Private-Label Brands – A Literature Review

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Abstract

The birth of private-label brands is a major landmark in the history of retailing. The rapid growth in retail industry has increased the presence of these brands across all the product categories in the market. They have gained much popularity in last couple of decades with rising market-share and sales-figure. At present they are giving a tough competition to the national brands in terms of price, quality, distribution, promotion, packaging, etc. In short, they have moved from their original status of low-priced, low-quality goods to premium superior items. On the other hand, some research studies have indicated that still majority of the customers do possess negative perceptions about these brands and do not have favorable brand-image in the market like national brands. This exploratory study has tried to explore various findings made by the earlier researchers on private-label brands regarding the factors behind their success in the market, customers’ perceptions towards them, branding and positioning strategies, etc. Simultaneously, this paper has also tried to reveal factors for unpopularity of these brands among customers and certain reasons for lacking behind the national brands in the market.

Keywords: private-label brands, retail, positioning, customers’ perceptions, etc

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Introduction

The birth of retailer’s own private-label brands is a major landmark in the history of retailing. The changing nature of retailing environment and increasing popularity in the retail sector in early 19th century in the US and Europe saw a tremendous rise to a number of departmental stores and supermarket chains; that eventually gave birth to the concept of private-label goods (Steenkamp & Dekimpe, 1997). In their book Kumar & Steenkamp (2007), have defined store brands to be any brand that is owned by the retailer/distributor and is sold only in its own outlets.

Definition: Private-label brands are those products which are fully owned, controlled and sold exclusively by the retailers (also known as own-label brands, dealer’s store brands or retailer’s brands).

Over the few decades these brands have become popular and profitable marketing strategy in the retail sector of US and European markets. The market report shows that these brands are the top sellers in many product categories sold in the supermarkets. According to a study conducted by Private-Label Marketing Association (PLMA) in 2000 revealed that 71% of the US shoppers prefer to buy these brands. In the last couple of years these goods have gradually expanded their presence across all the product categories ranging from clothing, electronics, health, footwear, beauty, over-the-counter (OTC) medicine, etc. At present the entire leading groceries are offering a wide range of products under their own private-label brands. In between 2006 - 2009, the market-share of these brands was almost 74% in product categories like personal care, household goods, food items, beverages, etc (sales figures of these brands represent 20% of grocery stores and 18% of super markets). A report published by Brandweek Magazine mentioned that private-label sales has grown up at a much faster pace than that of branded ones, 64% versus 30% (Reyes, 2006). Furthermore, these brands are 31% cheaper compare to their national counterparts. Simultaneously, the European retail market is one of the most matured private-label markets in the world with shoppers buying nearly same amount of private brands as national brands. A report published by Symphony IRI, a market-research company, shows that the total market-share of private-labels sold per year is almost 30% of total goods sold by the retailers across the
European market. Among the European nations UK, Spain and Germany continue to sell more private-label brands than any other European country with a market share of 49.2%, 40.4% and 37.7% respectively. Initially these private-label brands were introduced in the market by the retailers with much cheaper prices compare to the branded goods, i.e., they used to compete with national brands by means of a price-value proposition. Moreover they were not so popular among the general customers due to their inferior product qualities but the early retailers continued to push more and more products into different product categories because they represented higher margins and promise of profitability to the retailers with less marketing efforts. The poor economic conditions in many western nations in 1930s & 1940s (American Recession, World War – II, etc) made customers more price-conscious and forced them to purchase these products. However in recent years the picture has changed and transformed these private-label brands into serious contenders. They have shifted away from competing against each other just on price and instead emphasized on both quality and performance. This became increasingly apparent in retail stores with much wider product ranges, higher quality standards, reasonable prices, proper advertising strategies and effective distribution network.

In spite of rising popularity of these brands with lower prices, quality guarantees, huge promotional activities, large distribution networks, etc, customers still continue to prefer national brands over private ones as majority of customers do posses negative attitudes towards these goods. Generally most customers try to avoid these private-label brands and opt for the branded goods.

**Objective of this Study**

The purpose of this present paper is to explore the general perceptions of the customers about private-label brands and subsequently their behavior towards them. The study of customer perception is not an easy task for marketing experts because in this ever changing competitive market environment as customers are gradually becoming more erratic and therefore more unpredictable, making the study much more complicated. Perceptions play an important role in customer buying decision-making
process and the customers do possess perceptions (+ve/-ve) about certain brands available in market on the basis of certain factors. This present paper aims to understand the various factors in behind the popularity of the private-label brands as well as the customers’ perception towards these brands. This present paper is fully conceptual in nature and the author has tried to review the past literature works of the earlier marketing scholars in order to meet the above said objective. The reason behind this is to explore the different factors behind in choosing these brands by the customers. Subsequently this paper also tries to find out various factors of not choosing/avoiding these brands by the customers made out from the findings of research studies that will provide clear picture about different aspects about these brands. Moreover it will help the author to find out other unexplored areas of private-label brands that has to be researched in future.

**Literature Review**

As the worldwide market-share of private-label brands increase, the importance of research related to them increases. According to *Hyman, Kopf & Lee* (2009), previous literature reviews – none published since 2004, which is before roughly 45% of published empirical and theoretical studies – were either written for a general business audience or summarised a small subset of scholarly literature.

A review of earlier research studies related to the private-label brands have helped to reveal some of the interesting findings. Some of the research studies indicated that the private-brands are no longer seen as cheaper-priced and poor-quality products by modern customers. The massive revolution in the retail sector in the last couple of decades has changed the old concept and transformed these private-label brands into serious market place contenders. They are gaining popularity along with national brands and have taken a major market share from many of the national brands. There has been a tremendous sales growth in recent years and experts feel that the figure will rise up in near future with a much faster pace *(Zimmerman, 1998)*.
Private-label brands – Success Story

One reason for this growth in market share is that retail chains are increasingly extending their range of products sold under the private-label tags from the basic products to more sophisticated ones (Lee, 2004). An interesting fact reveals that their growth has been highly uneven across various product categories. A report indicates that private brands are also top sellers in many product categories sold in the supermarkets (Quelch & Harding, 1996). Also they offer high margins in some of the product categories where they compete against fewer national brands and spend less on promotional activities. With the rise of large, well-organized retail chains, these brands have emerged as a key weapon in the battle waged between retailers and manufacturers over channel control and consumer loyalty. Research on this topic shows other reasons also behind the growth of popularity of private brands among retailers.

High Gross Margin

First, private brands have a higher gross margin opportunity than national brands (Lewison, 1994; Raju, Sethruaman & Dhar, 1995). Although they are typically priced much lower than national brands (Ailawadi, Neslin & Gedenk, 2001; Mason, Mayer & Ezell, 1994), lower marketing costs compensate for the lower prices allow them to enjoy higher overall gross margins than national brands. Hoch & Banerjee (1993) found that retailers often advertise the national brands to attract consumers to stores and sell private-label brands (generally low-priced) to the price-sensitive segment.

Low Price

Secondly, retailers use these private-label brands as bargaining tools for asking manufacturers for better trading terms such as cheaper prices, more promotional items, quicker deliveries, etc (Ailawadi, Borin & Farris, 1995; Chintagunta, Bonfrer & Song, 2002; Narasimhan & Wilcox, 1998). In his research Mills (1995) noted that private brands enable retailers to get better deals from manufacturers in the form of lower wholesale prices on national brands. It has been found that the top retailers have always set the prices of these brands 10-15% lower than those charge by national brands (Grewal & Levy, 2009).

Store Image
Thirdly, retailers can build distinctive store image with their private brands (Grewal et al., 1998; Richardson, Dick & Jain, 1994; Sayman, Hoch & Raju, 2000).

- **Store Loyalty**

Fourthly, private brands with strong and exclusive image can develop store loyalty and store traffic (Levy & Weitz, 2001). Researchers (Morgenson, 1991; Karolefski, 1990; Lenchek, 1990) believe that rise of private brands will continue because retailers are now providing acceptable quality products at reasonable prices and customers are giving less importance to big brand names.

- **Positioning**

According to Roach (1995), the modern-day retailers have realized that they cannot simply rely on national brands to draw customers into their stores. They have started to diversify their offerings beyond customer-expectations, enabling them to compete more effectively in existing product categories and foray into new/different product categories that have traditionally been dominated by national brand players. The private brands have moved from their original status as low-priced, value-for-money, low-quality items into premium and lifestyle arenas. Most of the big retailers have taken a “value for money” orientation in the marketing of their private brands rather than competing with national brands on the basis of quality (Halstead & Ward, 1995). By taking a value for money orientation, retailers hope to instill the purchase of these products not only from those consumers who perceive that store brands are lower priced but of relatively good quality but also from those customers who perceive that private brands are lower priced goods and of relatively poor quality as long as savings associated with the price differential provides adequate compensation for purchase. It seems that private brand marketing appears to be shifting from its usual low-cost strategy to a national brand marketing strategy. A recent study by Dhar & Hoch, 1997; Hoch, 1996 found that quality-oriented strategies are more viable than value-oriented strategies for the success of private brands in the long run.

- **Other Factors**
Moreover the modern-day retailers are becoming more professional in managing their own brands. In order to capture a greater portion of the private-label market, the retailers are expanding their offerings, improving quality, introducing attractive packaging, expanding their distribution networks as well as customer-oriented sales promotion of their brands (Sullivan, 2005).

As the retail market becomes more and more concentrated, the retailers are investing in establishing their own brands that have clearly become a more instrumental priority for today’s retailers. In many instances, private labels have surpassed a national brand’s capacity to deliver on visibility, consumer interest, involvement and appeal. Simultaneously improvements in quality, taste, packaging, etc to some extent have also made the customers attracted to them (Edgecliffe, 2001). In recent times various exclusive deals and variety of product innovations have made these items much popular in the retail market. Some retailers have also raised the prices of their private-label items since the price gap between private and national brands was a huge difference that have created a negative perception amongst the customers regarding the quality of the products.

- **Private-label brands – Still a Customers’ No**

  Simultaneously some of the research studies conducted by the eminent scholars have revealed different findings regarding the viability of the private-label brands. Previous researches made on customers’ attitude and perception on private brands showed that customers rate them below the national brands on basis of certain factors like price, taste, quality, appearance, packaging, promotion, etc (Shapiro, 1993).

  - **Price**

    A survey conducted by Private Label Manufacturers Association (PLMA), USA in 1991 reveals various reasons of buying private-label brands by the customers. Most of them prefer to buy them because of low-price factor. According to Roth (1995), an important aspect that relates to human consumption is customers’ income-pattern. When income is limited, the price-conscious customers buy goods just to satisfy their most basic functional needs rather than fulfilling hedonic needs. Previous research has also shown that customers’ level of price-consciousness rises with lower incomes and is higher among the
deal-prone customers who believe less in price-quality associations (Blois, 2000). These price-sensitive customers generally lack knowledge about different perceived risks involved, less brand-loyal, tend to save money, more attracted to the store-promotional offers and care less about the product-quality. People with higher incomes are less price-conscious and are more likely to buy private-label brands. In other way, these brands are meant only for price-sensitive segment of the society and budget-conscious customers, especially in difficult economic times when people seek ways to reduce their expenditures. However, when economy picks up, these customers again go back to buy national brands.

➢ Quality

According to Faria (1979) price and quality are the two most important characteristics for purchase of any product and there is a direct link between them. Apart from price, quality is another major determinant in customer purchase decisions (Hoch & Banerji, 1993; Sethuraman, 1992). Research confirms that quality is the most important factor that drives customers towards national brands (Holt, Quelch & Taylor, 2003). Customers do make quality judgements on basis of price rather than physical product-attributes. They have a common perception that low-priced products are of inferior in quality because they are generally made up of poor product ingredients and thus lack the required quality-level (Batra & Sinha, 2000). The study conducted by Rubel (1995) also concluded that in case of private-label brands both the price and quality are the major purchasing parameters but if the quality offered is same for both private and national brands, then at that moment price becomes the key factor. While the quality-level do varies from retailer-to-retailer, they were nonetheless generally inferior to manufacturers’ brands (Steenkamp, Batra & Alden, 2003).

➢ Perceived Risks

Researches also showed that perceived risk is a crucial factor in purchasing private-brands (Richardson, Jain & Dick, 1996). As Narasimhan & Wilcox (1998) mention customers prefer national brands to private-brands if the level of perceived risk in buying those products is high. Thus, purchasing of baby foods or skin-care goods should clearly be seen as more risky than purchasing of cleaning liquids and
groceries. In addition, purchases that expose customers to social ridicule can also be high risk, even if they are of low monetary value.

- **Promotion**

There are also differences in promotional strategies between the retailers and manufacturers. Several studies (Allenby & Rossi, 1991; Bronnenberg & Wathieu, 1996) have shown that the promotions of national brands yield more sales than store brands because national brands can easily attract customers through frequent advertising and promotional exposures. Generally they use different sales promotion tactics instead of going large-scale advertisements because of limited promotional budgets.

- **Positioning**

Positioning is the marketing term that is used to describe the view a customer has regarding the image of a particular offering. While national brands manufacturers position their products to maximize profits from their own products, retailers focus on maximizing profits from both store brands and national brands (Sayman, Hoch & Raju, 2002). Chernatony & McDonald (1992) noted that some of the private-brands are just the imitation or have strong resembles of national brands. The strategy behind this is to target the leading national brands to decrease their demand and to capture the market share. Omar (1999) suggested that this tendency to introduce imitated products will not lead to clear positioning but it is important for retailers to identify a particular and relevant positioning strategy.

**Main Findings**

- The Price & Quality are the most important factors in choosing the private-label brands.
- The customers do avoid low-priced private-label brands because of their inferior quality.
- The private-label brands are popular among the lower-income section of the society.
- The price-gap between a private-label and a national-label brand is often found to be huge which has created a negative perception in the customers’ minds.
Due to budget constraint, the private-label brands are not promoted in a large scale like the national brands and hence the brand awareness is less.

The private-label brands are generally promoted through in-store promotions.

A lot of in-store promotional activities have created a certain store-loyal customers who have become regular purchasers of these private-label brands.

The packaging of the private-label brands often resemble to those of the national brands.

Nowadays the private-label brands have positioned themselves as premium brands by adapting “value for money” strategy.

The private-label brands have extended their presence across various product categories.

In recent years the private-label brands have improved their quality-label, packaging, taste, etc to match with national brands.

The retailers are trying to improve the brand-image of the private-label brands to capture more market and are giving tough competition to the national brands.

Conclusion

The conclusions drawn are only said to represent a particular version of reality that has been constructed on the basis of analysis/interpretation of the earlier research findings. As such although findings and conclusions may not provide general guidelines or insights for the development of a theory, they represent a manifestation of customers’ preferences in buying the private-label brands. Products are often purchased or avoided not for their functional qualities but because of how they impact the buyer’s psychological status. The attitudes and perceptions that customers have about products are crucial in their buying decision making process. It can be concluded that the premium brands have built their brand-images over the years on the foundation of high level of customer-loyalty, occupying a prominent position in customers’ minds whereas private-label brands possess negative attitudes & unfavourable perceptions and there is a general tendency among the customers to avoid them. Though the retailers sell
a lot of these products to the customers but still people those who are affluent prefer to buy the national brands because of their high standards and do not want to compromise on that.

**Limitation**

This present study is just an exploratory in nature and is based on earlier research findings made by the marketing scholars.

**Scope for Further Research**

Even though the objective of this research study seems to have been met, it can be argued that the conclusion should not be regarded as final one as because this study represents a highly contextualized study largely based previous research studies. Though the findings cannot suggest final conclusions; but they can be used for proposition of further research considerations.

**References**


