepts, Methods, and Strategies". (first ed.) Englewood Cliffs, NJ: Prentice Hall.
[42] "Pursuing the value conscious consumers: Store brands vs. national brand promotions" Journal of Marketing, 65 (January), 71-89.

of US packaged goods manufacturers, an increase of 9% in the past decade (Cox Direct, 1998[43]; Ailawadi, Neslin and Gedenk, 2001[44]). While evidence suggests that national brand promotions, such as coupons, are effective deterrents of private label brands penetration (Raj Sehuraman and J. Mittelstaedt, 1992[45], R.C. Blattberg and K.J. Wisniewski, 1989[46]), other studies indicate that significant and frequent price promotions on national brands might erode brand loyalty (K. Gedenk and S.A. Neslin, 1999[47]).

A key empirical finding in their study is that value-consciousness is positively related to attitudes towards both private label brand and national brand promotions. Thus, while value-consciousness helps explain why some shoppers pay less, it does little to distinguish attitudes toward national brand promotions and private label brands. With coefficients nearly identical for both relationships, value-consciousness is a motivation for consumers who have positive attitudes toward national brands or private label brands.

While value-consciousness is a commonality among consumers who seek price savings, the perception of price in terms of its relationship to product quality, had the opposite effect. For these consumers, the lower average prices of the private label brands cause such products to be regarded as less attractive. In contrast, these same buyers viewed national brands on price promotion more favorably. For these consumers, price promotions may represent a way to achieve savings without making tradeoffs in quality.

Consistent with J.A.Garretson et al.'s expectations, they found smart shoppers self-perception to represent another basis for differentiation in attitudes toward national brand promotions and private label brands. Smart-shoppers are interested in saving money, of course, but how they go about saving this money is also important to them. A result of their study also shows the path between smart self-perception and national brand promotion attitude to be significantly more positive than that between smart shopper self-perception and private label brands attitude.

When raising the question of brand loyalty they found that within the buying-for-value-group the value-conscious consumers are less loyal to national brands and

[43] "20th. annual survey of promotional practices" Largo, FL: Cox Direct
[44] See fn 42
[45] "Coupons and private labels: A cross category analysis of grocery products", *Psychology & Marketing*, 9(6), 487-500.
[46] "Price induced patterns of competition", Marketing Science, 18(4), 81-100.
[47] "The role of retail promotion in determining future brand loyalty: It's a fact on purchase event feedback", Journal of retailing, 75(4), 433-459.

inclined to switching or buying private label brands. Another finding in their study provides further clarification for the above result. Specifically, shoppers who see a linkage between the price of a brand and its quality, or perceive of themselves as smart-shoppers, are more likely to seek price savings in promotions of national brands and consumers who seek pure value, however. Or who have no pretensions with respect to their shopping acumen, find that private label brands satisfy their needs. These shoppers may go for consistent lower price and thereby exhibit little systematic to national brands. Surprisingly and against J.A. Garretson et al's hypothesis[48], consumers with brand loyal tendencies appear not to have negative attitudes toward promotions of these private label brands. While the relationship between brand loyalty and private label brands attitude is significant and negative, the negative path from brand loyalty to national brand promotion attitude did not reach significance. L. Krishnmaurthi and S.P.Raj (1991)[49] offer a possible explanation for the non significant path in their study that examined the relationship between brand loyalty and national brand promotion attitude. They found that brand loyal consumers are interested in price promotions for their preferred brands in order to stockpile inventory. J.A. Garretson et al. conclude from this, that many brand loyal consumers are less adverse toward promotions because of the price savings for brands they prefer. In sum, they find off-price shopping preferences to be driven by a complex set of factors. Value consciousness is part of this set, but attitudes toward national brand promotions and private label brands are also influenced by additional factors, specifically price-quality associations and smart shopper self-perception.

2.2.1.2 Price Consciousness

Indrajit Sinha and Rajieev Batra have undertaken a study about the effect of consumer price consciousness on private label brands purchase[50]. Like other authors they assumed that private label brand penetration would be quite high in main Western European countries, particularly the UK, Switzerland and Germany (J.-B.E.M. Steenkamp and M.G. Dekimpe, 1997[51]), where market shares range between 30% and 40%. In the United States, unit sales of PLBs in supermarkets and drug

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[48] "Value consciousness will have a *negative* effect on brand loyalty"
[49] "An empirical analysis of the relationship between brand loyalty and consumer price elasticity", Marketing Science, 10(2), 172-183.
[50] International Journal of Research in Marketing 16 (1999) 237-251
[51] "The increasing power of store brands: Building loyalty and market share. Long range planning 30(6), 917-930

stores have reached record levels, rising to a market-share of 20,8% in 1997 (L.Lewis, 1998[52]). They argued, that private label quality increased retailer power, and decreased national brand innovation and advertising (Hoch and Banerji, 1993[53]; T.V. Krishnan and H. Soni, 1997[54]; Steenkamp and Dekimpe, 1997; C.F. Mela et al., 1998[55]) had been focused on in previous studies which in their opinion plays undoubtedly crucial roles, but little attention had been given on price consciousness among consumers. Typically PLBs are somewhat 15% - 40% cheaper than national brands (S.R. Ashley, 1998[56]), and PLB growth arguably suggests greater price consciousness among consumers. Consumer groups and politicians in the UK have voiced their outrage and resentment over high British supermarket prices (D. MacShane, 1998[57]). Ashley (1998) says that consumers around the world would become more resistant to higher price gap between national brands and PLBs. This resistance forced major brand marketers like Philip Morris, Procter and Gamble and Johnson&Johnson to keep a lid on prices and, in some instances, to roll them back (G. Morgenson, 1991[58]). They also agree with other authors that consumer price consciousness may vary across product categories. In order to get a better understanding of why this price consciousness may vary across product categories, they focus on several consumer-level antecedent factors, instead of factors from supply side.

Price consciousness has been defined in the marketing literature in slightly different ways, including a buyer's unwillingness to pay a higher price for a product and/or the exclusive focus on paying low prices (e.g., D.R. Lichtenstein et al., 1993[59]). Since the authors of the study are concerned here with inter category variations in such price consciousness, and the possible reason for this variations, the definition they will adopt here is "a consumer's reluctance to pay for the distinguishing features of a product if the price difference for these features is too large" (K.P. Monroe and S.M.

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[52] "Store brands advance", Progressive grocer 77(5), 12.
[53] See fn 23.
[54] "Guarantied profit margins: A demonstration of retailer power", International Journal of Research in Marketing 14(1), 35-56.
[55] "Assessing long term promotional influences on market structure", International Journal of Research in Marketing 15(2), 89-107.
[56] "How to effectively compete against private label brands", Journal of advertising research 38(1), 75-82.
[57] "The great supermarket rip-off", New Statesman 520(11), 14.
[58] "The trend is not their friend", Forbes 148(6), 115-119.
[59] "Price perceptions and consumer shopping behaviour: A field study", Journal of Marketing Research 30, 234-245.

Petroshius, 1981[60]). They prefer this definition because the phrase “too large” suggests that the consumer “trades off” the higher price with potential benefits, such as the increase in quality or the reduction in risk that might accompany that higher price. In addition, the “distinguishing features” might well include the brand name of the national brand. This definition thus allows them to ask whether consumer preference for the brand name of a national brand, vs. the lower price of a PLB, might well vary across product categories depending on consumer perceptions of category characteristics.

They studied the roles of consumer’s perceptual factors concerning prices by using data from several product categories, explicitly modeling the perceived differences in these categories on dimensions of category risk.

First they found that consumers are less price-conscious in categories where perceived risk is deemed to be high. This finding is consistent with previous research but, importantly, it is demonstrated here at the category level utilizing data from multiple categories with explicit modeling of perceptions of category risk. A second interesting result is that consumer’s perceptions of the price unfairness of national brands within certain product categories also cause them to become more price-conscious in those categories. As stated by the authors, previous studies in economic psychology and consumer behavior have not accounted for the significant role of perceived price fairness / unfairness on consumer price consciousness. For them this finding seems to provide some empirical support to the Dual-Entitlement theory of D. Kahneman et al. (1986)[61], which stipulates that community standards of fairness act as constraints to a firm’s quest for profits, and price increases that result not from increases in cost but from higher profit motive and/or market dominance are judged as being unfair and subsequently punished by consumers. Sinha’s and Batra’s study also shows that a consumer’s category price consciousness is a highly significant predictor of his/her purchase of PLBs. They believe that this suggests that, to the extent that journalistic accounts (e.g., A.L.Stern, 1997[62]) of increasing price consciousness are true, the recent growth in PLB sales may in part be due to such price consciousness, in addition to the well-documented quality improvements that PLBs have recently made. Furthermore they found that category risk also

[60] “Buyers’ perceptions of price: An update of the evidence” in: H. Kassarjian, T.S. Robertson “perspectives in consumer behaviour”, 43-55

[61] “Fairness and assumptions of economics”, Journal of Business 59(4) 285-300.

[62] “The pricing quandary”, a cross the board (May) 16-22.

independently affects PLB purchases. Perceived price unfairness of national brands was not found to directly influence PLB choice, though price unfairness did significantly affect price consciousness. That implies that price unfairness on its own does not have a significant direct effect on PLB purchase after one controls for category risk and price-quality inferencing in the category – though it is clearly a very major indirect influence through price consciousness. In accordance with their expectations, they observed a significant negative effect of category price-quality association on PLB purchases, demonstrating that individuals with such category-specific price-quality schemas tend to gravitate toward more expensive national brands. More importantly, this main effect is found to be significantly moderated by the degree of perceived category risk. The significant, negative interaction term indicates that as perceived category risk increases, consumers with price-quality schemas increasingly shy away from PLBs. For them this was an important finding, as it implies that the role of perceived price-quality association on PLB purchase is significantly stronger in risky categories. Furthermore they argue that earlier authors have been content to establish a main effect of price-quality inference on PLB purchase, and prior empirical evidence vis-à-vis this moderation influence of perceived risk is scarce. This new finding extends previous research on consumer-level antecedents of cross-category variations in PLB growth. They stated, that P.S. Richardson et al. (1996)[63], who investigated individual factors such as perceived risk, have not examined any such interaction effects in their study.

Raj Sethuraman analyses in the report “National Brand and Store Brand Competition: Who Hurts Whom?”[64] The differential impacts of price discounting by national brands on store brand sales, and by store brands on national brand sales, based on weekly sales data for six consumer products.

Private-label grocery products—store brands that are generally owned, controlled, and sold exclusively by retailers—now generate more than $48 billion in sales each year. The most compelling reason for this increased presence in the market is their price differential with national brands: it is believed that private label brands gain sales by offering lower prices than high-quality national brands. To counter the

[63] “Household store brand proneness: A framework”, Journal of retailing 72(2), 159-185.
[64] MSI Report No. 95-105; Raj Sethuraman, 26 pages; 1995

growing popularity of store brands, national brand manufacturers have begun to wage the battle for market share by conducting aggressive price promotions.

Understanding how discounting affects sales has thus become central to managers' ability to make appropriate price/promotion decisions. Accordingly, this paper investigates two critical questions:

Do national brand price reductions hurt (significantly decrease) private-label sales, and do private-label price reductions hurt (significantly decrease) national brand sales?

If so, what types of national brands hurt private-labels through price cutting? What types of national brands are hurt by private-label price cuts?

Data and Method:

The data used in this analysis are weekly store-level sales for 104 weeks during 1991-93. Six product categories (bathroom tissue, fabric softener sheets, all-purpose flour, margarine, orange juice, and canned tuna) from three supermarket chains were selected, including 55 national brands and 16 private brands.

This paper investigates whether short-term price discounts by national brands reduce aggregate private-label sales, and vice versa, through a meta-analysis of 261 cross-price elasticity estimates obtained from 16 product-chain combinations. After computing the overall impact of price cuts, it then assesses whether there are systematic variations in cross-price effects due to two key national brand characteristics: market share and relative price.

Key findings:

The results lend broad support to the findings of previous research, and have important implications for both national brand and store brand marketing managers. Specifically, Sethuraman's analysis reveal that:

Price cuts by national brands do hurt private-label sales. About 50% of the national brands draw sales away from store brands with their price promotions. These brands may therefore have to adopt other strategies, such as advertising and product improvements, to attract private-label customers.

The effect of private-label price cuts on national brand sales is less pronounced. Private-label promotions reduce sales of national brands in only 25% of the cases. This suggests that price-cutting is not an effective way for private-label brands to compete for customers of several national brands.

National brands with large market share, especially market leaders, can hurt private-label sales with their price cuts, and they are generally unaffected by private-label discounts. As a result, large national brands can use price promotions as a strategy to reduce private-label sales in the short term.

National brands that are similar in price to the store brand can hurt private-label sales by price-cutting, and they in turn are more likely to be affected by private-label discounting. As a result, both national brand and store brand managers can use discounting to attract the other brand's customers.

Since this analysis relates to short-term sales changes in response to short-term price changes, it is important to interpret the results accordingly. In particular, the lack of private-label price effects on sales of several national brands does not imply that these national brands do not have to worry about private label brands; it simply suggests that store brand price-cutting does not affect national brand sales in the short term. At the same time, while these national brand managers need not be concerned about private-label discounting, they cannot overlook the presence of private label brands and their ability to penetrate the market.

2.2.1.3 Perceived Quality, Category and Consumer Characteristics

Devon DelVecchio[65] has studied the consumer perceptions of private label brands quality: “The role of product category characteristics and consumer use of heuristics”[66]. The introduction of the study mentions that even the percentage of private label brands in grocery grew extremely in some countries (eg. UK grocery sales reached 43% , 33% in Belgium and 27% in Germany in 1997 (M.Dennis, 1998[67]), and private label brands in drugstore sales of vitamin E (R. Eder, 1998[68]), results for private label brands in general have not been uniformly positive. On the US market deodorants reached 1% (G. Morgenson 1991[69]) and frozen dinner entrees only 1,3% (Quik, Frozen Foods International, 1998[70]). The reason why private label brands in some areas don’t succeed may be the fact that private label

[65] Marketing Department, Kelly School of Business, Indiana University.
[66] Journal of Retailing and Consumer Services 8 (2001) 239-249.
[67] “Where next for own – label?”, Supermarketing Dezember 11, 29.
[68] “Fast-growing natural care is target for private label”, drugstore news November 9, 53.
[69] See fn 58
[70] “Private label frozen foods in USA: Entries are” all in the family!” 39, 136.

brands may be seen as non-competitive in a product category due to the discrepancy between the associations consumers have for private label brands and the characteristics of the product category. In particular the association that may cause consumers to react skeptically to private label offerings in some categories is the association between private label brands and their *lower cost/lower quality positioning*.

The study's theoretical impact focuses on the *product category characteristics* considering especially

- category complexity,
- category quality variance,
- interpurchase time,
- publicness and
- price level of the category

and the *consumer characteristics* considering

- the consumers knowledge
- the use of brand names as symbols of quality and
- the believe that brand names are symbolic of personal value.

Purchasing products means risk to consumers. In order to reduce risk consumers relay on known brand names as heuristics. Brands with accumulated equity, which is typically built through high advertising expenditure, are believed by consumer to be of superior quality (see e.g., D.A. Aaker 1996[71], A. Kirmani and P. Wright, 1989[72]). When purchasing products that may accompanied with risk, consumer tend towards well known brands which are associated with quality in order to avoid potential losses. Very often private label brands follow a low cost strategy. They keep the communication budget low and hope to pass on the cost advantage to consumers by lower pricing. The strategy undertaken by these private label brands result in sizable discrepancies between the marketing communication budgets of private label brands and national brands. As the risk involved with a product category increases, differences in consumer perceptions of quality should take on heightened importance. This increased importance of quality should lead private label brands to

[71] "Building strong brands", The Free Press, New York

[72] "Money talks: Perceived advertising expense and expected product quality", Journal of consumer research 16, 344-353.

be viewed as relatively more inferior (of lower relative quality) to national brands than in a condition of low risk.

The risk discussed can be divided into three types: functional, financial and social (G.R. Dowling and R.Staelin, 1994[73]; J.W. Taylor, 1974[74]). A consumer who chooses between national brands and private label brands must make tradeoffs between the types and level of risk to which he/she is exposed. Consumers fearing to loose functional or social attributes may decide to go for national brands, while consumers disliking of making financial tradeoff will prefer PLBs. The first three product category characteristics, category complexity, category quality variance, and the average interpurchase time of the category relate to the level of functional risk to which a consumer will be exposed. The first two variables are likely to affect consumer perceptions that private label brands will differ from national brands in terms of the functional quality that they offer. Category complexity is defined as consumer perceptions of the difficulty to manufacture a product in the category. A part of consumer may be skeptic whether a private label brand may be able to manufacture products where special manufacturing technology and / or components is needed.

Category quality variance reflects consumer perceptions of the extent to which the brands competing in a category differ in terms of their quality (J.R. Bettman, 1974[75]). In his study, Bettman found that category quality variance is one of the primary determinants of the inherent risk associated with a product category. Private label brands are generally perceived to be inferior to national brands in terms of quality (P.S. Richardson et al., 1996[76]).

Interpurchase time may affect the perceived functional risk. Shorter interpurchase times may lower the functional risk as it can be corrected through the next purchase in the category than if interpurchase time is long (C. Narasimhan et al., 1996[77]). In addition short interpurchase time may lower the functional risk by facilitating consumer knowledge within a category. Consumer get more familiar with the brands in a category which may lower the uncertainty inherent in the purchase. These mechanisms lead to the expectation that longer interpurchase times will lead to

[73] "A model of perceived risk and intended risk-handling activity", Journal of consumer research 21, 119-134.
[74] "The role of risk in consumer behavior", Journal of marketing 38, 54-60.
[75] "Relationship of information processing attitude structures to private brand purchasing behavior", Journal of applied psychology 59(1), 79-83.
[76] See fn 63
[77] "Promotional elasticities and category characteristics", Journal of Marketing 60, 17-30.

increased risk, which in turn, should lead to lower perceived quality for private label brands.
The primary characteristic of a product in determining the ability of others to evaluate a consumer based on their brand choice is the publicness of the product. Category publicness is a measure of the extent to which product usage occurs in a situation in which referent others are present (W.O.Bearden and M.J.Etzel, 1982[78]). The work of Bearden and Etzel points to the heightened importance that brand names play in the purchase decision when products are public in nature. As product consumption becomes more public, and thus more open to evaluation by referent others, well-known brand names can act as a from of insurance against potential negative peer evaluation (Bearden and Etzel, 1982, T.L.Childers and A.R.Rao, 1992[79]). For a store brand, increasing category publicness magnifies the low level of symbolic quality that results from a price (or value) positioning strategy. It is therefore expected that public will be negative.
The issue price level of a category plays a minor role in grocery. Financial risk is construed as the potential for a loss of monetary resources due to substandard performance and subsequent product repair or replacement. Due to the focus of past research on grocery items, little attentions has been given to the importance of the price level of the categories in which private label brands compete.

The consumer characteristics considered in this study stem for consumer's use of brand names as heuristics. Consumer's knowledge, and its impact on brand choice has been widely researched. A general finding in this research is that as a consumer's knowledge of a product category increases, dependence upon heuristics, such as brand names decreases (e.g., J.W.Alba and W.Hutchinson, 1987[80]; J.R. Bettman and C.W.Park, 1980[81]; A.Biswas and D.L.Sherrell, 1993[82]). Consumers with relatively high level of product category knowledge may be able to evaluate brands on a fairly objective based on the product's attributes (A.R.Rao and K.B.Monroe,

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[78] "Reference group influence on product and brand purchase decisions", Journal of consumer research 9, 183-194.
[79] "The influence of familial and peer based reference groups on consumer decisions", Journal of consumer research 19, 198-213.
[80] "Dimensions of consumer expertise", Journal of consumer research 13, 411-454.
[81] "Effects of prior knowledge and experience and phase of the choice process on consumer decision processes: A protocol analysis", Journal of consumer research 7, 234-248.
[82] "The influence of product knowledge and brand name on internal price standards", Psychology and Marketing 10, 31-46.

1988[83]); V.K. Venkataraman, 1981[84]). On the other hand, consumers lacking such knowledge will likely have the rely on a heuristic when assessing product quality. Consumer's increase in knowledge of a product category will lead private label brands to be viewed more positively particularly given the general improvements in private label brands quality over the past decade, furthermore perceived quality will more closely match actual quality. Therefore, for categories in which private label brands quality is high, quality perceptions should increase as knowledge increases. When private label brands quality within a category is low, the relationship between private label brands quality and knowledge should be negative. This stream of logic implies that the relationship between perceived quality and knowledge will not be unidirectional across product categories. Given its importance in determining perceptions of product quality, consumer category knowledge is included in the model of private label brands quality. Given the equivocal streams of logic that may be advanced, no directional expectation regarding knowledge is forwarded.

Brand names may be used by consumers as signals of functional quality, they may also serve as signals of the social or symbolic value of the product. In their role as symbolic attributes, brand names serve to communicate the beliefs and values as well as the social and economic status of their buyer (S.J.Levy, 1959[85]; C.W.Park et al., 1986[86]). As is the case with their use of brand names as functional quality cues, consumers are likely to differ in the extent to which they believe that brand names serve as social symbols.

Devon DelVecchio furthermore discussed in his study that retailers who continue to consider new categories in which to offer their own label products, they must gauge the likely level of consumer acceptance. The study suggests that the strongest predictors of positive perceptions of private label quality are that the private label brands be competing in a category that is not complex and in which there is relatively little variance in (functional) quality across brands. Somewhat surprisingly, that consumers who use brand names as a heuristic to judge the functional quality of products will perceive private label brands to be of lesser quality received in the study only weak support. For private label manufacturers this result may be indicative of increased consumer belief that private label products are competitive with national

[83] "The moderating effect of prior knowledge on cue utilization in product evaluations", Journal of consumer research 15, 253-264.
[84] "The price quality relationship in an experimental setting", Journal of advertising research 21(August), 49-52.
[85] "Symbols for sale", Harvard Business Review 37, 117-124.
[86] "Strategic brand concept management", Journal of marketing 50, 135-145.

brands from a functional standpoint. Although the result that the perceived quality of private label brands was positively affected by consumer's use of brand names as symbolic cues could encourage for private label brands, the interaction between publicness and use of brand as a symbolic cue tempers the positive main affect associated with brand symbolism.

The study conducted by DelVeccio has been seen limited. It assumes that product quality can be measured as a global one-dimensional construct. Although such a consideration of product quality is widely forwarded (e.g., T. Erdem, 1998[87]; L.L. Hellofs and R. Jacobson, 1999[88]; K.L. Keller and D.A. Aaker, 1992[89]), search indicates that product quality is a multi-dimensional construct (C.Hjorth-Andersen, 1984[90]). Quality must be assessed across product attributes.

2.2.2. Manufacturer and Retailer Perspectives

The cross-category differences were mainly investigated from manufacturers and retailer perspectives. In studying the retailer economics of PLB programs, researches have mostly examined factors such as size of category, category margins, technology investments necessary, national brand advertising and promotional activity levels and so forth (Hoch and Banerji, 1993; Sethuraman, 1992). They evaluated that higher private label shares are found in large categories allowing high margins, and where fewer national brand manufacturers are active and spending less on national advertising. The gap between national brands and PLBs in the level of quality also depends on the technology requirements in manufacturing that varies across categories (Hoch and Banerji, 1993).

2.3. Explanations and Recombinations

When comparing and evaluating the previous studies, similarities as well as differences can be observed. Some of the most interesting issues are being described hereafter.

[87] "An empirical analysis of umbrella branding", Journal of marketing research 35, 339-351.
[88] "Market share and consumers' perceptions of quality: When can firms grow their way to higher vs. lower quality", Journal of marketing 63, 16-25.
[89] "The effects of sequential introduction of brand extensions", Journal of marketing research 29, 35-50.
[90] "The concept of quality and the efficiency of markets for consumer products", Journal of consumer research 11, 708-718.

All authors stated in their studies that PLBs are gaining steady market share over national brands in almost all developed world markets. Details are shown in the chapter empirical analysis.

Brands create major assets and value to a company. They create the memorable identity of a company stated Aaker. PLMA doesn't even mention that generally shared knowledge of brand equity and the value it means for companies. They obviously try to avoid manufacturers brand consciousness. Their interest may be in creating brand equity for stores supported by store brands even they are the association for Private Label Manufacturers.

Product quality and pricing are important ingredients when discussing national brands versus private label brands and the authors have given a lot of attention to this issues.

Garretson in her study mentioned that 74% of the US advertising budget is invested in price promotion of national brands. She found that price promotion has no or little influence on brand loyalty. Contrary to Aaker she says that price promotion would not erode national brands. She explains this circumstance that self perceived smart shoppers with quality appreciation buy national brands on promotion and even stock pile products. Off-price shopping preferences is driven by a complex set of factors like value consciousness, price quality associations and smart shoppers self-perception. Garretson furthermore found that value shoppers who have no shopping acumen find that private label quality might be satisfactory. They go for consistent lower pricing.

Raj Sethurman's findings say that price cuts of national brands draw sales away from private label brands by 50% while price promotions of private label brands draw sales from national brands away by just 25%. These results are gained on short term.

Aaker on the other hand says that a sharp price reduction can indicate to customers that as they may have begun to suspect the brand really is not different from any other brand, and is therefore of average quality. Pricing still is a positioning cue. If prices need to be reduced it has to be done very carefully by retaining the quality position.

Raj Sethuraman raised the question whether image or quality would make consumers to pay more for national brands. He concludes that quality would be the driving force in a consumers decision. Furthermore he argues that if there is a quality parity, the brand image or brand equity play the primary role whether consumers are willing to pay a higher price for national brands. He draws a single dimensional picture of product quality.

DelVecchio on the other hand says that various researches indicate, that product quality is a multidimensional construct. Quality must be assessed across product attributes like category complexity, category quality variance, inter-purchase-time, publicness and the price level of a category. Not to forget the consumer level factors like knowledge and brand symbols for personal value. In his opinion brand names may be used by consumers as signals of functional quality.

Hoch & Banerji's study focuses on the private label issue from manufacturers' and retailers' perspective. They suggest that private label have good potential in categories of a bigger size, where technical investments might be low, category margins are high and where spending of national brand advertising and promotion is little. They recommend that quality not low price would be important to private label brands.

DelVecchio's study, which is mainly driven from consumer level factors suggests, that private label brands should compete in categories that are not complex and where is relatively little variance in quality across brands.

Batra/Sinha believe that it is important to facilitate the search for consumers. Therefore proper labelling information and as much information as possible has to be put on the product. This should lower the perceived risk on purchases.

PLMA states that private label brands basically offer lower price points to consumer. They cut margins from manufacturers and minimize advertising budgets. They also say that private label brands would be of same or better quality.

According Garretson it's finally a question of negotiation power of retailers and manufacturers about channel control.

3. Empirical Analysis

ACNielsen[91] has conducted an empiric research “The Power of private label brands – a Review of growth trends around the world”[92] on the growth trends of private label brands around the world.

3.1.1. Foreword

Since ACNielsen’s last look at the global private label market in 1998, the size and penetration of private label brands has continued to grow and evolve, capturing the interest of manufacturers, retailers and consumers alike. In their current study, *The Power of Private label brands*, ACNielsen looks at the growth of private label brands during the period 2002 to 2003, focusing on the variances across both countries and categories. The study also includes a country and category review of the pricing of private label brands compared to its manufacturer branded counterparts.

The term ‘private label brands’ creates a variety of images in the mind of the consumer. In some parts of the world, the traditional perceptions of private label brands once were of low-quality, unbranded alternatives, attracting the most cost-conscious consumers. In today’s private label market, however, although there may still be private label products of lower cost and quality in existence, a different level of products has emerged—the premium ‘branded’ private label product. These products offer consumers a quality private label brand choice as well as providing to retailers a unique selling point for merchandising in their stores. Some of these quality products may be branded with the retailer’s name or even have a brand image all of their own (e.g., President’s Choice[93]). For this study, they have defined any brand that is sold exclusively by a specific retailer or chain as private label brand.

3.1.2. Methodology

The Study Parameters Eighty Categories Reviewed Across 36 Countries

In preparing this report, retail measurement data was collected by ACNielsen from 36 countries, covering five regions—Europe, North America, the Emerging Markets, Asia Pacific and Latin America. In total, these 36 countries represent over 65% of the

[91] A world leading marketing information company.
[92] AC Nielsen Research 2003.
[93] President’s Choice is a premium private label brand.

world's Gross Domestic Product (GDP). The 36 countries studied were chosen based on the fact that there was an established private label brand presence in each of these markets.

Although ACNielsen's channel and category coverage within each country reflects the dynamics within the particular market, channel coverage in this study generally included supermarkets, hypermarkets and mass merchandisers and excluded such channels as food service outlets and department stores. Coverage of convenience stores and pharmacies was dependent on the availability of outlet data by country. Coverage of individual retailers within an individual market was dependent on retailer cooperation within that market. From a category perspective, the study looked at the presence of private label brands across 80 different categories. The 80 categories studied were selected from 14 larger product areas and do not represent all of the categories with a private label brand presence. These 80 categories were chosen to represent a cross-section of private label brand activity across product types. Coverage of a category within markets also depended on data availability within the various countries.

Countries included in the study

Western Europe	Asia Pacific
Austria Belgium Denmark Finland France Germany Great Britain Greece Ireland Italy Netherlands Norway Portugal Spain Sweden Switzerland	Australia Hong Kong, China Japan Korea, Republic (South Korea) New Zealand Philippines Singapore Thailand **North America** Canada United States **Latin America** Argentina Brazil Chile Colombia Mexico Puerto Rico
Emerging Markets Czech Republic Hungary Poland South Africa	

Note:

Emerging Markets: The ACNielsen study is inconsistent regarding the definition of Emerging Markets and is not conform with the general accepted term of Emerging markets. In order to avoid confusions the ACNielsen terms of Emerging markets are being used in the thesis.

„Broadly defined, an Emerging Market is a country making an effort to change and improve its economy with the goal of raising its performance to that of the world´s more advanced nations. The World Bank classifies economies with a Gross National Income per capita of $9,266 and above as high-income countries“.[94]

[94] Online in Internet, URL: www.emdirectory.com/definition.html

Periods Included

Information was collected for the years ending in April 2001, 2002 and 2003.

Category Coverage Represented a Wide Cross-Section of Product Areas

To provide a wide perspective on private label trends, the data includes views of 80 different categories within 14 larger product areas—Alcoholic Beverages; Non-Alcoholic Beverages; Snacks & Confectionary; Baby Food; Shelf-Stable Food; Refrigerated Food; Frozen Food; Home Care; Paper Products, Plastic Bags and Wraps (PPW); Diapers & Feminine Hygiene; Personal Care; Cosmetics; Health Care; and Pet Food. The actual categories chosen were not necessarily those with the highest private label share, but rather represented a varied cross section of consumer products. Channel coverage varied from country to country, but generally included supermarkets, hypermarkets and mass merchandisers, and excluded such channels as food service outlets and department stores, and in some cases, convenience stores and pharmacies.

On looking specifically at the coverage of private label activity, certain exclusions should be noted that may have affected the country-specific trends observed.

Australia	Aldi data excluded	South Korea	E-mart data excluded
Philippines	ShoeMart data excluded	Thailand	Leader Price and Lotus Express data excluded
Austria	Hofer and Lidl data (*and Cash & Carry stores*) excluded	Portugal	Lidl data excluded
Denmark	Coop data excluded	Spain	*Frozen food specialists* excluded
France	*Hard discounters* excluded		
Canada	Costco data primarily excluded	United States	Wal-Mart and Aldi data excluded

Table 1: Exclusions of the AC Nielsen research

Category Coverage (Number of Countries Included)

Alcoholic Beverages Beer/Lager/Ales (30) Wine (22) Vodka (23) Whisky (25)	**Baby Food** Baby Food (30) Baby Formula (30)
Snacks & Confectionery Chocolate (34) Chewing Gum (33) Chips/Crisps (34) Cereal/Fruit/Muesli Bars (24) Sweet Biscuits (Cookies) (35)	**Non-Alcoholic Beverages** Coffee (36) Tea (30) Carbonated Beverages (35) Juices/Juice-Based Drinks–Ready To Drink (36) Sports Energy Drinks (32) Flavored Milk Drinks (27) Drinking Yogurt (26) Water (35)
Shelf-Stable Food Breakfast Cereals–Ready To Eat (34) Dry Pasta (29) Rice (25) Savory/Neutral Crackers (32) Dry Soup (34) Wet Soup (27) Containered Vegetables (22) Cooking Oil (32) Mayonnaise (34) Ketchup–Tomato Based (34) Jam/Jelly/Marmalade (25)	**Personal Care** Cleansing–Bath/Shower (31) Deodorants (33) Shampoo (36) Hair Styling (31) Mouthwash (30) Toothpaste (36) Toothbrushes (Manual) (35) Toilet Soap (36) Skin Tanning (Protection) (26) Disposable Razors (34) Facial Cleansing (33) Face Moisturizers (33) Body Moisturizers (34) After Shave Preps (22)
Frozen Food Ice Cream/Frozen Yogurt (32) Potato Fries (28) Vegetables (25) Meat/Poultry/Game (22) Fish/Shellfish/Seafood (23) Pizza (29) Complete Ready Meals (24)	**Home Care** Hand Dish Detergent (35) Auto Dish Detergent (26) Fresheners/Deodorizers (36) Household Cleaners (34) Toilet Care (35) Insect Control (31) Laundry Detergent (36) Fabric Softeners (34)
Refrigerated Food Milk (30) Yogurt (33) Butter/Margarine (31) Cheese (33) Complete Ready Meals (15) Meat/Poultry/Game (13)	**Paper Products, Plastic Bags & Wraps (PPW)** Aluminum Foil (22) Plastic Wrap/Rolls (23) Garbage/Refuse Bags (22) Kitchen Paper/Towel (30) Toilet Tissue (34) Facial Tissue (34)
Diapers & Feminine Hygiene Disposable Baby Diapers (36) Feminine Personal Hygiene (36)	**Cosmetics** Eye Shadow (16) Lip Stick/Gloss (18)
Health Care Pain Relief (18) Self-Adhesive Dressings (20) Cold Remedies (17)	**Pet Food** Cat Food (29) Dog Food (30)

Report focused on sales value and price per volume

In analysing the share and growth trends, their focus was on value sales as opposed to volume sales, since the volume measurement units were significantly different across categories and countries. However, it should be recognized that since private label products are often priced lower than their manufacturer counterparts, the value shares for private label are probably understated (in comparison to their volume share). In order to create accurate value comparisons, all local currency data was converted to US dollars using a constant exchange rate across the three-year period.

When analysing the pricing of private label compared to its branded counterparts, the average price per volume measure was compared for each category and country. Price per selling unit was not included due to varying pack sizes. Average percentage differences (compared to manufacturer branded products) were calculated to account for the variation between kilograms, liters or pieces and hence allow comparisons to be made across categories and countries.

Growth analysis looked at varying perspectives

In order to provide a complete view on the growth and magnitude of private label brands around the world, they looked at the data from three different perspectives:

1. From a **Share** perspective: Included in the study is a comparison of value shares across markets and the share point changes versus year ago.

2. From an **Absolute Dollar** perspective: The growth of private label brands in absolute dollars across the categories and countries is included, highlighting those markets and categories with the ‘largest’ private label value growth.

3. From a **Growth Rate** perspective: They have looked at the ‘fastest’ growing categories and countries as a percentage of year ago sales. Not surprisingly, the smaller, newer private label markets (both from a category and a country perspective) experienced the fastest growth rates, while larger markets experienced the largest absolute value growth.

Exchange rates used

To obtain a global perspective, local currency was converted to US dollars using a constant exchange rate across the three-year period.

COUNTRY	CURRENCY	EXCHANGE RATE (PER US$)
Europe		
Austria	Euro	1.00
Belgium	Euro	1.00
Denmark	Danish Krone	7.45
Finland	Euro	1.00
France	Euro	1.00
Germany	Euro	1.00
Great Britain	British Pound	0.66
Greece	Euro	1.00
Ireland	Euro	1.00
Italy	Euro	1.00
Netherlands	Euro	1.00
Norway	Norwegian Krone	7.59
Portugal	Euro	1.00
Spain	Spanish Peseta	1.00
Sweden	Swedish Krona	9.12
Switzerland	Swiss Franc	1.48
Emerging Markets		
Czech Republic	Czech Koruna	29.851
Hungary	Hungarian Forint	256.41
Poland	Polish Zloty	4.08
South Africa	South African Rand	10.98
Asia Pacific		
Australia	Australian Dollar	1.88
Hong Kong, China	Hong Kong Dollar	7.69
Japan	Japanese Yen	125.00
Korea, Rep. (South Korea)	South Korean Wong	1250.00
New Zealand	New Zealand Dollar	2.20
Philippines	Philippines Peso	49.02
Singapore	Singapore Dollar	1.68
Thailand	Thai Baht	40.32
North America		
Canada	Canadian Dollar	1.60
Latin America		
Argentina	Argentine Peso	3.66
Brazil	Brazil Real	3.53
Chile	Chilean Peso	666.67
Colombia	Colombian Peso	2777.80
Mexico	Mexican Peso	11.16
Puerto Rico	US Dollar	1.00

Table 2: Exchange rates for research evaluation

3.1.3. Key Findings

Private label shares highest in Europe

Over the last 12 months (ending the first quarter of 2003), private label value sales across the 36 countries and 80 categories were at US$85 billion, up 4% versus year ago. The aggregate value share of private label brands across the 36 countries was 15%, gaining slightly (up 0.2 share points) versus year ago. Due to the differences in volumetric measures across countries, value sales were used in the analysis and then converted to US dollars for comparison purposes.

Among the five regions, private label value shares continued to be the highest in Europe, with Switzerland having the highest aggregated share at 38%. This is consistent with the results in their 1998 study. In sheer absolute dollar sales, the US market remained the number one private label country.

In Asia Pacific, the Emerging Markets and Latin America, private label sales were underdeveloped compared to the more developed markets in Europe, the United States and Canada.

But growth in these three developing regions was significant, as large multi-national retailers expanded geographically, building new stores and introducing their private label brands into the market place.

Share of Private label brands by Region and Private label Growth Rate 2003 vs. 2002 (Based on Value Sales)

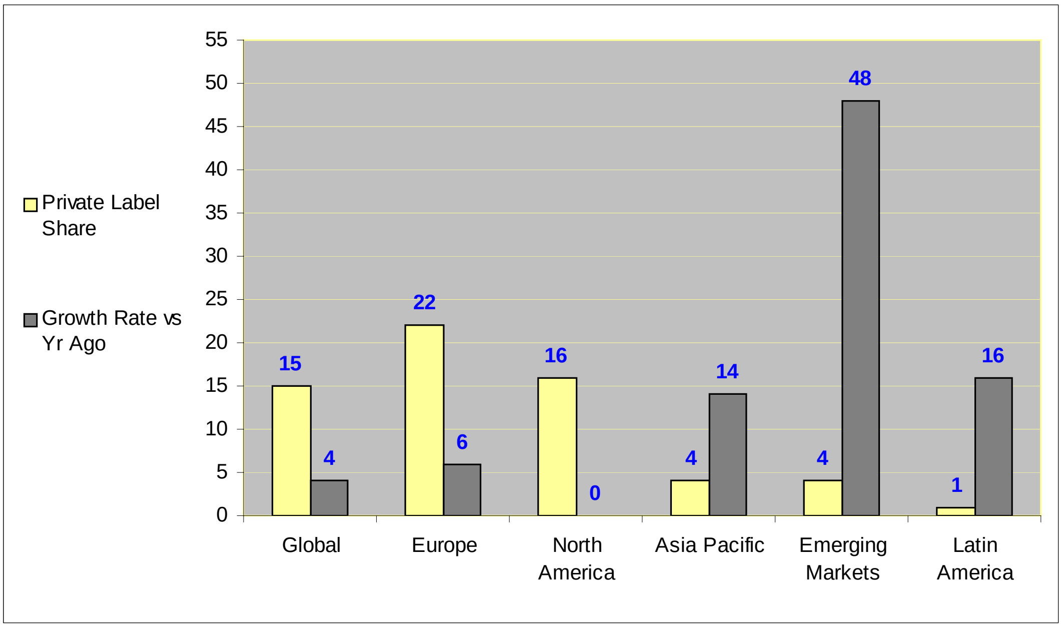

Figure 1: Share of Private label brands by Region and Private label Growth Rate 2003 vs.2002 (Based on Value Sales), Source ACNielsen, The power of private label 2004

Growth of private label brands outpaces manufacturer brands

When looking at the growth of the private label market compared to its manufacturer counterparts across each of the 36 markets, private label brands showed stronger growth and outpaced manufacturer branded products in nearly two-thirds of the markets studied (22 out of 36 markets).

Traditional private label categories remain on top

Looking across product areas, the categories within the Paper Products, Plastic Bags and Wraps area had the highest private label share, with an aggregated value share of 29% for the six categories included in the study. This is consistent with the 1998 results.

Private labels also had a strong share in most of the food categories studied. In fact, of the top 20 private label categories in the study, over two-thirds were food categories. Unlike the food and paper categories, the presence of private label brands in the Personal Care categories was significantly lower. In fact, across all of the Personal Care categories reviewed, the aggregated private label share was only 4%. Only one of the Personal Care categories, Cleansing–Bath & Shower, had more than 10% of its sales attributed to private label.

The Cosmetics and Baby Food categories had the smallest private label shares but experienced year-over-year growth rates in the double-digit range.

Private Label Shares and Growth Rates by Product Area
(Based on Value Sales)

PRODUCT AREA	PL SHARE	PL GROWTH	PRODUCT AREA	PL SHARE	PL GROWTH
Paper, Plastic & Wraps (PPW)	29%	3%	Non-Alcoholic Beverages	11%	5%
Refrigerated Food	28%	5%	Home Care	9%	7%
Frozen Food	28%	4%	Snacks & Confectionery	8%	4%
Shelf-Stable Food	17%	6%	Alcoholic Beverages	6%	-1%
Pet Food	17%	5%	Personal Care	4%	6%
Health Care	14%	0%	Cosmetics	2%	24%
Diapers & Feminine Hygiene	12%	1%	Baby Food	1%	16%

Table 3: Private label Shares and Growth Rates by Product Area (Bas on Value Sales)

Private label priced lower than manufacturer brands

On a global basis, across all of the 36 countries and 80 categories studied, private label products were priced on average 31% lower than their manufacturer counterparts. The geographic variance went from a price differential of 50% lower in Poland to only 10% lower in Hong Kong.

On a category basis, the Personal Care categories were priced on average 45% lower than their manufacturer counterparts. This was the highest differential across all of the product areas studied. Refrigerated food had the smallest differential at only 18%.

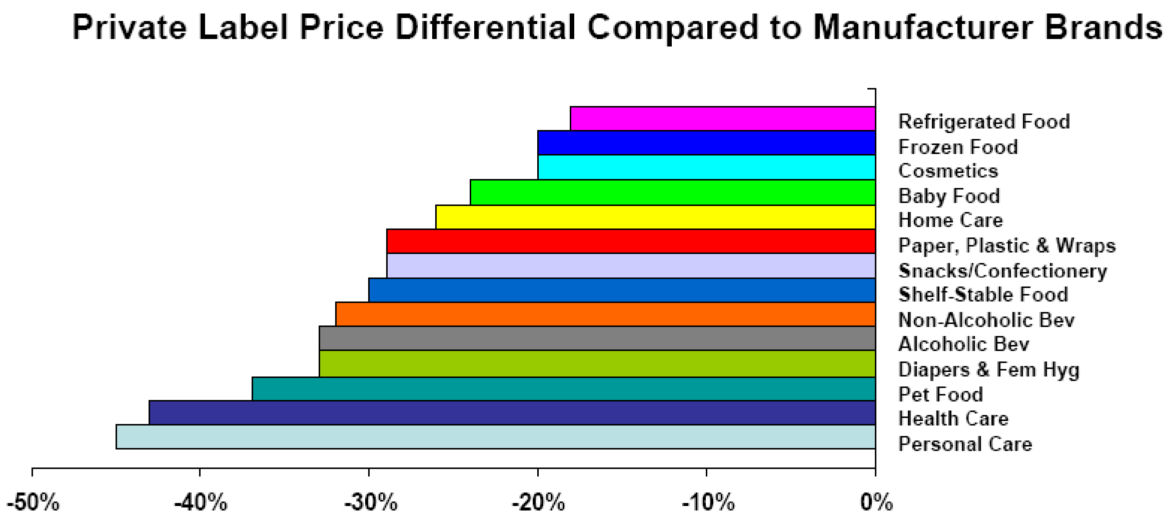

Figure 2: Private label brands Price Differential Compared to Manufacturer Brands

In summary private label brands continues to grow.

New geographies and categories offer opportunities for retailers.

Growth of private label brands outpaced manufacturer branded products in over two-thirds of the markets studied. Europe and North America continue to have the strongest, most developed private label markets in the world. Private label is also, however, beginning to show significant growth in the developing markets of Asia Pacific, the Emerging Markets and Latin America. This growth is in large part due to the geographic expansion of key multi-national retailers introducing their private label brands into these burgeoning markets.

Traditional private label brand categories continue to lead in share but new (non-traditional) categories such as cosmetics are beginning to have a private label presence. Overall, private label brands continue to be lower priced than manufacturer brands (over a 30% price differential) with wide variances across categories and countries. With new, higher quality, premium-priced private label brands entering the market, the price differential between private label brands and manufacturer branded products may be dramatically changing.

3.1.4. Geographic insights

Private label brands nearing the $85 Billion mark.

Private label brands aggregated sales in the 36 countries and 80 categories included in the study totaled just under US$85 billion for the latest 12 months ending April 2003. It is important to note that this is only a sample of countries and categories. Within this sample, 15 dollars out of every 100 spent on products in these 80 categories (or 15%), was spent on private label brands. This finding was relatively consistent with previous years, with the actual growth of private label sales at 4%, only slightly outpacing the growth of manufacturer branded products at 3%.

Although the overall growth rates of private label brands and manufacturer branded products were similar on a global basis, on a country-by-country basis, there were significant pockets where private labels out-performed the growth rate of their manufacturer counterparts. These areas of growth were most evident in the developing markets where larger global retailers have more recently begun to establish a foothold and expand their presence through new store development, bringing their private label brands with them into these traditionally manufacturer-dominated areas.

Private label shares continued to be the highest in Europe

U.S. remained the number one market in absolute Dollars

Of the 36 countries included in the study, the European and North American countries dominated private label sales, accounting for 95% of the aggregated private label market.

Interestingly enough, these same two regions accounted for only 73% of manufacturer brand sales.

Europe was the most developed region for private label brands (in both size and share) with a sales value of nearly US$ 52 billion or 61% of the private label sales across the 36 markets. In comparison, Europe accounted for less than 40% of the 36 market total for sales of manufacturer branded products.

When all of the 36 countries in the study were ranked based on private label shares, eight of the top ten highest-ranking countries were in Europe. Across the 15 European markets studied, 22 dollars out of every 100 spent (across the 80 categories) were on private label brands.

Switzerland was the share leader at 38% of sales. In absolute dollars, Great Britain and Germany were the two largest private label markets in Europe, each accounting for nearly US$14 billion. The Swedish market, although one of the smaller European markets in terms of private label brand shares (11%), was one of the world's fastest growing markets in private label sales, with a 25% growth rate versus year ago.

North America followed Europe with private label value sales of just under US$30 billion, or 34% of the total global private label market. This was similar to the manufacturer branded market, with 33% of global manufacturer brand sales coming from North America. Canada was number seven in the market ranking, with a private label share of 20%. The U.S. ranked number nine with 15% private label share of market.

Value Shares of Private Label by Country

	COUNTRY	REGION	PL SHARE		COUNTRY	REGION	PL SHARE
1	Switzerland	Europe	38%	19	Ireland	Europe	7%
2	Great Britain	Europe	31%	20	Finland	Europe	7%
3	Germany	Europe	27%	21	South Africa	Emerging Markets	6%
4	Belgium	Europe	24%	22	Czech Republic	Emerging Markets	4%
5	Spain	Europe	23%	23	Japan	Asia Pacific	4%
6	France	Europe	21%	24	Hong Kong	Asia Pacific	3%
7	Canada	North America	20%	25	Greece	Europe	3%
8	Netherlands	Europe	19%	26	Puerto Rico	Latin America	3%
9	United States	North America	15%	27	Colombia	Latin America	2%
10	Denmark	Europe	13%	28	Argentina	Latin America	2%
11	Austria	Europe	12%	29	Chile	Latin America	2%
12	New Zealand	Asia Pacific	11%	30	Poland	Emerging Markets	2%
13	Australia	Asia Pacific	11%	31	Singapore	Asia Pacific	1%
14	Portugal	Europe	11%	32	Mexico	Latin America	1%
15	Sweden	Europe	11%	33	Thailand	Asia Pacific	1%
16	Italy	Europe	10%	34	Brazil	Latin America	1%
17	Hungary	Emerging Markets	8%	35	South Korea	Asia Pacific	<0.5%
18	Norway	Europe	8%	36	Philippines	Asia Pacific	<0.5%

Table 4: Value Share of Private label brands by Country

The largest market worldwide in absolute dollars for private label brands was the United States at just under $26 billion, nearly twice the size of the next largest market, Great Britain. Private label sales in the United States, however, remained relatively flat versus last year (-1% growth).

This was consistent with the lack of growth in manufacturer branded products.

It is important to mention that although ACNielsen coverage in the United States for the two year period is based on a consistent sample, it does not include sales in Wal-Mart—a strong player within the private label market. In a separate evaluation of Wal-Mart in the U.S. (through ACNielsen's Homescan Consumer Panel Services), over 70 categories were considered within Wal-Mart to find that the share of private label sales across these selected categories was 17%, similar to the private label share of 15% in the remaining U.S. market (excluding Wal-Mart). However, growth in value sales over the last year for private label in Wal-Mart was significantly higher at 12%. This growth was relatively consistent with the growth of manufacturer brands within Wal-Mart U.S. (growing at 15%). Much of the growth in the Wal-Mart figures may be attributed, however, to their new store expansion across the United States.

Sales of Private Label in Absolute Dollars

	COUNTRY	REGION	PL VALUE ($000)	PL SHARE	PL GROWTH
1	United States	North America	25,847,258	15%	-1%
2	Great Britain	Europe	13,792,841	31%	0%
3	Germany	Europe	13,756,478	27%	10%
4	France	Europe	8,669,484	21%	5%
5	Spain	Europe	3,644,573	23%	16%
6	Canada	North America	3,149,455	20%	5%
7	Switzerland	Europe	2,595,342	38%	3%
8	Italy	Europe	2,158,264	10%	10%
9	Netherlands	Europe	2,144,496	19%	2%
10	Belgium	Europe	1,601,801	24%	3%

Table 5: Sales of Private label brands in Absolute Dollars

Private label brands still under-developed in Asia Pacific, the Emerging Markets and Latin America but growing quickly

As evidenced in the chart, *Share of Private label brands by Region (see figure 1*, *page 44*) Asia Pacific, the Emerging Markets and Latin America overall had a far less developed private label market than their European or North American counterparts. In each of these three less developed regions, less than 5% of their sales value was accounted for by private label brands (across the 80 categories).

It is equally important to note, however, that of the top ten countries worldwide that experienced the fastest private label sales growth (over 20% growth in the last year), nine were from these same regions of Emerging Markets, Latin America and Asia Pacific.

Top Ten Fastest Growing Private Label Markets (Based on Value Sales)

	COUNTRY	REGION	PL GROWTH	MANUF GROWTH	PL VALUE ($000)	PL SHARE
1	Poland	Emerging Markets	115%	4%	171,413	2%
2	Philippines	Asia Pacific	48%	2%	158	0%
3	Czech Republic	Emerging Markets	44%	-2%	114,006	4%
4	Hungary	Emerging Markets	44%	8%	250,227	8%
5	Thailand	Asia Pacific	35%	9%	38,123	1%
6	Colombia	Latin America	31%	11%	48,632	2%
7	Argentina	Latin America	31%	19%	96,526	2%
8	South Africa	Emerging Markets	28%	7%	272,987	6%
9	Sweden	Europe	25%	2%	640,663	11%
10	Japan	Asia Pacific	23%	3%	1,252,454	4%

Table 6: Top 10 Fastest Growing Private label brands Markets (Based on Value Sales)

For the Emerging Markets, the share of private label brands was less than 5% of the aggregated sales for the region. Private label sales did not exceed US$ 300 million in Hungary, Poland, the Czech Republic or South Africa.
The region, however, did lead the world in growth rates, with an average growth rate in private label sales of nearly 50% with all four countries showing over 25% growth. Poland underwent an amazing 115% growth, the Czech Republic and Hungary each experienced a growth rate of 44%, and South Africa grew by 28%.

In Asia Pacific, Australia and Japan had the greatest private label value sales in absolute dollars at just under US$ 1.3 billion each. It was Australia, and its Pacific Rim neighbor, New Zealand, however, that had the highest private label shares in the region at 11% each, with Japan's private label share at only 4% of total sales for the 80 categories. Interestingly enough, however, although Japan's share was low, Japan's growth rate for private label sales versus year ago was 23%, resulting in one of the largest growths in dollar sales across all of the 36 countries (over US$ 230 million versus year ago).

In Latin America, private label sales in each of the countries studied were less than 5% of total category sales. Although Mexico had the largest Private label market in value within Latin America (at just over US$ 215 million), this was only 1% of the sales for the 80 categories in that country. But private label growth is accelerating in the region (16% versus year ago), with Argentina and Colombia leading the way with at least 30% growth versus year ago in private label sales in their countries.

Of the 36 countries studied, the least developed private label markets were South Korea and the Philippines, with few if any measurable private label sales across the 80 categories. However, it is important to note that private label brands are beginning to grow in these markets, the Philippines, for example, experienced year-over-year growth in private label sales of 48%.

Private label growth outpaced manufacturer brands in over two-thirds of the markets studied

Poland, Philippines, the Czech Republic, Hungary, Thailand, Argentina, Colombia, South Africa, these developing countries all have something in common—private label brands are growing at a faster rate than their manufacturer branded counterparts.

Although these developing countries are at the top of the list, a number of the more developed markets are also continuing to outpace their manufacturer competitors. In Germany and Sweden, for example, not only did private label brands outpace their manufacturer counterparts in growth *rate*, but also the absolute dollar *growth* for private label brands was larger than the value growth in the manufacturer branded products. Sweden’s private label sales grew by 25% compared to only 2% for manufacturer branded products. In Germany, private label brands grew by 10%, with manufacturer branded sales actually *declining* by 2%. The combined dollar growth for private label brands in these two markets was nearly US$ 1.5 billion.

In fact, in nearly two-thirds of the markets studied (22 of the 36 markets), private label brands were growing at a faster rate than their manufacturer counterparts. And in nearly half of the 36 countries studied, private label brands grew by double-digit rates.

However, there is another side to the story. In the other 14 countries studied, sales of manufacturer branded products displayed faster growth than that of private label brands. These countries varied in their level of private label development from such strong private label markets as Great Britain (with a private label share of 31%) to South Korea (where the private label share is less than 0.5%). Private label sales in Great Britain grew by less than 1% last year, whereas the manufacturer brands grew by 6%. For South Korea, where private label sales were negligible, private label brands actually declined by 1% as opposed to manufacturer growth of 3%.

3.1.5. Category insights

Categories selected to represent different product areas

In order to provide a fair representation of the role of private label brands across a wide range of product areas, ACNielsen chose a selection of 80 different categories within 14 different product areas.

For example, within the larger product area of Paper Products, Plastic Bags and Wraps, six categories were chosen to provide a perspective on this product area:

- Aluminum Foil
- Plastic Wrap/Rolls
- Garbage/Refuse Bags
- Kitchen Paper/Towels
- Toilet Tissue
- Facial Tissue

Paper products, plastic bags and wraps—the private label brands leader

The Paper Products, Plastic Bags and Wraps area, represented by the six categories cited above, had the highest overall share of private label brands in the study, with an aggregated value share across the six categories of 29%. Within this area, the Aluminum Foil category had the highest private label share, with nearly half of the category sales (46%) made up of private label products. The category with the largest private label sales in absolute value in this area was Toilet Tissue with over

US$ 3 billion sold in the 36 countries over the latest 12 months ending April 2003. The share of private label brands in the Toilet Tissue category was 27%.

Strong private label brands presence across all types of food

Whether the food was refrigerated, frozen, shelf-stable or for a pet, private label products held a significant share of sales across the food categories. In both Shelf-Stable Food and the Pet Food categories, private label brands had a share of 17% of the total sales value. From a much higher share perspective, 28 dollars out of every 100 spent on the selected categories in the Refrigerated or Frozen Food areas was spent on private label products.

The Refrigerated Food market was represented in the study by six categories: Milk, Yogurt, Butter/Margarine, Cheese, Complete Ready Meals and Meat/Poultry/Game. This was an important area for private label brands. In fact, of the top ten private label categories ranked by absolute value sales, four were from this Refrigerated area.

Sales of Private Label in Absolute Dollars

	CATEGORY	PRODUCT AREA	PL VALUE ($000)	PL SHARE	PL GROWTH
1	Milk	Refrigerated	11,429,895	44%	-1%
2	Cheese	Refrigerated	7,156,423	26%	10%
3	Juices/Juice-Based Drinks	Non-Alco Bev	4,881,599	19%	3%
4	Meat/Poultry/Game	Refrigerated	4,576,115	23%	9%
5	Toilet Tissue	PPW	3,135,806	27%	4%
6	Carbonated Beverages	Non-Alco Bev	2,599,486	6%	4%
7	Containered Vegetables	Shelf-Stable	2,537,408	36%	4%
8	Vegetables	Frozen	2,265,223	38%	3%
9	Ice Cream/Frozen Yogurt	Frozen	2,207,018	19%	3%
10	Yogurt	Refrigerated	2,196,113	14%	10%

Table 7: Sales of Private label brands per Category (In Absolute Dollars)

In the Fresh Milk category, private label sales for the 36 countries accounted for over US$ 11 billion. This figure translated to a 44% share of the total Fresh Milk sales measured. Surprisingly, however, the Fresh Milk private label market, as well as the

Butter/Margarine category, showed declines in sales despite the fact that the manufacturer brands in the two categories continued to grow.

A Refrigerated Food category with significant private label growth was the Cheese category. With a 26% share of market, private label brands in this category grew by over US$ 640 million, with the total value sales for private label Cheese across the 36 countries of over US$ 7 billion.

Fresh Meat/Poultry/Game was also in the top 20 categories (ranked by private label share) with a 23% share of market. It continued to grow with a 9% growth rate in 2003 versus year ago. Its manufacturer counterparts grew by only 5%.

Although not one of the largest categories in absolute dollars, one of the Refrigerated categories with the largest private label *share* was Refrigerated Complete Ready Meals, where private label brands dominated manufacturer brands by holding over 50% of the market.
The Refrigerated Complete Ready Meals category was also one of the fastest growing, with a 20% growth rate in the last year. This category included any products that can be described as a pre-prepared meal which is sold uncooked or cooked requiring only reheating prior to consumption. The category specifically included all pre-prepared specialty meals such as Indian meals, Oriental meals, Mexican meals, American meals and British meals.

There were seven Frozen Food categories included in this study: Ice Cream/Frozen Yogurt, Potato Fries, Vegetables, Meat/Poultry/Game, Complete Ready Meals, Pizza and Fish/Shellfish/Seafood.

Five out of these seven categories ranked in the top 20 categories for private label brands when ranked by share. Frozen Vegetables had a 38% share of market, with Frozen Fries, Fish and Meat also having a greater than 30% share. Frozen Fish (including Shellfish and Seafood) and Frozen Meat (including Poultry and Game) also ranked among those with the largest growth in private label dollar sales of over US$ 130 million, each growing by 9%. On the flip side, sales of private label brands

Frozen Fries declined by 2% in the last year. Manufacturer branded sales, however, also declined in this category.

3.1.6. Pricing trends

The average price per category was calculated for each country by dividing the total dollar sales by the total volume sold. Given the country variances in packaging size and units of measurement across 36 countries and 80 categories, it was not possible to compare price per unit across countries. Within each country, however, the unit of measurement for a category was consistent, making it possible to compare the average price for manufacturer brands against the pricing of private label products on a category-by-category basis.

Overall, private label brands offered consumers lower prices

On a global basis, looking at the cumulated figures for all 80 categories, private label products were found to offer the consumer on average a discount of 31% versus its manufacturer counterparts. This is similar to the price differences seen in the 1998 study. This aggregated variance was made up of a wide range of pricing differentials from an average 50% price differential in Poland to a much more modest 10% differential in Hong Kong. Not surprisingly, on an aggregated category basis, all countries were found to sell private label products at a lower price than manufacturer branded products.

Price Differential Between Private Label and Manufacturer Brands by Country

	COUNTRY	REGION	PL PRICE DIFFERENTIAL		COUNTRY	REGION	PL PRICE DIFFERENTIAL
1	Poland	Emerging Markets	- 50%	19	Thailand	Asia Pacific	- 31%
2	Australia	Asia Pacific	- 46%	20	Argentina	Latin America	- 29%
3	Germany	Europe	- 45%	21	Switzerland	Europe	- 29%
4	Belgium	Europe	- 45%	22	Netherlands	Europe	- 28%
5	Spain	Europe	- 43%	23	Canada	North America	- 28%
6	Greece	Europe	- 41%	24	Japan	Asia Pacific	- 27%
7	Ireland	Europe	- 40%	25	Mexico	Latin America	- 27%
8	Portugal	Europe	- 39%	26	Italy	Europe	- 26%
9	Hungary	Emerging Markets	- 38%	27	Sweden	Europe	- 26%
10	Austria	Europe	- 36%	28	Singapore	Asia Pacific	- 25%
11	Philippines	Asia Pacific	- 35%	29	Denmark	Europe	- 24%
12	Finland	Europe	- 34%	30	France	Europe	- 24%
14	Czech Republic	Emerging Markets	- 33%	31	South Africa	Emerging Markets	- 24%
15	Norway	Europe	- 32%	32	Chile	Latin America	- 23%
13	United States	North America	- 31%	33	Brazil	Latin America	- 22%
16	New Zealand	Asia Pacific	- 31%	34	Colombia	Latin America	- 15%
17	Puerto Rico	Latin America	- 31%	35	Hong Kong	Asia Pacific	- 10%
18	Great Britain	Europe	- 31%	36	South Korea	Asia Pacific	n/a

Table 8: Price Differential Between PLB and Manufacturer Brands by country

Looking within product areas, there was also a wide variation in the level of discount. The Personal Care and Health Care areas were seen to experience the highest price differentials, with the average price for private label products in the Personal Care categories at 45% less than their manufacturer branded counterparts. In the Health Care categories, the price differential was 43%. The individual category with the largest price differential for private label brands was Pain Relief, being priced on average 55% lower than its manufacturer counterparts. Other categories where private label products were priced 50% lower than the manufacturer branded products were Face Moisturizers, After Shave Preps, Mouthwash, Fresheners/ Deodorizers and Shampoo.

At the other end of the spectrum, Refrigerated Food, Frozen Food and Cosmetics were the product areas that experienced the smallest differential in price (each experienced an average price differential of 20% or less). Within these areas Frozen and Fresh Meat (including Poultry and Game) and Frozen Fish (including Shellfish and Seafood) each offered less than a 10% differential.

Price Differential Between Private Label and Manufacturer Brands by Product Area

	PRODUCT AREA	PL PRICE DIFFERENTIAL
1	Personal Care	- 45%
2	Health Care	- 43%
3	Pet Food	- 37%
4	Diapers & Feminine Hygiene	- 33%
5	Alcoholic Beverages	- 33%
6	Non-Alcoholic Beverages	- 32%
9	Shelf-Stable Food	- 30%
8	Snacks & Confectionery	- 29%
7	Paper, Plastic & Wraps (PPW)	- 29%
10	Home Care	- 26%
11	Baby Food	- 24%
12	Cosmetics	- 20%
13	Frozen Food	- 20%
14	Refrigerated Food	-18%

Table 9: Price Differential Between PLB and Manufacturer Brands by Product Area

Private label products presented both economical and premium alternatives

For most, the concept of private label products being a more economical option is widely accepted and historically factual. Retailers have provided private label products as the low priced, high volume alternative for years (e.g., large bottles of private label Shampoo priced at a lower cost per unit of measure). The hard discounter stores have been particularly strong in offering consumers these types of choices. In certain situations where consumers were more focused on price than quality, this has been an extremely successful strategy.

In this study, however, a number of situations were identified where the average price of private label brands within a category was seen to be at a premium price to manufacturer branded products. For example, although the cumulated categories of

Home Care displayed a lower price for private label brands compared to their manufacturer counterparts (by 26%), within the individual categories of Toilet Care and Insect Control, the private label products were actually found to be more expensive than the manufacturer brand entries. Private label Toilet Care products showed an average 7% premium over the manufacturer branded products and Insect Control a 20% premium.

One reason is that a different type of private label product has begun to emerge—the premium 'branded' private label product. Some of these quality products may be branded with the retailer's name or even have a brand image all of their own (e.g., President's Choice). They offer consumers a quality private label choice as well as providing retailers with a unique selling point for merchandising in their stores. Retailers such as Delhaize, Carrefour, Ahold and Auchan carry private label products that are priced at a premium and are marketed as premium, high-quality products.

Other reasons cited in this study for higher priced private label brands:

- Some private label products were sourced from imports, and hence were more expensive than the domestic manufacturer brands (e.g., Dry Pasta private label brand in Finland is an imported product).
- Some private label products were sold in smaller sized packages, thus being more expensive per volume unit (e.g., private label Toilet Soap in Singapore is sold by individual bars versus manufacturer brands sold in packs of five or more).
- Some low-end manufacturer brands were found to be sold at a discount in the smaller more traditional local outlets versus the higher-end products available in the more expensive supermarket chains (e.g., a country like the Czech Republic sells less expensive low-end manufacturer brands in their traditional stores versus the selection in their larger chains).
- Manufacturer brands were more often found on promotion than private label brands, thus bringing the average price down.

To summarize, private label brands across the 36 markets and 80 categories studied was generally lower priced compared to manufacturer-branded products. Variations across categories and countries existed, however, depending on the type of private label products being marketed. The number of instances where private label products were priced equal to (or at a premium to) manufacturer branded products has increased as the new, higher quality premium private label entries continue to emerge.

3.2. A Western European perspective focusing on biscuits and confectionary

While the previous data deliver a global perspective which is in my opinion important to get an understanding of developments and trends, a focus is put on the European marketplace in the following section.

Private label brands Market Share Volume and Value In % of Total Market[95]

(All Product Categories in 2003)

Country	***Market Share Volume %***	***Market Share Value %***
United Kingdom	40,6 %	38,0 %
Belgium	38,2 %	27,9 %
Germany	35,1 %	26,7 %
Spain	29,1 %	20,5 %
France	25,4 %	21,0 %
Netherlands	21,3 %	19,7 %
Italy	14,0 %	12,1 %

Table 10: Private label brands Market Share Volume and Value for all product categories

[95] Source: PLMA Jahrbuch der Handelsmarken

Private label brands Market Share Volume and Value In % of Total Market[96]

(All Biscuit and Chocolate products in 2003)

Country	***Market Share Volume %***	***Market Share Value %***
United Kingdom	19,8 %	18,2 %
Belgium	26,6 %	18,4 %
Germany	32,0 %	28,2 %
Spain	17,2 %	11,5 %
France	13,5 %	11,0 %
Netherlands	15,2 %	14,9 %
Italy	- %	- %

Table 11: Private label brands Market Share Volume and Value for all Biscuit and Chocolate Products

Private label brands Market Share Volume and Value In % of Total Market[97]

(All Biscuit and Chocolate products in 2003 vs. 2002)

Country	***Market Share Volume %***		***Market Share Value %***	
	2003	2002	2003	2002
United Kingdom	19,8 %	19,0 %	18,2 %	18,4 %
Belgium	26,6 %	25,9 %	18,4 %	18,1%
Germany	32,0 %	31,2 %	28,2 %	28,0 %
Spain	17,2 %	15,9 %	11,5 %	11,0 %
France	13,5 %	14,3 %	11,0 %	12,3 %
Netherlands	15,2 %	14,0 %	14,9 %	13,8 %
Italy	- %	- %	- %	- %

Table 11: Private label brands Market Share Volume and Value, Year 2003 vs. Year 2002

[96] Source: PLMA Jahrbuch der Handelsmarken
[97] Source: PLMA Jahrbuch der Handelsmarken

3.3. Selected explanations of empirical analysis

The figures of the ACNielsen study say that the total market in 2003 was US$ 567 billion. The value of national brands therefore was US$ 482 billion (or 85%) at a 2002 vs. 2003 growth rate of 3% and the value of private label brands was US$ 85 billion (or 15%) at a 2002 vs. 2003 growth rate of 4%. This figures might not be very surprising or scary for national brand marketers or vice versa particularly encouraging for private label marketers.
Nevertheless the uneven distribution and the market development of private label brands are the interesting issue in terms of global marketing perspectives which will be challenging for both companies with private label focus as well as companies within the national brand segment.

It could be concluded that markets with higher developed economies are more intensively penetrated by viewer well established retail organizations than markets with lesser developed economies. In absolute dollars the chart leaders definitely come from North America and Europe. Such a retail concentration existing of a few players with high negotiation power may lead to a higher degree of private label brand strategies. There might be of course exceptions like Japan where consumers are more brand- and quality conscious than in other countries and where private label brands play a minor role in the retailing industry. But interestingly the growth of private label in Japan was 23% in 2003 vs. 2002. The reason might be economical crises and social changes in the Japanese society.

There is an enormous private label growth in the emerging markets, in Asia Pacific and in Latin America, all with low private label basic shares, whereas growth in markets with high private label penetration is declining, stagnant or little. Exceptions are Germany and Sweden.

This looks like there would exist a maximum penetration level of private label business opportunities. Classical private label countries like Great Britain (31% private label share) and Switzerland (38% private label share) show no or little growth rates.

The growth and possible future development of private label brands in a market therefore could be measured or forecasted by indicators like

- existing private label share of a country market
- development of macro economics (wealth)
- concentration of retail structure within a country market
- behavior of the leading retailers in a country or region (who is going to enter the retail segment in the specific market)
- advertising expenditure of national brands within a geographic region or country
- market size and by
- the quality-, brand- and price - consciousness of a population.

Eg. when strong private label players like Tesco, Carrefour, Ahold, etc. are entering an emerging market like Czech Republic it could be expected, that private label growth will increase enormously within the next few years.

When it comes to the distribution of private label shares by category, the lowest presence was estimated in categories where consumers are very quality conscious (eg. Baby formula, baby food) or in categories where manufacturers act with powerful brand strategies on a global scale. These brands usually are heavily advertised and represent enormous brand equity. Eg. carbonated beverages is a big category scored at rank 63 out of 80 in private label, but national brand manufacturers like Coca-Cola, Pepsi-Cola and Fanta prevent bigger private label share than 6%. The same situation can be found within the category beer (dominated by Budweiser, Heineken and many smaller local brands), where private label sales count for only 3%. Vice versa most private label shares can be found in categories where national brand manufacturers provide low advertising budgets.

Across categories there are similarities with the growth rates of country markets. The lesser developed categories show the strongest growth rates, even from a very low level. Complete ready meals and cooking oils represent big volume categories at high growth rates.

According the study private label brands were priced 31% lower in average than its national brand counterparts across all product categories and country markets. The price gap ranges from 50% in Poland to 10% in Hong Kong. There is not really a specific recognizable pattern or logic behind the price differences of private label brands and national brands when compared by country markets.

The price difference by product category may have some explainable reason.
In case there are more intensive research and development activities employed and/or when high advertising expenditures are involved, national brands generally may be priced more premium. Private labels brands on the other hand usually don't invest major budgets on R&D and generally they are advertised at lower budget levels. That suggests that categories with low R&D- and advertising investments show a smaller price gap than the product areas with higher investments.

There might be additional reasons why price gaps differ remarkable across nations and categories. Private labels basically were and are for economic reasons provided as low cost alternatives. Typically successful hard discount stores like Biedronka[98] from Poland and others use that low price private label tool. But more commonly retail chains offer their private label products at a premium price to manufacturer branded products. Eg. private label toilet care products showed an average 7% premium over the national brand products. Loblaws[99] has launched President's Choice as the premium private label brand. Delhaize, Carrefour, Ahold and Auchan also market premium high-quality private label products.

Biscuit and Confectionary in European countries show a lower average private label share than all cumulated product categories. In this category France declined by 5,6%, while the other European markets (UK, Belgium, Germany, Spain, Netherlands) experienced growth rates in 2003 versus a year ago in terms of volume. The growth rates in respect of value show a different picture. They were a lot smaller or even declining (United Kingdom by 1,1% and France 10,6%). This indicates that lower priced biscuit and confectionary items arrived on the market place during
2002 – 2003.

[98] Biedronka is a leading Polish discount chain owned by Jeronimo Martins from Portugal
[99] Loblaws is the leading Canadian retail chain

3.4. Analysis on global food retailers and manufacturers

3.4.1. The leading food retailers

(Number of Stores, Sales and Countries of Operation)

Rank	Company	No. of Stores	Sales in Billions USD	Countries of Operation
1	Wal-Mart Stores United States	5,164 (1)	$244.50	Argentina, Brazil, Canada, China, Germany, Japan, Mexico, Singapore, South Korea, United Kingdom, United States, Vietnam
2	Carrefour France	10,704	$64.70	Argentina, Belgium, Brazil, Chile, China, Colombia, Czech Republic, Dominican Republic, Egypt, France, Greece, Indonesia, Italy, Japan, Malaysia, Mexico, Oman, Poland, Portugal, Qatar, Romania, Singapore, Slovakia, South Korea, Spain, Switzerland, Taiwan, Thailand, Tunisia, Turkey, United States
3	Ahold Netherlands	9,407	$59.20	Argentina, Brazil, Chile, Costa Rica, Czech Republic, Denmark, Ecuador, El Salvador, Estonia, Guatemala, Honduras, Indonesia, Latvia, Lithuania, Malaysia, Netherlands, Nicaragua, Norway, Paraguay, Peru, Poland, Portugal, Slovakia, Spain, Sweden, Thailand, United States (2)
4	Kroger United States	3,667	$51.80	United States
5	Metro Germany	2,411	$48.50	Austria, Belgium, Bulgaria, China, Croatia, Czech Republic, Denmark, France, Germany, Greece, Hungary, India, Italy, Japan, Luxembourg, Morocco, Netherlands, Poland, Portugal, Romania, Russia, Slovakia, Spain, Switzerland, Turkey, United Kingdom, Ukraine, Vietnam
6	Tesco United Kingdom	2,294	$39.50	Czech Republic, Hungary, Ireland, Malaysia, Poland, Slovakia, South Korea, Taiwan, Thailand, United Kingdom, United States
7	Costco United States	400	$38.00	Canada, Japan, Mexico, South Korea, Taiwan, United Kingdom, United States
8	Albertsons United States	1,688	$35.60	United States
9	Rewe Zentrale Germany	12,077	$35.20	Austria, Bulgaria, Croatia, Czech Republic, France, Germany, Hungary, Italy, Poland, Romania, Slovakia, Ukraine
10	Aldi Germany	6,609	$33.7e[100]	Australia, Austria, Belgium, Denmark, France, Germany, Ireland, Luxembourg, Netherlands, Spain, United Kingdom, United States
11	Safeway United States	1,887	$32.40	Canada, United States
12	ITM Enterprises France	12,863	$31.5e	Belgium, Bosnia, France, Germany, Poland, Portugal, Romania, Spain
13	Ito-Yokado Japan	23,700	$27.2e	Australia, Canada, China, Japan, Malaysia, Mexico, Philippines, Spain, Taiwan, Thailand, Turkey, United States (3)
14	Edeka Germany	14,374	$27e	Austria, Czech Republic, Denmark, France, Germany, Poland
15	Auchan France	1,120	$25.90	Angola, Argentina, China, France, Hungary, Italy, Luxembourg, Mexico, Morocco, Poland, Portugal, Russia, Spain, Taiwan, United States
16	Sainsbury United	681	$25.9e	United Kingdom, United States

[100] e stands for estimated

	Kingdom			
17	Aeon Japan	8,120	$24.6e	Canada, Hong Kong, Japan, South Korea, Malaysia, Philippines, Thailand, United Kingdom, United States
18	Tengelmann Germany	7,015	$24.4e	Austria, Canada, China, Czech Republic, Germany, Hungary, Poland, Portugal, Slovakia, Slovenia, Spain, Switzerland, United States
19	Schwarz Group Germany	5,342	$21.6e	Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Netherlands, Norway, Poland, Portugal, Slovakia, Spain, Sweden, United Kingdom
20	Casino France	9,056	$21.5e	Argentina, Bahrain, Belgium, Brazil, Colombia, Comoros, France (incl. Reunion), Lebanon, Madagascar, Mauritius, Mexico, Netherlands, Poland, Taiwan, Thailand, Tunisia, Uruguay, United States, Venezuela, Vietnam
21	Delhaize Group Belgium	2,520	$19.40	Argentina, Bahrain, Belgium, Brazil, Colombia, Comoros, France (incl. Reunion), Lebanon, Madagascar, Mauritius, Mexico, Netherlands, Poland, Taiwan, Thailand, Tunisia, Uruguay, United States, Venezuela, Vietnam
22	Leclerc France	535	$19.2e	France, Italy, Poland, Portugal, Slovenia, Spain
23	Supervalu United States	1,220	$19.2	United States
24	Daiei Japan	4,086	$17.7e	China, Japan, United States
25	Publix United States	756	$15.90	United States

All figures are for the last financial year.
Table 13: The World Leading Food Retailers
Source: M+M Planet Retail (www.planetretail.net/16.10.2004)

3.4.1.1. Internationalization of major retailers

Retailers entering North America

	Canada	Mexico	USA
Ahold		P	
Albertson			
Aldi	P		
Auchan			F
Carrefour			F
Casino			
Costco			
Delhaize			
H.E.B.			
Kroger			
Loblaw			F
Sainsbury			
Safeway			
Tengelmann			
Wal-Mart			

Present

Failed F

Planned P

Figure : 3, Internationalization of major retailers
Source: www.corolis.com

Retailers entering Latin America

	Argentinia	Brazil	Chile	Columbia	El Salvador	Ecuador	Paraquay	Peru	Uruquay	Venezuela
Ahold										
Auchan										
Carrefour										
Casino										
D&S										
Jumbo										
Makro										
Sonae										
Unimarc										
Wal-Mart										

Retailers entering Eastern Europe

	Bulgaria	Croatia	Czech	Estonia	Hungary	Latvia	Lithuania	Poland	Romania	Slovakia	Slovenia
Ahold										P	
Aldi								P			
Auchan											
Carrefour									P		
Casino											
Costco											
Delhaize											
Edeka											
Intermarche											
Leclerc											
Lidl			P		P			P			
Metro		P									
Rewe	P	P									
Tengelmann											
Tesco											
Wal-Mart											

Retailers entering Australia and New Zealand

	Australia	New Zealand
Aldi		P
Coles Myer		F
Cost U Less		F
Dairy Farm	F	
Foodland		
Foodstuffs		
Metro (SA)		
Pick ´n Pay		
Woolworths AU		

Retailers entering Western Europe

	Austria	Bel/Lux	Denmark	France	Germany	Greece	Italy	Ireland	Netherlands	Norway	Portugal	Spain	Sweden	Switzerland	UK
Ahold			■						■	■	■	■	■		
Aldi	■	■	■	■	■			■	■						■
Auchan		■		■			■				■	■			
Carrefour		■		■	F	■	■				■	■		■	F
Casino															
Costco								P							■
Delhaize		■		F		■					F				
Edeka	■		■	■	■										
Intermarche		■		■	■						■	■			
Leclerc				■							■	■			
Lidl	■	■		■	■	■	■	■		P	■	■	P		■
Metro	■	■	■	■	■	■	■				■	■		■	■
Rewe	■	■		■	■		■								
Tengelmann	■				■				■		P	■			
Tesco				F											
Wal-Mart					■										■

Retailers entering Africa

	Angola	Botswana	Burundi	Kenya	Lesotho	Malawi	Mozambique	Namibia	Uganda	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe
Makro										■				
Metro(SA)	■	■		■	■	■	■	■	■	■	■	P	■	■
Pick ´n Pay		■						■		■		■		■
Shoprite		■				■	■	■	P	■		P	■	■
Spar		■		P				■		■				■
Woolworth										■				■

Retailers entering Asia

	China	Hong Kong	Indonesia	Japan	S. Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand
Ahold	F							F		
Auchan										F
Carrefour		F								
Casino							P			
Costco										
Delhaize										
Daiei										
Dairy Farm										
Jusco										
Makro					F					
Metro				P						
Seiyu										
Tesco	P			P		P				
Wal-Mart		F	F	P		P				

3.4.2. Global food manufacturers

Major global manufacturers have established their brands on a global scale.
They have developed global brand strategies long before the retailers began their internationalization processes. Therefore private label brands still have low market shares in emerging and in developing markets. Some of these big manufacturers have pioneered difficult markets by adapting product characteristics, packaging sizes, price categories and by appropriate communication policies.

Rank	Company	Total Food Sales in Billions
1	Nestle	46.6
2	Philip Morris (Kraft)	38.1
3	ConAgra	27.6
4	Unilever	26.7
5	PepsiCo, Inc	25.1
6	Archer Daniels Midland (ADM)	23.5
7	Tyson Foods Inc	23.4
8	Cargill	21.5
9	Coca-Cola	20.1
10	Mars	15.3

Table 14: Major Global Food Manufacturers
Source: BusinessWeek, August 2. 2004

4. Industry Outlook

4.1. Global retail development

The concentration process in retail is going to continue. International expansion allows retailers to grow both their top and bottom lines. In developed countries they face low growth - saturated home markets. Developed markets have low population growth, low consumption growth and low income growth compared with developing markets. Retailers with a strong position and strong competitors in their home market are going global to achieve growth. Retailers with strong private label programs make higher profits and are investing some of these profits in acquiring poorer performing competitors.

International growth works to leverage the leaders massive investments in world-class information systems. Eg. information technology has allowed Wal-Mart to decrease its inventory levels from 19.1% of sales to 11.3% of sales, freeing up working capital. Other retailers are acquiring and merging in an attempt to match Wal-Mart. These circumstance lead to faster developments in all aspects of companies.

The ongoing process of retail supermarket globalisation is occurring at different speeds in different regions. In many ways, North America, the region that invented the supermarket, has done the least to spread it worldwide. European retailers have been very successful globalizers, usually starting with the country next door.

South America has a fast developing supermarket sector that is quickly being consolidated by European chains. Much of the world’s growth in population, wealth and supermarket will occur in Asia. While South Africa offers a relatively stable gateway to the African continent, it has proved much less attractive than Asia or South America to global retailers. Australasia has produced some strong local chains but has not been a part of retail globalisation.

In Asia eg. only about 30% of food is purchased in supermarkets, all other shopping is done at various markets, wet-markets or is directly supplied by farms. It could be concluded, that in country markets where farming has a major share of the cross domestic product (usually developing and emerging markets) will be a target for global retailer's activities. Wherever global retailers arrive new country markets, the private label segment gets growing.

4.2. Private label growth development

Various economist and authors believe that private label brands will continue to grow and due to the increasing large retailer penetration cross European private label brands will establish. In total, there will be future growth in Europe and around the globe, but single *cross* European, *cross* Asian or *cross* American **private label brands** won't develop at remarkable figures.

The reason is that still differences in consumer behavior, taste and quality perception exists. A certain product category may be big in one country market but is rather small in the neighbor country and private label doesn't pay off. NAF[101] is a good example; while a private label brand called Rainbow Mignon Wafers is the leading item according ACNielsen data in Finland , the same product just would not sell in Sweden, Denmark or Norway.

The growth drivers of private label brands will come from the emerging markets, Asia Pacific and Latin American countries as this will become the battle ground for the global retailers. It could be expected that these countries level off with Europe and North America one day, and that provides enormous private label potential. Additional growth will emerge from higher quality premium private label entries in markets where private label brands are already well established.

[101] NAF is the leading Scandinavian coop, owned by major retail chains from Norway, Sweden, Finland and Denmark

5. Strategic Options

5.1. Theoretical background

Various authors and strategists have developed theoretical models in order to undertake industry analysis, to formulate business strategies and to translate company visions and strategies into implementation. A few theoretical models are being discussed hereafter.

5.1.1. Competitive Forces Model[102]

The Five Forces Model of Michael Porter[103] is an outside-in strategy tool that is used to make an analysis of the attractiveness of an industry structure. The Competitive Forces analysis is made by the identification of five fundamental competitive forces.

- The entry of competitors
  How easy or difficult is it for new entrants to start to compete, which barriers do exist?
- The threat of substitutes
  How easy can one's product or service be substituted, especially cheaper?
- The bargaining power of buyers
  How strong is the position of buyers, can they work together to order large volumes?
- The bargaining power of suppliers
  How strong is the position of sellers, are there many or only few potential suppliers, is there any monopoly?
- Rivalry among the existing players
  Is there strong competition between the existing players, is one player very dominant or all equal in strength and size?
- As a sixth factor could be added: government.

Porter's Competitive Forces model is probably one of the most often used business strategy tools. The model is particularly strong in thinking outside-in. Care should

[102] "Competitive Strategy: The structural analysis of industries", The Free Press, NY, 3-33
[103] Michael E. Porter is the Bishop William Lawrence University Professor, based at Harvard Business School. Professor Porter is a leading authority on competitive strategy and the competitiveness and economic development of nations, states, and regions.

therefore be taken not to underestimate or underemphasize the importance of the strengths of the organization (inside-out) when applying these five competitive forces framework of Porter.

From a value based management point of view, the Five Forces model can be seen as one of two dimensions in maximizing corporate value creation. The other value creation dimension is how well a company performs relatively towards it's competitors (Relative Competitive Position), for which two other Porter models are frequently used: The Value Chain framework and Porter's Competitive Advantage.

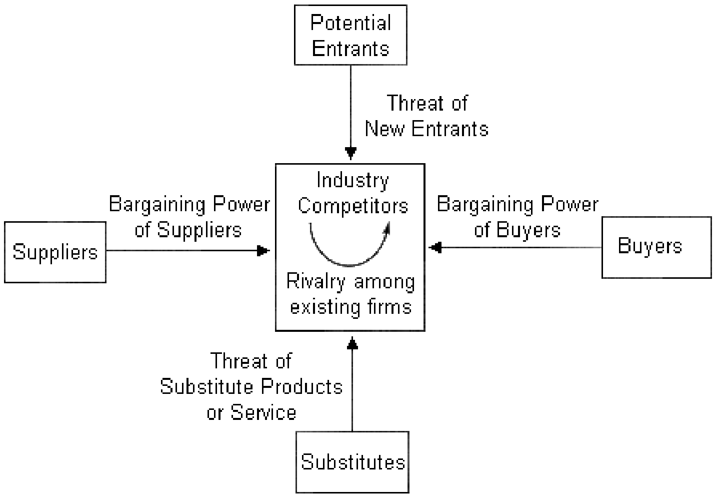

Figure: 4, Forces driving industry competition

Source: Michael Porter, Competitive Advantage, 4

5.1.2. Generic Competitive Strategies[104]

The Competitive Advantage model of Porter learns that competitive strategy is about taking offensive or defensive action to create a defendable position in an industry, in order to cope successfully with competitive forces and generate a superior return on investment. According to Michael Porter, the basis of above-average performance within an industry is sustainable competitive advantage. There are two basic types of competitive advantage:

- Cost leadership (low cost), and
- Differentiation.

Both can be more broadly approached or narrow, which results in the third viable competitive strategy: focus.

[104] "Competitive Strategy: The structural analysis of industries", The Free Press, NY, 35-46

Cost leadership: Is a firm that sets out to become the low cost producer in its industry. A cost leader must achieve parity or at least proximity in the bases of differentiation, even though it relies on cost leadership for it's competitive advantage. It is disastrous if more than one company aims for cost leadership. Cost leadership is often gained by economies of scale.

Differentiation: When a firm seeks to be unique in it's industry along some dimensions that are widely valued by buyers. A differentiator can not ignore it's position. In all areas that do not affect it's differentiation it should try to decrease cost. In the differentiation area the costs should at least be lower than the price premium it receives from the buyers. Examples of differentiation are the product, the distribution, sales, marketing, service, image, etc.

Focus: When a company sets out to be best in a segment or group of segments. The alternatives are cost focus and differentiation focus.

Stuck in the middle:

Usually a recipe for below-average profitability compared to the industry. Still attractive profit margins are possible if and as long as the industry as a whole is very attractive. Often it's a manifestation of lack of choice. It is especially risky for focusers that have been successful and then to loose their focus. They must seek for other niches rather then compromise their focus strategy.

5.1.3. Value Disciplines[105]

The Value Disciplines model of Michael Treacy[106] and Fred Wiersema[107] describes three generic value disciplines. According their model any company must choose one of these value disciplines and act upon it consistently and vigorously.

Operational Excellence: Superb operations and execution often by providing a reasonable quality at a very low price. The focus is on efficiency, streamlining operations, Supply Chain Management, no-frills, volume counts.

Product Leadership: Very strong in innovation and brand marketing, operating in dynamic markets. The focus is on development, innovation, design, time-to-market, high margins in a short timeframe.

Customer Intimacy: Excel in customer attention and customer service. Tailor their products and services to individual or almost individual customers. The focus is on

[105] "The discipline of market leaders", Perseus Books.
[106] Michael Treacy is a leading authority and lecturer on business strategy and corporate transformation.
[107] Fred Wiersema is founder of Ibex partners, specializing in strategic and management team alignment.

CRM, deliver products and services on time and above customer expectations, lifetime value concepts, reliability, being close to the customer.

Treacy and Wiersema argue that any company must choose to excel in one value discipline, where it aims to be the best – in the world preferably. This does not mean the other two dimensions should be completely neglected, but rather that the company should aim to be merely 'OK' in these other two disciplines.

5.1.4. Core Competence Model[108]

The core competence model of Gary Hamel[109] and C.K. Prahalad[110] is an inside-out corporate strategy model that starts the strategy process by thinking about the core strengths of an organization.

Where the outside-in approach such as Porter's five forces model places the market, the competition and the customer at the starting point of the strategy process, the core competence model does the opposite by stating that in the long run, competitiveness derives from an ability to build, at lower cost and more speedily than competitors, the core competencies that spawn unanticipated products. The real sources of advantage are to be found in the management's ability to consolidate corporate-wide technologies and production sills into competencies that empower the individual business to adapt quickly to changing circumstances. As core competence can be seen any combination of specific, inherent, integrated and applied knowledge, skills and attitudes. In an 1990 article "The Core Competence of the Corporation" Prahalad and Gary Hamel dismiss the portfolio perspective as a viable approach to corporate strategy. In their view, the primacy of the Strategic Business Unit is now clearly an anachronism. Hamel and Prahalad carry on to argue that a corporation should be built around a core of shared competencies.

Business units should use and help to further develop the core competence or core competencies. The corporate center should not be just another layer of accounting, but must add value by enunciating the strategic architecture that guides the competence acquisition process.

Three tests to identify a core competence are:

- Does it provide potential access to a wide variety of markets

[108] "The core competence of the corporation", Harvard Business Review 68 (May-June):71-91
[109] A visiting professor of strategic and international management in London Business School
[110] Professor at the graduate School of Business Administration, University of Michigan

- It should make a significant contribution to the perceived customer benefits of the end product(s), and
- a core competence should be difficult for competitors to imitate

Core competencies are built through a process of continuous improvement and enhancement. They should constitute the focus for corporate strategy. At this level, the goal to build leadership in the design and development of a particular class of product and functionality.

Once top management has identified an overarching core competence or core competencies, it must ask business to identify the projects and the people closely connected with them. Corporate auditors should direct an audit of the location, number and quality of the people who embody the core competence. Core competence carriers should be brought together frequently to trade notes and ideas.

Care must be taken not to let core competencies develop into core rigidities. Core competencies are difficult to learn, but are difficult to unlearn as well. Companies that shave pared no effort to achieve a competence, sometimes neglect new market circumstances or demands and find themselves locked in by choices made in the past.

5.1.5. Balanced Scorecard Method[111]

The balanced score card method of Robert S. Kaplan[112] and David P. Norton[113] is a strategic approach and performance management system that enables organizations to translate a company's vision and strategy into action by working from four perspectives:

- Financial Perspective
- Customer Perspective
- Business Process Perspective
- Learning and Growth Perspective

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[111] "The Balanced Scorecard : Translating Strategy into Action", (1996), Harvard Business School Press, Boston, MA, 272.

[112] Robert S. Kaplan is the Marvin Bower Professor of leadership development at Harvard Business School.
[113] David P. Norton is Co-Founder and President of the Balanced Scorecard Collaborative.

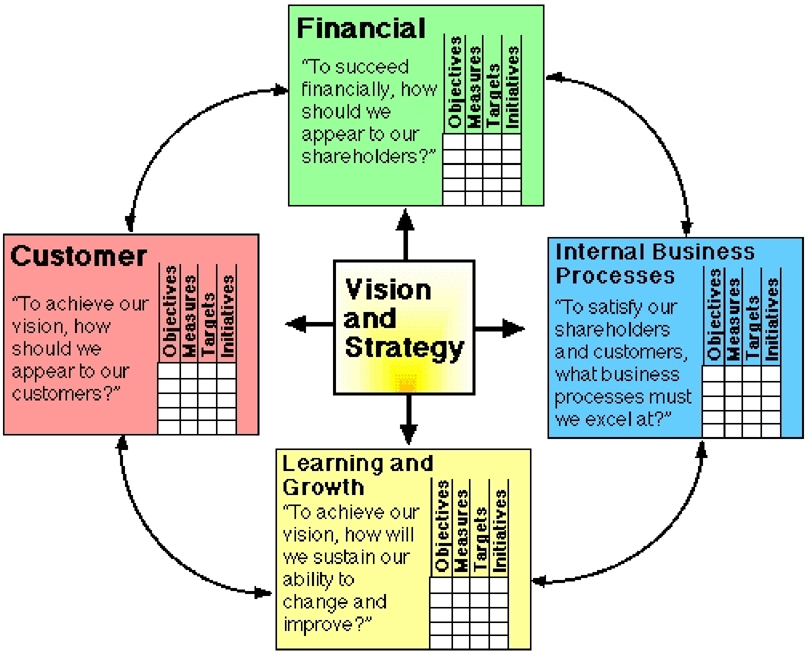


Figure: 5, Balanced Scorecard Method

Source: Robert S. Kaplan, David P. Norton – The Balanced Scorecard : Translating Strategy into Action, 1996, Harvard Business School Press, Boston, MA, 272.

Financial perspective:

Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on financials leads to the unbalanced situation with regard to other perspectives. There is perhaps a need to include additional financial-related data, such as risk assessment and cost-benefit data, in this category.

Customer perspective:

Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good. In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and kinds of processes for which the company is providing a product or service to those customer groups.

Business process perspective:

This refers to internal business processes. Metrics based on this perspective allow the managers to know how well their business is running and whether it's products and services conform to customer requirements. These metrics have to be carefully designed by those who know these processes most intimately. In addition to the strategic management process, two kinds of business processes may be identified: a) mission-oriented processes, and b) support processes. Mission-oriented processes are the special functions of government offices, and many unique problems are encountered in these processes. The support processes are more repetitive in nature, and hence easier to measure and benchmark using generic metrics.

Learning and growth perspective:

This includes employee training and corporate culture attitudes related to both individual and corporate self-improvement. In a knowledge-worker organization, people are the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in continuous learning mode. Government agencies often find themselves unable to hire new technical workers and at the same time are showing a decline in training of existing employees. Kaplan and Norton emphasize that learning is more than training, it also includes things like mentors and tutors within the organization, as well as that ease of communication among workers that allows them to readily get help on a problem when it is needed. It also includes technological tools such as an Intranet.

5.1.6. Strategies revisited

In the commentary by P.Rajan Varadarajan[114] strategy content and process were revisited by Jagdish N. Sheth and Rajendra S. Sisodia[115] (1999).

In reference to Porter's construal of generic competitive strategies and other strategy typologies they note that such frameworks, while simplifying the complex reality of strategic choices, are becoming less relevant as firms begin to disaggregate revenues and costs to the customer or account level. Regardless of whether Porter's

[114] Professor of marketing and guest professor of Business Administration of Texas A&M University.

[115] "Revisiting marketing's law like generalizations" Journal of the Academy of Marketing Science, Volume 27, no. 1, pages 92-94

generic strategies typology is likely to become less relevant in light of contextual discontinuities, as detailed in this section, scholarly and managerial interest in issues relating to competitive advantage, the key construct underlying the typology, is likely to be enduring.

In general, a business can strive to achieve a competitive cost advantage by leveraging its skills and resources to perform certain primary and support value chain activities at lower costs than its rivals. Alternatively, by leveraging its skills and resources to perform certain primary and support value chain activities to differentiate its offerings from competitor's offerings on attributes valued by customers, it can strive to achieve a competitive differentiation advantage. A business can pursue these strategic alternatives in the context of a broad target market or narrow target market. These broad competitive advantage (how to compete) and market scope (where to compete) related options suggest that the following generic competitive strategy alternatives are available to any business. Porter (1980) noted that a business that attempts to simultaneously strive to achieve both, a sustainable competitive cost advantage and differentiation advantage is unlikely to succeed and runs the risk of being stuck in the middle. In a more recent article, Porter (1996) reiterates his position on this issue and notes that a strategic position is not sustainable unless there are trade-offs with other positions. He states, in general, false trade-offs between cost and quality occur when there is redundant of wasted effort, poor control or accuracy, or weak coordination. Simultaneous improvement of cost and differentiation is possible only when a company begins far behind the productivity frontier or when the frontier shifts outward. At the frontier, where companies have achieved current best practice, the trade-off between cost and differentiation is very real indeed.

The question of whether a business would be better off being single-minded in its pursuit of either a competitive cost or competitive differentiation advantage, or whether simultaneous pursuit of both is feasible and a competitive imperative, has been and continues to be the focus of extensive academic discourse (M. Cronshaw, E. Davis, and J. Kay 1994[116]; Gregory J. Dess and Peter S. Davis 1984[117]; Denny

[116] "On being stuck in the middle or good food costs less at Sainsbury's", British Journal of Management
[117] "Porter's 1980 generic strategies as determinants of strategic group membership and organizational performance", Academy of Management Journal 27(September): 467 – 488.

Miller 1992[118]; James B. Quinn 1992[119]). This question merits being revisited in light of the equivocal nature of the conceptual arguments, empirical evidence, and philosophical arguments advanced in defense of competing perspectives, as well as recent contextual developments such as the dawn of mass customization.

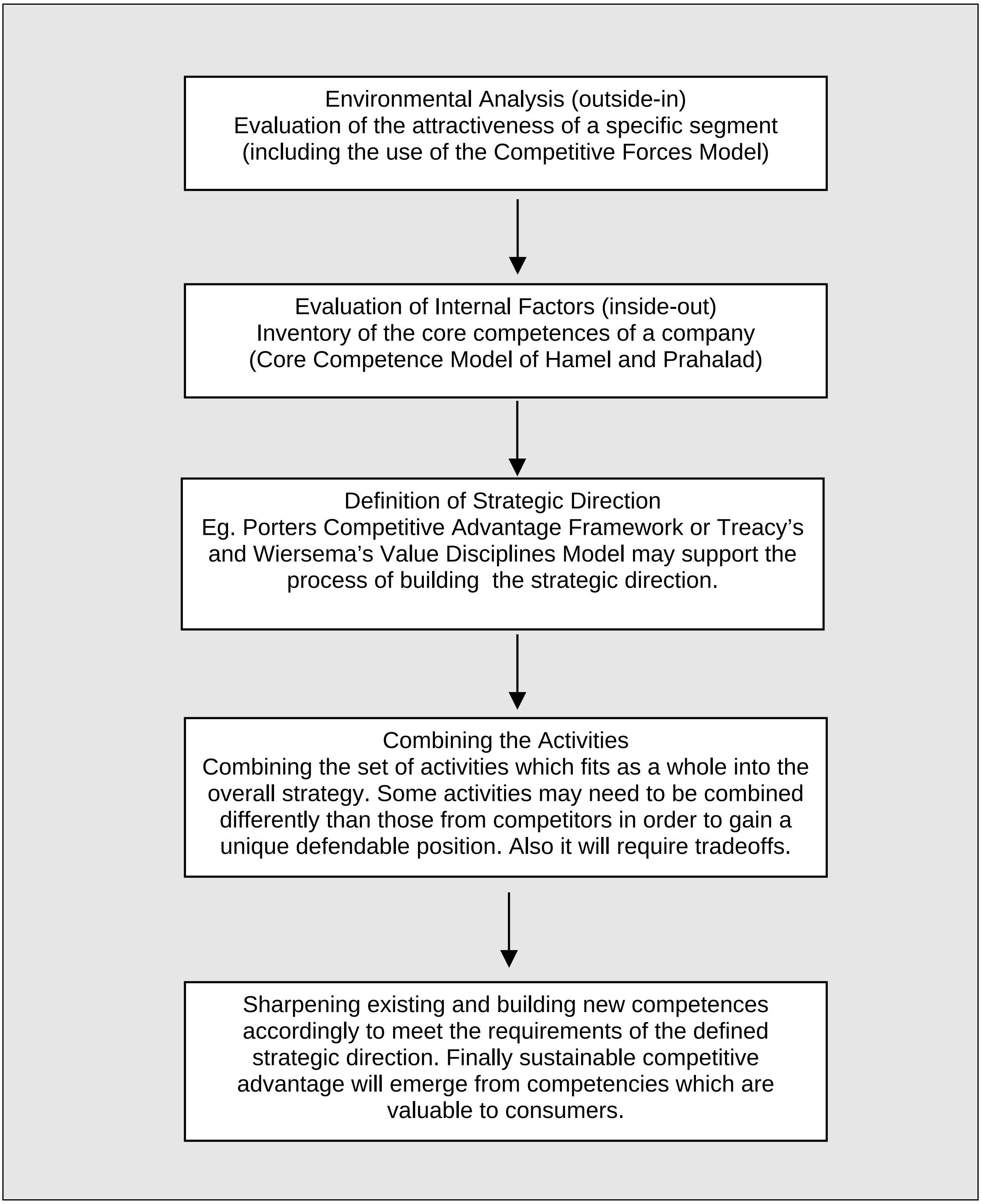
Dell[120] is an example which has a remarkable balance between the cost-saving efficiencies of mass production and the value-added process of customization. An order from follows each PC across the factory floor, starting from when the machine is nothing more than a metal chassis. Drivers, chips and boards are added according to the customer’s request.

Personal note: What else differentiates Dell from other computer manufacturers is that they introduced the direct distribution model. The trade-off exists in neglecting existing distribution channels and the possibility that customers can receive consultancy at their computer purchases from sales personal. On the other hand that trade-off provides lower costs of inventory and lower trade margins employed in the whole chain. Based on the value discipline model Dell is strong in all three dimensions but clearly uses trade-offs in order to reach his unique position.

[118] “The generic strategy trap”, Journal of Business Strategy 13(January-February): 37-41.
[119] “Intelligent Enterprise: A knowledge and service based paradigm for industry”, NY: Free Press
[120] Dell is a leading computer manufacturer based in Austin, Texas

5.2. Building alternative private label strategies

5.2.1. Roadmap for strategic architecture



5.2.2. Uncontrollable Condensed Environmental Factors

The attractiveness of segments

Basically the confectionary and biscuit industry could be segmented into categories such as

- Biscuits, Cookies
- Wafers, Wafer Snack Bars,
- Chocolate Bars, Chocolate Snake Bars
- and Chocolate Confectionary products

In order to develop specific analysis on the attractiveness of the above mentioned segments, Porters outside-in strategy tool, “The Five Forces Model”, which usually helps to analyze the attractiveness of entire industries could be used. The entry of competitors in a segment, the threat of substitutes, the bargaining power of buyers and suppliers, as well as the rivalry among the existing players need to be considered in order to target the right segment and choosing an appropriate strategy.

Global private label development

As mentioned previously in the analysis private label growth is expected to emerge from markets such as Japan, Asia Pacific, Latin America and the Emerging Markets, where the private label segment is still underdeveloped as well as from the premium segment in developed private label markets.

Global retailers

seek to intensify their internationalization processes into other world regions, preferably into China, Asia Pacific, Latin America and the Emerging Markets. While dealing with saturated markets at home they grow their presence in these markets in order to participate from growth and still unexploited or underdeveloped markets. Once gained a foothold in these markets they will introduce Private Label brands for the same reasons they did in their home markets – negotiation power, higher trade margins and channel control to reach higher profitability. Private labels in that cases will be used for an every day low cost option for consumers until markets have reached saturation.

Further environmental factors were discussed in depth in the previous empirical analysis (chapter 3, empirical analysis)

Global national brand manufacturer - behavior

Global brand manufacturers like Nestle, Kraft-Jacobs-Suchard, Master Foods, etc. generally don't produce private label brands (store brands). Bigger and mid sized regional brand manufacturers such as Ferrero, Cadbury, Stork[121], etc. are also reluctant to produce private label products. They focus to build their manufacturer brands within specific country markets. Smaller local manufacturers, even with a very strong national presence produce private label products (eg. Manner[122] Austria produces both; the Manner brands plus store brands). The reason for the production of private label brands may be the need of utilization of facilities (volume generation) and the pressure of retailers (relatively low bargaining power of the supplier).

In terms of product adaptation the global players behave differently.

Eg. Master Foods does differentiate the product for several markets. They use the same taste, packaging and brand policy in all world markets. An adaptation is limited to the different countries labeling requirements and adequate marketing efforts. Nestle eg. has a different approach. Many products are adapted carefully to the specific country market or region in both, in taste and brand building policy. During the internationalization process, Nestle often has acquired local manufacturers for market entry and market penetration.

5.2.3. Controllable internal factors

Most small and mid sized European manufacturers of biscuits and confectionary:

- are mainly privately owned,
- often lack bigger financial resources - even financially sound,
- seldom build global successful manufacturer brands,
- have usually relatively low marketing and advertising budgets,
- in average - operate on low overhead costs,
- focus on regional and national activities,

[121] Ferrero, Cadbury and Stork are manufacturers of chocolate products with main markets in Europe
[122] Manner is a local Austrian manufacturer of wafer-, biscuit- and chocolate products

- sometimes internationalize niche products by using alternative and/or very narrow trade channels,
- often own state of the art manufacturing facilities with low degree of utilization,
- have high production standards (ISO[123], IFS[124])
- are very flexible what regards the organizational structures and act on customer demand,
- they often employ a high innovation potential in product development and product adaptation
- and act in niches, where they need to be innovative and flexible

Evaluation of internal factors

Within every biscuit and confectionary manufacturing firm internal factors like facilities, infrastructure, embedded technologies, existing distribution channels, brands and patents must be considered to build the individual strategy. These are all important circumstances and things, but very important to shape the future is the competence of the company. Hamel and Prahalad describe a competence as a bundle of skills and technologies rather than a single discrete skill or technology.

Therefore the firm must make inventory of competencies and then evaluate which ones are “core” and which ones are “not core” to them.

According Hamel and Prahalad a “core” competence has to meet three tests to be considered as a “core competence”:

1. A *core* competence must make a disproportionate contribution to customer-perceived value.
2. To qualify as a *core* competence, a capability must also be competitively unique.
3. Extendability; in defining “core” competencies companies must work very hard to abstract away from the particular product configuration in which the competence is currently embedded, and imagine how the competence might be applied in new product arenas.

The as such identified “core competence” plays a central role in defining the strategic direction of the company and its private label approach.

[123] ISO – International organization for standardization
[124] IFS – International Food Standard

5.2.4. Definition of the strategic direction at a broader level

At this stage the company has to decide the basic strategic direction where they can gain a sustainable competitive position. According to Michael Porters Competitive Advantage Framework a company has to choose from the possibilities to become a Cost Leader or a Differentiator. When a company sets out to be the best in a segment, the alternatives are cost focus or differentiation focus.

Michael Treacy and Fred Wiersema recommend that a firm must decide at least one of the Value Disciplines (Operational Excellence, Product Leadership, Customer Intimacy). The pre-requests and detailed conditions were described in depth in the chapter Theoretical Background, paragraph 5.1.2 and paragraph 5.1.3..

The company's options of decision making may be limited by factors like the core competencies or competences and the environmental circumstances. Targeted markets, degree of automation and utilization, labor costs, background and culture of a company, play an important role. Eg. if European companies don't plan to build manufacturing plants in lower labor cost countries, they possibly may have difficulties to tend towards Cost Leadership or Operational Excellence.

When it comes to private label Customer Intimacy can become an interesting issue, as in private label projects the manufacturer and the retailer need to develop a very active information flow. More intensively than national brand manufacturers who try to get their items listed or promotional activities agreed. Therefore building a strong customer (retailer) relationship program might be a beneficial tool for this strategic direction.

The following chapter "Combining activities and key factors" stands as blueprint for a manufacturer from Western Europe who plans to use the private label business as an active access for an internationalization process. It provides examples of parameters not claiming of being complete.

5.2.5. Combining activities and key factors

Competitive strategy is about being different. It means deliberately choosing a different and tailored set of activities to deliver a unique mix of value. A sustainable unique position can be reached by an orchestrated combination of these activities and factors.

Strategic Alternatives and Activities for Small and Mid Sized European in using private label businesses as a tool for internationalisation:

<u>Selection of Activities and Factors</u>

Alternatives / Determinants	Strategic Alternative I	Strategic Alternative II
Basic strategic direction	**Cost leadership, operational excellence, focus**	**Differentiation, product leadership, focus on innovation**
Country markets, Regions	Country markets where global manufacturer brands have a strong presence and growth. Where the total private label share is still low, but shows high growth rates (eg. Asia pacific, emerging markets)	Markets with a developed private label business, where future growth will come from the premium segment (eg. UK, Belgium, Spain, France, Canada, Netherlands, USA, ect.)
Customers / Trade partners	Selected trade partners with a strong market position and who plan to introduce private labels in the near future. Preferably global retailers with private label experience. No hard discount retailers.	Trade partners who are prepared to enter the premium private label segment. These partners may seek to support their retail brand and plan to gain growth from value added products. No hard discount retailers.
Products / product range	Copying the strongest item(s) (single or very narrow range) from a global brand manufacturer who has a remarkable big market share in "all" targeted markets. For larger geographical reach the product has to have a high value/volume relation = low logistic costs related to product value.	Products where production and development competences exist within the company. Market specific products where value can be added by using refined ingredients, recipes and corresponding packaging.
Price level	Retail purchase is targeted to be 30 – 40% below the original branded product. Retail sales price depending on the retailer's policy – in average 29% - 30% below the original manufacturer brands (see analysis; chapter 3.1.3. key findings)	Retail purchase may be offered roughly 10% - 15% below branded products. Retail sales price will rank somewhere in the average premium segment and slightly above.

Advertising, Promotion	Advertising and promotion budgets are kept very low or at cero. Advertising and promotion has to be carried out by retailers. (Brand image of Private Label)	Advertising and promotion is provided by und under control of the retailer (it is a retail item). They usually create store (umbrella -) brand to be advertised.
Distribution	Distribution must be kept very simple. Factory – Retailer-Consumer. Now intermediaries or alternative channels than the targeted food retailers.	Distribution network is built along major retailers. No intermediaries. Agreeing exclusivity with a major player on a market might enhance the loyalty of the trade partner and facilitate market entry.
Management / Organization	Lean management and organization structure.	Management creates an organizational environment that enables product and production innovation.
Research & Development	Low budgets, the R&D activities are limited to product copies and are focused on facilities to reach most efficient production processes.	More intensive R&D, the target is to provide innovative premium products for private label brands. Market specific tastes need to be considered and translated into premium products. Unique products and production processes are being patented.
Production / Facilities	Production facilities need to be adapted specifically for the production process of the targeted item(s). No frills, the production lines are state of the art in order to produce the one (or very few) items most effective.	Production processes and facilities need to be flexible. The output per item will be lower but should be at least of average efficiency. Unique production machines are patented.
Time to market	Several markets need to be attacked at a time (parallel approach) as highest possible economies of scale need to be gained as soon as possible.	A role out is undertaken market by market. (by sequences). Launch on market A, when successfully approached launch on market B follows, and so forth.
Trade - Offs	Avoid the enlargement of the product range. Don't enter mature private label markets. No brand will be developed from the manufacturer. No frills.	No own brand development,. Avoid underdeveloped markets as private labels will be used to create lower priced alternatives to national brands unless the market has reached a certain degree of saturation.
Financials	It will depending on the facilities in place, but generally the financial efforts would be seen as relatively low.	Cash demand will be slightly higher than for alternative I and will be needed for R&D budgets. Investments in facilities will be lower than for alternative I.

According to Michael Porter "What is Strategy", is the essence of strategy by choosing to perform activities different than rivals do. Strategic positions can be based on customers' needs, customers' accessibility, or the variety of a company's products or service. Trade-offs are essential to strategy. They create the need for choice and purposefully limit what a company offers. While operational effectiveness is about achieving
excellence in individual activities, or functions, strategy is about combining activities. Strategic Fit locks out imitators by creating a chain that is as strong as its strongest link.[125]

[125] Michael Porter, Harvard Business Review, November-December 1996, page 64 -70

Combination of Activities for Strategic Alternative I

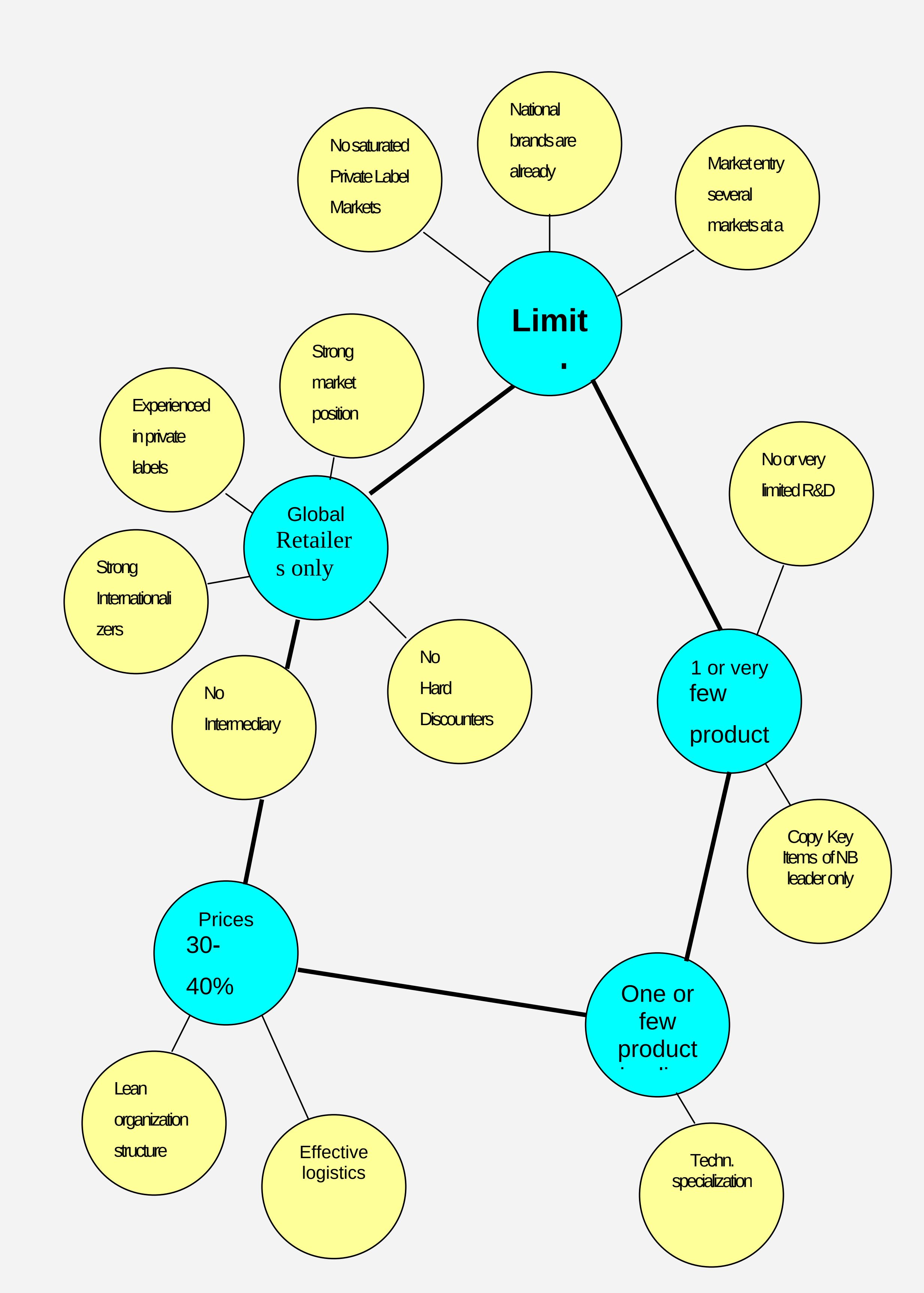


Figure: 6, Combination of Activities for Strategic Alternative I

Combination of Activities for Strategic Alternative II

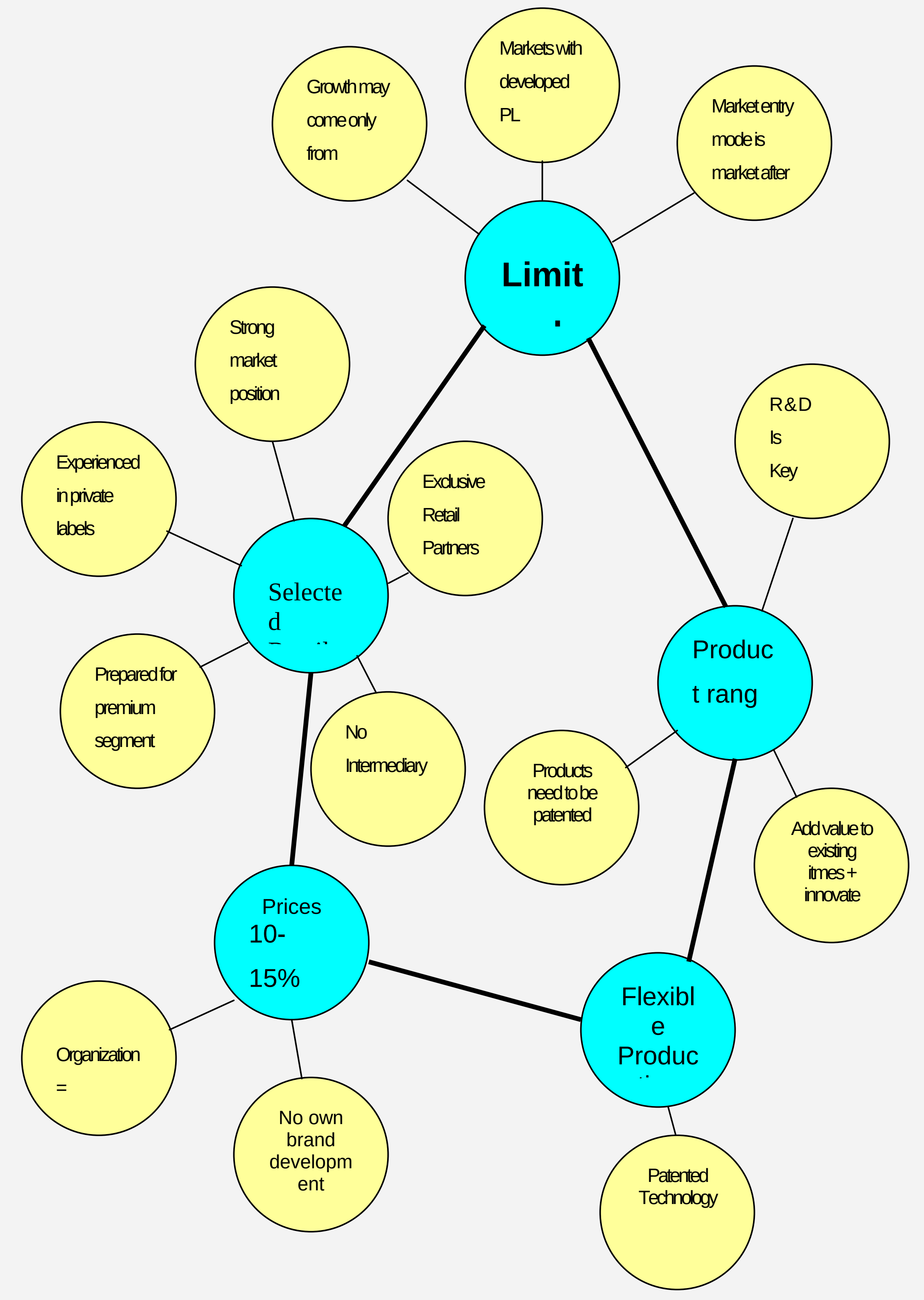


Figure: 7, Combination of the Activities for Strategic Alternative II

5.3.1. Example for strategic alternative I

Masterfoods has been identified as one of the world leading manufacturers of biscuits and confectionary products in the previous analysis. They run products like Mars, Bounty, Snickers[126], etc. globally by using exactly the same recipe on all world markets.
The worldwide organization structure of Masterfoods requires relatively high overhead costs as well as enormous marketing budgets for their mono-brand policy. A mid sized manufacturer with the same efficient production lines would safe somewhat 30% - 40% on overhead and marketing costs calculated top-down from retail purchase price.

The small or mid sized manufacturer now can identify through Nielsen – data the development of these Masterfood brands especially in the developing markets where significant growth rates are being reached and follow the internationalization path of the global retailers. After evaluation of country markets and the brand shares the company might be able to choose the most attractive country markets as well as the ideal brand to copy and offers ***actively*** a private label policy to these global retail market entrants. Most importantly it reaches a first mover effect in the private label category in order to capture the second market position.
By targeting several country markets within a relatively short time frame with one or only a view items (market plus product concentration), the small or mid sized company might be able to gain high efficiency in its production processes and will be able to offer these product(s) at a very attractive price points for the retailers private label strategy. Gaining large volumes and high effective production within a short period is key.
For the reason of almost zero marketing -, research and development costs and the lean organization, a smaller manufacturer can provide private labels actively at 30% - 40% lower cost than the national brand manufacturer can. The brand strategy will be carried by the retailer. Now it could be argued that once the private label product is successfully introduced to the market, the retailer might invite further

[126] Mars, Bounty and Snickers are branded chocolate bars from Masterfoods

manufacturers to offer these private label products in order to gain higher profits. These negotiation processes usually take place.

That's why it is important to target several selected markets at a time with a very tight product range or even a single product in order to gain relevant effectiveness, profitability and to defend the competitive position.

5.3.2. Example for strategic alternative II

Whereas starting the evaluation process from competitor and market point of view in strategic alternative I (outside-in), strategic alternative II starts from the competences of the company (inside-out).

A mid sized European manufacturer, lets say produces wafers for local and some export markets. The competences are innovation and flexibility in order to respond to different market demands effectively.

In chapter 3.1.6. (pricing trends) it has been stated that beside the developing markets where private labels provide an economical option, growth will emerge from the premium segment in developed private label markets mainly. Retailers such as Delhaize, Carrefour, Loblaws, Auchan, Ahold and others carry private label products that are priced at a premium and are marketed as premium, high quality products.

This situation allows innovative smaller companies to launch products in developed private label export markets without the need of heavy advertising campaigns and the related marketing budgets.

Our producer of wafers can eg. ride the wave of increasing health consciousness in the developed markets. The healthier products must taste great but the additional message is "good for you". Wafers could be produced with real fruit crème fillings or fruit toppings. "Real Fruit" usually is perceived as healthy.

When products are developed and tested at the targeted market, they need to be patented – as far as new aspects are employed.

The key for this strategic alternative is "innovation". Market related factors combined with the innovation potential of the company allows to create value added and unique products for the relevant targeted markets.

Eg. the Canadian retailer Loblaws with its Headquarters in Toronto carries already premium wafers under the retail brand "Presidents Choice" successfully. This and further retailers must be targeted with innovations of the firm. Taste and packaging have to be adapted to the relevant market demands.

Competitors could be locked out by the set of combined activities and by patented products and production processes. When innovative products fit into the premium private label line of retailers, negotiations between manufacturers and retailers are not limited to pricing issues any more.

5.4. Sharpening existing and building new core competences

In chapter 5.2.3. the existing core competences were identified in order to evaluate the fundamental factors on which the strategic direction can be built. According to Hamel and Prahalad a company's competence-building agenda is determined by its strategic architecture, a competence-product matrix is often useful in setting specific competence acquisition and deployment goals. The matrix distinguishes between existing and new competences, and between existing and new product-markets. The following figures shows a possibility how a core competence agenda can be established.

Core Competencies	Market: Existing	Market: New
New	What new core competencies will we need to build to protect and extend our franchise in current markets?	What new core competencies would we need to build to participate in the most exciting markets of the future ?
Existing	What is the oppor-tunity to improve our position in existing markets by better leveraging our existing core competencies?	What new products or services could we create by creatively redeploying or recombining our current core competencies?

Table: 15, Establishing a Core Competence Agenda

Source: Hamel/Prahalad, Competing for the future, p. 250

An example of what new competences for new markets could be built for the discussed strategic alternative I ?

- Building effective market research tools to identify the most promising markets and customers within the shortest possible time accurately on a global scale.
- Know-How about analysis of products to be copied and redesigned in a no frill low cost production environment.
- Management skills how to approach several targeted markets at a time.

An example of which new competences for new markets could be built for the discussed strategic alternative II ?

- Development of an integrated “Marketing-R&D-Unit” which generates and combines information about where and how to create value added premium products which represent real value to consumer and trade partners.
- Strengthening a technical unit which is able to respond to the requirement of outstanding products by internally special developed production technologies.

These are rather competences than core competences because a core competence emerges from the deepest roots of a company.

6. Limitations

While the analysis may be useful for every single company within the industry, the strategic approach is dedicated to the segment of typical smaller and mid sized European manufacturers rather than to an individual firm. Therefore many issues were discussed in a broader sense than on detailed determinants. Examples are limited to suggestions. In some stages company specific analysis would have been necessary in order to create a tailored and unique strategic approach which could lead to a successful implementation. These detailed components had been given up in order to provide a wider view from various perspectives. The described aspects should be representative for the mentioned segment of companies within the biscuit- and confectionary industry and can not be a case study for a specific company.

7. Conclusion

Private label brands have experienced over average growth rates during the previous decades in developed grocery retail markets like North America and Western Europe. In the past they were every day low cost alternatives to national brands and provided higher margins and better channel control for retailers. During the years consumers got familiar with private label - retail brands. In these developed retail markets growth is going to slow down compared to previous decades.

In Asian Pacific Countries, the Emerging Markets and Latin America it is a different story. They have a far less developed private label market. In each of these three less developed regions, less than 5% of sales value was accounted for by private label brands, but growth in the last year was over 20%. In Japan private label share is only 4%, but growth rate is 23% versus year ago.

Very interesting and new is, that major growth in the developed and mature private label markets emerges from premium quality and premium priced products.

The defined problem is **"**how small and mid sized manufacturers of biscuits and confectionary from Western Europe can deal with the private label issue – can these companies participate from the private label trends and can they make use for their internationalisation processes"? The answer is Yes!

Corolis[127] Research Ltd., a strategic market research firm, based in Auckland, New Zealand and specialized in the global grocery industry, stated that retailers with strong private label programs make higher profits and are investing some of these profits in acquiring poorer performing competitors and in their retail globalization. These figures were sourced from various retailers annual reports and interviews.

The big retailers mainly from Europe and some from North America have entered or plan to enter the growth markets (Emerging markets, Asia Pacific and Latin America). This means that these are the main players to deal with once a manufacturer decides to enter foreign growth markets or developed mature country markets regardless if manufacturer brands or private label.

[127] Corolis market search firm, www.corolisresearch.com, 15.12.2004, 19:34

When evaluating the discussed strategies there exist trends which support the approaches, others influence them negatively.

Trends which support strategic alternative I

- the global retailers enter the growing country markets and start private label programs as low cost alternative.
- these retailers are used to run private label programs.
- the grocery retail industry is changing in these nations (global companies enter the market, small local companies disappear from market place)
- retail concentration leads to higher private label penetration
- retailers avoid intermediaries in private label businesses

Trends which don't support strategic alternative I

- beside the European emerging markets the retailers enter markets in Far East and Latin America, which could create logistical problems – therefore the development of factories in the targeted regions could be necessary.
- building factories in these regions means adequate financial and organizational efforts.
- retailers permanently seek cost reductions. If manufacturers can not reach cost leadership as planned, their financial efforts may be in jeopardy (eg. don't succeed on all planned markets at a time, organizational problems, etc.).

Trends which support strategic alternative II

- private label growth in developed markets comes at least partly from the premium segment
- private label know how is already well established from retailers.
- the market know how of local retailers may influence the R&D activities of the manufacturer positively.
- Premium consumer prices allow manufacturers also somewhat higher margins when products create perceived value for consumers.
- Retailers provide marketing and distribution at their own. It may happen that these marketing and distribution efforts are of higher market conformity than a foreign small or mid sized manufacturer could offer.

- Increasing value added private labels is one of the view means of achieving sales and profit growth in a highly concentrated market.

Trends which don't support strategic alternative II

- retailers acquire market share from the premium segment by own retailer brands. Therefore a manufacturer brand approach in the future will become more difficult as the developed value added products already support the value of retailer brands.

In general whether tending towards strategic alternative I or alternative II, or any other strategic direction, which very much depends on the background and the goals of the small and mid sized European manufacturer, private label may be a very good option for foreign market entries, because a manufacturer must objectively assess whether its brand which often has no meaning overseas and is difficult to build will succeed against rivals and private labels on the foreign market or not. Additional export businesses increase sales and plant efficiencies which could become an effective weapon in the competitive arsenal of the manufacturer.

For a home market it may be different. When manufacturer brands are well established and competitive against other manufacturer brands and existing private labels, an additional private label strategy might cause disadvantages. Margins may decrease, its hard to keep product or packaging innovations from retailers and the final question is "can you serve two masters"?

"Private brands separate the quick from the dead"

Mark Husson, Analyst, JP Morgan

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