International Journal of Applied Research 2016; 2(4): 311-313

ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2016; 2(4): 311-313
www.allresearchjournal.com
Received: 05-03-2016
Accepted: 02-04-2016

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Private labels – A threat for manufacturer brands

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Abstract
Private labels are becoming a preferred choice of many consumers over manufacturer brands. Private labels are slowly establishing themselves in the market because of price-sensitive consumers who are wary of wasting money on manufacturer brands. Private labels are also gaining acceptance among many consumers who perceive to receive the same or sometimes superior quality and performance from private labels than from manufacturer brands. The paper discusses the roles of private labels in the market, different characteristics of private labels, threats posed by private labels for manufacturer brands, and the strategies which manufacturer brands might adopt to compete against private labels.

Keywords: private label, manufacturer brand, customer loyalty, value proposition

1. Introduction
Private label brands are gaining acceptance among consumers rapidly (Singer, 2010) [6]. Several manufacturers of established brands in the market have started noticing the ascendance of private labels among consumers. There are many instances where private labels are more preferred by consumers than established brands (York, 2009) [8]. Wal-Mart's Ol'Roy dog food has become the top-selling brand of dog chow overcoming Nestle's established and venerable Purina brand (Hyman *et al*., 2010) [3]. A large proportion of ceiling fans sold in the United States is from Home Depot and most of those are its own Hampton Bay brand (Ailawadi and Harlam, 2004) [1]. *Consumer Reports* suggests that consumers in the United States are rating Winn-Dixie supermarket's chocolate ice-cream ahead of brand name Breyer's (Singer, 2010) [6]. Grocery giant Kroger of the United States sells 4300 of its own-label food and drink items from the 41 factories it owns and operates. Researchers believe that private label brands will be tough competitors for established brands because consumers prefer certain national brands and private label brands for many product categories (Singer, 2010) [6].

2. Private Labels
A private label brand (also called a reseller, store, house, or distributor brand) is a brand that retailers and wholesalers develop (Ailawadi and Harlam, 2004) [1]. There are many retailers such as Big Bazaar and Shoppers' Stop of India who sell many products under their own or other private labels.
For many manufacturers, retailers can be both collaborators and competitors. According to the Private Label Manufacturers' Association, store brands now account for one of every five items sold in U.S. supermarkets, drug chains, and mass merchandisers. 41 percent of U.S. shoppers now describe themselves as frequent store-brand buyers, up from 36 percent just five years ago. Store brands were a $65 billion business at retail in 2006 (York, 2009) [8]. AC Nielsen reports that 72 percent of shoppers consider that national brands are worth the extra cost. 68 percent of shoppers also believe that private labels provide an extremely good value when compared with established brands (Hyman *et al*., 2010) [3].

2.1 Roles of Private Label Brands
Intermediaries sponsor their brands for various reasons. There are manufacturers with excess capacity. These manufacturers are targeted by intermediaries to produce the private label at a low cost. Several other costs, such as research and development, advertising, sales promotion, and physical distribution are also much lower. This enables the intermediaries to sell the private labels at a lower price and also generate a higher profit margin at the same time. Retailers are able to differentiate themselves from competitors and established brands

with the help of exclusive store brands. Many consumers prefer store brands in certain product categories.
Some retailers prefer a “no branding” strategy for certain staple consumer goods and pharmaceuticals. Carrefours, the originator of the French hypermarket, introduced a line of “no brands” or generics in its stores in the early 1970s. A Japanese retailer, Mujirushi Ryohin has taken Carrefours’ strategy further by successfully defining its stores with the no-brand concept (Felding, 2006) [2].

2.2 Threat of Private Labels
Retailers have many advantages and increasing market power based on manufacturers’ private labels. So, retailers give more importance to their own brands. Shelf space for display in any supermarket is always scarce. New brands need to pay a slotting fee to the supermarkets to get displayed. This slotting fee covers the cost for accepting a new brand, to cover the cost of listing and stocking it. Retailers also charge a special display space and in-store advertising space for new brands. Retailers always want that their private label brands should get more prominence than other brands. So, they typically give more prominent display to their own brands and make sure that are well-stocked. Retailers are promoting their private label brands very aggressively. They are building better quality into their store brands and are emphasizing attractive packaging. Some retailers are even advertising aggressively (Kumar, 2007) [4].
The gradual importance of private label brands is not the only factor weakening the national brands. Most of the consumers in the age of recession are price-sensitive. In general, private label brands have a lower price than established brands. So, price-sensitive consumers prefer to go for private label brands. Competing manufacturers and national retailers copy and duplicate the qualities of the best brands. Availability of coupons, discounts, and price specials has also made consumers highly price-sensitive. The fact that the companies have reduced advertising to 30 percent of their total promotion budget has sometimes weakened their brand equity (Reyes, 2006) [5]. A steady stream of brand extensions and line extensions has blurred brand identity at times and led to a confusing amount of product proliferation.

3. Strategies to fight Private Labels
Companies are realizing that consumers are giving more and more importance to private labels than to established brands. To maintain the market for established brands, companies with leading brands are investing significantly in research and development to bring out new brands, line extensions, features, and quality improvements. This might help the established brands to stay a step ahead of the store brands. They are also investing in strong “pull” advertising programs to maintain high consumer brand recognition and preference. This might overcome the in-store marketing advantage that private labels enjoy. Companies are trying to reduce the various costs associated with brands. They are partnering with major mass distributors in a joint search for logistical economics and competitive strategies that produce savings. This reduction of unnecessary costs allows companies to increase profit margins. However, the brands may not exceed the value perceptions of consumers (Steenkamp and Kumar, 2009) [7].
Discussions already provided, emphasize the roles of private labels, threats private labels are generating for established brands, and the measures companies of established brands might take to safeguard themselves from private labels. The following sections deal with the characteristics of private labels and the specific strategies companies might adopt to protect their established brands.

4. Characteristics of Private Labels
Researchers (Steenkamp and Kumar, 2009) [7] identified some characteristics of private label brands. They have also suggested strategies to manufacturer brands for fighting the private labels. Some of the characteristics of private labels are mentioned below.

Ubiquitous Nature of Private Labels
Private labels are present for almost all product categories. They are present in over 95 percent of consumer-packaged goods categories. Their presence is also prevalent in a variety of other industries, from apparel to books, and from financial services to pharmaceuticals (Reyes, 2006) [5].

Acceptance of Private Labels by Consumers
Two-thirds of consumers around the world believe that supermarket-owned brands are a good alternative to other brands. They believe that for the same product quality and performance, private labels are available at a lower price than established brands (Steenkamp and Kumar, 2009) [7]. Consumers consider that it is smart shopping to purchase private label products than to go for high priced manufacturer brands (Kumar, 2007) [4].

Knowledge of Consumers about Private Labels
Initially, consumers were attracted towards private labels because of recession. However, during the usage of private labels consumers have experienced that private labels have improved quality and performance. For these reasons, most of the consumers have remained loyal to the private labels even after the recession is over and their necessity to save money is over.

Consumer Loyalty towards Private Labels
Repeat usage has made customers loyal towards private labels. Moreover, many customers are shifting their loyalty from manufacturer brands to private labels.

Profit Flow from Manufacturer Brands to Private Labels
Customer loyalty towards private labels is hurting the profit margins of established brands and at the same time increasing the profit margins and the market shares for private labels. Between 1996 and 2003, retailers gained five share points of the combined manufacturer and retailer profit pool and more than 50 percent of the system profit growth (Steenkamp and Kumar, 2009) [7].

5. Strategies for Manufacturer Brands
Steenkamp and Kumar (2009) [7] suggest that companies of established brands need to accept the new realities and respond accordingly. They offer some strategic recommendations to compete against or collaborate with the private labels.
Manufacturer brands should investigate whether it is possible to convince and win against private labels by offering superior value to the customers, retailers, and shareholders. This is especially applicable where the brand is one or two in the category or occupying a premium niche position.
There may be situations where direct confrontation with private labels is not advisable. Direct confrontation may hurt the image of the manufacturer brands. In those cases,

manufacturer brands may partner with retailers through strategies which might be beneficial for both the manufacturer and the retailer. This will result in a long-term win-win relationship for both the parties.

Manufacturers need to innovate faster than private labels. Consumers may become impressed with the incremental innovation in products provided by the manufacturers. At the same time, launching of new brands for existing products and new brands for new products should be aimed at by manufacturers at specific intervals.

Manufacturers need to convince customers about the superior value propositions provided by their brands as compared to that provided by private labels. Too many manufacturer brands with almost similar quality and performance but offered at higher prices than private labels have motivated consumers to move their loyalty towards private labels. So, in addition to offering a winning value proposition, pricing needs to be monitored closely by manufacturers to ensure that perceived benefits are equal to the price premium.

6. Conclusion

Private labels have become an important competitor for manufacturer brands over the last few years. The paper discussed and analyzed the causes of the acceptance of private labels by various consumers, threats posed by private labels to manufacturer brands, and the strategies manufacturer brands may adopt to compete against private labels. As more and more consumers are becoming price-sensitive, consumers are favoring private label brands over manufacturer brands. Manufacturers need to be aware about the private label brands in the product categories offered by them, develop strategies to compete against private label brands, and ensure long-term success in the market.

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