

PRIVATE LABEL BRANDS IN EMERGING ECONOMIES: AN EVIDENCE OF INDIAN MARKET

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ABSTRACT

Private Labels are taking the world by storm and are also flooding the Indian markets. This research traces the origin and evolution of the retail industry along with private labels in Europe and North America, and ends with a note on the evolution of private labels in India. The emergence of retailing in India in an organized format has made private labels familiar among Indians. Go to Shoppers' Stop outlet and you will find a brand called 'STOP' which is Shoppers' Stop's own brand. Similar is the case of the 'Westside' brand of Westside from the house of Tatas. In Pantaloons' food retail outlet, 'Food Bazaar' and the RPG counterpart, 'FoodWorld,' one can find packets of groceries marked with a 'Food Bazaar' or a 'FoodWorld' stamp. The growth of private label s is quite impressive in food and grocery segment, in spite of presence of leading national manufacturers brand in most of the categories. Though, initially private labels were considered as cheap alternative and therefore visible in copycat and generic categories. But today they are part of well defined retail mix strategy, therefore are developed in value innovators and premium category by most retailers for profit maximization and customer loyalty.

This paper discusses about the Private Brands in Indian Retail Industry. It mainly focuses on the importance of private labels to a retailer, some of the well known private brands in Indian retail Industry, the growth potential of private brands, and performance of private brands with some examples.

KEYWORDS: Private Brands, Indian Retail, Organized retail, Private Labels, Store brands, Store Image, Customer Loyalty, PLMA, Grocery Retail .

INTRODUCTION

Retailing encompasses the business activities involved in selling goods and services to consumers for their personal, family, or household use. It includes every sale to the final consumer-ranging from cars to apparels to meals at restaurants to movie tickets. Retailing is the last stage in the distribution channel. Retailing in India increased strongly in 2010, with a similar growth rate to 2007, before the financial crisis. The driver of such strong growth was modern retailers expanding their reach further across India, particularly as the leading retailers could negotiate better rental prices after the global financial crisis. Nonetheless, inflation played a part in the strong growth, as the average inflation rate in 2010 was 13%, which was the highest over the review period. Inflation helped to drive current value sales growth, particularly in food/drink/tobacco specialists and independent small grocers, which account for the bulk of the retail landscape in India.

Private label products—commonly referred to as name brand, store brand, own label, retailer brand or generics—are brands owned by the retailer rather than the producer or manufacturer. Private label products are found in almost all food and beverage categories. For some food categories, products have been repackaged or otherwise prepared in-store to expand product offerings, especially within the fresh produce category (such as bagged salads and fruit trays).

Private Labels are taking the world by storm and are also flooding the Indian markets. This research traces the origin and evolution of the retail industry along with private labels in Europe and North America, and ends with a note on the evolution of private labels in India. The emergence of retailing in India in an organized format has made private labels familiar among Indians. Go to Shoppers' Stop outlet and you will find a brand called 'STOP' which is Shoppers' Stop's own brand. Similar is the case of the 'Westside' brand of Westside from the house of Tatas. In Pantaloons' food retail outlet, 'Food Bazaar' and the RPG counterpart, 'FoodWorld,' one can find packets of groceries marked with a 'Food Bazaar' or a 'FoodWorld' stamp. So what is a Private Label? According to research scholar, Baltas (1997), a private label is: "a consumer product produced by, or on behalf of, retailers and sold under the retailers' own name or trademark through their own outlets"

Retailing in India is gradually inching its way toward becoming the next boom industry. Retail industry in India is expected to rise 25% yearly being driven by strong income growth, changing lifestyles, and favorable demographic patterns. Organized retail is on the threshold of a boom in India. But as companies line up to grab a bigger and bigger slice of the retail pie, another battle is likely to change the face of the industry, the one between the manufacturer brands and the retail chains private label brands, which are far from being just cheap generics. Private labels, or store brands,

are those owned and sold by retailers in their stores typically at a lower price because of minimal marketing and advertising expenses. Worldwide experience shows that as retailers become more powerful, they have increasingly focused on their own brands at the expense of manufacturer brands.

GLOBAL IMPORTANCE OF PRIVATE LABELS - Globally, market penetration of private label is highest in Europe, particularly in the matured and developed Western Markets. According to PLMA, Switzerland leads in private label brands with a share value of 45.4% in 2011. Across the globe, Switzerland is the only country where more than half of the products sold belong to private label brands. Whereas, the UK follows very close to Switzerland by value, Second position is retained by Spain. The leading market in terms of private label brands outside Western Europe is Canada, where every four dollar is currently spent on retailers' own brands.

Findings of Neilson Global Survey, revealed that more than 27000 respondents in 53 different countries showed that concept of private label is going to stay in retail market for a longer period. Another global online survey conducted by Nielson 2010 global online survey identified that 60% of consumers among 55 countries from Europe, America, Asia Pacific and Africa along with countries from Saudi Arabia, United Arab Emirates, Pakistan, Egypt and South Africa were of the belief that they are keeping huge stock of store brands due to economic slowdown. Across the regions, Latin America is having maximum 66% and the Africa and Pakistan regions are trailing at 51%. The above study also revealed that the highest levels purchase intent of private label brands during the economic slowdown was reported by consumers in Colombia with 80%, Spain with 79%, Portugal with 74% and Greece with 70% respectively, reflecting realities of economic recession, sluggish export activities and strong deficits. Whereas, the lowest drift towards private labels was reported which came from consumers in Sweden with 70%, Thailand with 62%, Hong Kong with 60% and Denmark with 59% consumers in these countries indicated that they do not buy excessive store brands during the recession period.

American consumers found that store brands quality had improved approximately 44% of consumers believe that store brand products are of better quality nowadays as offered five years before and 39% consumers will recommend to use private label products. Global market share of private label product which is currently 20% is anticipated to attain upto 65%, according to research done by Planet Retail report found that, global sales of private will increase by \$500 billion in next few years with some of the biggest retail markets in the world would strike 50% private label penetration. According to retailers, important concern for private labels, is trust by the consumers that retailers offers a quality products to them. People buy products from a selected stores, generally from whom they buy daily grocery products such as rice, cooking oil loose biscuits, and other staples because of they have confidence of right price and quality this is the root cause for the success of private label products. The private label product maintains its price offerings as they tend to be 5 to 20 per cent cheaper than leading brands in these category. Since retailers are able to eliminate intermediaries, they give the cost benefit to their store consumers.

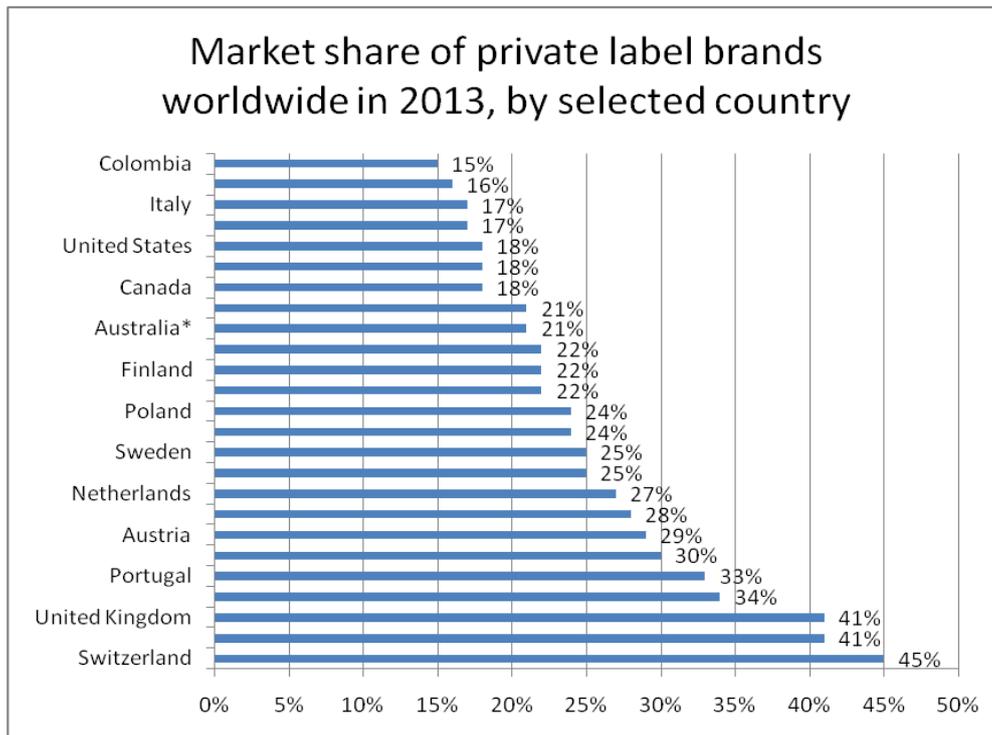


Figure 1: Market Share of Private Label Brands Worldwide

Source : Global private label market: share of leading brands by selected country (Neilson 2014)

This above statistic shows the market share of private label brands in year 2013 across various countries in the world. In the year 2013, Switzerland topped the list with a share of about 45 percent of total retail sales of private label brands followed by UK , Australia, Canada, US etc

PRIVATE LABELS IN INDIAN RETAIL In India organized retailers like Bharti Retail, Adhitya Birla Group, Shoppers Stop, Megamarts, Niligiris, Pantaloon Retail India Limited and Godrej are some the important retailers who have come out with private labels

BHARTI RETAIL: Bharti Retail, Walmart's joint venture partner in India, have bought eight private label in total including Great Value line of food (flour, dry fruits, spices, cereal, and tea) , George Apparel. The Private Label lines are going into the Cash & Carry format (BestPrice Modern Wholesale) and discount convenience (Easyday). Equate, a brand for pharmacy and health and beauty items, has been introduced only in the handwash category as of now in Easyday stores. Other Wal-Mart private labels introduced in India include Home Trends (home furnishing), Mainstays (plastic containers, kitchen accessories), Kid Connection (toys, clothing), Faded Glory (footwear) and Athletic Works (athletic shoes, equipment). Astitva, a line for Indian ethnicwear.

ADITHYA BIRLA GROUP: More retail outlets from Adithya Birla Group offers Feasters brand (fruit squash, biscuits, fruit syrup, Instant Fruit Mix Powder, Noodles). More Brands (various grocers). 110 Per Cent (toilet cleaners, detergents, soaps,) and Paradise Room and Air Fresheners, AU79 (Deodorant) and Fresh-O-Dent toothpastes and toothbrushes. **SHOPPERS STOP:** Shoppers stop offers Kashish, Haute Curry, Vettorino Fratini and Elliza Donatein private labels in its products offerings. Life' T-shirts for men , while 'Stop' as ladies western wear.

VISHAL MEGAMART: Vishal Megamart's offers salt and toothbrush under its 'Vneed' brand.

PANTALOON RETAIL INDIA LIMITED: Pantaloon Retail India Limited, offers "Fresh n Pure, Cleanmate, Tasty Treat, Caremate, Sach brands in food and FMCG. DJ&C, Kinghood, John Miller brands in men's apparel. Tasty Treat in food segment. In the baby diapers segment Care Mate. In the Electronic Bazaar offers refrigerators, washing machines, air conditioners, fans, toasters, kitchen mixies in the brand name KORYO. From the above data it is very clear that the number of private labels from Pantaloon Retail India Ltd is comparatively more than the other retailers, this is because Pantaloon Retail India Limited is expanding its business and growing faster compared to other organized retailers in India. At present the organized retail in India is about 3 to 4% only, the rest is unorganized retail i.e the kiran stores, organised retailing is growing faster than ever, hence in the coming years Retail consumers can see more private labels in the retail stores and have more options in their selection. We can see the competition becoming intense between private labels and national brands and competition among the private labels from different retailers in the coming years.

GROWTH POTENTIAL OF PRIVATE LABELS Experts in the industry say private label brands, which occupy less than 7 per cent of the market in India now, are likely to corner 50 per cent of the market as the retail space opens up and matures. At present Bharti Retail gets 15-20% of sales from private labels and hopes to raise it to 30% in future. For Shoppers Stop, private labels, on average, account for about Rs 200 crore in revenues Almost all modern retailers, including the Future group, Reliance Retail and the Aditya Birla group, are increasingly relying on private label to boost their sales and margins. Future group has been working towards growing their private labels so that some of them can even be leased or sold to other retailers.

Examples in the developed countries show that Private labels can have strong brand loyalty as stronger or more stronger than national brands. For example, Aldi in Germany as the nation's number one brand. In a recent study, its brand name in terms of consumer trust was ranked ahead of even DaimlerChrysler. Again, Tesco is among the top 10 brands in the UK. Similarly, French retailer Carrefour is one of the 10 most recognised and trusted brands in France. Private labels account for 40 per cent of Wal-Mart sales (\$126 billion or Rs 5,16,600 crore), 50 per cent for Tesco (\$36 billion or Rs 1,47,600) and are eating into a larger chunk of the organised retail sale in developed markets. In Germany, for instance, private label has shot up from 12 per cent of sales to 34 per cent. This has, in effect, changed the balance of power between brand manufacturers and retailers, giving the latter a decided advantage when negotiating terms with the brand manufacturers. Private labels have evolved from 'cheap and nasty substitutes' to the real thing. Indeed, 'copycat' private labels still remain a strong strategy for retailers. However, the copycat no longer depends on the price advantage to fight the branded product; it has improved on quality and offers a value proposition to the consumer. Observing the growth of organized retail in India, there is enormous potential for the growth of private labels in India. Indian organized is witnessing heavy investments from well know business establishments in India like TATAs, Reliance, ITC, Godrej, Birla Group. At the same time foreign retail majors like Walmart, Tesco, Carrefour, are also entering/

have entered the retail sector observing its immense potential. All these players have their private labels in the Indian retail

PERFORMANCE OF PRIVATE LABELS In food and beverages, for instance, Aditya Birla Retail's Feasters Noodles Family pack contributes 40 per cent of the revenues from the category. Kitchen's Promise pickles are outselling Mother's Recipe, and sales of Feaster's Instant Drink Powders are more than double those of Tang sales. In homecare, the brand 110 Per Cent toilet cleaners have achieved 20 per cent of the category sales and Paradise Room and Air Fresheners contribute to 38 per cent of the category sales. Even personal care products are doing well. AU79 Male Deodorant has already gathered market share of 6.5 per cent within three months of launch. And Fresh-O-Dent toothbrushes contribute to 15 per cent of the category sales. Thomas Varghese, CEO, Aditya Birla Retail, says, "Our brands have performed very well against the FMCG brands across a range of food and non-food categories." Aditya Birla's private labels cover seven brands and over 290 products and variants. The same can be said for Spencer's and Future Group. Mohit Kampani, vice-president, merchandising, food & FMCG, Spencer's Retail, said, "Our private labels have double-digit market share in food (10-20 per cent) and beverages (8-10 per cent), home care (10 per cent) and personal care (10 per cent)." Spencer's sells private labels under the Spencer's Smart Choice name. It is targeting 20 per cent market share across the categories in the next three years.

Devendra Chawla, head (private labels) food and FMCG, Pantaloon Retail India Limited, said: "Fresh n Pure, Cleanmate, Tasty Treat, Caremate, Sachn each case we have 15 to 40 per cent market share in the categories in which we operate. We hope to have 25 to 30 per cent share for our private labels in respective categories." Anand Ramanathan, manager, business performance services, KPMG, noted that some of the major food and grocery retailers' average 20 to 30 per cent private label penetration, peaking at around 50 per cent. Processed food and homecare products are witnessing more heat from private labels because consumers are more open to brand switches in these categories, while personal care is a little tough to crack. Naimish Dave, director, OC&C Strategy Consultants, noted, "Currently, the contribution of private labels for some players has even touched 40 per cent-plus, from 10 to 12 per cent."

FACTORS TO BE CONSIDERED WHILE GOING FOR PRIVATE LABELS

Private labels won't work by just keeping the products cheap. Retailers must look at developing good quality and value-added products. Also, they must make sure that they don't over exercise the private label option. If they fall into the trap of using too many private labels, they will end up losing customers. It has been seen that when retail chains rely heavily on private labels, customers feel they lack choices. Many retailers have suffered due to this; Sainsbury is a classic example. The UK-based retail chain was a mainline traditional retail chain, but when it used too many private labels, customers did not find regular brands at its stores, and as a result, sales dropped. By this it can be understood that a retailer need to be careful when he is coming with more number of private labels in his stores. Customers expect more choices; they need private labels along with various national players in a product category. Even if the private labels are doing good sales as compared to national brands, the retailers need to focus on national brands in order to retain the customers for long run.

CONCLUSION

Private labels have come a long way over the last three decades. They started with retailers wanting to offer cheaper substitutes. Retailing in India is still very primitive. At the moment, private labels are less than 5 per cent of the retail business and still have a long way to go. But Indian retail is extremely attractive for investors and it offers a proposition that can't be seen anywhere else in the world. Only in China and India can retail chains have as many stores as they have in the US. Private labels will have a huge role to play in this. As much as 50 per cent of Indian retail will be occupied by private labels. The question is not whether this will happen, but when? If the government opens up retail, we would see it happen within the next 10 or 15 years. At 50 per cent, they begin to saturate. If they try to occupy more than this, then consumers feel that there aren't enough choices. In countries such as Switzerland and the UK, private labels have reached this limit and these markets have saturated. But they will continue grow in the other countries till they reach the same level. And this will happen very soon in India, too. Observing the trend in the growth of private labels, the private labels are going to give tough competition to the national brands if and only if the retailer commits to the quality of the private label and adds value to the product. The customers need to find a difference in buying a private label than buying a national brand. Instead if the retailer focuses on short term benefits and tries to attract only by the price difference of the private label then the brand will not survive for long run against a well established national brand.

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