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RESEARCH ARTICLE

NATIONAL BRANDS MANUFACTURERS AS PRODUCERS OF PRIVATE LABELS: RIVALS OR ENLIGHTENED PARTNERS?

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ABSTRACT

In the present scenario Private labels (PLs) are growing globally due to many factors and it makes unfavourable impact on National brand market share. Certainly retailers do not open factories for production rather than searching for dedicated suppliers or national branded manufacturers for production of their required items as they are not in actual production. This study examined why national brand manufacturers produce private labels. We analyzed various influencing factors & opportunities of national brand manufacturers about their decision with reference to produce private labels. This investigation was undertaken by using semi-structured interviews with private label suppliers and retail consultants. The findings, which reflect observed practice, are interpreted through theoretical propositions related to earlier studies, managerial implications are provided. The results may help managers to identify key variables that affect the profitability of producing private labels. It will also enhance the present situation of this subject area and serve as the basis for further studies.

INTRODUCTION

National brands are those products that are promoted nationally, or even globally. Because national brands are generally owned by companies with significant resources, marketing of national brands typically focuses on brand differentiation rather than feature or price positioning. This enables most national brands to achieve premium pricing compared to store brands, private labels or commodity products in the same category. Private labels, “any brand that is sold exclusively by a specific retailer or chain”. In general private labels are defined as those products which are 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. American Marketing Association defines a private label as “a brand name or label name attached to or used in the marketing of a product other than by the product manufacturers; usually by a retailer”. Now private labels products are having interest from both retailers and manufacturers. They are concerned with power relationships and affect sales volumes, market share and profits of manufacturers as well as retailers. Nonetheless most past studies have focused on retailers and consumers perspective, in spite of manufacturer or supplier point of view. Manufacturers of private brands categories are as follows: National or global manufacturers who use their expertise and idle production capacity to supply retailers; small manufacturers who specialise in producing store brands; and major retailers who own their own developed facilities. In this study we explain the rationale behind PL production. It has been estimated that over half of the NB manufacturers pursue a dual strategy & involve in production with NB activities. NB manufacturers and retailers are having partnership to maintain & grow their market share. Although retailers are having capacity to produce but they usually outsource their PL from manufacturer. With an intense competition from market, National Brand Manufacturers (NBMs) are having two strategies: First of the dual strategy, where NBMs are engaged in production of own manufacturer brands & private labels for retailers. Second one own production and not to supply retailer. The decision to produce or not to produce PLs is not an easy one, since several consideration come into play. In order to understand why National Brand Manufacturers (NBMs) produce PLs, it is necessary to discuss some aspects of how competition is created in retail market. Firstly, an increase in retailer concentration creates increased competition for NBMs to merchandise their products, which has established business practices like the use of slotting allowances and high rent concessions for retailers (Corsten & Kumar, 2005). Secondly, the shelf space of a retailer has become increasingly scarce, as high proliferation of national brands, along with the increased presence of PLs further increase competition for shelf-space allocation (Amrouche and Zaccour, 2007). Thirdly, the competition is characterized as intense, because the packaged consumer goods market consists of a large variety of commodity products (Oubiña, Rubio, & Yagüe, 2006). The study focuses on producers as well as suppliers who are engage in production of private labels for retailers.

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Literature review

Despite “the richness of the phenomenon and the high level of managerial interest,” surprisingly little research has been done on PL production by NB manufacturers. Kumar, Gomez-Arias and Bello-Acebron (2008) derive that, depending on the PL’s quality positioning, a NB manufacturer might be more or less willing to supply the PL. They distinguish between high-quality and low-quality NB manufacturers. The pressure to produce PLs is the highest when the PL enters the market at a quality level similar to the manufacturer’s NB quality. Hence, a high-quality NB manufacturer wants to produce a high-quality PL to pre-empt competition and to be able to position the PL such that it competes with other NBs and not his own. Chen, Narasimhan, John, and Dhar (2010) estimated a structural model to derive the profit implications for various PL supply arrangements, and showed in the context of a single market (fluid milk) through a number of policy simulations how engagement in PL production may be beneficial to NB manufacturers. Radhakrishnan, and Rao (2010), for example, consider the retailer’s decision to work with either a dedicated PL supplier or a dual brander. They point out that their analysis does not apply to discount stores, as these are very much focused on the low-end, highly price-sensitive, segment.

Relevence of research

Very few researchers have focused solely on the production of PLs by NBMs. This report would benefit NBMs with reference to various reasons to produce them. Additionally, It will measure the silence of each factor as a driver for NBMs to produce PLs. This study will provide some suggestions that will solve the problems & serve the interest of both parties including manufacturer and retailer.

Problem statement

Which factors drive a national brand manufacturer to produce private labels for a retailer?

RESEARCH METHODS

For this empirical research, a qualitative method was used. Qualitative research is appropriate in an area where there is little known and limited research as it can reveal processes going beyond surface appearances (Holloway & Wheeler, 2000). The intent of this research is to examine the "process" rather than "test" of the measurement and causation between the variables (Denzin &Lincoln, 1998). The nature of the qualitative method is to explore the truth rather than facts alone. The guiding interpretive ontology assumption is that “the social reality is a product of the process” (Blaikie, 1993). Therefore, qualitative research better suits the present research.

Exploratory Study

This research is based on personal interviews with manager or owner of Indian firms. All of them must have good knowledge of marketing activities via their own experience such as distribution and promotion.
First, In Depth interviews were conducted with the owners or managers who were involved in the activities of firms. The authors obtain much variety as possible from all type of firms operated in different industries were studied. In the second phase semi structured questionnaire was built followed by pre-test. A final structural questionnaire was used at the end. The interviewees were encouraged to discuss in order to know the reasons why supply Private Labels.

Unit of Analysis

Unit of analysis in this study is final product manufactured by firms themselves (No raw materials and products in process) and marketed by retailer itself.

Population, Sample, and Data Collection

The population under study consisted of product–market ventures of Indian firms that had been manufacturing final products. Each firm was contacted by telephone to identify the manager responsible for and personally involved in the marketing strategy. A telephone call to the potential interviewee then confirmed with the research requirements and, after eliciting consent to participate in the study, the interview date was fixed. 90 firms were contacted and 63 (70%) positively responded. For each refusal, another firm, similar in terms of size and industry, was chosen. 53 cases answered the research criteria (59%); for technical reasons, three interviews could not be conducted. Thus the final sample consisted of 50 firms from various industries.

FINDINGS AND DISCUSSIONS

NBMs Reasons to Produce Private Labels

1. Economic financial reason- NBMs have excess capacity of production and they can take advantage of economies of scale, reduce cost and their profitability remains satisfactory if they are also engage in PL production for retailers.
2. Strategic reason – If NBMs refuse to produce, others will do so. In this case they will lose their revenue. Occasionally, manufacturers choose to produce for extra profit. It is just like somebody losing others gain.
3. Relational reason – It makes better relation with retailer as they supply to them. Consumer information about purchasing behaviour can easily be attended through retailer and will it lead to competitive advantage to NBMs.
4. Competitive reason – To be in market with own or private labels product for increasing profit and have competency in the market though their product.
5. Market reason- To get additional market share through sale to retailer.

NBMs Reasons Not to Produce Private Labels

From the manufacturer's perspective, there are several reasons for not getting involved in any private label business. In general, private labels represent a consideration threat to manufacturer brands.
1. The manufacturer usually faces competition of price from others. As a result, NBMs decrease quality of own product as well as retailer brand so as to sustain in the market.
2. NBMs have no control to retailer activities such as advertisement, retailer deals, packaging design.
3. Since, higher inventories required to meet demand of retailer. When leads it to decreasing money turnover.
4. Manufacturer’s branded product available at higher price comparatively to retailer brand may usually result in losing market share.

It has been also observed that due to economic factors NBMs take decision to produce PLs. As they are having idle capacity to produce and due to intense competition from the market, NBMs produce PLs for full utilization of machinery & labour. NBMs can have higher profits from own products as well as PLs.

Conclusion

The results obtained in this paper provide some managerial implication to NBMs about the production of PLs. Firstly, if NBMs engaged in PLs production; they can reduce cost and become more economically sound. Secondly, NBMs can have competitive position in the market. If they involved in PLs, It means their entry would become easy into middle and lower market segments. Thirdly, NBMs will get rid of most of the entry barriers set by producers which they usually face as they try to enter into a new market. Fourthly, manufacturing private label products will let them enter the bigger and higher end markets. As the NBMs are having idle capacity, the production of PLs may be a way to increase efficiencies and take advantage of economies of scale by producing both types of brands. The downside of producing PLs by NBMs is the condition when product does not perform as expected. As it involves several risks such as low profit of own product, relation between supplier and retailer, failure of private labels etc. NBMs should be more enthusiastic about producing PLs as there are number of reasons that support their involvement.

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