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SCENARIOS OF DEVELOPING PRIVATE BRANDS FOR FOOD PRODUCTS

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Abstract: *Private brands are those manufactured or provided by one company for offer under another company's brand. They are often positioned as lower-price alternatives to national brands, and they are helping retailers to build sustainable relationships with their customers. The objective of this research is to identify the main directions of developing private brands for food products. Pursuing this, a documentary study was carried out, analyzing the situation of using private brands on different markets around the world. Research findings showed that private branding strategies differentiate themselves depending on the type of market: developed markets and emerging markets. In developed markets, there are great opportunities for development of premium segments, with top quality products and higher price, which gives the chance for higher differentiation of retailers and increased loyalty. In emerging markets, private label products have great potential, growing together with retail modernization and consolidation. These results are useful for retailers in their efforts to decide strategies for their private brands.*

Key words: *Private brands, food retail, emerging markets, premium products*

INTRODUCTION

This study tries to address the following question: What are the main features of using private brands world wide and what are the main directions of their development? Thus, we aim to enhance our understanding of the factors that drove the development of private brands, trying to identify the markets where they are successful and markets where efforts for their developments are needed.

Private labels were introduced into American supermarkets in the late 1970s (Anderson, 1992), when, consumers' perceptions about private brands were "a cheap and nasty generic substitute for the real thing, rolled out by retailers during recessions and discarded once the economy picked up again" (Bontems, 1999). In Romania, private brands were introduced in modern trade channel in 1999, in Metro Cash & Carry and in Billa supermarkets (Boboc, 2015).

Although private labels are well appreciated worldwide, still, their market shares vary depending on the region. They are higher in developed countries, especially on mature markets such as Europe, North America, and Australia. Private brands have been successful in categories where purchase is oriented to product need itself and consumers perceive small differences between products: milk and bakeries, for example. The main reason of developing private brands is retail system consolidation on mature markets in the regions mentioned above. This does not mean that private labels do not have potential of development in other markets, like Asia and North Africa. The challenge is that, in these markets, consumers' loyalty for producers' labels is very strong.

Other studies are trying to describe the development of private labels and to understand how private brands' purchasing pattern has changed (Batra, 2000; Bettman, 1974; Fei, 2006; Kwon, 2008). Their results are showing that private brands occupy an emerging position in the global food market and in global purchasing processes. The number and the volume of private brands are expected to grow significantly.

The literature is mainly based on survey methods. In this article, a documentary study was carried out, aiming to identify the opportunities of development private labels on emerging markets, considering their potential and the modernization of retail system in the region.

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MATERIAL AND METHODS

Pursuing the objective of this article: to identify the main directions of developing private brands for food products, the research should start from analyzing the current situation of using private labels worldwide. Private brands have distinct evolutions depending on markets: mature or emerging markets. Thus, they have the most spectacular development on mature markets from Europe, North America and Australia. Conversely, private brands have low market shares in emerging economies: Asia, South America, and the Middle East. In these regions, they have potential of development, considering demographic dynamic in the area. As a result, the analysis is carried out separately on mature markets and emerging markets.

Mature markets

Europe

Private labels are seeing the strongest growth in Europe, especially Western Europe, where they hold a 30% market share. They have the largest share in the region and the world, in Switzerland 45%, followed by Great Britain and Spain by 41% each. Private labels are less developed in Central and Eastern Europe, where rates range from 24% in Poland and 5% for Ukraine. Products sold as private label became a main item in the basket of buyers and their perceptions are positive: 70% of consumers think that private labels are good alternatives for national brands and 69% believe that their purchase means a good deal (Nielsen, 2014, p.15).

In Switzerland, private labels are used mostly for complex products such as: watches, chocolates and care products.

In Britain, the market share of private labels is increasing, even though the economy has recovered (Gray, 2014). During the economic crisis, consumers bought lower priced products such as private label products. This buying behaviour remains today and is likely to remain high in the future.

Big retailers in the UK permanently launching new products and improve the existing ones, while maintaining low prices. The most important own brands are developed by:

- Waitrose is a supermarket chain in the UK, which has over 300 stores, 5% market share and over 700 Essential Waitrose own brand products;
- Co-op introduced 1,000 product lines in September 2013 plus 200 for winter holidays in 2014 and pursued a policy rebranding of existing products for 1900;
- Sainsbury's has a strategy to improve the quality of own-brand products for 3000;
- Tesco launched its own-brand products, My Fit Lifestyle categories belonging to healthy products, giving the chance to retailer to differentiate more versus main competitors.

In Spain, studies show that private labels have 42% market share in 2014, 0.7% less than in 2013 (Eales, 2014 p.24). This reduction began from the moment the price is not the only factor influencing the buying decision, but now, the convenience in purchasing and consumption, exclusivity and value of the products procured with money (value for money) are considered. Mercadona is the market leader, followed by Carrefour and Eroski. The top ten retailers in Spain have 84% market share.

North America

The market shares of own brands in the United States and Canada are 17.5% and 18.4%, above the world average of 16.5%. In the USA, after the economic crisis, private labels rates have stagnated, while those of manufacturer brands grew, based on innovative promotional activities and efforts. In Canada, the share of private labels has stalled, too, as buyers turned to promotional offers and manufacturer brands registered increases in sales through low price strategy.

Australia-Pacific

Private labels market in Australia and New Zealand resemble private labels market in North America and Western Europe, the shares being 21% and 13%. The results of a market survey (Nielsen, 2014, p.20) show that all households in the area have bought private label products in 2013, and increased sales of own brands (6.6%) is higher than sales growth the average retail (2.4%) in Australia.

Emerging markets

Asia

Low market shares held by private brands in these markets (0.6% -8%) show consumer attachment to the brand of the manufacturer. Modern trade and private labels are not new concepts in Asia, being present in the region for over thirty-five years. The first hypermarket opened in the '80s, and in the '90s the first own brands were launched. Tesco Thailand, for example, launched its own brand in 1998 (Nielsen, 2014 p.25).

Even if they are present for more than fifteen years on the Asian market, private labels' shares have reduced. Sales increased, since their launch, but continued with stagnation, even regression, due to intense promotional activity of manufacturer brands.

The main reason for low levels of market shares of private labels is that Asians are strongly loyal to brands manufacturer. In addition, retailers have not invested enough in convincing consumers to be confident with their own brands.

Latin America

In Latin America, the market share of private label products have increased in the period 2010-2014, the highest increases of approximately 3% was recorded in Chile and Colombia. The increase is due to the efforts of retailers in terms of product quality. According to market surveys (Nielsen, 2014), 76% of consumers in Latin America positively perceive private label, with small differences between countries: Peru 84%, Mexico 79%, Chile 78% and 78% Columbia. In addition, two thirds of respondents consider quality own brand products as being as good as the product brand manufacturer. Most positive perception is recorded in Venezuela, 74%, and Peru, 73%, and the least in Argentina, 62%.

Africa and the Middle East

Own brand development in Africa is still in its infancy, the market share of which is 1% or less. The growth of this segment can only be achieved as trade modernization in the region. Today, modern trade is met only in urban areas. Even in South Africa, the largest market of private labels in the region, 30% of trade exchanges come from traditional trade. As modern trade will develop, discount stores are important for market growth of private labels. These stores are developed networks in Turkey or in North Africa: Morocco and Egypt. Buyers from the Middle East spend their free time in shopping malls and supermarkets and hypermarkets are entertainment venues. Therefore, more and more international retailers: Carrefour, Spinneys and Choithrams begin to devote more space for private labels.

RESULTS AND DISCUSSIONS

Considering the findings identified in different regions of the world, some considerations regarding private labels development can be worked out.

Scenarios of developing private labels on mature markets

In Europe, private brands account for over 40% of market share in Switzerland, Great Britain and Spain.

In Britain, studies (MSLGROUP London, 2014) show that in 2011-2013, private label food sales rose 1.32% to account for a share of 48% in February 2014 with 0.88% more than the same period in 2013. In the agro-food segment, private labels hold 54% of sales. Not only prices lower than manufacturer branded products, but also the trust that consumers are beginning to have in the private labels of these products will help to increase sales, especially for premium category.

On the British market, retailers own brand products brought innovations, especially in terms of packaging and ingredients. Research shows that 71% of consumers believe that private label products have improved in terms of quality compared to 62% EU average. The results of study also show that 44% British would pay more for own brand products better quality, 28% more than four years ago. Six out of ten consumers consider private label products as good as branded products manufacturer, compared to 34% four years ago.

By product categories, private labels hold the largest market share in baby products, fresh products (57.5%) and frozen food products (46.1%) (IRI, 2014).

In general, prices of private label products are 30% cheaper than branded products manufacturer, and, over time, the gap is narrowing. We consider that a successful business for a retailer in those markets will be when he will convince his loyal customers to pay almost same price for his brands, instead of manufacturer's brands. Also is obvious that businesses with own brands moves to the premium sector, in mature markets, including the UK. As these markets are most evolved ones for private brands, we recommend to retailers to build their strategies, in order to get a higher share in consumers mind space, where actually moved the competition battle.

In Spain (Canadean, 2015), own brand development stagnates, as producers have responded to competition with private labels through aggressive promotional and pricing strategies. Although the Spanish economy has recovered, seven out of ten Spaniards do not believe that the current economic condition is stable. The insecurity and uncertainty have led Spanish consumers to purchase further and after the crisis, cheap food. Trend "great value for money" dominated the Spanish market in recent years and turned into a model of buying behaviour. Although Spanish consumers have stable jobs and higher incomes than four-six years ago, yet they continue to spend money carefully.

According to the study carried out by Canadean, private brand sales have increased in recent years. However, this upward trend will slow down, as producers respond by promotional offers. One third of Spanish consumers plan to buy in the future own-brand products, while buyers seek actively deep discount brand promotional offers on products manufacturer. Research shows that 57% of Spanish consumers are searching promotions and discounts, while 49% use vouchers and coupons and 38% use the Internet to compare product prices in different stores, before shopping decision. Price wars have implications for retailers and manufacturers, and consumers who focus too much on price and promotional offers and less on other attributes of products such as those linked to health benefits or convenience of use.

Strategies of retailers in Spain are different from those of retailers from other countries. New shops appeared: low-cost ones. The structure and offers are similar to cash and carry format, but included items that are addressed to specific segments, such as actively working people or large families. Supeco owned by Carrefour Group, the new Costco and Dealz (Poundland) is using low price strategy to offer "everything to 1.5 euros.", and Eroski Club is using customer oriented price strategy "as the consumer wants to offer".

Thus in Spain's stores, private label products are launched, most often at the same price with the brand manufacturer, however, consumers will purchase branded products manufacturer, considering that they are of better quality. We recommend retailers to go for more holistic marketing strategies, giving the chance to highlight quality of their products. This can be done through accurate and complete information on the label, containing the origin of the product, including manufacturing methods, and most important benefits for the customers, coming from related attributes. This tactic will encourage consumers to think twice when deciding on product choice between the brand and the private label manufacturer.

Like other mature markets in Europe, the largest market share of private label products is recorded in frozen products (57.6%).

In France, the market share of private labels rose to a ceiling of 29%, followed by a slightly downward trend. French consumers are not yet convinced of the quality of products offered by private label brand products and they still prefer manufacturer's ones. These results do not include, however, the channel Click and Collect from France, which lists system everyday purchases, including many own brand products. Supermarkets and hypermarkets, however, use strategies of limited product ranges under private labels. This strategy is complemented by intense promotional activity of producers, who use aggressive tactics of persuasion to attract customers to their products. An example of this is the Carrefour hypermarket, which reduced the number of private label products space in the shelves, grating it to products for which producers apply significant promotional activities.

Regarding the analysis of private labels by categories, the largest decline was recorded in food products. While highest share remains in frozen products, 45.7% of the market, or fresh food products for children, 39% share.

We recommend to French retailer strategies like differentiation in product ranges driven by innovation and product customization; or changes in the distribution policy, by intense distribution of own brands on their omni-channel capabilities, already existing in the market .

In Italy, private labels are having 18% market share. The marketing strategies of retailers vary depending on geographical region. Thus, in Northern Italy, large networks of stores operate: Coop, Conad, Carrefour and Esselunga, which reports about 60% of sales revenue. In South Italy, trade is dominated by small retailers who do not have the financial strength required to develop their own brands and to meet competition coming from the big chains.

We recommend that strategies of Italian retailers to adapt for buying pattern of consumers, who became more cautious and sensitive to price changes, seeking bids from private labels type. As in most European countries, in Italy there is a significant market competition between private label products and branded products of manufacturer, which are accompanied by promotional offers. The price difference between private label and branded goods manufacturer reduced. Some retailers are choosing price repositioning strategies to compete with products that manufacturers activate via promotions.

In Germany, private labels hold 24% market share. Strategies used by German retailers in product policy are innovation and widening the range of products. Promotional policy is marked by different strategies to increase the sales pull. What differentiates German retailer's strategies from those of other European countries is that he is not invest in promotional activities as the domestic producers for national brands. For food products price gap was enlarged, while promotional activities during sales continue to rise. Germany also differs from other European countries in terms of categories that dominate sales of private brands, such as: home care products lead their top-selling brands, with a market share of 41.1%. These are followed by frozen products, with a share of 37.3%, and fresh food products for children with a share of 36.2%.

United States is a mature market for private labels, although they hold a lower rate than many European countries: 16.4%. Studies (Eales, 2014) show that, in total, US consumers spent \$ 120 billion on private label products in 2013.

Scenarios of developing private labels on emerging markets

In India, organized retail is primitive and basically there are no own brands. However, trade has great potential. Two countries: China and India, highest populated countries worldwide, have commercial network of stores over 5000-6000. Private labels have only 10% of organized retail trade and their market share is growing. Among the main actors in food retail, the highest rate of penetration of own brands holds Trent, with 90%, followed by Reliance Retail (80%), Pantaloon (75%), Nilgiri's (38%), Indiabulls / Piramyd (30 %) and Food World (22%), as shown the outcomes of some studies (Subha, 2014).

KPMG reports show that India experiences increasing presence of private labels in various segments and their adoption by different traders. The tendency is increased acceptance of private labels and thus penetration into new categories like: apparel, consumer durables, home care products and consumer goods manifests. Development of private labels will continue in the current environment, as it will change the perception of consumers that private label products are just cheap products.

Specialists (Subha, 2014) consider that, in future, private labels will reach 50% market share, after which it will saturate. If retailers will try to occupy more than 50%, consumers will have no longer sufficient alternative choice, as happened in Switzerland and the UK, where private labels have reached these limits, and the market was saturated. But they will continue to develop in other countries, not reached this level, such as in India and China.

China, a market of over 1.2 billion customers, offers great opportunities for retailers in selling their own branded products. The reasons for accepting Chinese manufacturers to produce ranges that are sold under the retailer's brand are different compared to reasons that lead

manufacturers in mature markets of Western Europe to do so. The reasons are: survival of business producers who do not have sufficient financial resources to support promotional policies for their products; entering new markets and making full use of production capacity without the need for new investment; reduction of cannibalization risk and improving competitive advantage in the future (Song, 2014). According to legal regulations in China, supplier of products sold by the retailer under private label must appear on the label. The buyers recognize products provided by certain manufacturers, and they do not carry out promotional activity expenses. By accepting the sale of products under private label, manufacturers reduce their costs, giving a chance to maximize the profit.

In Latin America, as in Asia-Pacific region, private labels are still in infancy, as launch stage. In South America, their launch and development was possible in the economic crisis that forced consumers to seek high value for the money spent (Capizzani, 2012, p.23-24). Argentina is an interesting case, where, although low market share of private labels, sales of the top five retailers own brands are just beyond the first twenty manufacturers. Argentine traders' strategies focus on improving product quality and reduced prices on average 30% lower than manufacturer branded products.

We believe that the future development of private labels is linked to the strengthening of hypermarkets and supermarkets, with the development of economies of scale. Both the economy and therefore trade are fragmentary in Latin America, so retailers are small businesses and they do not have the financial strength to develop private labels. As big retail chains entering the markets of Latin America, will develop and own brands segment.

CONCLUSIONS

In conclusion, the main advantage of own brand products, which was the basis for their launching and development worldwide, is lower price compared to manufacturer branded products. During time, however, the price difference has decreased, while the market share of private label products has decreased in mature markets, largely due to the financial efforts of the manufacturers who had invested in promotional activities to attract the customers. They also prefer manufacturer brands on a large scale, being easier to compare prices between different channels and retailers for products of the same brand, when actively looking for promotions and offers.

We consider that private labels will be successful if retailers will manage to bring more innovations to products and to differentiate them from the brand of manufacturer, to meet customer needs at the same level, but with a slightly lower price. For own brand products, we believe there are great opportunities for development of premium segment, with top quality products and higher prices, which will create more differentiation among retailers and customer loyalty. In emerging markets, private label products have great potential, growing together with retail modernization and consolidation.

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