

Private Labels: A Changing Perspective in Indian Retailing

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Abstract: As interest in own brand continues to mount, FMCG manufacturers are responding by developing ranges or a brand hierarchy which closely follows that currently going on within the own brand landscape. In emerging markets, smaller, value pack sizes have been successfully leveraged to recruit a wider spectrum of shoppers

The power of private labels is being explored by most retailers today as they do not want to be at the mercy of the big manufacturers. Private labels are generally introduced to get higher gross margins from branded products. They also place the retailer at an advantage over the branded FMCG players who have historically been arrogant with the retailers.

Decision making in a Private Label strategy is neither easy nor generic. It requires high customization in each country, region and category. The diversity of decision making in Private Label operations may vary from 'Why' to 'Why not', In the Indian context too we need to ask both these questions.

Keywords: Private labels, Store brands, retail mix strategy, retailing, and customer loyalty.

I. INTRODUCTION

The Indian consumer market has higher disposable income, the development of modern urban life style and increase in consumer awareness have affected by buyer behaviour in cities, town, even rural areas. According to the 2007 report by McKinsey & company, India is set to grow into the fifth largest consumer market in the world by 2025. In this scenario, creating customer loyalty is now a whole new challenge. These demographic shifts have also created the need for leader who can keep pace with change and identify with and predict future demand. As the customer goes through a channel of process before deciding upon the purchase it becomes necessary to study the factors and reasons behind this behaviour. The fast moving consumer goods (FMCG) sector contributes a lot to the growth of India's GDP. Therefore it is necessary to identify the changes in consumer buying behaviour towards FMCG products.

II. INDIAN MARKET SCENARIO

Currently in India, the national economy and marketplace are undergoing rapid changes and transformation. A large number of reasons could be attributed to these changes. One of the reasons in these changes in the Indian Market Scenario is Globalization resulting in explosive growth of global trade and the international competition. In the Indian Marketing Scenario, the market success goes to those companies that are best matched to the current environmental imperatives. Those companies that can deliver what the people want and can delight the Indian customers are the market leaders. The Indian FMCG sector with a market size of US\$13.1 billion is the fourth largest sector in the economy. A well established distribution network with an intense competition between the organized and unorganized segments characterizes the sector. FMCG Sector is expected to grow by over 60% by 2010 and estimated to grow from US\$ 30 billion in 2011 to US\$ 74 billion in 2018.

III. PRIVATE LABELS

With the emergence of strong retailers, private label brands, also called own brands, or store brands, also emerged as a major factor in the marketplace. Where the retailer has a particularly strong identity, this "own brand" may be able to compete against even the strongest brand leaders, and may outperform those products that are not otherwise strongly branded.

Definition: Brand owned and sold by the retailer and distributed by the retailer.

Also Known As: store brands, private label branding, private-label goods

Common Misspellings: private labels

Examples: A bottle of Kroger's Favorite ketchup is made by the name brand company Red Gold and labeled with the grocer's name

Meaning of Private Labels:

Private label products or services are typically those manufactured or provided by one company for offer under another company's brand. Private label goods and services are available in a wide range of industries from food to cosmetics to web hosting. They are often positioned as lower cost alternatives to regional, national or international brands, although recently some private label brands have been positioned as "premium" brands to compete with existing "name" brands.

For example: Some of the famous Indian Private labels are Clean mate, Tasty Treat, Care mate, Jade Blue, Food Bazaar by pantaloons India Ltd , Mochi ka Juta etc



Source: www.fbnnews.com: the family comparing products during shopping

IV. THESE PRIVATE LABELS ARE GIVING A TOUGH FIGHT TO ESTABLISHED BRANDS BECAUSE OF FOLLOWING KEY POINTS SPECIFICALLY IN FMCG SECTOR

- Low cost of promotion
- Large amount of outsourcing specifically in manufacturing
- Retail stores are acting as the brands
- No separate promotion is required for brand line the umbrella brand itself act as the brand promoter.
- Cost effectiveness increases as the cost of production and cost of promotion is low
- Distribution cycle is smaller as the middle men are reduced
- Impulse buying increases due to shelf space utilization

V. PRIVATE-LABEL SHARE IS EXPECTED TO DOUBLE TO 50 PERCENT BY 2025

Private label is a push market. It is predominantly driven by food retailers. The main bottleneck for growth has been the economies of scale required for economically viable production levels. Private-label share is positively correlated to concentration levels in food retail. On the basis of assumptions for autonomous growth and consolidation in food retail by 2015 and 2025, we come to an estimated share for private label of 50 percent by 2025. Compared to the current level of 25 percent, this entails that private label market share is set to double in the coming 15 years.

The Role of A-brands Gains Importance:

A-brands are expected to hold on to their market position. Neither retailers nor consumers can do without these reference products. Consumers need brands to benchmark the price competitiveness of their supermarket. Food retailers need the A-brand as the price and quality anchor for each product category. Competing fiercely with A-brands on price would result in lower retail selling prices for private label and would cut into the overall category profitability. Moreover, without A-brands, the product category could become trapped in a downward price/quality spiral.

The Emergence of Private-label Specialists:

The battered B-brand suppliers have two strategic options: find market niches (innovation) or go for cost leadership (scale). The former is not a feasible option for many suppliers, so the main focus will be on the latter. Volume growth is key in achieving cost leadership, so B-brand suppliers will want to tap into the strong growth outlook for private label by becoming private-label specialists.

Private-label specialists strive to increase the scale of their production and service levels, lower their client dependency and improve their negotiating position on the sourcing side. Trying to attain these scale advantages by means of hybrid production (producing the B-brand and private-label products simultaneously) is seldom a win-win strategy and often accelerates the deterioration of the B Brand

Indian Retail: Time to change lanes:

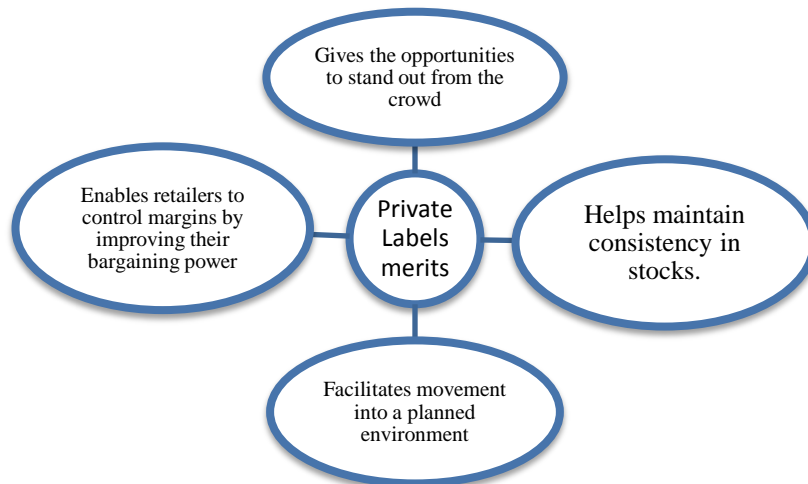
- The advent of Year 2009 heralded interesting yet challenging times for the Global Retail industry. The Indian retail industry—one of the fastest growing industries in the country over the past couple of years—is no exception. While 2008 showed growth for the industry on the whole, the last quarter of 2008 was impacted by the economic slowdown and liquidity crunch, and this is expected to continue a bit more.
- The year gone by was packed with several significant developments for the Indian retail industry, including the entry of many global players, growing acceptance of the modern formats, the success of many specialty retail formats, and the rising competition in the regional markets beyond the metros and Tier 1 cities.
- On the other hand, the after effects of the global economic turmoil are being felt in India as well, and the economy is expected to grow at a significantly lower rate over the next 2 years (between 5 to 7 percent according to various estimates*). Consequently, overall consumption levels, particularly discretionary spend and impulse purchases have been affected, which, in turn, has resulted in a lower growth rate for the industry for the current year. Moreover, this trend is expected to continue in 2009.
- Given the industry's changing landscape and emerging challenges, the focus of industry players too is changing; with a strong emphasis on profitable growth in the current scenario. Hence, retail companies are increasingly concentrating on strengthening existing operations and assessing options for growth through consolidation, while continuing to innovate.
- Looking at the changing contours of the industry, there are certain drivers which are likely to have an impact across retail categories, and we have examined these drivers in detail in this report. Factors like renegotiating rentals, store rationalization, working capital management, regionalization, cost optimization and manpower resizing are some of the key Top of Mind (TOM) issues for retailers in the current context of the downturn. We have focused on how these drivers are affecting various players across the retail value chain and their strategies to help cope with the slowdown.
- The analyses and point of view presented in the report have been validated through extensive discussions with industry players. We take this opportunity to thank the industry players for making this endeavour possible.

Need of Private Labels:

- Retail stores are able to make more profit because the margins are high and the dependability on established brands decreases.
- Branding of the store increases due to in-house brands and customer awareness increases.
- Established brands are also giving a strong fight by opening separate retail store especially for their brands
- Price conscious customers are also attracted for getting branded products in affordable prices

- The variety of brands also increases which give retailer a large diversity of products to sell.
- Because of backward integration done by retailers the quality control and the bargaining power of buyer increases
- Local products can also be designed by the retailer according to the need of the specific region and the customer base.

Private labels provide four key merits:



VI. WHAT MAKES PRIVATE LABELS CLICK IN INDIA

While India's retail industry continues to scale new heights each year, the private-label area in the fast-moving consumer goods (FMCG) arena has shown incredible consistency and potential. In fact, Nielsen estimates that India's private-label market will grow fivefold to reach the USD half billion mark by 2015. With a projection like that, India's private-label sector is better poised than its counterparts in other emerging economies. It also highlights shifting attitudes and perceptions with respect to brand loyalty.

Food Dominates India's Private-Label Market:

The food category alone accounts for 76 percent of the total sales in private label, and within this, some areas are making bigger waves than others. Packaged grocery, for example, has a particularly dominant position, as it pulls in a whopping 53 percent of total sales.

While segments within the foods category like packaged rice, packaged atta and pure ghee have garnered the highest value sales, a few private-label segments are generating sales that are stronger than their modern trade equivalents.

In the non-food category, household cleaners hold the top position, accounting for nearly half (48%) of the private-label sales. Personal care, fabric care and the general category are other segments which contribute significantly to non-food.

What's driving the change?

To identify what drives the private-label market, it's crucial to understand the characteristics of the modern shopper. With growing levels of disposable income, shoppers are far more open to experimentation than ever before. With the rise of modern trade, the perceptions about grocery shopping have changed. Rather than viewing shopping as a chore, more and more Indians are finding it to be a more pleasurable experience.

The format has also triggered the transformation of the shopping experience from being a necessity to becoming a sensorial experience with less dependence on planning and a fixed list of brands. Interestingly, we find that consumers sometimes choose private labels in certain categories because of the assurance they get from knowing that they can interact directly with the retailer during their shopping trip.

The changing purchasing habits of Indian customer:

It's true. Customer's behaviour has changed forever. That means the time has come for companies everywhere to either get on board or get out of the way because there's no going back to the old way of doing business. To truly understand this new shift in buyer behaviour, we need to take a look at how and why it came about:

In the beginning, before the invention of mass media, buyers everywhere relied on sales people and word of mouth to inform their purchase decisions. Then advertising came along and developed a bunch of tools to help spread sales and marketing messages far and wide. In the early days of the Internet, marketing professionals adopted and adapted advertising's interruptive best practices and broadcast-style approach. Today's buyers have access to more knowledge from more sources than ever before. They ask questions, get answers, read reviews, do comparisons and start conversations with people they've never met – all on the web, all on their own terms and all on their own time schedule.

VII. PRICE CONSCIOUS INDIAN CUSTOMER

Also up to 80% of consumers are considered 'price conscious'. Consumers are focusing more on price while making buying decisions in stores. In fact, approximately eight out of every 10 consumers are consistently looking for value for money while they shop, whether they are staying up to date on sales or using coupons, according to research from Valassis. The latest Valassis Shopper Marketing Report gathered data on the shopping behaviours of more than 1,000 consumers nationwide. The annual online survey is conducted in conjunction with market research firm Ipsos.

Of all audiences studied, majority showed the most consciousness when it came to saving while shopping. The majority of respondents (84%) also said they prefer value for their money over brand and are ready to switch to any product if it suffices the purpose. Hindustan Unilever Ltd's (HUL) loss of share in the detergents market should have been Nirma Ltd's gain. Those who forget Indian consumers are priceconscious-pay-a.html. That would have been a logical conclusion in FY09, when sharply higher prices of products such as soaps and detergents led consumers to switch to cheaper brands. By the time big firms such as HUL and P&G woke up to the phenomenon, which incidentally not a new one, it was too late. In FY10, the companies have been focused on regaining market share.

HUL's annual report gives a glimpse into what happened. In FY09, its reporting year changed from December to March. Since it was a 15-month period, we have annualized figures for comparison. HUL's detergent sales grew by just 2% during FY09 but per unit realizations jumped by nearly 30%. If consumers wanted cheaper options, one would have expected Nirma, which has a sizeable presence at the mass end, to gain. But surprisingly, Nirma's pricing strategy in FY09 was identical; per unit realizations jumped by 34%, even higher than those of HUL. That seemed to have put off consumers, as Volumes dipped by 9% though its revenues grew by 22%.



Fresh space: A woman arranges toothpaste boxes in a store in Mumbai. Adeel Halim / Bloomberg

If HUL's volumes barely grew and Nirma's declined, then consumers seem to have shifted to regional and local brands or the private labels. These nimble firms appear to have passed on lower costs to customers, while the larger firms sought to score on margins. Indeed, the much touted return of pricing power in FY09 seems to have encouraged companies to hike prices, not just to cover costs. Spotting a wide pricing gap, they scooped up customers by offering them a better price-value equation.

Godrej Consumer Products Ltd (GCPL) is among the large companies that did not try to exploit pricing power. In FY09, HUL's soap realizations jumped by 18%, a year in which GCPL's realizations increased by only 8.3%. While HUL's soap volumes fell by 4% during the year, GCPL's increased by 16%. Strangely, Nirma did not hike prices but its volumes did not grow much either.

Recent news reports have talked about HUL being under pressure to regain market share in its key categories. It could perhaps take a leaf out of the strategy book of toothpaste maker Colgate Palmolive (India) Ltd. The company does not give toothpaste numbers separately but clubs it under soaps, cosmetics and toilet preparations. Since toothpastes contribute to 96% of total sales, this segment can be used as a good proxy. Realizations during FY09 were up by just 1% but volumes grew by a healthy 13%.

Consumer behaviour is complex and very often not considered rational. A further challenge is that consumer personalities differ across borders and also between and within regions. Taste, behaviour and preference of consumers cannot be ignored because consumers are the 'Kings' of market. In modern times, prediction of consumer behaviour is much essential for prosperity of the business. Its prediction and strategy formulation is a challenge for the management of any business organization. Only those organizations which formulate and implement consumer oriented marketing strategies, can survive in global competitive era.

VIII. SUMMARY

The future of private label appears bright with ample scope to grow, as long as retailers continue to be innovative. Private label sales thrive in where strong retailers are in position to promote them. To be successful it is not enough to produce copycat products: retailers must retain customer loyalty, generate a strong store identity, and compete effectively both with branded products and other retailer's brands.

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