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A DETAILED STUDY ON THE PERFORMANCE OF PRIVATE LABEL BRANDS AND REVENUE GENERATION BY ORGANIZED RETAILERS IN INDIA

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ABSTRACT

Private label brands are those which developed by retailers and available for sale only from that retailers. These are available in many industries now-a-days. Since the Private Label has come to the picture it has developed a lot. It has been used for the development and welfare for the country. It actually increases the buying and selling power of retailers. Store brands in India are in growing stage. It is difficult to get success quickly in India because of the highly unorganized structure of retailing. In most of the cases it is being explained that the development of welfare with Private Label in short term. Consumers are also benefited from the availability of the number of goods. But the lower price competition amongst the retailers can affect the welfare of the country. This study focuses on producers that are manufacturing for the international markets and examines their perceptions and attitude toward private labels and overseas retailers, as well as their actual behaviour in terms of their branding strategy. Distributors and mainly retailers can benefit from this study by gaining an understanding of overseas producers' attitudes toward their private labels and learn when it is more advisable, and more beneficial to both sides, to manufacture private labels. In addition, retailers can learn when overseas agreements are preferable to local contracts with domestic manufacturers.

KEY WORDS: *Organized retailing, Private Label brands, Revenue generation*

INTRODUCTION

There has been a significant increase in Private Label brands in recent years worldwide and we can announce that in India Private Label brands are moving at a great pace as well. Private Labels are growing faster than manufacturer's brands. They are more popular today than at any time before. Private Labels have gained an increased market penetration and are growing at a rapid rate. A Private Label is defined as 'the products retailers sell under their own names". According to the Private Label Manufacturers' Association (PLMA), "Private Label products encompass all merchandise sold under a retailer's brand. That brand can be the retailer's own name or a name created exclusively by that retailer". The term retailer's own-brand is often used interchangeably with private label, own-label, retailer brand or store brand. Private labels have come a long way over the past three decades. In the past, Private labels were a cheap, low-price alternative to manufacturer brands but today, private labels have taken on a premium brands image. They are no longer seen as just cheap and poor quality products bought by less affluent customers but rather they Endeavour to be an alternative option of value or quality to manufacturer's brands. Retailer's brands are to be found next to national brands in every category. Indian retailing set to double in the next three years, to see the emergence of more national retail chains the optimism about Indian retail is corroborated by the KPMG Retail Survey. More than 70 percent of our survey respondents expect to grow in excess of 40 percent per annum in the next three years. Going by the growth plans of the retailers we met, modern retailing is expected to double in terms of the number of outlets and retail space in the next three years, with emergence of more national retail chains. Modern retailing action is in urban areas –

but India is witnessing experiments to tap the rural retail potential. A majority of our survey respondents felt that the opportunity for modern retailing is in the urban areas. While there is a large potential in rural areas, fragmentation and the cost of market access are deterrents. Rural retailing is witnessing explorations by both corporates and entrepreneurs – ITC's Choupal Sagar, HLL's project Shakthi and Mahamaza are some of the models being tried out. While conclusive evidence to identify the winning rural retailing model is yet not available, such experiments are steps in the right direction. Opportunity is there for taking – Are the retailers prepared? In such a scenario of rapid growth, the preparedness of Indian retailers in terms of having appropriate formats, scalable processes, appropriate technology and relevant organization capability would be crucial to success. [Source: Retail Asia, KPMG Analysis]

The growth of retailer-owned or private label brands (PLs) represents one of the most notable trends in marketing in recent decades. Indeed, PLs constitute 15% of the sales value of fast-moving consumer goods worldwide, including 17% in the United States (ACNielsen 2010) and more than twice this figure in some European countries (e.g., Switzerland at 46%, United Kingdom at 43%). Unlike national brands (NBs), PLs are often the only chain-exclusive brands offered, and retailers have a direct impact on their price and quality positioning. The definition by Private Label Manufacturers' Association (PLMA) states that merchandise sold under a retailer's brand as opposed to the manufacturers brand is private label. Kumar (2007) likewise indicated that if a wholesaler, retailer, dealer, or merchant launch a brand, as distinguished from a brand bearing the name of the manufacturer or product, it is a private label. National brands are often interpreted as higher quality and so demand a premium price (Kumar et al., 2007). However, the market share of private label has expanded gradually, along with the improved quality of private label (Kumar et al., 2007).

Dhar and Hoch (1997) define private labels are as those products owned, controlled and sold exclusively by a retailer and for what the retailers must accept all responsibility from developing, sourcing, warehousing and merchandising to marketing such as branding, packaging, promoting and even advertising. Nielsen A.C. (2003) defines private label as follows: "any brand that is sold exclusively by a specific retailer or chain". These definitions bring out two main ideas. First, it is the retailer who owns and controls the brand whereas this was traditionally the role of the producer. Second, the retailer has exclusive rights to the product. This means that different retailers do not sell identical private labels, which is not the case when retailers sell manufacturers brands. Thus the development of private labels does not only change the relations between producers and retailers (because of the retailer has a new role), but also affects competition between retailers, as private labels are an additional way of differentiating between retailers. Positive growth rate in Private labels/brands start from 2000 onwards in India. Presently there is an overabundance of different names and definitions used to describe this concept. While some authors use the term private labels, others prefer words like own brands, retailer brands, wholesaler brands or distributor own brands.

Some of the key driving factors are mentioned below:

1) Skilled human resource problems - Front-end/retail assistant profiles in stores form a major proportion of the employment in the retail sector while store operations account for 75-80% of the total manpower employed in the organized retail sector. Unfortunately, there are very few courses specific to the retail sector and graduates/post graduates from other streams are recruited. Further, retail training opportunities such as niche courses for areas like merchandising, supply chain and so on are limited. The condition is more alarming in the unorganized sector where the manpower is not equipped with even the basic level of retail specific and customer service skills, which adds to their incompetence vis-à-vis the organized sector. A cohesive effort to develop skills within the sector can have a significant potential impact on productivity and competitiveness, both within the sector and on the wider economy.

2) Industry identity - Due to the absence of 'industry status', organized retail in India faces difficulties in procurement of organized financing and fiscal incentives. The Government should grant the much needed 'industry status' to the sector so that the sops that come with it helps promote both big & small retailers.

3) Policy related barriers – Organized retail in India is managed by both the Ministries of Commerce & Consumer Affairs. While the Ministry of Commerce takes care of the retail policy, the Ministry of Consumer Affairs regulates retailing in terms of licenses and legislations. There is a need to govern retail operations through a single apex body. A single agency can take care of retail operations more effectively, especially with regard to addressing the grievances of retailers. The development of the retail sector can take place at a faster pace if a comprehensive legislation is enacted.

4) Infrastructure related factors - Lack of sophisticated retail planning is another major challenge the sector faces. Available space is easily interchangeable between commercial and retail use. In most cities, it is difficult to find suitable properties in central locations for retail, primarily due to fragmented private holdings, infrequent auctioning of large government owned vacant lands and litigation disputes between owners.

OBJECTIVES

Objectives of the research paper are mentioned below. They are –

- To study the impact of organized retailing in India
- To understand the impact of private label brands on organized retailing
- To find the future research path in organized retailing

LITERATURE REVIEW

Private labels' market shares have amplified hurriedly. For instance, in the American apparel market in 1998 they held 20% of aggregate unit sales and in 2002, this had jumped to 36% (Cheng Wu and Jen Wang, 2005; Sayman *et al.*, 2002) In Spain in 2002 the retail brand share in the mass commodity market accounted for 30.6% in value in supermarkets (Obina *et al.*, 2006,) and In the U.K., Belgium, Germany France and Italy private labels reached up to 30% and more in total grocery stores sales in 2002 (Tarzijan, 2004) Accompanied by structured marketing strategies, private labels augmented their competitive strength in relation to manufacturers' brands (Burt, 2000; Calvin and Cook, 2001; Kim and Parker, 1999).

There are numerous advantages for retailers in developing their own brands, for example, higher mark-ups, control in managing and promoting the brand, exclusivity in selling to customers and hence escalating customer loyalty to the store, enhanced haggling positions vis-à-vis national brand producers and establishing closer contacts with consumers (Corstjen and Lal, 2000; Chinlagunta *et al.*, 2002; Fearne, 1998; Narashimhan and Wilcox, 1998; Sayman *et al.*, 2002). However, problems arise when manufacturers are also producing and developing their own brands. Moreover, manufacturers use retailers to distribute, to sell and in many cases, to promote their brands at the points of sales. Hence for the manufacturer, the retailer who owns a private label becomes a double agent (both a client and a competitor): on the one hand, serving as the seller, providing the manufacturers' brands to the consumer, while on the other hand, competing with manufacturers with the retailer's store brands (Obina *et al.*, 2006). Therefore, it is not surprising that the growth of private labels has generated friction and dilemmas for both manufacturers and retailers (Cheng Wu and Jen Wang, 2005; Cotterill *et al.*, 2000; Pustis and Dhar, 1999; Quelch and Harding, 1996). For retailers, the main dilemma, once having decided to develop and sell their own brands, is who will be their supplier, i.e., their manufacturer, Johanson and Vahlne (1990) suggested that the internationalization of the firm could be seen as a process in which the enterprise gradually increases its international involvement. This process evolves through the interplay between the firm's acquired knowledge regarding the foreign markets and its commitment of resources to these markets. Local retailers can more easily provide their suppliers with information regarding their customers' preferences and tastes and direct them to produce the required adaptations that are essential for product sales. Moreover, retailers that already have their own brands will be more familiar with customer tastes since they have the marketing and producing information of their private labels and are better aware of customer responses to any changes or promotional activities. Launching new markets can be a long and difficult task, especially where there are many competitors or the market is dominated by a major firm. Other crucial barriers are cultural differences, differences in legal regulations, and conditions of product use (Timmor and Zif 2005, Walters 1986). Joining forces with a retailer can mean quicker penetration and sales for new firms looking to enter the market by manufacturing for private labels. Multinational or big domestic retailers can also be attractive for overseas market leaders due to their ability to get solid orders. Multinational retailers can also enable producers to enter several markets in parallel, with no need for massive promotional efforts other than some adaptation of product packaging or meeting of regulation requirements. From the transaction cost perspective (Bello *et al.*,1991), a firm's decision about distribution and integration are geared to minimize the sum of transaction and product costs (Aulakh and Kotabe, 1997; Klein *et al.*, 1990). When a firm exports its own brand, e.g., Heinz, Toshiba, Orbit, substantial costs accrue due to marketing communication expenses, for example advertising, sales promotions and presentations at points of sales. In this manner, producing for overseas private labels can be efficient in terms of cost saving, since the firm transfers a major portion of the marketing function to another firm – the retailer. This can be more cost-effective for short-term cash flow issues.

Being flexible and supporting the overseas distributor (wholesaler, retailer) have been shown to have a positive affect on the export result (Bello & Williamson, 1985; Cavusgil *et al.,* 1994; Fiegenbaum and Karnani, 1991; Timmor and Zif, 2005). Such supports can be expressed through financing the marketing activity, supplying advertising and sales promotion materials or producing for their private labels. Differentiation through own brands is a pervasive objective among retail practitioners; for example, as Moberg (2006) states, "with PLs, we can better differentiate ourselves and our brands. We can increase customer loyalty." However, recent evidence has suggested that there are limits to this approach (Ailawadi, Pauwels, and Steenkamp 2008). Moreover, there are indications that consumers consider PLs a group of similar brands with common demand drivers across chains (Ailawadi, Neslin, and Gedenk 2001; Bonfrer and Chintagunta 2004) or, as observed by Richardson in an experimental setting, that consumers "perceive no differentiation between … store brands" (Richardson 1997, pp. 393–94).

This study complements recent studies by Ailawadi, Pauwels, and Steenkamp (2008) and Hansen and Singh (2008), which also involve the possibility of PLs to differentiate from rival retailer-owned brands. Both these studies investigate the association between PL buying and store patronage. In the current study, the central issue is how PL experiences in one chain shape consumers' subsequent quality beliefs about the PL of a rival chain and its choice share vis-à-vis NBs. Thus, our study differs from those of APS and HS not only because we focus on cross-retailer effects through learning dynamics but also because we use a different outcome metric— a PL's choice share relative to NBs within a specific category and store, when the consumer is in that store and has decided on a category purchase.

The development of retailers' brands in France, commonly named private labels (PLs), remains topical 30 years after their creation. Since the 1990s, the PL market share has doubled, and a recent study emphasized that their development is continuing (Moati, 2008). These PLs currently represent 32 percent in value and 37 percent in volume of the sales of consumer products by the mass retail industry, which indicates that PLs have become an inescapable part of what is on offer in supermarkets. These figures obscure the fact that there is a high degree of heterogeneity among departments (PL market share remains low in the 'baby food' and 'health & beauty' sectors, respectively 1.3 and 7.4 percent, whereas it reaches 45 percent for frozen food). According to Raju et al. (1995), PLs are more likely to be introduced in categories with smaller cross-price sensitivity among national brands (NBs) and a smaller number of NBs. Nowadays, the penetration rate of PLs is still disparate across French retailers (from 23 to 45 percent). At the international level, PL development ranges from 16.4 percent in Italy up to 40 percent in Switzerland, Belgium, Germany, and the United Kingdom (percentages are in volume). Although academic research has provided useful insights to combat increasing PL sales, several gaps in our understanding have yet to be addressed. First, there is a dearth of research on whether and when consumers continue to be willing to pay a price premium for NBs over PLs (for an exception, see Sethuraman and Cole 1999). This is remarkable because the ability of NBs to charge a price premium has a strong impact on profitability (Marn, Roegner, and Zawada 2003). Second, although there has been a lot of research into the consumer-side factors that drive PL success (e.g., Ailawadi, Neslin, and Gedenk 2001; Erdem, Zhao, and Valenzuela 2004), supply-side factors, in particular marketing and manufacturing, have received far less attention (for two exceptions, see Dhar and Hoch 1997; Hoch 1996). Third, almost all the existing research has been conducted in countries in which PLs are highly developed. Although it is reasonable that researchers first focus on these markets to understand how NBs can fight PLs, it is paramount that we conduct research in countries with a more recent PL history. Because the economic and marketing environments of these countries are different from those of more developed PL countries, the best ways to fight PLs may also differ.

CONCLUSION

The "India Retail Sector Analysis (2006-2007)" report, analyze the opportunities and factors critical to the success of retail industry in India. Western Style mall culture is started appearing in Indian markets. Now the Indian consumer is enjoying world class shopping experience. The industry is in inflexion point, where the growth of organized retailing and rising in consumption levels by the Indian population is turning towards a higher growth trajectory. According to the market research reports 2007, in depth comprehensive cross industry review on Indian Retail Industry which explores the macro economic scenario of Indian economy which coupled with growth of GDP led to the shift of consumer purchase patterns and build up confidence in the retail sector there by giving shape to the Government allowance for FDI in the Indian Retail Sector. In recent times the organized retailing by Indian players emerging with multi formats retail in India. The present study structured in to major four parts. In the first part of the study the attempt has been made to understand current issues in the Indian Retail Industry. In the second stage a brief overview of Global of retail industry. In the third it has been highlighted to identify the hurdles facing by the industry. Finally an attempt has been made to understand challenges/road ahead for retail industry in Indian Market. The paper is resourceful for the readers to get the insights of retail industry. It is giving scope for the investors as sun rise sector.

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