THE POWER OF PRIVATE BRANDS

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Abstract: National brands are well-known and popular brands of manufacturers, such as Coca Cola, McDonald's, Milka, Maggi, Colgate, Toblerone, Evian, Knorr, etc. These brands usually are well accepted and favorites of consumers. They associate with high quality, availability, feelings, experiences, promotions, and events. However, their popularity is increasingly threatened by private brands. Private brands are brands of retailers and distributors, that starting from the 14th century, and especially today, have conquered lots of consumers. Initially, private brands appeared among consumer goods (food products) and were without name, style, design, with relatively low quality and with much lower prices than national brands.

Economic crises, low living standard, poverty that existed in several countries in the middle of the XIX-th century caused the consumers to become more sensitive to prices, and they began to show interest in private brands. The greater demand for these products the richer became the retailers. Retailers had a great advantage: they knew the needs and wants of consumers. With time, retailers have invested more in quality, taste, packaging, design, style, and colors of their brands that have attracted more customers. Today, private brands represent a severe competitive threat to national brands. Some recent research shows that private brands are more popular and more required than national brands. This paper aims to reveal the future of national and private brands with the help of empirical research.

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Introduction

By the 1960's of the last century, the market was dominated by national (producer) brands. They were brands of companies-manufacturers. According to Business Dictionary, the word “brand” means unique name, design, sign, symbol, shape or a combination of these, employed in creating an image that identifies a product and differentiates it from its competitors. (http://businessdictionary.com) These manufacturer brands have been favorites to consumers, recognized for their quality, functionality, performance, as well as their emotional connection, feelings, experience, events, and memories. During this period, the role of trade was insignificant and pure logistics. Trade served as a mediator between production and consumption. Its main task was to distribute the products of manufacturers to consumers in the required quantities, assortment, places, and deadlines.

But in the 1960s significant structural changes occurred. Trade received an increasingly important role in the exchange. These changes were due to the high concentration of trade, cooperation, and integration on a horizontal and vertical level, trade internationalization, strengthening the marketing orientation of trade, technological progress, and competition in innovations. Retailers began to invest their capital surplus in the development of their own brands. Initially, retailers were not aware what “boom” this will make to the market. Private (store brands, retailer brands, own brands) labels were brands of retailers and distributors that were mostly offered in the retail chains.

According to Blazeska (2013), the main reasons for the occurrence of these brands were:

- A need to create low cost products and services,
- A need for creating loyal customers,
- Taking the opportunity to make greater profits,
- The continuous change of shopping habits of consumers,
- Fulfilling the unsatisfied needs of consumers.

Retailers slyly noted their comparative advantage in the market and they started to offer their own products which were, at first, “no name,” generic, affordable as well as cheaper than national brands. Having in mind the economic crisis, poverty and declining living standards, consumers showed an interest in these products, and over time they became loyal customers.

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Retailers began to make large profits by selling their own (private) brands that had much larger margins than the profits made off selling other brands. Larger profits were primarily result of the fact that retailers cared for the design, production, promotion, distribution of products by themselves. They were specialized in promotion and distribution that helped them to reduce the costs and sell the products at a lower, more competitive price than national brands. With time, retailers started to invest in product quality, design, style, packaging that attracted consumers even more. As a result, the dominance of national brands has declined.

By investing in quality and value, private brands have become a serious competitive threat to national brands. Private-label success was strongest in commodity-driven, high-purchase products and those where consumers perceive little differentiation.

As stated in the Nielsen Report of 2014 (http://nielsen.com/pk/en.html), private brands are mostly developed in Western Europe. Switzerland has the highest private-label share at 45%, followed closely by the U.K. and Spain at 41% each. Private label is less developed in Eastern and Central Europe, where the share varies greatly from as high as 24% in Poland to as low as of 5% in Ukraine. The percentage of participation of private labels in Canada, USA, and Africa is 18% each. The weighted global average reaches 16.5% dollar share of private brands in 2013. Some marketing experts believe that this percentage will increase in the future and private brands will dominate the global market.

Literature review

Private brands are generally perceived by consumers as low quality-products. Private label brands are defined as products produced by one manufacturer and sold under the name of a different company. As Mbaye (2009), Burton, Lichtenstein, Netemeyer and Garretson (1998) state, private labels are those sold under the retailer's brand instead of the manufacturer's. A private label product is manufactured by a contract or third-party manufacturer and sold under a retailer's brand name. Private brands, also known as "store brands", "retailer brands", "own brands", "own labels", and "generics" are owned by distribution channel actors (retailers, wholesalers, distributors, etc…) and are sold only, under a particular brand name, in their stores (De Wulf et al., 2005).

There are five fundamental drivers of renewed growth and market penetration of private brands: (http://bridgestrategy.com)

- **The Recession.** Consumers' increased focus on value, price and affordability, a result of an economic crisis, is one obvious explanation for the rise in private label sales. Consumers have shown their willingness to purchase lower-priced alternatives.
- **Retail Landscape Consolidation**. Private label penetration has proven to be highly correlated with the level of retail concentration. Higher levels of trade concentration not only give retailers greater negotiation power against brand manufacturers but also create the critical mass required for making investments in the development of more sophisticated private label brands.
- **Improved Product Quality**. Private label quality has improved dramatically since the days of generic products. Several consumer studies have claimed that the quality gap between national brands and private label products has been reduced or eliminated. Accordingly, consumer perception has improved substantially creating a highly positive attitude towards private label.
- **Enhanced Retailer Capabilities.** Over the past several years, many retailers have been improving the skills and capabilities required to develop and manage increasingly sophisticated private label brands. They have hired brand and category managers, invested in marketing analytics and innovation and branding capabilities. As a result, retailers have developed a deeper understanding of consumer needs and wants, as well as segmentation and targeting techniques.
- **Renewed Strategic Approach**. The traditional approach to developing low-cost, generic alternatives to national brands, targeting price-sensitive, brand-agnostic shoppers, is giving way to a much more strategic role for private label, as part of more thoughtful shopper segmentation, category management, and assortment planning strategies.

There are four main stages in the evolution of private brands: (Blazeska, 2013)

- **The first stage** was represented by private brands that had low quality and low price. They had the same name as a retailer or retail chain. They did not have any elements of brand identity as design, packaging, color, slogan, logo, jingle, etc…

- **In the second stage**, private brands gained some elements of brand identity like their own name, symbol, color, design and sometimes slogan. Products in this stage had a certain level of quality and still low competitive price...
- **The third stage** is characterized by private brands with improved quality and reasonable price that still is lower than the one of the national brands. The price continues to be the main reason that attracts and retains customers.
- **The last stage of evolution**, the one that still is unclear, will be presented with the leadership of private brands in some product categories or close cooperation between national and private brands.

Although initially private brands were limited to commodity-based products (tea, sugar, fresh fruits, vegetables) and were perceived as low quality and unbranded alternatives to national brands, by time their products' range extended in almost every product category, such as: (uhra.herts.ac.uk)

- Personal care,
- Beverages,
- Cosmetics,
- Paper products,
- Household cleaners,
- Condiments and salad dressings,
- Dairy items and
- Frozen foods (or more than 90% of consumer packed goods).

Even though private labels have a low market share, retailers continue to keep private brands in stock because of the profit margins they represent, being higher than national brands. Also, there is a large sector of consumers who take these private brands as a second-rate alternative, considering them as inferior in quality when compared to national brands (Raju et al., 1995; Beldona & Wysong, 2007; Gonzalez Mieres et al., 2006). However, despite the tendency of private brands to be considered as lower quality products than national brands, in the last decade they significantly have improved their quality. With the investments in their quality and value, they are above national brands in the same product category. (Apelbaum et al., 2003; Gomez-Arias & Bello-Acebon, 2008). Private brands are generic products that compete with national brands through price and later through value.

However, national brands still dominate the market for products with very high quality, prestigious and rare products, specific and complex products. These products include jewelry, clothing, household appliances, computers and computer equipment, cars, furniture, etc… Private brands penetrate in those product categories where retailers have power and strength to offer better products than national brands in the market. Private label brands become less popular in those product categories in which the difference in quality between national and private label brands is higher (Gonzalez et al., 2006). Private labels tend to do better in categories where price sensitivity is higher to a consumer (Raju et al. 1995; Hoch & Basenji, 1993).

Private brands have substantial benefits for both retailers and consumers. Some of their biggest advantages for retailers include: lower costs, higher profit margins, higher chain profitability, increased differentiation and product turnover, control over shelf space, control over production, control over pricing, adaptability, generating store loyalty, control over branding, and strong visual identity. (Ashley, 1998; Bonfrer and Chintagunta, 2004, Ailawadi et al., 2008)

Advantages of private brands for consumers can be summed up as follows: lower price, improved quality, improved accessibility, variety of alternatives, etc. According to Cunningham et al. (1982), private brands can offer substantially lower prices (15%-40%) than national brands. Market share has doubled after the 1990s and private brands have higher market share than national brands in about 30% of product categories (Quelch and Harding, 1996).

Data and Methodology

For the purpose of this paper, secondary and primary sources of data were used. Secondary data refers to the use of professional literature in the field of marketing and consumer behavior.

The primary source of data that was used refers to the questionnaire that was constructed and conducted among consumers in the capital of Macedonia, Skopje. The questionnaire included socio-economic data (data about sex, educational level, age and household income) and questions (openended and multi-choice) about consumers' attitude toward private and national brands. The research was conducted in the period of 15th of January to 15th of February 2017, and 80 respondents were approached. Keeping in mind that only 61 (76%) out of 80 respondents purchased and were interested in private brands, only these respondents were analyzed.

Results and Discussion

In Macedonia, there are many supermarkets that sell their own private brands. At the beginning of 2000s, many markets promoted their own brands. However, for the purpose of this paper, two markets were analyzed that sell national brands and private brands: Tinex and Zito. The selection of these two markets is made on the basis of their long-term experience, image and extensive coverage with stores across the country. Tinex sells its private brands under the name "Extra," and Zito under the name "5-ka". These retailers closely collaborate with a network of different manufacturers that produce the products for them.

Mainly, their private brands occurred in the following product categories: food products, dairy products, canned vegetables, cereals, dietary food and beverages, confectionery, sanitation items, personal hygiene products, pastry and bread, frozen foods, and fish. The distribution of the products is only within the retail chain.

Figure 1: Private label brands of Zito market

Source: Author

Prices of private brands are much lower compared to branded products, due to lower marketing (promotion and distribution) costs of retailers. The following Table illustrates the comparative prices of private brands and branded products.

Figure 2: Comparative prices of national brands and private brands in Tinex and Zito

Product	Price per unit in Macedonian Denars		
	National Brand	**Tinex - store brand**	**Zito- store brand**
Toilet paper , double layer 8/1	141.00	111.00	92.00
Liquid soap, 500 ml	135.00	82.00	50.00
Detergent, 1L	110.00	87.00	70.00
Softener 2L	249.00	182.00	180.00
Cow cheese 1 kg	269.00	233.00	223.00
Ketchup, 500 gr	56.00	55.00	45.00
Bread	38.00	25.00	22.00
Rice, 400 gr	70.00	67.00	66.00
Cooking chocolate, 200 gr	128.00	80.00	80.00
Sugar, 1 kg	60.00	59.00	59.00
Non-Carbonated Water, 1 L	40.00	22.00	18.00
Total Sum	**1296.00**	**1003.00**	**905.00**
		23%	**30%**

Source: Author

The above table (Figure 2.) shows that the prices of private brands are lower than those of national brands, in some product categories even lower than 40%.

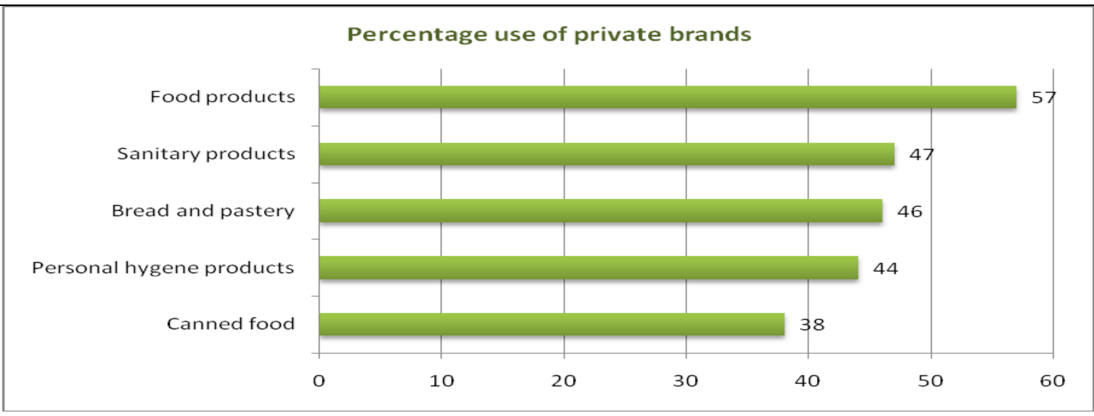
As already mentioned, out of total 80 respondents that were approached, only 61 responded affirmatively that they buy private brands, even if in only just one product category. 13 of the respondents were male (21%) and 48 female (79%). According to the education level, 8 respondents

(13%) had basic (elementary) education, 30 respondents (79%) had secondary education and 23 respondents (38%) were with higher education. In terms of age, 4 respondents (7%) were below 20 years, 18 (30%) were aged between 20-40 years and 39 respondents (63%) were over 40 years. Regarding household income, 48 respondents (79%) had a monthly income of 10,000 Macedonian Denars, 10 respondents (16%) had between 10,000 to 20,000 Macedonian Denars and 3 respondents (5%) had an income over 20,000 Denars.

According to these data, the average consumer profile that purchase private labels is a middle-aged woman (over 40), with secondary education, with low or average monthly income (socio-economic status).

On the question of what kind of private brands consumers buy frequently, they provided the following responses:

Figure 3: Mostly purchased private brands



Source: Author

According to respondents, the price is the main criteria for buying private brands. On the question what are the most important characteristics of private brands they ranged them as follows:

- Price,
- Quality,
- Availability,
- Design and
- Packaging

The answers show that consumers buy private brands because of their reasonable and still lower price than national brands, their improved quality and availability. To them packaging is not so important.

The biggest disadvantages of the private brands were illustrated by the following statements (open questions were used):

- There is a need of greater availability of private brands in more markets,
- There is a need of greater investment in the quality of private brands,
- Markets should offer more promotional activities for private brands,
- Private brands should be included in other product categories, such as cheap jewelry, cosmetics, clothing, shoes, etc.
- There is a high risk and uncertainty related to the quality of products.

The consumers also buy national brands, especially when they need high quality-products and are willing to pay higher prices.

On the question of how they see the private brands in future, the respondents answered that they expected more private brands in different product categories in more markets. They believe that over time they will dominate the market with higher quality and reasonable prices.

Conclusion

There is no clear realistic scenario about the future of private brands. However, in recent years, private brands showed great achievement in particular product categories. Many experts believe that their growth will accelerate in the upcoming years. Private brands are expected to increase their market share and become more pervasive in most product categories. They are becoming a greater competitive threat to national brands. Brand manufacturers can no longer ignore private brands. They need to change their strategies and offer the appropriate responses to private brands.

In some product categories, brand manufacturers can take opportunities to explore together with retail partners. Namely, the market situation is as follows: manufacturers of national brands are under pressure to cut prices, and retailers (producers of private brands) to raise the quality and intensely to invest in promotion, which will inevitably lead to an increase in their prices. This market situation will impose a need for cooperation between producers and traders. Each party should do what is doing the best way on the market, meaning that retailers have to focus on carrying out sales activities, and manufacturers on high quality and functionality of products. Only in this way, customer will get the best from the market.

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