

PRIVATE LABELS BRANDS IN FOOD & GROCERY: THE CHANGING PERCEPTIONS OF CONSUMERS & RETAILERS IN INDIA- A STUDY IN THE PUNE REGION

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ABSTRACT

Private labels or store brands are on escalating journey for growth in last few years in Indian market. The growth of private label brands (PLBs) is quite impressive in food and grocery segment, in spite of presence of leading national manufacturers brands in most of the categories. Though, initially PLBs were considered as cheap alternatives and therefore visible in copycat and generic categories, today they are apart of well defined retail mix strategy, are developed in value innovators and premium categories for profit maximization and customer loyalty. This paper examines the growth of these PLBs internationally and among Indian retailer, mainly in food and grocery segment. It investigates the perceptions of consumers for PLBs and their involvement in purchasing of such PLBs in the retail segment. The purpose is to analyze unique PLB associations in the minds of consumers so as to gauge the customer loyalty, consumer preferences and shopping behavior, and thereby add to retail brand equity.

Keywords: Private labels, Store brands, retail mix strategy, retailing, and customer loyalty

Introduction to Indian Retail Industry:

The Indian retail industry is the fifth largest in the world. Comprising of organized and unorganized sectors, India retail industry is one of the fastest growing industries in India, especially over the last few years. Though initially, the retail industry in India was mostly unorganized, however with the change of tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. With growing market demand, the industry is expected to grow at a pace of 25-30% annually. The India retail industry is expected to grow from Rs. 35,000 crore in 2004-05 to Rs. 109,000 crore by the year 2010. According to the 8th Annual Global Retail Development Index (GRDI) of AT Kearney, Indian retail industry is the most promising emerging market for investment. In 2007, the retail trade in India had a share of 8-10% in the GDP (Gross Domestic Product) of the country. In 2009, it rose to 12%. It is also expected to reach 22% by 2010. According to a report by Northbridge Capita; the India retail industry is expected to grow to US\$ 700 billion by 2010. By the same time, the organized sector will be 20% of the total market share.

A McKinsey report 'The rise of Indian Consumer Market', estimates that the Indian consumer market is likely to grow four times by 2025. Commercial real estate services company, CB Richard Ellis' findings state that India's retail market is currently valued at US\$ 511 billion (Bang, 2009). According to the Investment commission of India, India is expected to be among the top 5 retail markets in the world in 10 years. India's overall retail sector is expected to rise to US\$ 833 billion by 2013 and to US\$ 1.3 trillion by 2018, at a compound annual growth rate (CAGR) of 10 per cent. As an emerging market with high growth rates, consumer spending has risen sharply as the youth population (more than 33 percent of the country is below the age of 15) has seen a significant increase in its disposable income. Consumer spending rose an impressive 75 per cent in the past four years alone. Also, organised retail, which accounts for almost 5 per cent of the market, is expected to grow at a CAGR of 40 per cent from US\$ 20 billion in 2007 to US\$ 107 billion by 2013.

According to a new study by global management consulting firm AT Kearney says that in India, apparel, along with food and grocery, will lead organised retailing in India. India has one of the largest numbers of retail outlets in the world. A report by Images Retail estimates the number of operational malls to grow more than twofold, to cross 412, with 205 million square feet by 2010, and a further 715 malls to be added by 2015, with major retail developments even in tier-II and tier-III cities in India. Also, according to new market research report by RNCOS titled, "Booming Retail Sector in India", specifies that the number of shopping malls is expected to increase at a CAGR of more than 18.9 per cent from 2007 to 2015. It further specifies that rural market is projected to dominate the retail industry landscape in India by 2012 with total market share of above 50 per cent. Thus, according to industry experts, the next phase of growth is expected to come from rural markets, with rural India accounting for almost half of the domestic retail market, valued over US\$ 300 billion

In order to be truly successful, retailers must advance from the generic or store brand mindset of the past to a new private label paradigm. Many retailers have begun to describe their private label brands as "own" brands because there is recognition that these proprietary, exclusive offerings are tools that represent momentous power and potential for the retail store.

Private Label Brands

The term "own" brands acknowledges that today's visionary retail marketers have powerful proprietary portfolios that they control and manage and there is potential to reap bigger and better

rewards by taking a closer look at the way they orchestrate the role and expression of these brand offerings in the eyes of consumers in each product category. Those retailers who appreciate the magnitude of this brand opportunity have created a new industry standard in their realm of influence and activity.

Retailers like PLBs because of their potential to increase store loyalty, chain profitability, control over shelf space, bargaining power over manufacturers, and so forth (Richardson, Jain, and Dick, 1996). Among consumers, one obvious reason for their popularity and growth is their price advantage (averaging 21%) over national brands (Batra and Sinha, 2000). Nevertheless, high quality seems to be more important in determining PLB success than lower price (Hoch and Banerji, 1993; Sethuraman, 1992). "Own" brands are articulated and developed in a way that they not only fit with the brand promise of the retail store, but if effective, they also give consumer a key point of departure to enhance and celebrate the overall retail brand proposition to keep consumers coming back for more. One of the interesting phenomena concerning PLBs is the fact that their growth has been highly uneven across product categories (Hoch and Banerji, 1993). The present study has been undertaken to gain an insight into Indian customers' specially perception of PLBs in food & grocery segment and to explain variations in purchasing preferences for PLBs versus national label brands across three product categories.

THEORETICAL FRAMEWORK

Meaning of Private Label Brands

A private-label product is a manufactured good that a retailer purchases from a supplier, with the intention of renaming, repackaging and selling it under the distributor's own brand name. Depending on the agreement between a manufacturer and a retailer, the manufacturer sometimes handles the packaging and labeling for the retailer for an additional charge. Otherwise, the retailer is responsible for the process of dressing up the product as its own. Thus, it can be said that Brands owned not by a manufacturer or producer but by a retailer or supplier who gets its goods made by a contract manufacturer under its own label are called private label brands. Manufacturers use either their own name, that of a middleman, or a combination of both when they are marketing their products. Private labeling occurs when middlemen, usually large retailers or wholesalers, develop their own brand. Building a following from scratch through private-label products, especially in rough economic times, is challenging because smaller retailers do not have the marketing budget compared to their larger-sized competition.

Evolution of private label brands

The definition of private label branding has evolved significantly over time. Some would argue the term "private label" is a misnomer of great proportions. There is no question that the words "private label" acknowledges the birth, history and existence of generic and store brands. Yet, the term does not adequately capture the extent to which private label has progressed. Today's retail marketers are managing their proprietary brands with the same combination of care and innovation as manufacturers of national brands.

In recent years, retailers have been liberating themselves from the traditional definition of private label marketing as being the poor relative of national brand consumer goods, and, in doing so, opening up huge opportunities for private label branding. These opportunities require the adoption of a different set of marketing and branding practices to support and propel the retailer's business and marketing ideals for its PLBs.

The key to successful marketing management for today's retailers is to understand the contribution

and role of their proprietary or “own” brands in the long-term business strategy and marketing mix of the retail store and consider both the supply side and the demand side of the equation. Strategic brand management goes hand in hand with these endeavors to establish sustainable points of difference in each aisle and segment within the store. It also spurs decisions about how to appropriately define the retailer’s “own” brand portfolio in order to galvanize consumers to connect and reconnect with its franchise in a compelling manner.

Benefits of Private Label Brands

Since manufacturers' (producers') brands have large advertising expenditures built into their cost, a private labeler is able to buy the same goods at a lower cost and thus sell them at a lower price and/or at a better profit margin. In addition, private labelers have more control over pricing and are able to advantageously display their own brands for maximum impact. For example, a grocery store can quickly reduce the price of its own PLB in order to meet or beat a competitor's price. Or the grocery store can create a special point-of-purchase advertising display and/or give its brand predominant shelf space in order to boost sales. PLBs are usually priced lower than comparable manufacturers' brands and therefore appeal to bargain-conscious consumers.

As already mentioned, retailers like PLBs because of their potential to increase store loyalty, chain profitability, control over shelf space, bargaining power over manufacturers, and so forth (Richardson, Jain, and Dick, 1996). Among consumers, one obvious reason for their popularity and growth is their price advantage (averaging 21%) over national brands (Batra and Sinha, 2000).

Previous studies related to Private Label Brands

A review of previous studies related to PLBs brings forth researches carried out related to certain issues. For example researchers have found that one of the interesting phenomena concerning PLBs is the fact that their growth has been highly uneven across product categories (Hoch and Banerji, 1993). Dhar and Hoch (1997) found that by far the largest source of variation in PLB share across markets, retailers, and categories (40%) is due to the differences among product categories. Previous research investigating these across-category differences has looked at them mostly from the manufacturer and retailer perspectives. In studying the retailer economics of PLB programs, researchers have mostly examined factors such as the technology investments necessary, size of category, category margins, national brand advertising and promotional activity levels and so forth (Hoch and Banerji, 1993; Sethuraman, 1992). Thus, Hoch and Banerji (1993) find that PLBs have higher shares in large categories offering high margins, and where they compete against fewer national manufacturers who spend less on national advertising. The gap between national brands and PLBs in the level of quality also depends on the technology requirements in manufacturing that varies across categories (Hoch and Banerji, 1993). Research has been more limited on the consumer-level factors that make PLBs differentially successful across product categories. Some researchers studying consumer-level factors for PLB proneness--such as Richardson, Jain and Dick (1996)--have not studied across category variations at all. They have chosen instead to aggregate data across categories. Those few studies that have looked at cross-category differences from a consumer-factor perspective have sometimes omitted important variables: Sethuraman and Cole (1997). In this research, we focus upon these consumer-level perceptions of intercategory differences especially in food and grocery segment. By doing so, we hope to shed light on what has made PLBs successful overall, drawing implications both for retailers marketing PLBs as well as the national brands that compete with them.

Thus, a review of previous studies undertaken in the area of PLBs indicates that, research has been more limited on the consumer-level factors that make PLBs differentially successful across product

categories. Given the lack of studies undertaken in the area of understanding Indian customers' attitude and perception of PLBs, the present study has been undertaken to gain an insight into how customers in India perceive PLBs. The findings of the study will be helpful for retailers to understand the importance of various factors in being successful with customers in the PLBs in food and grocery category.

Objectives of the Present Study

The present study has been undertaken to understand the perception of Indian customers towards PLBs in Indian Retail and the importance they attach to such brands while making purchases. This paper aims to uncover current consumer perceptions of, and attitudes towards, PLBs in the Indian food and grocery sector. Furthermore, it aims to shed lights on the effect that pricing, accessibility, packaging, retail communications, have on shopping behaviour with reference to purchasing food-based PLBs.

In particular, the research focuses on:

- Finding out customer understanding/perception of PLBs.
- Finding out their overall preference of private versus national brands while purchasing.
- Finding out customers' preference of purchase of PLBs in various categories of food and grocery products.
- Identifying important factors affecting customer's decision to purchase PLBs.

Methodology:

The research is of exploratory nature, based on the primary data but secondary data has also been collected from various sources as per the requirement. For collection of primary data, an exclusive survey of 225 consumers of top retail chains in the food and grocery segment in Pune district of Maharashtra. To obtain information, a structured questionnaire was formulated.

A non-probability, convenience sampling technique was used to administer a consumer survey. Although predefined quotas were not strictly set, the researchers endeavored to obtain a sample which was somewhat representative of supermarket shoppers in India. 225 questionnaires were deployed using the self administered, mall intercept method at local shopping supermarket centres in Pune region. This approach was adopted so as to facilitate expedient questionnaire completion. A preliminary check was done in the field, to identify and remedy any inconsistencies, omissions or obvious mistakes with the questionnaire.

The data from self-administered questionnaires was then captured, cleaned, coded and analyzed. Finally, the data was tested for normality and this was confirmed to be in order.

Empirical Findings

Composition of the sample

The sample is deemed to be somewhat representative of the urban supermarket shopping population in India. In terms of gender, slightly more females (55.1%) completed the questionnaire than males (44.9%). The majority of the sample falls into the 26 to 35 year old age category, reflecting 42% of respondents. The 16 to 25 and 36 to 45 year old age categories represent similar numbers of respondents with approximately 19% each.

Individuals of 46 years of age and older constitute the remainder (20%) of the total sample. Thus, a

relatively broad spread of age categories is achieved. However, representation is skewed towards the younger segments; over half of the sample is currently married, whilst approximately 44% are unmarried. Less than 4% of the sample was not married. The majority of the sample (52%) lives in households consisting of between three and five people. A further 38% live with two or less people and a mere 10% live with more than six people in their homes.

The largest proportions of employment represented in the sample are 83% are employed or working with about a 20% doing business and 63% as working class . A mere 6% of the sample is unemployed, a further 9% are students and 2% are retired. Hence, a total of 17% of the sample are currently not actively working.

However, it is acknowledged, that the sample is slightly biased towards higher income earners, as they fall in to the urban category. Nonetheless, this was not seen as a serious impediment to the credibility of the study.

PLBs V/s National Level brands

43.3% of the respondents prefer PLBs while 56.7% of the respondents prefer national level brands. Thus, it can be seen that there is not a major difference in the preference of customers for PLBs vis-à-vis national level brands.

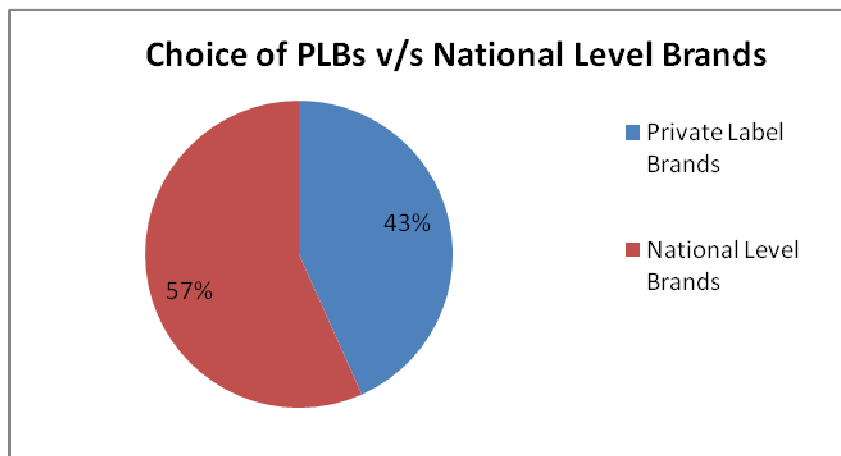


Figure 1 Percentage of customers' preferences for PLBs & National Level Brands

Share of PLBs

The proportion of PLBs purchasers in the sample is notably high with 84% of respondents confirming that they have purchased these brands before. This would suggest that there is a substantial potential market for PLBs in the Indian environment. Furthermore, this serves to authenticate the perceptions and attitudes revealed in the survey as the majority of respondents have experience in this respect and had given the responses with regards whether they purchase PLBs or not.

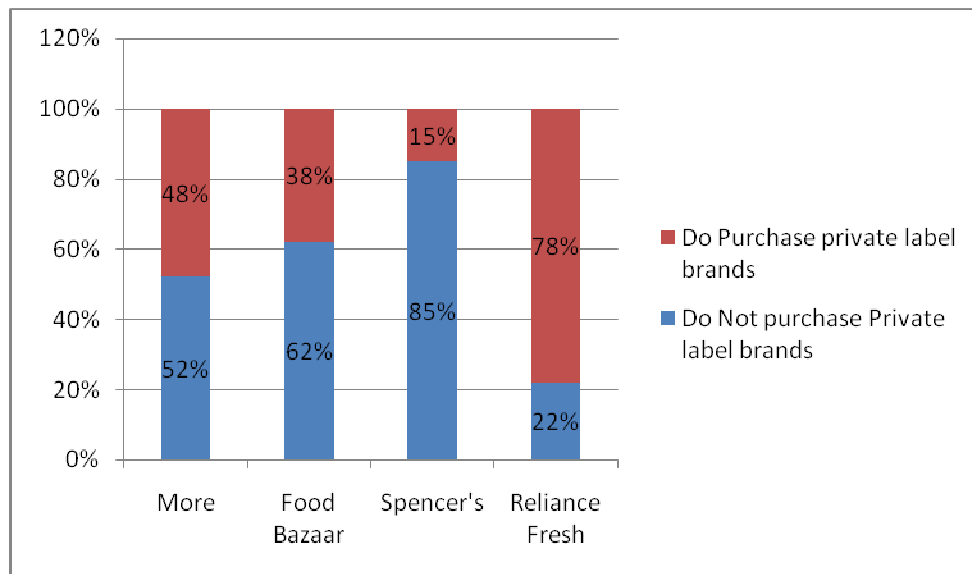


Figure 2 Retailer's comparison Share of Manufacturer versus PLBs

Quality and price perceptions of PLBs

Walker (2006) revealed varying perceptions in the literature with regard to the quality of PLBs. However, for the most part, these were empirically found to be negative. According to the survey findings, the majority of consumers (56%) were either relatively neutral or negative in their attitude towards PLB quality levels. Only one in three respondents expressed a positive view concerning their perceptions of PLBs. This is depicted in Figure 3. It is clear that Indians are still somewhat skeptical about the quality of PLBs which may partially explain why penetration of PLBs in the grocery sector is relatively poor. The silver lining here may be that 60% of respondents felt that PLBs had improved in quality since their introduction. Should advancement of such brands persist, perceptions may well be radically different in the future.

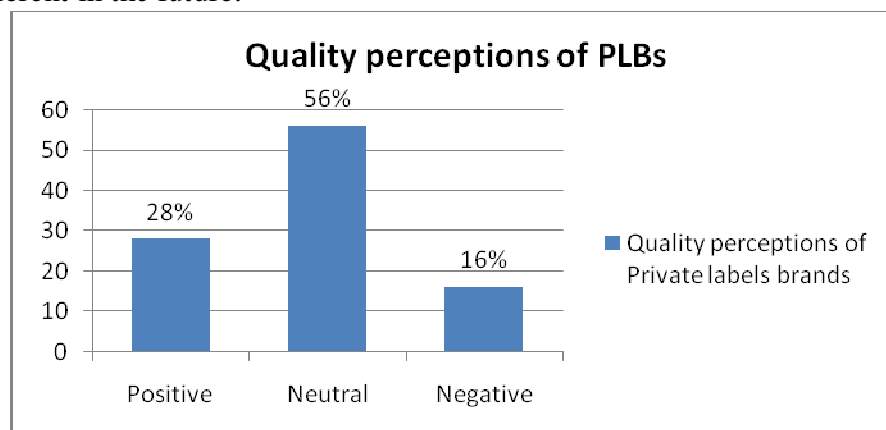


Figure 3 Quality Perceptions of PLBs

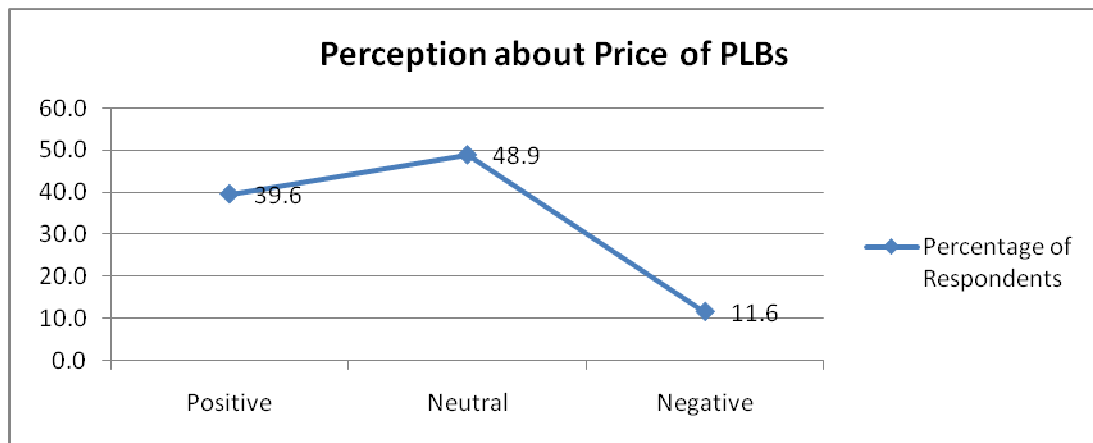


Figure 4 Perception about the Price of PLBs

Different Perceptions about PLBs

In order to gauge the knowledge and awareness of customers regarding the Private Label brands it was asked what they think of PLBs whether they are outsourced or manufactured by retailers and it was found that 66.9% felt PLBs are outsourced from local manufacturers. 79% of respondents generally thought that National brands provide hedonic utility and quality, whereas PLBs are lower priced and lack strong brand recognition.

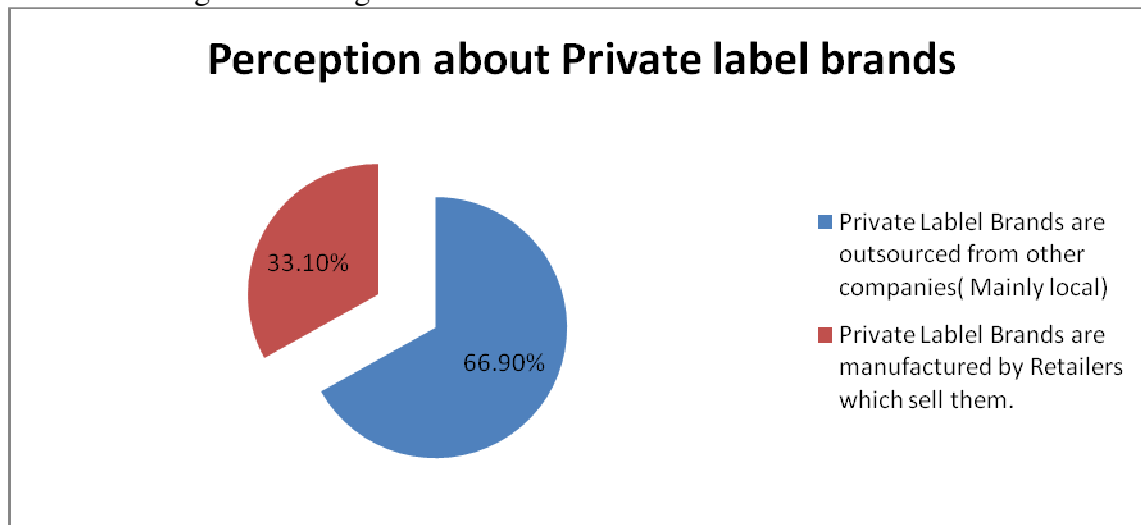


Figure 5 Perceptions about PLBs

Factors influencing the Purchase of PLBs

As far as the factors influencing the purchase decision for private labels were concerned Perceived Quality was given the highest rank followed by Accessibility of products, Price charged, Trust in brand, Freshness, Packaging, Healthy, Availability of Alternatives, Sales promotion & Advertising.

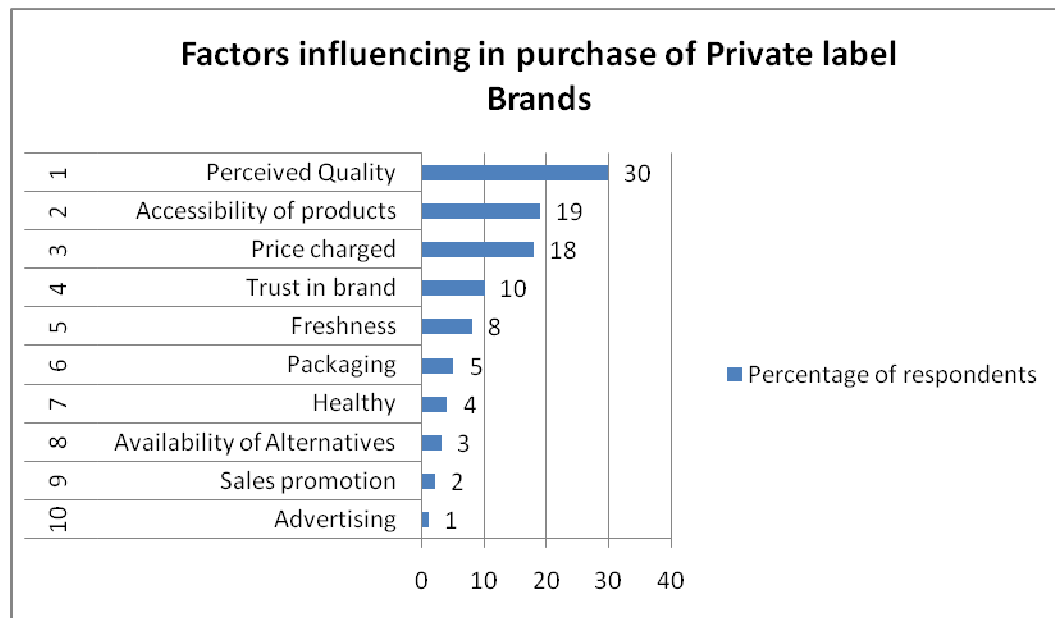


Figure 6 Factors influencing in the purchase of PLBs

Perceptions about Packaging of PLBS

Product packaging is an important component of conveying a signal of quality to consumers. The following graph (Figure 7) illustrates that perceptions of PLB packaging are most often negative. Almost two thirds of respondents (63%) felt that packaging was unattractive and a mere 16% responded positively with regard to this product characteristic. Furthermore, it would appear that the majority of PLB packages do not visually display the actual product contents. This may prove detrimental to product sales by failing to encourage conversion from the mass market.

It would therefore seem that attractive packaging is essential to persuade the target market that the core content is of similar quality to other manufacturer brands in that product category.

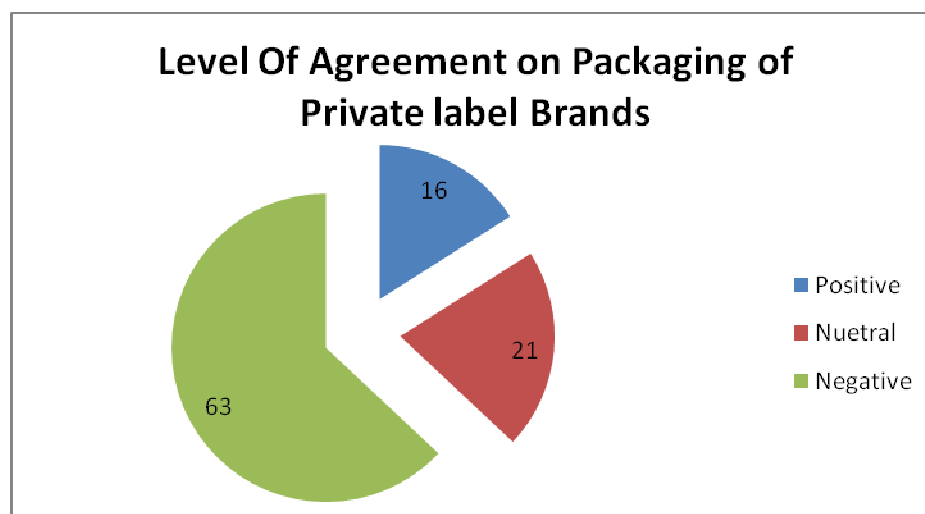


Figure 7 Packaging Perceptions of PLB

Preference of PLBs In Various categories

It was found that Cereals, Pulses and spices topped the list of most preferred PLB whereas packaged food was given the second and fruits & vegetables, milk & Milk products, Meat, fish & Poultry and Beverages followed respectively.

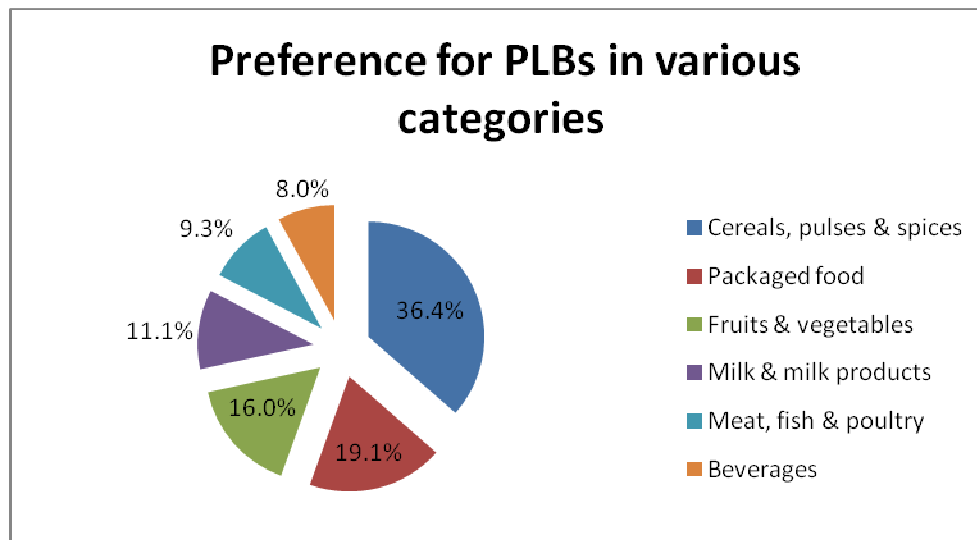


Figure 8 Preference for PLBs in various Categories of Food and Grocery

Influencers for purchasing PLBs

Purchasing of groceries in a supermarket is influenced by a number of extrinsic cues. As seen in (Figure 9), respondents tend to rely considerably more on their past experiences as well as on the opinions of family.

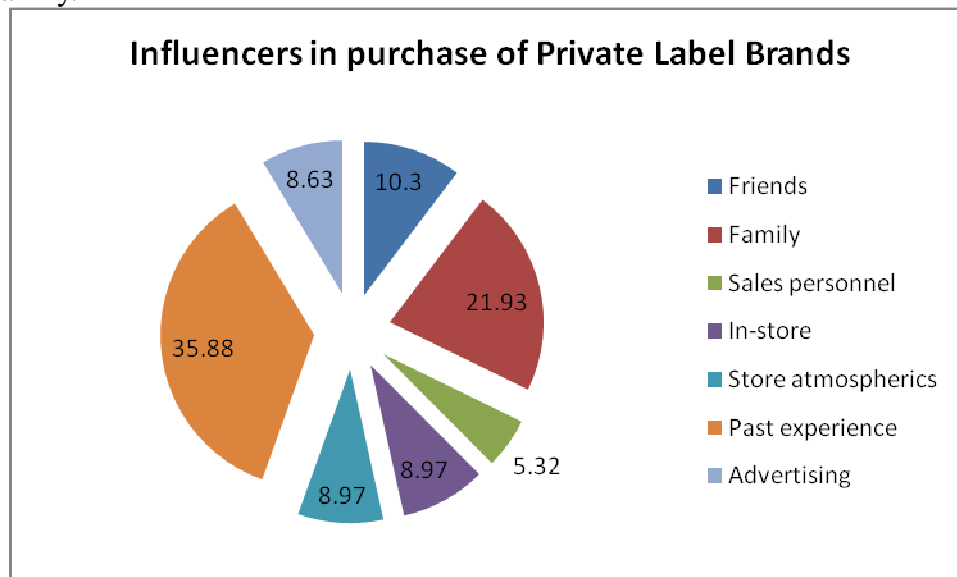


Figure 9 Influencers in Purchase of PLBS

Perceptions about Marketing Techniques used for PLBs

Respondents indicated that television, newspapers and pamphlets were the most effective means of communicating the benefits of PLBs to grocery shoppers. (Figure 10) illustrates that the majority of respondents consistently feel that television is the most effective way of communicating the advantages offered by these brands. The media found to be least effective at conveying PLB benefits were billboards, magazines and internet/online methods. It would therefore appear that the media that it is consumed within the home, the same environment in which grocery products are consumed, work best.

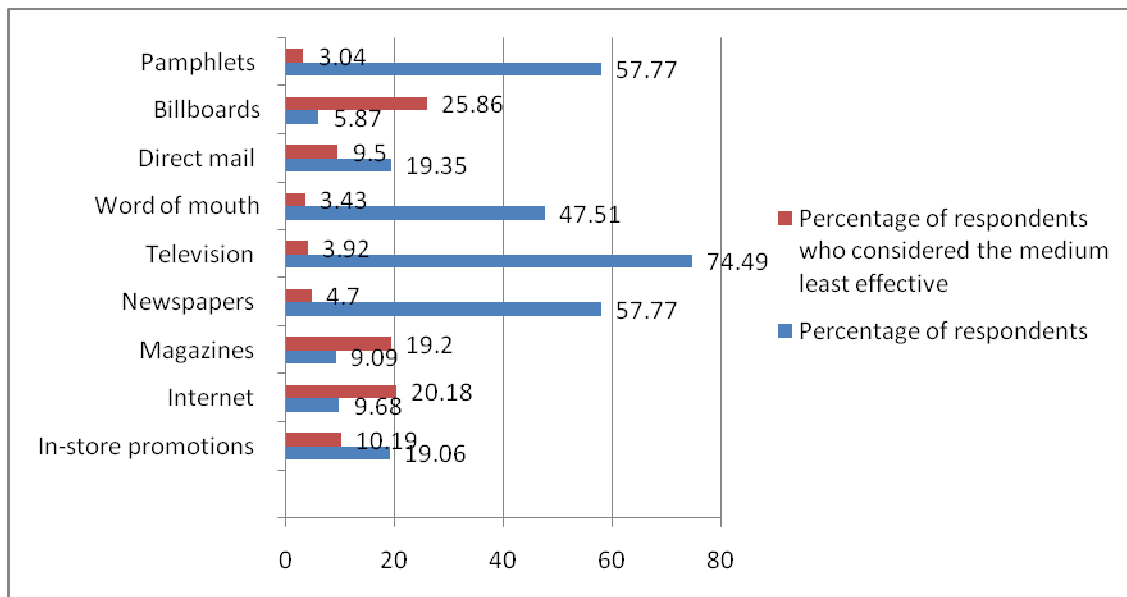


Figure 10 Perception about Effectiveness of Different marketing Techniques for PLBs

Major Findings:

- 43.3% of the respondents prefer PLBs while 56.7% of the respondents prefer national level brands. Thus, it can be seen that there is not a major difference in the preference of customers for PLBs vis-à-vis national level brands.
- 66.9% of the respondents perceive PLBs to be goods that are outsourced from other companies (mainly local) and sold under the retailer's name while 33.1% of the respondents perceive PLBs to be goods which are manufactured by retailers selling them.
- PLBs are perceived to be "securing", "simple", "reasonable" and "convenient" by around 65% of the respondents.
- The proportion of PLB purchasers in the sample is notably high with 84% of respondents confirming that they have purchased these brands before.
- The majority of consumers (56%) were either relatively neutral or negative in their attitude towards private label brand quality levels. 60% of respondents felt that PLBs had improved in quality since their introduction.
- The factors influencing the purchase decision for PLBs were concerned Perceived Quality was given the highest rank followed by Accessibility of products, Price charged, Trust in brand, Freshness, Packaging, Healthy, Availability of Alternatives, Sales promotion & Advertising.
- Almost two thirds of respondents (63%) felt that packaging was unattractive and a mere 16% responded positively with regard to this product characteristic
- 79% of respondents generally thought that National brands provide hedonic utility and quality, whereas PLBs are lower priced, lack strong brand recognition, and are rarely advertised at the national level.
- Cereals, Pulses and spices topped the list of most preferred PLB whereas packaged food was given the second and fruits & vegetables, milk & Milk products, Meat, fish & Poultry and Beverages followed respectively.
- 35% respondents tend to rely considerably more on their past experiences as well as on the opinions of family i.e 21.9% as far as purchase decision of buying products are concerned.

- 70.57% of respondents consistently feel that television is the most effective way of communicating the advantages offered by these brands. The media found to be least effective at conveying PLB benefits were billboards 25.86%, magazines 19.2% and internet/online methods 20.18%.

Research limitations:

- Sample size of 225 consumers is too small in order to get more accurate and precise information, it should be more.
- Some of the respondents were not responding freely due to time constraint and pressure.
- It is not a representation of all the retail consumers in food and grocery segment.
- It does not cover all the aspects of the PLB strategies in the food and grocery segment in Indian market as it is a diverse segment.

Conclusion and Implications

In this study, we examined how Indian customers perceive PLBs in food and grocery product categories in comparison to national label brands. The findings of the study can be useful to retailers in formulating strategies to make products other than the national branded ones acceptable in the market. An analysis of perception and satisfaction with PLBs can furthermore help retailers in developing stronger store/PLBs and in increasing their presence and acceptance in the market. The Indian retail industry is growing with every passing day. Though highly lucrative, there is stiff competition in the market among organized and unorganized retailing with both branded and unbranded products manufacturers vying for a share in the pie. The findings of the present study provide important insights to all private label manufactures in India to increase their foothold and successfully compete in the Indian retail market.

Understanding customers in terms of what they expect/associate with a PLBs vis-à-vis national brands is quite important from the view point of making these brands acceptable in the market. Customer loyalty has become a very fickle term in today's highly competitive and volatile market. Customers may prefer one brand over another or might be loyal towards none of the brands as long as they feel that their expectations are being satisfied.

The study clearly brings forth the importance of pricing as an attribute in influencing customers' acceptance of PLBs. A difference in pricing is desired and companies need to fine tune and concentrate more on their supply chain and logistics to bring down costs associated with various products which they can pass on to customers in the form of reduced prices in turn leading to increase in customer satisfaction and acceptance of PLBs. In an emerging economy like India where masses are not very brand/fashion savvy/centric but pay more attention to better bargains and value for money in every purchase that they make, it will be effective. Thus, schemes/discounts are also considered to be important by customers in purchasing PLBs in groceries. And to take a step further bundling of non-consumable/nonperishable products along with grocery items can be done so that the level of customer satisfaction which is lower for grocery items can be increased. Indian customers are value-conscious and increased awareness and exposure with more choices has made them conscious of their power of bargaining and capability of extracting maximum worth from everything they pay for. Retailers also need to understand that range and quality of products offered does play a role among value for money segment of customer as high quality is generally perceived to be synonymous with durability by customers. Indian customers are value-conscious and though increased awareness and exposure has made them keen on keeping pace with changing trends in society and fashion but they are still more interested in products which fit them better along with giving them unique recognition with comfort and quality at affordable prices. Findings related to factors considered to be important by customers product categories in purchasing PLBs can help retailers in taking steps to

improve their private label products along these parameters. These steps would enable private label products to become more acceptable and preferable in the eyes of customers.

Thus, in conclusion it can be said that if private label manufacturers can consistently provide value to customers on factors rated high by customers and even if it is low on status symbol, there is a high possibility for them to establish these brands as acceptable in the minds of customers and to improve customers' perception regarding the same. Though this perception may not be as high as a branded product enjoys but it could still become high enough for retailers to increase the sales of these brands and thereby raise their profit margin considerably.

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