



# Is there an “Optimal Share” of Private Label Brands for a Grocery Retailer?

*A qualitative analysis of Private Label Shares*

**Florian Hermann Wagner**

**Supervisor: Prof. Aksel I. Rokkan**

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International Business Profile

NORWEGIAN SCHOOL OF ECONOMICS

This thesis was written as a part of the Master of Science in Economics and Business Administration at NHH. Please note that neither the institution nor the examiners are responsible – through the approval of this thesis – for the theories and methods used, or results and conclusions drawn in this work.

## Abstract

The underlying master thesis was developed to answer the question “**Is there an “optimal share” of private label brands for a grocery retailer?”** and “**What factors determine the variation of the private label brands share between different retailers?”**. Due to the very limited amount of literature geared towards private brand shares, a qualitative study, applying a mixture of a deductive and an inductive approach was considered to be the most suitable to provide an answer to the research questions. In particular, the research was initiated with a literature review, followed by three interviews with retail experts from Germany and Portugal.

In recent times, the importance of private labels brands has been growing significantly. While the UK has already realized the added value of private brands, other markets still need to develop further. Therefore, it is of vital importance for the retailers to educate its customers about the high quality standards of store brands in order to facilitate the companies’ success. Due to the profitability of store brands as well as their attractiveness to customers, retailers can considerably benefit from offering and selling private label brands.

The findings of the research have revealed that there is no “one-fits-all” optimum private label share for a grocery retailer. In contrast to the prior expectations, it is not even possible to determine an exact optimum for one particular retailer with a certain format. According to the study at hand, the optimum should rather be regarded as a range, serving to provide guidance to a retailer’s private brand strategy. What can be defined though, is an approximate maximum that should not be exceeded, if customer loyalty and profitability are to be retained.

Regarding the sub-research question about potential factors impacting the variation of private brand shares among retailers, the research disclosed that macroeconomics factors, competitor actions, procurement possibilities, respectively suppliers’ availability and ability to deliver quality-consistent products can have an essential impact on a PLB optimum. Additionally, the retailer’s assortment, the price image one wants to convey, the margins a certain PLB might entail, the targeted degree of customer loyalty, country-specific demand and the current ratio of NBs versus PBs are of significant importance when defining a PLB optimum. Further, store brands can serve as an income-protection during the times that NBs do not sell well at a grocery store. Taking these aspects into consideration will simplify the determination of a retailer’s PLB optimum as part of his PB strategy. However, all actions taken with regard to store brands should always be aligned with the overall retail chain or corporate strategy.

## **Preface**

After two years of studies at NHH, this thesis represents the final step towards my graduation as Master of Science in Economics and Business Administration, majoring in International Business, and as CEMS Master in Management.

I would like to thank my supervisor Aksel Rokkan for his constant supervision during the process of writing this paper, including the valuable tips he provided me with. Owing to him, I was able to write my thesis during the summer period, which is normally not considered the regular time for a master thesis supervision.

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# Table of Contents

<b>LIST OF TABLES.....</b>	<b>V</b>
<b>LIST OF FIGURES .....</b>	<b>V</b>
<b>LIST OF ABBREVIATIONS AND TERMS .....</b>	<b>V</b>
<b>1. INTRODUCTION .....</b>	<b>1</b>
1.1 BACKGROUND .....	1
1.2 PROBLEM DEFINITION & OBJECTIVES.....	3
1.3 COURSE OF INVESTIGATION/STRUCTURE OF THE THESIS.....	6
<b>2. LITERATURE REVIEW .....</b>	<b>8</b>
2.1 GENERAL THEORY .....	8
2.1.1 <i>Organizational Strategy</i> .....	8
2.1.2 <i>Consumer Behavior &amp; Brand Management</i> .....	10
2.2 PRIVATE LABEL-RELATED LITERATURE .....	12
2.2.1 <i>General Introduction to private label brands</i> .....	12
2.2.2 <i>Consumer insights</i> .....	16
2.2.3 <i>Store brand-related market insights</i> .....	20
2.2.4 <i>Store brand share</i> .....	22
2.2.5 <i>Retailer strategy</i> .....	24
2.3 SUMMARY OF KEY FINDINGS.....	28
2.4 PROPOSITIONS .....	29
<b>3. METHODOLOGY .....</b>	<b>30</b>
3.1 RESEARCH STRATEGY.....	30
3.2 RESEARCH DESIGN .....	31
3.3 RESEARCH PROCESS .....	32
3.4 DATA COLLECTION.....	33
3.5 DATA ANALYSIS.....	38
3.5.1 <i>Reliability</i> .....	39
3.5.2 <i>Validity</i> .....	40
<b>4. RESULTS .....</b>	<b>43</b>
4.1 INTERVIEWEE AND RETAILER BACKGROUND .....	43
4.2 PRIVATE BRAND SHARE INSIGHTS.....	46
4.3 IMPORTANCE AND SUCCESS CRITERIA OF PRIVATE BRANDS .....	50

4.4	CATEGORY-SPECIFIC INSIGHTS .....	53
4.5	SUCCESS STORIES AND FAILURES OF PRIVATE BRANDS.....	54
4.6	VERTICAL INTEGRATION AND SUPPLIER RELATIONS.....	55
4.7	PRIVATE BRAND MARKETING.....	57
<b>5.</b>	<b>DISCUSSION .....</b>	<b>59</b>
5.1	PRIVATE BRAND OPTIMUM SHARE.....	59
5.2	CATEGORY-SPECIFIC PRIVATE BRAND SHARES .....	66
5.3	VERTICAL INTEGRATION AND SUPPLIER RELATIONS.....	69
5.4	PRIVATE BRAND MARKETING.....	72
5.5	PROPOSITIONS.....	76
5.6	LIMITATIONS AND FUTURE RESEARCH .....	77
<b>6.</b>	<b>CONCLUSION .....</b>	<b>80</b>
	<b>REFERENCES.....</b>	<b>82</b>
	<b>APPENDICES .....</b>	<b>88</b>

# List of Tables

TABLE 1: THE FOUR TYPES OF PRIVATE LABEL BRANDS..... 15

TABLE 2: THE FOUR TYPES OF RETAIL BUYERS ..... 16

TABLE 3: PLB SHARE OVERVIEW OF THE MAJOR INTERNATIONAL RETAILERS (KUMAR & STEENKAMP, 2007) ..... 23

TABLE 4: THE MAIN PRIVATE LABEL BRANDS OF REWE IN GERMANY ..... 45

TABLE 5: THE MAIN PRIVATE LABEL BRANDS OF PINGO DOCE ..... 46

# List of Figures

FIGURE 1: ILLUSTRATION OF THE OUTCOME VARIABLES AS BASIS FOR THE DATA COLLECTION ..... 34

# List of Abbreviations and Terms

PLB	Private label brands
PB	Private brands
SB	Store brands
NB	National brands
SKU	Stock keeping unit
FMCG	Fast moving consumer goods
POD	Point of Difference
POS	Point of Sale
Fancy Brand	A private brand, without having the retailer name on its packaging
Multi-tier strategy	Various private labels under the same retailer’s name (e.g. low-cost, medium-price and premium, having different names/brands

# 1. Introduction

In the forthcoming chapter an introduction to the research will be presented, including background information on the topic, the problem definition and objectives of the paper, and the corresponding research question of this thesis, followed by a description of the course of investigation.

## 1.1 Background

In the underlying thesis, it will be investigated, whether there is an optimal percentage of private label brands for a grocery retailer and what affects this percentage. Due the fact that the economic situation of many European countries is still affected by the consequences of the financial crises, there is an ongoing price-sensitivity on the customers' side. According to Voinea and Filip (2011), consumers have started to orientate themselves towards other benchmarks as they have become more economical, responsible, yet also demanding. Further, the same authors found out that US consumers prefer buying at low prices and saving money instead of appreciating comfortable shopping. As this 'thrift is attractive'-mentality is a predominant phenomenon in some countries today, products with a high value for money, respectively the ones that are relatively cheap have become more demanded by customers.

This attitude also affects the success of private label brands, which were first introduced at the beginning of the previous century (Hoch & Banerji, 1993). Private label brands, also named store brands, refer to "all merchandise sold under a retail store's private label" (Private Label Manufacturers Association of the United States, 2013). During the last twenty years, their global market share was able to grow significantly (up to 20% in some categories) and is also expected to continue to do so in the upcoming years (Lamey et al., 2007). According to the book of Kumar & Steenkamp (2007), there are even extremer examples. For instance in Germany, the third largest economy in the world, the share of private labels, also called store brands, increased from 12% to 35% during the last thirty years. Germany represents a great example of the success of private labels, because even more recently, between 1999 and 2005 alone, the percentage of private labels increased by 50% (23.4% to 35.1%) (Kumar & Steenkamp, 2007). Quite remarkably, the Top 5 retailers (Metro, Rewe, Edeka, Aldi and Tengelmann) alone already own 63% of the German market (Knorr & Arndt, 2003).

Further, the same authors also state that e.g. the U.S. is slightly underperforming, based on data from 2006, since their country characteristics would allow for a higher private label share (higher than 20%). However, in 2012, the sales of private brands increased by 2.9% (compared to 2011) across all major U.S. retail channels, representing a unit share of 23.1% and a dollar share of 19.1% at supermarkets, while drug stores encountered a unit share of 16.6% and a 15.9% dollar share. Since 2009 U.S. supermarkets experienced an annual increase of private labels of 2.6%, compared to a 0.9% gain for national brands. The same development can be noticed for drug stores, which even have experienced some record growth rates for private labels during the last years (Private Label Manufacturers Association of the United States, 2013).

Not surprisingly, according to Quelch & Harding (1996), the success of private label brands usually varies with the economic conditions. What is quite astonishing about the development though is that, on top of that variation, Lamey et al. (2007) found out that more customers switch to private labels during economic downturns than customers switch back to national brands during the subsequent recovery, increasing the private brand share as a result and negatively affecting national brands. Importantly, according to research done by Richardson et al. (1994/1996a), consumers still seem to have a knowledge gap regarding the actual quality of PLB. Although they can hardly distinguish between national brands and store brands (in terms of quality) during blind taste tests, most of the consumers opt for the NB alternative. Hence, as suggested by Hoch & Banerji (1993), quality is a more important driver of store brand success than the price level is, which contradicts the general belief. However, there are different types of consumers (Kumar & Steenkamp, 2007) and not each of them is a potential target of private labels.

Moreover, relevant literature says that retailers need to balance the amount of PLB compared to national brands in their shops (Ailawadi & Harlam, 2004). However, there is a knowledge problem in terms of brand distribution among retailers. So far, it has not been determined whether there is an optimal, most profitable percentage of PLB is and by what factors it is influenced.

Besides the aspects directly related to private labels, retailers also need to take into account the broader picture. As was stated by Wernefelt (1984), many companies focus on their products only, thereby forgetting the resources that are relevant for their activities. In case a



retailer lacks a certain resource, he might for instance not be able to pursue a certain strategy in terms of private labels. Further, even if the resources are in place, the resource allocation represents another point of concern within the retailer's decision-making (Eide, 2010), also regarding the determination of a private brand share.

With regard to branding, it needs to be said that since private brands have become real brands they also deserve to be managed accordingly (Mullick-Kanwar, 2014). This means that retailers have to handle their store brands with the same attention as national brand manufacturers do, which of course consumes time and money. Besides the brand image and equity of each store brand, the importance of the overall store image is not to be underestimated, either. According to De Wulf et al. (2005), the store image has a great impact on the reputation of the individual store brands, which might significantly affect the optimum share of a grocery retailer.

## 1.2 Problem definition & objectives

After having outlined the current situation of the private label market, the context of the problem will be illustrated subsequently. As mentioned previously, retailers are currently facing an information dilemma with regard to the optimal, most profitable amount of private label brands. Although the share of private label brands is growing globally, as indicated earlier, it is important to note that a higher store brand share does not automatically lead to higher profitability (Kumar & Steenkamp, 2007). There is a risk of being misled by the findings that a high store-brand share even increases the profitability of national brand sales for a certain retailer, due to lower wholesale prices obtained (Ailawadi & Harlam, 2004). However, the same authors also say that there should be enough national brands available in a retail store, since these brands will remain traffic builders, meaning that they help to attract and retain profitable customers.

Although store brands bear a lot of benefits for retailers such as a higher bargaining power towards the NB manufacturers (Pauwels & Srinivasan, 2004) and a higher store loyalty (Corstjens & Lal, 2000), a dealer also needs to bear in mind the consequences of an extensive private label strategy and the effects it has towards national brand manufacturers, being competitors and suppliers at the same time. First of all, the investments in production and packaging as well as in-store arrangements including inventory management, advertising and

shelf-space distribution involve a lot of resources (all of them usually being tasks of a brand manufacturer) (Hoch & Banerji, 1993). Further, the retailer's focus and expertise originally lies in the distribution and sales of consumer goods, meaning that a too high focus on its own labels could cause the retailer to lose sight of its core business (Kumar & Steenkamp, 2007).

Therefore, it is of great importance for retailers to know, whether there is an optimal amount of private labels - not a one-fits-all share, but one that is ideal for their specific case - and what factors determine it. If it was known, what PLB share was reasonable for a particular retailer to retain, they could save resources that would have been assigned to the management of private label activities otherwise.

According to the author's best knowledge, there has been no research investigating the optimal share of private labels for a retailer so far providing an insight into the determination of an optimal share. Various studies have been undertaken with regard to consumer behavior, brand attitudes, store brand images, store (brand) loyalty and the co-opetition (being a mixture of competition and cooperation) between retailers and national brand manufacturers (among others). However, none of the available literature has dealt with the topic of optimizing private brand share. Interestingly, some companies seem to have a strategy regarding the amount of PLB offered in their stores. One example is the German company Aldi, which offers a smaller amount of products than regular retailers (Knorr & Arndt, 2003), of which approximately 90-95% are store brands (Kumar & Steenkamp, 2007).

The main goal of this thesis is to add knowledge to the existing research in this area (or at least refine it) and to find factors influencing the amount of store brands of a retail store. Here, it will be important to analyze what fosters and what hinders the sales of private label brands and what the advantages (benefits), respectively the disadvantages (costs) of a higher/lower share are for a grocery retailer. It is not expected that this study can provide a "holy grail" answer regarding the optimal share for a certain grocery retailer, but rather that it will provide some insights into this dilemma.

Due to the fact that the existing literature does not directly refer to that strategic dilemma, this thesis will focus on private label shares of grocery retailers. It will be the objective to identify the factors regulating an optimal percentage of PLB in order to provide these retailers with a decision-help to identify the most profitable distribution of private label brands compared to

national brands. Consequently, the following research question was set up for further investigation:

**Research Question:** Is there an “optimal share” of PLB for a grocery retailer?

**Sub-Research Question:** What factors determine the variation of the PLB share between different retailers?

The author of this thesis will try to identify these factors through qualitative research, particularly by conducting semi-structured interviews with representatives of leading German and Portuguese grocery retailers/supermarkets. By limiting the scope of the research to the PLB share within the grocery retail sector, a similar range of factors influencing the ‘optimal’ share is to be expected. Since Germany represents one of the largest economies in the world (as mentioned previously) and has a private brand share of roughly 40% with players such as Aldi, offering up to 95% store brands (Planet Retail, 2014a), it represents a suitable market for such a research paper. Also Portugal, being the second market of interest, represents an interesting subject to be included in the study. Having an overall private label share of 44.8% (in volume) with companies such as Minipreco even facing a 50% share, Portugal represents one of the top countries in Western Europe in terms of private labels (Planet Retail, 2014b), making it a potentially insightful market for this investigation. Hence, the outcomes of the interviews about the selected companies might also serve as a benchmark for other supermarkets to solve the underlying problem at hand eventually.

If this thesis is successful in answering these two research questions, it will be highly relevant for decision-makers in brand management, retailing, and academic scholars likewise. Especially brand manufacturers still lack some awareness of the importance and impact of private labels. Research from 2007 (Baltas & Argouslidis) revealed that 81% of them have already realized the threat of PLB. In contrast to that, 90% of the analyzed retailers had appropriate comprehension of the topic (Baltas & Argouslidis, 2007), meaning that this investigation can further contribute to the knowledge development of both groups and might even be a tool to foster the profitability of retailers.

Furthermore, a lot has been written about the brand equity of national brands, but current academic scholars have realized that also private labels have turned into “real” brands (Kumar & Steenkamp, 2007). The recent popularity of PLB and their expected global growth are

further reasons, why this topic is becoming increasingly important and why this research question is relevant to all people involved with private label brands.

As a result of having identified and having introduced a favorable share of store brands, there might be further consequences, such as increased profitability or company growth. Yet, exploring this effect would go beyond the scope of this master thesis.

### 1.3 Course of investigation/Structure of the thesis

The first chapter served as a brief overview of the topic in order to familiarize the reader with the current situation of private label brands and to justify the choice of the topic as well as the research questions to be investigated. After having set the premises for the development of the underlying research, the subsequent theory chapter will allow further insights into the topic.

Chapter 2 is divided into two parts. The first section provides a summary of the relevant fields of business and management literature. An outline of the connected subjects organizational strategy, comprising the resource based view and the consequential competitive advantage, as well as consumer behavior and brand management will be given. In the second half of the chapter, the previous research regarding store brands will be identified. Here, the main findings (secondary data) about consumer behavior and attitudes, private label developments, the strategic game between PLB and NB as well as store (brand) loyalty will be summarized. Finally, hypotheses derived from the literature will be presented.

The next section, chapter 3, will be dedicated to the methodology of this master thesis. First of all, the research strategy based on the research objectives, its design and the corresponding process of this qualitative paper will be explained. Afterwards, the data collection through semi-structured interviews with representatives of German and Portuguese supermarkets as well as the data analysis process will be described.

Next, the results of the interviews will be presented in chapter 4 and will be segmented into groups. This will help to spot similarities and to confront the findings with each other in the course of the next chapter.

Afterwards, in chapter 5 the outcomes will be discussed and critically analyzed. Additionally, the findings from the literature review will be taken into account and compared to the results

of the interviews. Finally, potential contradictions or congruencies will be critically challenged in order to add knowledge to the existing research and to provide grocery retailers with a decision-help regarding the dilemma about the optimal percentage of private label brands and the factors it is determined by. Subsequently, research limitations as well as possibilities for future research will be identified.

Ultimately, chapter 6 will round off this master thesis with a conclusion of the main findings that should be taken into account.

The guiding questionnaire of the semi-structured interviews can be found in Appendix 1.

## **2. Literature Review**

In the following chapter, an outline of the existing literature relevant for the study at hand will be provided. After the presentation of the general theory related to the topic, a section with more private-label focused literature will be presented.

### **2.1 General theory**

The topic of the underlying research is related to various fields of business and management literature. Therefore, a short overview of the inter-related topics organizational strategy, including the resource based view and the competitive advantage, as well as consumer behavior and brand management will be provided in the following. Being the most relevant areas of literature with regard to the research questions, the subsequent overview is supposed to facilitate the understanding of the research topic and to set the base for the more private label-related literature review in chapter 2.2.

#### **2.1.1 Organizational Strategy**

Many times, also in case of the underlying research, the product, respectively the brand, is the focus of a company. However, every company needs to take into account that most of the products can only co-exist with certain resources in place, meaning that many resources are required for the production of most of the goods, while most of the resources can be utilized for various goods (Wernerfelt, 1984). This way it is possible to determine the necessary resources to define the optimal product-market activities. Economists have discussed the inter-action between capital, labor and land for several years, but in business and management literature the product-view seems to be pre-dominant. According to theory, a resource should be understood as anything that can be regarded a strength or weakness of a company, any “semi-permanent” tangible or intangible asset, including brand names, tacit knowledge, the management of certain processes etc. (Wernerfelt, 1984).

The biggest input of the resource-based view is that it clarifies the phenomenon that some alterations in profitability do not stem from a variation of industry conditions (Peteraf, 1993). Furthermore, on its way to a sustained competitive advantage, a firm needs to ensure that its resources are valuable, rare, imperfectly imitable and non-substitutable (Barney, 1991). If a

manufacturer has resources that can also be utilized for the production of private labels, it can pursue a diversification strategy and utilize such excess capacity (Peteraf, 1993). This would mean that the same resources were to be used to produce a variety of products, making use of scope and eventually also scale effects.

With regard to the private label production and management, the availability of resources can be a significant determinant, whether to produce or not to produce private label brands. Whereas the (national brand) manufacturers have already accumulated the necessary knowledge and, in case of excess capacity, also possess the machinery to produce a certain PLB, the retailer lacks these resources. In this case, according to Wernefelt (1984), a (NB) manufacturer enjoys a resource position advantage. In contrast to that, the same author also highlights the law of diminishing returns, which might pose a threat to any manufacturer. For instance, if a company's workforce is not collaborating effectively anymore, because of process inefficiencies or a too high number of workers within a certain area, the existing capacities have been exploited beyond the limit of efficient work.

Besides the advantage of having a specific resource available, the resource allocation also plays an important role in strategic management. According to Eide (2010), the resource allocation planning should be an essential part when formulating a marketing strategy and companies, especially multinationals, sometimes have to adjust the distribution of their resources such as capital, employees or knowledge (within a market or even across markets), due to shifting market demands.

Transferring this issue to a retailer's decision regarding the private label share, Hoch (1996) questioned a retailer's ability to manage 300 categories at the same time (private and national brands). He believes that the resources are not deployed optimally, if the focus is too much on store brands, since dealing with the general challenges posed by national brands in the course of category management can yield much higher returns and will maximize profits. In such a case, not just the resource allocation, but also the resource availability in terms of market, category and product knowledge as well as human resources play an important role in determining the retailer's overall performance. This means that the amount of available resources as well as their allocation can affect the decision to retain a higher or lower private brand share. According to Hoch (1996), a relatively lower PLB share and a higher focus on

category management generate higher profits. In contrast to that, a broader assortment is able to attract a wider range of people, which could increase overall revenue.

All of the previously mentioned aspects of organizational and competitive strategy can be linked to the “optimal” PLB share, as the existence or even abundance of certain resources can have a great impact on the decision of how many own goods/SKUs are to be retained in the assortment. However, there has been no literature, yet, which explicitly addresses the resource-based view when talking about private label brands. This is another reason to include it in the underlying research.

### **2.1.2 Consumer Behavior & Brand Management**

The second topic that is of great interest for the underlying research is consumer behavior and brand management. Due to the fact that the subject of private label brands involves the management of those brands as well as the consumers’ willingness to buy them, both areas will be addressed shortly in the following paragraphs.

The first item to be discussed is brand equity/brand value. As stated previously, many times the product, respectively the brand, is the focus of the company, since companies have come to realize that brands represent the intangible assets with the highest value within their business. This is why brand management has turned into a priority for top management during the last ten years (Keller & Lehmann, 2006), even being considered part of a firm’s capital, and having become part of modern life (Kapferer, 2012).

There have been various views about a brand’s equity, but according to the well known marketer Kevin Lane Keller (1993) it can be defined as the effects of marketing that only occurred, due to the impact of the brand, and would not have occurred if the brand name had not been in place. Moreover, he states that “a brand is said to have positive (negative) customer-based brand equity if consumers react more (less) favorably to the product, price, promotion, or distribution of the brand than they do to the same marketing mix element, when it is attributed to a fictitiously named or un-named version of the product or service.” (Keller, 1993, p.8). Therefore, brand equity is a great way to assess brand value. De Wulf et al. (2005) consider brand equity as the return of investments into a company’s marketing activities, meaning that all costs into marketing campaigns are outweighed by the popularity and willingness of the customer to buy a certain brand.



Taking into account the specifics of retailing, where various private brand and national brand products are sold under the same store name, they mention that the investments of a retailer are sometimes geared towards the store itself, rather than to any particular brand. They claim that this has to do with the fact that the store brands benefit from the retailer's credibility as well as brand image rather than having a particular value themselves. Further, since customers usually stay loyal to a given store, this store loyalty increases the value of a store brand (its brand equity) as well, showing that retail branding is about getting customers to be loyal. This demonstrates that the overall retail brand is a critical aspect when developing a private label brand (De Wulf et al., 2005).

Another important concept in understanding consumer behavior and brands is the brand image. Keller (1993) defines brand image, based on the input of Herzog & Newman, as consumer perceptions of the brand that are expressed by the brand associations that are predominant in the consumers' memory. These comprise the meaning of the brand for each individual consumer and can be assessed based on strength, favorability and uniqueness, representing an important source of brand image (Keller 1993). Finally, one can distinguish between three classifications of brand associations: Attributes (descriptive qualities of a good), benefits (personal added value of a particular consumer) and attitudes (general likability from the consumer's point of view.).

Moreover, brands can reveal some information about the person purchasing them. Nowadays, they are even used by consumers to make personal statements. In former times, they rather served as an identifier for the origin or the physical characteristics of a product (Kuksov, 2007). This is closely related to the concept of brand personality, which says that consumers associate a certain spectrum of human characteristics with a brand (Aaker, 1997). Research was able to show that the more congruent a consumer's characteristics are with those of a brand, the higher his preference for a certain brand. Researchers further found that the preference for a brand increases proportionally with the increase of congruity between human characteristics and those characteristics describing the brand (Sirgy, 1982). This brand personality can cause consumers to engage into brand relationships, which in turn will lead to brand loyalty, meaning that consumers either become dedicated to repurchase a brand or at least continue using it (Fournier, 1998).

After having talked about the consumer perspective, the corporate point of view will be addressed subsequently. According to Kapferer (2012), brand identity is what the company plans the brand to convey. In contrast to the image, which is the result and the consumer's interpretation of it, it is the company's intention that plays a role here. Hence, if a retailer introduces a certain store brand to the market, he should be clear about the image that the brand should project (cheap, high quality, fashion etc.). Afterwards, it is of vital importance to make sure that the intended brand identity is congruent with the image that is created in the customer's mind after having decoded the message and interpreted its meaning. With regard to private labels, the retailer has to assure that the customer correctly understands the idea behind a certain store brand, might that be a quality or a price focus.

## 2.2 Private Label-related literature

In the following sub-chapter the most relevant literature regarding private label brands will be presented. After a general introduction to private label brands, the literature about consumer behavior with regard to private labels will be outlined. Next, some market insights will be presented followed by an outline of the most relevant store brand share insights. The fifth sub-chapter will cover retailer strategy literature in terms of private label, followed by a short summary of potential theoretical implications for the determination of the optimal store brand share

### 2.2.1 General Introduction to private label brands

In the following section a general introduction to private label brands will be given. The initial question is: 'What exactly are private labels?' The Private Label Manufacturing Association in the U.S. (2013) defines private labels or store brand products as "all merchandise sold under a retail store's private label". This can either be a product bearing the chain's name or an exclusive brand name (fancy brand), which is only used by a particular retailer (in its particular stores) or all retailers that belong to the same wholesaler/buying group. In the latter case one refers to the term control brands. Store brands can also be called "private labels, private brands, house brands, own brands, white labels, own labels, distributor brands, or retailer brands" (Private Label Manufacturers Association of the United States, 2013).

During the 1980s private labels started as generic brands, without any name printed on it. The literature at that time indicated that these products targeted low-income consumers, whereas the practice showed that rather well-educated, upper-class customers demanded those generics (Lantos, 2007). However, according to Kumar & Steenkamp (2007), this type of private label did not represent a large share of the retailer's turnover, which is why this kind of product used to be of little strategic importance. In fact, they usually were badly located, lacking visibility (on the lowest shelf-level) and were soon outperformed by the more important 'copycat store brands', which are still an important part of private label strategies nowadays (Kumar & Steenkamp, 2007).

Today's private labels have managed to remain a lower-price alternative, while at the same time eliminating the quality differential between them and the national brands. The popularity of private label brands was affected by globalization, more educated customers shopping cleverly and the continuous growth of PLB brand shares within the store. As a result they altered the whole retailing industry and even changed the development of products in the North American and European markets (Kumar & Steenkamp, 2007).

Moreover, almost every consumer to some extent purchases store brands regularly, might it be food, beverages, drugs/medicines or other retailer products, since store brands can be found in almost every food and non-food grocery category. Many customers think that they offer a better assortment, benefits and cost-economies (from their point of view) (Private Label Manufacturers Association of the United States, 2013).

Furthermore, not just the quality, but also the perceptions of modern private labels in most European markets have undergone a significant change. Hence, store brands can now be regarded as an appropriate replacement of national brand products, as can be seen in the case of multinational retailers such as Carrefour, who offer store brands being priced reasonably and providing a quality comparable to their branded counterparts (Baltas & Argouslidis, 2007). Store brands are nowadays also delivered to the market in a more or less identical manner as national brands and can be considered 'real' brands, since their former name 'generics' is not applicable anymore (Private Label Manufacturers Association of the United States, 2013). Since brands give a meaning to the customer and serve as a quality warrant (Kumar & Steenkamp, 2007), private labels are now able to provide these trust-building measures, too.

The same opinion is also supported by Aperio (2014), a leading FMCG consulting firm. In particular, they say that PLBs have developed from a cheap alternative, which served to increase retailers' margins, to high-class trusted brands, which cause consumers to even stay loyal to a certain retail store. These brands are serving different customer needs being almost indistinguishable from regular national brands. As a consequence, they now represent a threat to national brands, which, as a response to that, have to refine their source of differentiation significantly. In addition, the trust in the retailer to deliver quality products is increasing faster than the trust in NBs, because the store brands have more in-store exposure through greater prominence on the shelves. The retailer is also aware of all promotions that national brand manufacturers are undertaking so that he can easily react to their activities (Aperio, 2014).

Besides the previously mentioned aspects about private label brands, it is important to note that there are four types of private label brands that are sold by retailers (see table 1 on next page). First of all, there are generic PLBs, which are cheap no-name products (not even showing the store-name) that account for a minor profit share as they only offer very low margins for the retailer. These products target very price-sensitive customers, who do not mind any quality differences from national brands. Furthermore, they help cross-selling other products with a higher profitability and they can be the answer to the products of low-cost competitors such as Aldi (Kumar & Steenkamp, 2007). Especially during the 1970's and 1980's these products enjoyed great popularity (Dick et al., 1995).

Secondly, there are 'me-too' copycat brands, which usually imitate the leading national brand of the category, but sell at a cheaper price. By making use of these, the retailer does not have any expenses concerning R&D and does not face any risk (and associated costs) of product failure, which allows him to even be active in categories, where constant innovation is needed. In addition, retailers usually promote these products aggressively, directly comparing it with the national brands on the shelf. This threat leverages the retailer's bargaining power versus NB manufacturers substantially.

The third private label type is premium store brands. We can distinguish between premium-lite store brands and premium-price store brands. The first one takes the quality of the leading NBs as a reference point and attempts to outperform them both in terms of quality and price. Hence, the result might be a higher-quality product at a cheaper price. The latter type aims at offering a more expensive alternative (can even be more expensive than NBs), providing

higher quality and even containing some brand imagery (e.g. Tesco’s Finest chocolate) (Kumar & Steenkamp, 2007). Both types of premium brands serve as differentiator from other retailers and, if successful, create store loyalty among consumers. This can only be achieved though, if the best PLB manufacturers are recruited for the production of such brands and if investments into R&D are undertaken. Especially this type of private labels shows that the quality gap has been closed (De Wulf et al., 2005) and that PLBs do not just represent a cheap copy of a national brand.

The last type is value innovator private labels, which aim at providing the best performance-for-money ratio. Companies such as Aldi, H&M or Ikea focus on an underserved target segment, offer product quality on the same level as NBs and avoid expensive packaging. By continuously focusing on cost cutting, for example through a low amount of staff or a limited assortment, and process optimizations they aim at offering the lowest prices for the highest value possible (Kumar & Steenkamp, 2007).

<b>Private label type</b>	<b>Characteristics</b>
Generic PLBs	White labels, very low margins
“Me-too”/copycat brands	Imitate leading NBs, but sell at cheaper price; No R&D costs and investments; Pose threat to national brands
Premium store brands	High quality, medium to high price, sometimes more expensive than NBs. Serve as differentiator from other retailers
Value-innovator brands	Aim at providing the best performance-for-money ratio. They try to offer NB quality, avoiding all unnecessary costs and focus on underserved segment

*Table 1: The four types of private label brands*

Taking these variations of private label brands into account, it can be noticed that the range of PLBs can have a significant impact regarding the optimal percentage. If a retailer strategy is opting for a multi-tier private label approach (selling various types of private brands under the retailer’s name), the percentage will probably be higher than the share of a single-tier strategy (selling only one type/private brand).

## 2.2.2 Consumer insights

### *General insights*

With regard to consumer insights, it is important to note that the general consumer behavior has changed after recent incidents such as the financial crisis and the corresponding recession. The new consumer has changed his attitudes and buying behavior, now being more economical, responsible, yet also demanding (Voinea & Filip, 2011). Besides the way of purchasing, the authors also write that the social-economic impact has especially affected what consumers are buying and why they are doing it. Consumers' awareness of all purchase-related aspects has risen significantly, which is why the success of private labels has increased during economic downturns.

### *Consumer buying behavior*

In general, there are four diverse types of buyers at a retailer: Random buyers, brand buyers, PL buyers and toss-ups (Kumar & Steenkamp, 2007). Random buyers do not perceive any quality difference between NBs and PLBs and are not very price-oriented. Brand buyers do not care much about price, either, but from their point of view there is a large quality gap. The next sort of buyers is private label buyers, who are very price-oriented and only perceive a small difference between NBs and PLBs. The last type to look at is toss-ups, who are price-focused and perceive the quality gap to be huge.

Type of buyer	Characteristics
Random buyers	Little quality difference between PBs and NBs perceived; not very price-oriented
Brand buyers	Do not care about price; perceive quality gap to be large
PL buyers	High price-orientation, considers quality of NBs and PLBs similar
Toss-ups	High price focus, considers quality difference huge

*Table 2: The four types of retail buyers*

In addition to that, it was discovered by Rao in 1969 already, that in some private label segments consumers are expected to differentiate less among private brands from different stores/retailers, meaning that a price-conscious housewife, who buys private label minced meat does not differentiate between Aldi or Lidl. However, the purchase behavior might be

caused by their price-sensitivity mainly, since PLBs have an advantage over national brands in terms of price (Rao, 1969). However, in contrast to the general assumption that PLB mainly rely on price, Kumar & Steenkamp's (2007) research has shown that perceived quality – not a low price – is the most important determinant in developing a competitive and successful store brand.

Besides the effect of quality on consumer behavior, Miguel et al. (2002) found that also personal involvement with a product category has an indirect effect on the purchase decision towards store brands. A higher level of involvement usually results in broader knowledge, in turn leading to a higher chance of private label purchase. In order to further increase their brand perception and personal involvement, consumers need to be integrated into the development of store brands, be it through giving feedback or providing suggestions for new lines of products (Planet Retail, 2011), e.g. as done by Lay crisps, asking consumers to create their own flavor of crisps (Lay's, 2014). This will result in a two-fold benefit: While the trust among consumers will be increased, they help to ensure the high level of quality of store brands, which in turn would lead to a higher own brand share. Europe is the pre-dominant area, where this trend is already on its way (e.g. Carrefour already made use of customer involvement) (Planet Retail, 2011).

In general, store brand buyers tend to be more aware when making purchase decisions; so by closing the quality gap store brands can become more successful as consumer trust is a vital factor when building a competitive advantage (Miguel et al., 2000). However, with regard to beliefs Guerrero et al. (2000) highlighted that although customers have sharp thoughts about store brands, they might not behave in accordance with these when being at the supermarket (Guerrero et al., 2000).

Guerrero et al. (2000) also discovered that customers believe in the reliability of store brands, their difference from national brands and their corresponding value for money. The consumers' perception of the store brand's quality is influenced by the store itself. Further, the same authors state that gender determines the proneness towards store brands, since women have a more positive attitude towards own brands in general (Guerrero et al., 2000). However, if any consumer realizes or just assumes a higher quality of national brands compared to own-brands (which is the general image), he will rather opt for this alternative, when facing no significant price difference (Miguel et al., 2000; Guerrero et al., 2000). The

same also happens, if he favors a certain brand name, which gives him reassurance when making a purchase decision (Baltas & Argouslidis, 2007). Thus, quality perception and brand attitude matter in the decision making process. This also demonstrates that retailers have a hard time proving that their own-label brands are of the same quality, sold at a lower price. This value for money offer represents an important aspect to at least win the more price-oriented customers (PL buyers), who have a greater preference for the retailer's products (Baltas & Argouslidis, 2007).

Burton et al.'s research (1998) revealed that consumers either opt for price-related deals (of national brands) or private label purchases, never doing both during a single purchase occasion. Further, a positive attitude towards PLBs might lead to higher amount of purchases of NB deals, which will cause the amount of PL purchases to decrease in the short-term. However, only making use of deal selling will not be a successful strategy in the long run. In fact, store brand shoppers consider themselves as 'smart', meaning that they are willing to look for PLB and are not that much influenced by promotional activities of national brands. This increases the benefit of better in-store locations for national brands, which are charged by retailers to actually be positioned well, representing an extra income for the retailer (Burton et al., 1998).

### ***Consumer risk***

Batra & Sinha (2000) discovered that the amount of PLB purchases in a category increases, when customers think that there are less significant consequences being attached to making a mistake regarding the brand choice in a certain category. This will be the case if the quality variation among the brands of a category is regarded to be small and when a good is rather characterized as a 'search' than as an 'experience' good. The latter is true, because consumers are more trustful in search claims than experience claims. The term 'search good' refers to product characteristics that can be investigated before the purchase, either through direct assessment or easily accessible sources.

In contrast to that, experiential products rely on attributes being more hedonic such as color, taste or texture, which lead customers to perceive more quality variation. Hence, experience qualities can only be proven through the use of the product (Batra & Sinha, 2000). Therefore, customers seem to trust experiential national brands more, in case there is only a limited amount of search characteristics. However, free in-store trials can reduce this risk.



Besides this, there is a variation in customers' willingness to purchase private labels across differing product clusters, being the lowest in case there is a great (perceived) social risk. Thus, customers prefer premium private labels within these product groups. Further, while the attitude towards a particular PLB significantly affects the purchase willingness, being also dependent on the product category, the general attitude towards PLBs is of minor importance in this regard (Zielke & Dobbelstein, 2007). However, also consumer learning plays a role in this process (Erdem et al., 2004), meaning that previous experience can make a customer more confident about the store brand.

Moreover, González Mieres et al. (2006) have researched the variation of perceived risk between PLBs and NBs and showed that perceived quality (both brands in comparison), familiarity with the store brands and the trust in making use of extrinsic attributes as a basis for quality judgment are the most relevant aspects to explain this variation. They usually rely on these factors, if the intrinsic characteristics make a product evaluation rather difficult. Additionally, they say that equally perceived quality and greater familiarity with private labels will reduce the variation of perceived risk between PLBs and NBs, while the trust in extrinsic cues will increase the difference of perceived risk. The higher the consumers' consciousness of potential consequences of their purchasing behavior, the higher their perceived risk and the more likely they are to choose national brands over private labels (González Mieres et al., 2006).

### ***Brand Choice***

Furthermore, Dick et al. (1996) state that the consumers of their study have disclosed that the intrinsic product attributes quality, reliability and fineness of the ingredients, and taste affect their brand choice. The assessment of these is usually based on the external cues price, brand name, packaging and advertising. Whereas customers perceive the brand name as the most important indicator of taste, assumptions about quality are derived from both brand name and price. Especially the price of private label brands may sometimes lead customers to become skeptical about store brand ingredient quality, meaning that the packaging and advertising should be geared towards informing the customer about the quality of the store brands. Hence, if a retailer's store brands do not convey their actual value to the customer, they will not be part of their consideration set for purchase. In such a case, a lower PLB share could be better.

### **2.2.3 Store brand-related market insights**

Next, market insights regarding store brands will be provided. Baltas & Argouslidis (2007) state that the threat store brands are posing to national brand manufacturers in the global market place is growing. This has already been noticed by 90% of the retailers, whilst 81% of the manufacturers are aware of the fact that they need to avoid considering private brands as cheap alternative products, which are mainly purchased by customers, who do not have the funds to buy national brands.

Additionally, the amount of distribution agreements is emerging in the traditional bricks-and-mortar business as well as online, involving companies such as Amazon or online grocery sellers. Another important trend is that retailers are making an attempt to broaden the store brands' range of influence beyond their store walls, being another traditional characteristic of national brands. In order to accomplish this availability, they are making use of other distributors (Planet Retail, 2011).

With regard to the impact of the economic situation on the purchase rate of private labels it was detected that PLB shares vary depending on the current condition of the economy (Quelch & Harding, 1996). However, store brands benefit from worsening economic conditions (as mentioned in chapter 1), because as Lamey et al. (2007) discovered in their research, there is a greater amount of customers switching to buying private labels during an economic crisis than customers switching back to buying national brands once the economy has started to recover. This in turn means that the PLB share increases during those periods, impacting the NBs in a negative manner.

On top of Lamey's findings (2007), Kumar & Steenkamp (2007) write in their book that the partly permanent increase of the general private label share after an economic downturn is generated by consumer learning. Due to the fact that they experience the enhanced quality of store brands during such a period, a remarkable share of consumers actually continues to buy them, even though the need to save is no longer given. In relation to this, the German magazine 'Stern' wrote that especially the hard discounter Aldi benefits from a bad economic situation, as it becomes stronger the worse the economy gets (Kumar & Steenkamp, 2007).

In more detail, the German retail market, which is the main focus of this paper next to the Portuguese market, is a very special one. Knorr & Arndt (2003) researched the failure of Wal-

Mart in Germany and figured out that the big US-retailer mainly failed, because it tried to copy the US-formula to the German market, without having made any modification. However, besides this lack of innovation, the fierce competition in the German market made things even more challenging, leading to the fact that the company was not able to offer any added value to the German customers compared to other players in the market. Overall, there is a very consistently growing concentration in the German market, since the top 10 retailers represent 84% of the turnover in the market, while the top 5 (Metro, Rewe, Edeka, Aldi and Tengelmann) alone already creates 63% of the market sales (Knorr & Arndt, 2003).

Furthermore, Aldi pioneered the food (and drug) retailing market in 1962 and introduced a very country-specific system - the hard discounter. This format was later on copied by Lidl (belongs to the Schwarz Group), which is overtaking Aldi even in Germany recently (Kumar & Steenkamp, 2007). The company is expected to become the biggest European retailer by 2018, even outperforming Carrefour (Immobilien Zeitung, 2014), as well as Norma and Penny (both belong to the Rewe Group). The main characteristic is that such a retailer usually offers a small range of 600-700 SKUs, having a high percentage of store brands [Aldi has up to 95%, Lidl 65% (Kumar & Steenkamp, 2007)] offered at incredibly low prices with extremely low profit margins. In general, Germany can be considered one of the most unsophisticated markets in terms of retail, which is the reason why the price has become the major factor in order to create a competitive advantage leading to decreasing margins for both the retailers and the suppliers (Staufenbiel Institut, 2014). Due to this lack of sophistication, among all industrialized countries, Germany represents the least profitable market, only reaching profits of 0.8% of sales in Western Germany and an even lower 0.5% of sales in Eastern Germany (Knorr & Arndt, 2003).

Despite having a low profitability, all German cheap discount companies combined represented 33% of the food segment in 2003, which was even expected to grow further to 40% until 2007 (Knorr & Arndt, 2003). This is a huge share compared to the 10% and 8% in the UK and France respectively. In addition to the high proportion in the food market, the hard discounters progressively enter into a tough competition with the regular retailers in the non-food market. Interestingly, the relatively lower amount of private label brands of for instance Lidl creates a reputation for offering more national brands than other discounters, which can serve as a frequency generator and image enhancer. This is the case, because only these commonly known brands allow consumers to compare the price levels with those of

traditional supermarkets such as Rewe or Edeka (Eide, 2010).

Another market, which will be of interest for this research is Portugal. The concentration of the Portuguese food retail sector is also quite high, since there are five major players that possess 60% market share. The two biggest companies are Sonae and Jerónimo Martins, each having close to 20% market share. The other three players, ITM, Auchan and Schwarz Group (Lidl), do not have higher shares than 10% (Planet Retail, 2014c). Furthermore, private brands enjoy great popularity within the Portuguese market. This is illustrated by its private label share of 32.8% in terms of total sales revenue and 44.8% in terms of sales volume, making it one of the top Western European countries with regard to private label penetration (Planet Retail, 2014b). When having a look at the two leading players' supermarket chains alone, JM's Pingo Doce operates with a 40% PLB share (40% of total sales excluding perishables) (Planet Retail, 2014c), while Sonae's Continente supermarket stores' PLB share amounts to 30% in 2012 (Planet Retail, 2014d). This shows that private brands represent an important aspect in the Portuguese market.

#### **2.2.4 Store brand share**

In the following, the literature regarding store brand share will be presented. When looking at the private label share of various retailers it can be seen that the amount varies substantially and that there does not seem to be a relation between the private label share and the success/revenue of retailers (see table 2 below). The three biggest global retailers (in terms of sales volume) Wal-Mart, Carrefour and Metro have a PLB share of 40%, 25% and 35% respectively. Further, while the Dutch Royal Ahold's product range consists of almost 50% store brands (27 billion \$ PLB sales), the German supermarket Rewe only relies on 25% share (13 billion \$ PLB sales), however planning to increase their share to 40-50% in the near future (Planet Retail, 2014e). The hard discounters, who traditionally sell more store brands, range from 65% at Lidl (28 billion \$ PLB sales) to almost 95% at Aldi (65 billion \$ PLB sales). In general, private labels are growing at a faster pace than national brands are and the retailers' amount of resources as well as the effort dedicated to the improvement and marketing of store brands have increased drastically (Miguel et al., 2002). In Germany for instance, being the third largest economy globally, there was an increase from 12% to 35% during the last 30 years (from 1999 to 2005 alone, the store brand share increased by 50%, namely from 23.4% to 35.1%) (Kumar & Steenkamp, 2007). According to some data from 2006, store brands in

Germany are performing better than the market characteristics would make one expect, meaning that Germany, along with the UK, Switzerland and the Netherlands, has understood, how to successfully market and sell PLBs (Kumar & Steenkamp, 2007).

<b>Company</b>	<b>Total sales (\$ billion)</b>	<b>Private label %</b>	<b>Private label sales (\$ billion)</b>
Wal-Mart	316	40	126
Carrefour	94	25	24
Metro Group	316	35	126
Royal Ahold	56	48	27
Rewe	51	25	13
Aldi	43	95	41
Schwarz Group (Lidl)	43	65	28

*Table 3: PLB Share Overview of the major international retailers (Kumar & Steenkamp, 2007)*

When taking a look at the hard discounters in particular, the existence of national brands can bear a win-win relationship, because they help retailers to differentiate from other discount competitors through special brands, SKUs (with different sizes and attractive packaging) and one-time promotions catering to the current consumer trends. This is why NBs can serve as important traffic builders (Ailawadi & Harlam, 2004) and why at least some national brands should be part of the assortment (Kumar & Steenkamp, 2007). The same authors also refer to a vicious circle that both retailers and national brand manufacturers can trap into. Their research has shown that an increased overall market share of PLBs will diminish the power of NB and will stimulate the price-consciousness of consumers, who will in turn demand more PLBs offering a better value for money. On the other hand, a too high PLB share in a specific category would dissatisfy consumers, who usually expect a certain variety and might not find their favorite brand anymore. Consequently, an overemphasis on store brands within a category should be avoided (Kumar & Steenkamp, 2007).

Besides this, Miguel et al. (2002) state that there is a great acceptance of PLBs among consumers, which is why the amount of categories entered by store brands is constantly rising. However, as some other research revealed, the growth of store brands varies across

different product categories (Batra & Sinha, 2000). Also, PLB shares vary across countries and are generally much higher in Europe than in the U.S., which is caused by higher brand equity of PLBs in the higher-share countries (Erdem et al., 2004). Further, Hoch and Banerji (1993) have discovered that the private label brand share is higher in large, high-margin categories, where retailers face fewer national brand competitors, who invest less in advertising. Batra & Sinha (2000) also found that the share of store brands among grocery-sales was the highest for milk (64%), simple frozen vegetables (47%) and sugar (42%). The reason for that could be that those products do not require a lot of technical knowledge or innovative thinking. Due to the fact that the quality difference between PLBs and the NBs is usually determined by the requirements of manufacturing technology, which differ throughout categories (Batra & Sinha, 2000), an easy to produce PLB will make consumers consider the quality gap to be closer, which would favor the decision of a high PLB share for a certain category.

### **2.2.5 Retailer strategy**

In the next section, literature about store loyalty & differentiation, private label brand marketing and the retailer-supplier relationship will be presented.

#### ***Store loyalty & Differentiation***

In times of fierce competition and diminishing profitability, a strong customer relationship has become essential (Dick et al. 1996). Due to the fact that for instance the price of private label brands could sometimes cause skepticism about store brand ingredient quality among consumers, their doubts will contribute little to the growth of store loyalty, which usually is supposed to be a significant advantage of offering PLBs for the retailer. Hence, the authors Dick et al. (1996) recommend a focus on establishing store loyalty when selling PLBs, since a reliable customer base will produce long-term benefits. This demands investments in the increase of product quality and the establishment of strong brand images of the store brands (through in-store trials for instance) though. In order to do so, retailers can offer a high amount of high-quality PLB, which can only be purchased at this particular chain, meaning that if customers like a retailer's product more than the one of the competition, they will stay loyal to his store. This might be an important factor, contributing to the solution of the underlying research question.

Kumar & Steenkamp (2007) state that both differentiating the own retail stores from those of competitors and building store loyalty among one's customers are fundamental reasons for the store brands' existence (Kumar & Steenkamp, 2007). Of course this concept only functions, if customers are really satisfied with the products. Hence, Kumar & Steenkamp (2007) believe that it is also possible to focus too much on store brands, forgetting about the core business of serving the customer to the highest extent. Consequently, consumers would be left dissatisfied, while the retailer's profitability would drop, if the PLB concentration was too high.

In addition, due to the fact that heavy private label buyers possess a higher store loyalty but are less profitable than medium buyers purchasing some private labels (Ailawadi & Harlam, 2004), retailers need to take into account that there always is a tradeoff between profitability and store loyalty (Kumar & Steenkamp, 2007). Hence, based on this insight, an increased PLB share might also lead to decreased profitability, if the amount of NB attracting the most profitable customers is too low. This demonstrates the costs of a too high store brand share.

### ***Private brand marketing***

According to a senior strategist at Interbrand New York, Mullick-Kanwar (2014), retailers even manage their own-brands with the same amount of diligence and innovation as their national brand counterparts do. Thus, she thinks, they also need to get involved with marketing and branding to enhance their private label brands, as both product and brand positioning PODs (Point of Difference) can make the store brand distinct. Additionally, the synergies and leverages that a retailer controls while being in charge of the customer touch point, should not be underestimated and a more consumer-centric approach, rather than a product-centric one, should be pursued. If done successfully, store brands can even become traffic generators, pulling the customers into the store and creating a convincing connection with them. Eventually, a store brand purchase can develop into a lifestyle choice for the consumer (Mullick-Kanwar, 2014).

Furthermore, the effective marketing of private label brands can increase the previously mentioned store loyalty among customers and make the retailer become more resistant to price wars or other forms of aggressive competition. However, without substantial investment in order to achieve a decent product quality, the success of PLBs will be limited, since consumers are still in doubt about private label quality and constantly benchmark them

against national brands. Hence, their actual quality can only be communicated by prominent advertising campaigns and by providing consumers the opportunity to taste the brand in-store (Dick et al., 1995) in order to reduce uncertainty (Batra & Sinha 2000). Dick et al. (1995) also showed that consumers fear financial risks, which could be countered by offering money-back guarantees. This demonstrates that also the marketing of PLB can have an influence on the decision to reach/retain a certain PLB share.

The marketing of store brands can even go beyond the traditional ways. As Kumar & Steenkamp (2007) illustrated, it is of vital importance to serve the consumers' needs in a systematic way. There are even some store brands already that are especially developed according to their customers needs (e.g. Decathlon has seven passion brands) (Kumar & Steenkamp, 2007). One company that has already understood that a good positioning based on quality rather than price is more beneficial for the business is the French retailer Carrefour. They are marketing their store brands as a high-quality substitute for manufacturers' brands (Dick et al., 1995). All in all, in 89% of the available retail categories private brands are said to have a lower quality than their branded counterparts (Kumar & Steenkamp, 2007), while at the same national brands request a 37% mark-up (due to a better brand image) compared to similar PLBs. Hence, retailers either need to focus on quality increasing actions for their store brands or magnify the amount of copycats in order to build up their brand image. The success of their actions in turn determines how many PLBs they should have in their assortment.

### ***Retailer-manufacturer-relationship***

With regard to the manufacturers' position in the private label strategy, Kumar & Steenkamp (2007) state that the relationship between retailers and manufacturers should not only be regarded as competitive, since in some cases it can be profitable for a brand manufacturer, no matter of what size, to start cooperating with a retailer to produce private labels. According to their research, half of the manufacturers, who already produce NBs, at the same time also secretly produce PLBs (since it might harm the image of their national brands). In fact, such a dual strategy can be a very profitable business for them. This corresponds to the concept of co-opetition, meaning that retailers and NB manufacturers should compete and cooperate at the same time, in case it is most beneficial for both of them (Nalebuff & Brandenburger, 2002). Additionally, Kumar & Steenkamp (2007) believe that manufacturers should take into consideration that sustainably high profitability is actually more important for their business



than building a successful brand alone. However, they should pay attention to the fact that a too strong private label presence might harm their brand sales, leading to more and more private label production, eventually resulting in a “vicious circle” and a higher dependency on the retailer (Kumar & Steenkamp, 2007). Further, the initial investment into the brands is a sunk cost, meaning that they should not become careless about the performance of their national brands, either. Consequently, the previous findings are highly relevant in the decision making process about a retailer’s private label share.

Besides this, retailers enjoy an easily sustainable price advantage, since private labels allow them to exert a certain pressure on the brand manufacturers in order to request more favorable “terms based on suppliers’ marginal cost, low advertising and promotional expenses” (Baltas & Argouslidis, 2007, p. 337). At the same time there is no need of making heavy investments in trade promotion expenditures, either. However, the higher the own brand share becomes, the more investments/resources needed to maintain the same quality and service level.

A very astonishing finding was described by Kumar & Steenkamp (2007), who disclosed that, opposed to what one would assume, the retailer’s overall turnover increases if the price gap between national brands and private brands is small. This means that lowering prices of private labels significantly harms the revenue and the profitability. Further, when adjusting the price gap, it is the price of the store brands that should be altered, whereas the NBs’ price should never be increased, since this would harm the overall price positioning of the retailer. With regard to the profitability of PLBs, the authors state that although store brands have a higher gross margin, the dollar-contribution is the same. This was even formed into a policy at some retailers, meaning that they always attempt to achieve the same contribution for both types of products. Thus, generally, PLBs are not more profitable for the retailer than national brands are, meaning that a higher private brand share does not automatically lead to higher profitability.

## 2.3 Summary of key findings

After having presented the literature review with regard to private label brands, a brief summary of the most relevant research findings will be shown subsequently.

As was researched by Lamey et al. (2007), private labels currently are enjoying great popularity and their share is expected to increase even further, due to a growing acceptance of store brands among consumers (Miguel et al., 2002). This change is mainly caused by consumer learning as well as the customers' raising awareness of the own brands' benefits and value for money (Lamey et al., 2007). According to the consultants of Aperio (2014), private brands have turned into "real brands" and most of the retailers have understood the essential aspect that they need to treat their store brands with the same diligence as they do with national brands (Mullick-Kanwar, 2014).

Furthermore, with regard to the private label share in particular, Dick et al. (1996) explained that offering high quality private labels leads to a higher degree of store loyalty, since these products are only available at a specific retailer. What is more, as soon as consumers perceive the PLBs to be similar to the national brand counterparts, they become more trustful in store brands in general (Miguel et al., 2000). Also, if the products of a particular category are considered "search" goods, whose characteristics can be easily researched prior to the purchase, this category faces a higher store brand share than the more "experience" good-oriented categories (Batra & Sinha, 2000). However, although customers have become more educated, the initial purchase intentions at home might still differ from their actual purchase behavior inside the store (Guerrero et al., 2000). Additionally, Hoch & Banerji (1993) found out that the store brand share in larger categories is usually higher than in smaller ones, since retailers face less competition and do not need to invest much into advertising.

Moreover, Kumar & Steenkamp (2007) illustrated that some retailers might over-emphasize their private label brands, increasing the private share too much, while the actual focus on the retail services cannot be retained on the same level. Additionally, Hoch (1996) said that a focus on pure category management will yield higher profits than also handling the management of private labels, having to take care of 300 different categories. With regard to profitability the literature revealed that extremely loyal, heavy PLB buyers generate less profits for the retailer than medium PLB buyers (Ailawadi & Harlam, 2004).

## 2.4 Propositions

As mentioned previously, according to the author's knowledge there is hardly any literature directly defining a private label share optimum and the factors influencing it. In particular, it is for instance not explained what effect the availability and allocation of resources as well as the competences of the retailer can have on the private label management. Neither did the literature provide success stories or failures regarding private label management. All of these aspects can be assumed to have an effect on the decision about a certain store brand share.

Based on the insights derived from the previously presented literature review, the following assumptions were derived. These represent assumptions that need to be tested empirically to understand the cause and effect relationship behind each situation though.

1. A relatively lower private brand share and a high focus on category management will generate higher profits.
2. The majority of the retailers is currently aiming for higher shares, since brand shares are constantly increasing.
3. Since the financial crisis started in 2008, the overall private brand share should have increased drastically, impacting NBs in a negative manner.
4. A higher store brand share increases customer loyalty, meaning that a high share store such as Aldi should enjoy an extremely high customer loyalty.
5. A high PLB share causes the profitability of a retailer to decrease.

### 3. Methodology

The following chapter will outline the utilized research methods of the underlying thesis. All of the presented theory will be based on the research methods book of Saunders et al. (2007), if not indicated otherwise. First of all, the research strategy will be outlined, describing the main purpose and the type of the investigation. Afterwards, the research design will be discussed, followed by a description of the process of how the research was conducted. Finally, a section about the data collection as well as the data analysis will be provided, including some limitations that need to be considered.

#### 3.1 Research Strategy

The research strategy, consisting of a mixture of different methods, was determined based on the descriptions and explanations provided by Saunders et al. (2007). After having identified the most relevant literature in the field of private label strategy through an extensive literature review, by researching secondary data such as books, scientific articles and other written-material, primary research was conducted.

To the author's knowledge, there has been no research conducted concerning an optimum private label share and possible factors that impact the decision about this share for a particular grocery retailer. Hence, in order to answer the research questions about the optimal share and the corresponding influential factors, **primary research**, making use of a **qualitative survey strategy** (Saunders et al., 2007), was conducted. Facing the possibilities of utilizing a quantitative approach (e.g. through a survey) or conducting qualitative data, the author considered the latter to be more appropriate in order to gain in-depth insights into this issue and to provide solutions to the problem of the underlying thesis. An advantage of the selected semi-structured is that they also allow the author to elaborate on the initial answers of the interviewees. Additionally, in case the author did not understand how a certain opinion should be interpreted, using this method it was possible to clarify these issues, which in turn increased the quality of the data analysis. By interviewing different experts working for different companies in different countries, a broader and diverse picture of the current practices could be drawn, which is supposed to increase the validity of this investigation. Finally, it is expected that after having interviewed representatives from different leading

retailers, who show a variation of outcome variables (see figure below), the results can add some valuable insights to the existing literature and provide some recommendations for the decision-making regarding the optimal share of private labels.

## 3.2 Research Design

In the following it will be described how the research project was designed. To start with, the purpose of the research had to be clarified. In general, there are three different research purposes that a study can have. The first type, a descriptive research, plans to precisely picture certain persons or situations and can lay the foundation for further exploratory or explanatory investigations (Saunders et al., 2007). Secondly, an exploratory research aims at providing insights into a certain situation, finding out what is going on and regard certain occurrences in a new light. Finally, explanatory research attempts to explain particular relationships between variables. Taking into account the various functions of each purpose, a mixture of a descriptive and an exploratory study were regarded to be most useful for this thesis, as the research questions focus on the description and investigation of the phenomenon of an 'optimal share' and its influencing factors. Additionally, there might be some potential findings that add to the existing literature and help to deliver insights into this particular field.

Next, the research objectives, defining what information this research aims to gather, from whom it will be collected and in what way, were established. It is the goal of this thesis to conduct data from targeted grocery retailer representatives about their views of the optimal PLB share, and the leading factors influencing the determination and variation of this amount by making use of semi-structured interviews with leading retailers in Portugal and Germany.

Furthermore, based on the research objectives as well as the research purpose, the specific design of the study was developed. Due to the descriptive as well as exploratory nature of this study, the author decided to make use of a combination of a deductive and an inductive research approach. Whereas a deductive approach makes use of literature in order to identify theoretical concepts being tested against data, an inductive approach strives to explore empirical data in order to add content to existing theory. The reason for this course of action was that after having read the existing literature in the relevant field, an optimal share as well as its impacting factors such as resource dependency were not mentioned. Thus, the author decided to let the interviews contribute to the knowledge that this master thesis is based on.

These outcomes should then be tested in order to make general statements about certain inter-relationships though.

Moreover, there hardly has been any qualitative research with regard to the share of private label brands and most of the studies were undertaken from the consumers' or market perspective, but to the author's knowledge never with the input from retailers. Since the author considers this to be a gap in the current literature and he would like to provide in-depth insights into this field of research, semi-structured interviews were selected as the main tool to gather this data. Opposed to the other alternatives in-depth/unstructured interviews, which allow the interviewee to talk freely about a certain topic, and structured interviews, which consist of an identical, standardized set of questions, semi-structured interviews utilize a pre-determined set of subjects and questions that may vary from interview to interview. This generally allows the interviewer to ask refining questions and to deeply explore a certain topic, while at the same time ensuring that the conversation goes into the right direction. With the goal of this study in mind, this method outperforms the other two interview-forms, since a structured interview might lack the possibility to ask more concrete questions, whereas the unstructured interview might not even cover the intended subjects of the underlying research.

In general, according to Saunders et al. (2007), non-standardized, qualitative research might allow for a broader range of participants, potentially leading to a rich and detailed data set. Furthermore, if there is a large amount of questions to be covered, which are rather complex or open-ended and if a variation in the order of the questions is helpful, interviews are the most appropriate tool for data gathering. This is why they usually take one hour or longer (Saunders et al., 2007).

### 3.3 Research Process

In the subsequent section, a brief overview of the research process will be provided. The interview questionnaire had been developed until 27<sup>th</sup> June 2014 and consisted of 16 questions as well as some corresponding refining questions (where applicable). In order to ensure that the results of the interviews are correct and valid, the questions were pre-tested during 'mock-interviews' before the actual interviews took place. Afterwards, the questions had been adjusted according to the feedback resulting from these pre-tests until 13<sup>th</sup> July 2014. Due to the nature of semi-structured interviews, the questionnaire only served as a

guideline and was adjusted during the interviews when considered necessary by the author in order to avoid double questions or repetitions and to retain the flow of the conversation. Also in case the questions were not applicable, due to the current position of the interviewee, the structure was slightly adjusted. The final interviews were then conducted between 18<sup>th</sup> July and 8<sup>th</sup> August 2014.

Each interview started with some warming-up question about the position and the experience of the interviewee (three questions). After the introductory phase, three descriptive questions covering the PLB share, the profit distribution as well as the sourcing of the private brands were asked in order to allow for rather simple answers in the beginning and to increase the difficulty and complexity of the topics steadily. After that, the participants were requested to talk about their, respectively their company's previous experience with private brands. Subsequently, the interview continued with two questions regarding the private label share, followed by two general questions about the importance and the success criteria of these. Next, three category-specific questions were asked. Finally, additional questions about the supplier relations, past success stories/failures as well as the marketing of private labels were asked. These topics mainly derived from the questions that arose during the literature review.

Additionally, each question was usually followed by a more refining question for clarification or elaboration purposes. Further, the elaborating questions helped to turn the interview in a conversation rather than a pure question-answer session and to maintain the conversation flow. In case a topic started with a closed question, it was followed by an open question causing the interviewees to start sharing their insights in detail.

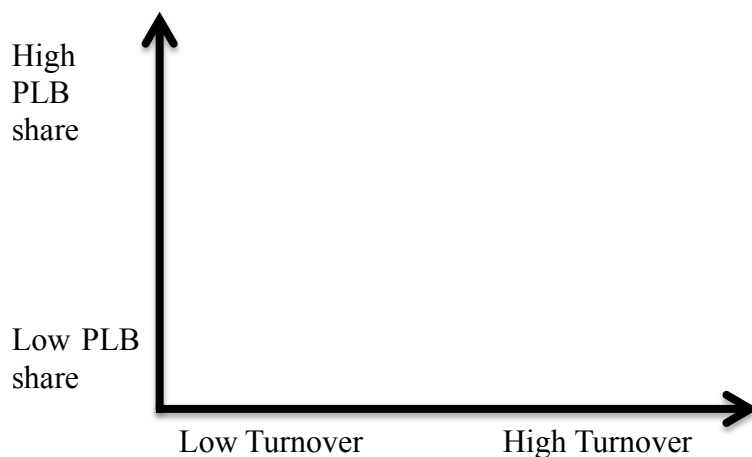
For further reference, a full transcript of the preliminary questionnaire can be found in Appendix 1.

### 3.4 Data Collection

In the next part, the methods used for the data collection will be described in detail. The author strived to apply a saturation/triangulation strategy for the underlying study. This means that he had planned to continue conducting interviews up to the point when the last interview did not contribute any additional knowledge to the already gathered findings. Consequently, no additional interview would have further contributed to the solution of the research

question, which is why this technique represented a reasonable approach in order to define the necessary amount of interviews for the underlying study. Normally, one could even conduct another additional interview to make sure that all the important aspects were mentioned by the interviewees, but due to the resource and time constraints of this thesis, this additional interview was renounced.

In addition to that, it was the initial plan of this study to especially contrast the input of those retailers, who differ in terms of two outcome variables. The size of the retailer and the share of private labels were the variables that were considered most appropriate (see figure 1) because of different reasons. On one hand size might be a factor, which has an impact on the “optimal share”, since a potential scarcity of resources might affect the decision to retain a specific amount of PLBs. On the other hand, a high PLB share represents a certain experience with private brands in general, being another factor that might impact the number of PLBs in the assortment. Additionally, in order to ensure a better comparability the similarity of the targeted consumer market of a certain retailer was taken into account, meaning that a comparison of Edeka and Rewe (both supermarkets) was considered more insightful than a comparison of Rewe and Aldi (supermarket vs. discount market).



*Figure 1: Illustration of the outcome variables as basis for the data collection*

Furthermore, it was tried to establish contact with some expert/key informants, making use of the author’s contacts into the Portuguese, Dutch and German retail sector. In the course of his internship at Daymon Worldwide, it was possible to win an expert/key informant, who has



been category manager and private label expert of the leading Portuguese retail company Pingo Doce (40% PLB share) (Planet Retail, 2014c), now functioning as retail consultant at Daymon Worldwide. In Germany, the author contacted the managing director of two Rewe stores, since Rewe is a leading retailer in Germany (25% PLB share) (Kumar & Steenkamp, 2007). Furthermore, although all 12 German supermarket and discount chains, Aldi, Lidl, Netto, Globus, Penny, Norma, Rewe, Tengelmann, HIT, Metro/Real Kaufland, Edeka were contacted via their corporate website concerning an interview, only one company representative was willing to participate in this study. Hence, the author undertook a second attempt and approached 21 managers of these companies being involved with private label brands via the professional network Xing, which eventually did not lead to finding a third interviewee from Germany. Hence, the attempt to utilize triangulation was inhibited by the availability of respondents.

The entire data collection took place between 18<sup>th</sup> July and 8<sup>th</sup> August 2014. On 18<sup>th</sup> July, the first interview was conducted with Ralf Jung, director of Private Label coordination at a big German supermarket chain, being among the top 10 in the German retail market. He has been involved with private label brands and their management for more than 20 years. Although, due to time-constraints in his current job, he only agreed to a phone interview, he was willing to participate to support this master thesis and to know about a potential “optimal” share for his company. However, besides the fact that the interview lasted 2.5 hours, he also offered the possibility to raise additional clarification questions after the interview via email. In terms of the outcome variables, this retailer represents a position on the low turnover and low own brand share end of the scale.

The second interview was conducted with Jörg Schäfer, owner and managing director of two REWE stores and former Rewe and Lidl regional sales manager on 25<sup>th</sup> July. This mixed experience of 20 years on the chain as well as the store level provided him with insights that are valuable for this study. Nevertheless, with regard to certain decision criteria that Rewe has currently in place he could not provide me with any insights, which is why I skipped the corresponding questions during the interview. We met at his store-office in Bad Neuenahr, which meant high convenience for the interviewee, and executed the interview during a time-span of 80 minutes with the possibility of asking follow-up questions via Email later on. His interest in the thesis topic was mainly to see, whether the corresponding factors influencing the optimal share are properly taken care of at his company. On the outcome variable scale,

Rewe can be positioned high on the turnover axis, but rather low on the private brand share axis.

The third interview was conducted with Vasco Brinca, Senior Vice President EMEALA (Europe, Middle-East, Africa and Latin America) of Daymon Worldwide (“Daymon Worldwide is the world's leading Private Brand Broker and Consumer Experience Marketing expert” (CEMS, 2014)) as well as former Jerónimo Martins Category Management Director and took place on 8<sup>th</sup> August 2014, in Lisbon, at his office at the European Resource Center of Daymon Worldwide, which represented a comfortable place for the respondent. The interview took 90 minutes with the possibility of asking follow-up questions personally later on. Due to various jobs as category manager and director of the leading Portuguese retailer Pingo Doce (Planet Retail, 2014b) (currently the biggest customer of Daymon and Worldwide) and his current position as Senior Vice President of Daymon Worldwide, he is supposed to have a broad spectrum of knowledge relevant for this study. His motivation mainly derived from the fact that this study represented a valuable item of the author’s onboarding process during the internship at Daymon, since all insights could be used by the author in the future for the benefit of the company. In terms of the outcome variables, Pingo Doce represents a medium turnover retailer (14.7 billion) with a high PLB share (40%) (Planet Retail, 2014c).

Due to the time and money constraints of a master thesis, the final number of companies participating in the study amounted to three. All interviews were either conducted personally (two) or via phone (one). Although Skype might have been a more suitable substitute to personal interviews than a phone conversation, the interviewee Ralf Jung insisted on having a phone conversation, since he did not have a possibility to use Skype readily available. Further, only Jörg Schäfer agreed that his interview was recorded for subsequent transcription, being used not only for the content but also for the context analysis. The other two participants only agreed to me taking notes. Besides being a pure backup to the memory of the author, taking notes also demonstrated an interest in the interviewees and facilitated the atmosphere. Moreover, these notes did not just include the content of the interview, but also incorporated verbal and non-verbal messages in order to be able to have a complete picture of the interviews during the analysis. During the phone call, the analysis of the non-verbal communication could not be included. However, due to the neutral, non-emotional nature of the study and the questions posed to the respondents, there was not any non-verbal communication during the initial analysis that contributed to the insights gained for the

underlying study. Therefore, the fact that the non-verbal communication could not be analyzed during the phone call only represents a minor limitation to the study.

Since a continuous analysis of qualitative data as well as a correct execution of the interviews is of vital importance for the reliability of the investigation, the interviewer's competence was a determining factor for the success of this study. This competence accumulated during previous interviews conducted in the course of the author's studies as well as during the interviewing process of the underlying research. After each interview there was enough time for post-processing of the interviews, including the creation of a written interview summary, additional notes and an analysis. This way it was made sure that there was a possibility for the author to accumulate knowledge during the interview process and to learn from the insights provided.

Moreover, in order to ensure a correct and reliable data collection, each interview, especially the introduction, was conducted in the same manner. After a short description of the purpose of this thesis, the respondents were informed about the interview procedures. Firstly, they were made aware that they can stop the interview at any instant they wanted to and that there is no obligation to answer every question. Moreover, they were told that there were no time limits, meaning that the interviewees could use as much time as necessary in order to provide an answer to the presented questions. However, most of them pre-determined the interview to last 60 minutes themselves. This information in turn would have allowed to leave out questions, but this was not necessary during any of the interviews. Furthermore, the author also explained in advance that each question might be followed-up, trying to elaborate on a certain issue and allowing them to come up with a practical example that is key to answer the research questions [critical incident technique, according to Saunders (2007)]. Afterwards, they were asked for permission to record and disclose their information in this thesis. Finally, the author initiated the interviews by further establishing rapport with the respondents. After a series of warm-up questions, the actual interviews started.

In terms of research ethics it can be said that this thesis has been conducted in an ethically correct way, meaning that all external ideas have been cited correctly and that all the data was gathered without using any facilitation payments or any other tool to facilitate the data collection process. Furthermore, it was assured that all confidential data was treated appropriately and that only that information was disclosed that the respondents agreed to.

### 3.5 Data Analysis

After having discussed the data collection, the data analysis will be covered now. Due to the richness, depth and complexity of non-standardized qualitative data (Saunders et al., 2007), a sophisticated analysis method is of major importance in order to extract the most valuable insights. As suggested by Saunders et al. (2007), the data analysis already started and was continuously executed during the data collection process. However, there is no uniform approach for analyzing this kind of data, since there are more structured ways such as finding regular patterns (a rather deductive approach) as well as less structured ways such as reflecting or understanding of meaning (rather inductive way) (Saunders et al., 2007).

One possibility, which will also be applied by the author, is to group data into categories, where similar ideas, opinions, sentences, words or other units of the data are rearranged and receive a specific code or label, which foster the further analysis and structuring. Afterwards, it might be possible to identify relationships between and within these categories. During the entire collection process, these groups of data can be adjusted, relabeled and rearranged, demonstrating the interaction between data collection and data analysis (Miles & Huberman, 1994).

Moreover, the existing theory, which also served as a means to develop the research questions, can be a major determinant for the organization and direction of the data analysis. However, since this thesis will not just follow a deductive but also an inductive approach, the influence of the literature on the data analysis will have to be regulated to ensure that new ideas and concepts might add to the existing knowledge about private label strategies.

As described previously, an interview summary was prepared after every interview, incorporating the contextual aspects such as the precise circumstances (including where did it take place, what is the background of the people etc.) of the interview, the non-verbal communication of the interviewees (if available), and an initial analysis of these. This might be important, as the analysis should not just be based on the content, but also the way that certain ideas were expressed. However, since the underlying research is more oriented towards getting to know the variation of the private label share and the corresponding factors that influence it, the contextual information conveyed by the interviewees might be of less relevance, meaning that the techniques outlined before will be used only where applicable. So

far, the initial analysis has shown that the circumstantial information has not revealed any additional relevant insights.

### **3.5.1 Reliability**

In the next section the reliability of the data will be discussed. When talking about data reliability, one refers to the impact the data collection and analysis method have on the consistency of the findings (Saunders et al., 2007).

In the underlying research only phone or personal interviews were used to establish trust with the participants, which is especially important when asking sensitive questions. This increased the probability of gaining more trustworthy and reliable responses. Furthermore, the author paid attention to the fact that, to his knowledge, the questions were phrased clearly in order to leave no room for misunderstandings. Hence, some pre-interviews were run to check, whether there is any ambiguity concerning the questions to ensure consistency. Further, the interviewer tried to interrogate as neutrally as possible in order to reduce the interviewer bias or any other possible bias that might affect the reliability of the obtained insights.

Additionally, each question only addressed one particular issue, trying to avoid any confusion by confronting the respondents with multiple questions at once. The author also attempted to ask non-leading questions to avoid an interviewee/response bias. Furthermore, it was assured that the questions did not contain any jargon or too many theoretical concepts, which would have made it difficult for the interviewee to grasp the topic. Also, it was made sure that both the interviewer and the respondents had the same understanding of each question. After a question was answered the author sometimes opted for paraphrasing the answer provided by the respondents in order to check his understanding, which at the same time allowed the interviewee to correct certain misunderstandings. Further, such a behavior demonstrated an active listening approach and empathy towards the participants.

In general, it is difficult to control biases all the time, since there still might be certain misunderstandings occurring, for instance due to cultural differences. However, the cultural bias of this study was limited, because the author as well as two of the respondents are Germans, meaning that a certain degree of mutual cultural understanding can be anticipated. With regard to Portugal it can be said that the author had lived and worked there for two months when this thesis was written and had closely collaborated with Vasco Brinca for quite

some time before the interview was conducted. Moreover, Brinca has lived in Germany for some years, where he got acquainted with the German culture as well. Therefore, a certain cultural knowledge about this respondent can also be taken for granted. Besides these aspects, the level of English spoken at Daymon Worldwide being an American company is also quite high, which means the language command is not expected to have caused any misunderstandings. Moreover, as mentioned previously, the author accumulated some interviewing competences, which might have a positive effect on the outcome of the research. Although it was tried to use appropriate and neutral language, to ask open questions and to listen attentively, there might have been some constraints of the author's ability though.

While these issues were taken into account, there is a general concern among researchers about the lack of standardization and the impact on the reliability of the study (Saunders et al., 2007). Furthermore, the analysis will be conducted by one author and will be dependent on his subjective judgment of certain aspects. However, the author will try to be as objective as possible and to grasp all the data through some recordings (if allowed), supplemented by additional notes.

### **3.5.2 Validity**

The final method sub-chapter will address the validity of the underlying thesis. Validity refers to the extent to which the data collection and analysis methods precisely measured what they were designed and intended to do. We can distinguish between internal and external validity: The internal validity depends on the measurement quality of the interview, including the design of the questions as well as the execution of the study itself. The questions were kept simple and short and the interview was pre-tested concerning misunderstandings or other problems in advance and corrected according to the results of these.

However, one might argue that the fact that some interviews were only conducted via phone might reduce the internal validity on the one hand, since the author could not notice any non-verbal reactions that show e.g. problems of understanding the question as intended. On the other hand, the questions did not address the interviewees' emotions, but rather asked for their professional insights, and there sometimes are other biases that come into place during personal conversations, for instance when there is a lack of likability based on the first mutual impression that might affect the objectivity of the interviewer. Furthermore, the interviewee

might be more nervous during a face-to-face talk than when being on the phone, since this represents a “safer environment”, meaning that a phone call can facilitate the flow of the conversation and the openness of the respondents. Hence, a phone conversation is a perfectly suitable means for conducting the information of the underlying study.

Moreover, according to Saunders et al. (2007), the biggest advantage of a qualitative approach for obtaining data is the flexibility and interaction between the people involved in the interview as well as the ability to cover a variety of topics in depth, by asking various refining questions. Due to the fact that all the questions were followed by probing questions, this represents an important factor that helps to increase the internal validity. Further, the entire research was conducted corresponding to theory and executed to the author’s best knowledge. Hence, the study is anticipated to measure the defined research objectives and to be internally valid.

The other aspect, external validity, deals with the generalizability of an investigation, meaning that if the findings in one context, investigating one sample, would lead to the same conclusions about the whole population as the findings in a different context, studying another sample, the research was externally valid (Web Center for Social Research Methods, 2014). If for instance any external factors in Norway would lead to different research results than in Germany, the research would lack external validity. Overall, there is some concern about the general implications of findings from qualitative studies, due to a rather small number of observations (lack of degrees of freedom) and an unrepresentative nature of the researched company cases (Saunders et al., 2007). This is generally the case when conducting interviews, and further research will have to be conducted to investigate the “optimal” PLB share on a global scale.

Yet, in the underlying research, the variation in markets/countries and the difference among the retailers in terms of size, location and format caused a lack of external validity, since the findings might be very particular to the researched retailers. Moreover, although it was the goal of the data collection to apply triangulation, the limited availability of interview partners posed a constraint to this collection approach, only resulting in three interviews for the underlying study. This small amount of respondents is another aspect reducing the external validity. Hence, a generalization for the two target markets Germany and Portugal is not possible and needs to be investigated/confirmed by future research. Additionally, the results

also lack global generalizability, since there might be country-specific differences, respectively external factors, such as economic downturns that affect the answer to the research questions and one, respectively two experts cannot be regarded representative for a whole country.

All in all, this thesis strived to provide new insights about the existence of a private label brand share optimum, the variation of PLB shares among retailers and the influencing factors affecting this optimum, which has been successfully achieved.



## 4. Results

In the following chapter the results of the three interviews conducted in the course of this research will be provided. In order to be able to compare the responses more easily, the answers of the respondents were divided into sub-chapters. It is important to note that this section only seeks to provide a summary of the relevant results, the actual critical analysis will follow during the subsequent analysis chapter. Before the findings of the interviews will be presented an interviewee and retailer background will be provided.

### 4.1 Interviewee and retailer background

The group of interviewees, whose answers will be summarized in the following paragraphs, consisted of three key informants in the field of private label brands. Based on the initial questions of the interviews, a short background of the experts as well as an overview of the most relevant retailer facts will be presented in the succeeding paragraphs. In particular, the interviewees reported on their company's PLB share, their profit distribution of PLB vs. national brands and the producer of their products, might it be themselves or a third party.

The first interviewee was Ralf Jung, who started his career at a German discounter, having been responsible for various departments, including the management of private label brands throughout the years. During the last four years, he has been the director of private label coordination at a big German retailer, where he manages the private labels in terms of controlling, strategic planning and quality assurance, whilst coordinating e.g. the product development with the category management team. He also sets the sales prices of all PLBs centrally for all stores, in contrast to e.g. Rewe or Edeka (Jung, 2014).

Ralf Jung (2014) further stated that his company's assortment consists of 17.000- 20.000 SKUs, of which 1.000 SKUs are PLBs. When being confronted with the fact that literature (Kumar & Steenkamp, 2007) says that his company has a PLB share of around 20%, he said that this number depends on whether categories such as fresh meat or other perishables are counted in, too. In terms of revenue, the PLBs account for around 21-22% of the topline results (similar to the share in terms of SKUs). Further, Jung highlighted that his company follows a multi-tier private brand approach, meaning that various brands are sold under the retailer's name. These are, amongst others, a price-entry brand, a medium-price brand as well

as a premium-brand. Besides the fresh meat private label and until a few years ago the coffee own brands, all of the previously discussed private labels are produced externally (Jung, 2014).

The second interviewee was Jörg Schäfer, owner and managing director of two REWE stores and former Rewe and Lidl regional sales manager. In particular, the field-sales experience provided him with valuable insights into private label management during his stay at Lidl. In his current position, he can take 80% of the decisions, including full control about the pricing strategy, and gets 80% of the profits, while 20% of the decision-making and the profits reside at Rewe itself. With regard to their store brands he can only decide to list the private label brands in his assortments or to exclude them from a store entirely (Schäfer, 2014).

Moreover, Jörg Schäfer (2014) explained that his assortment (with more than 20.000 SKUs) also consists of multi-tier private label brands, which account for approximately 33% of the sales revenue. An exact number he was not able to present, but he noted that the amount of PLBs at Rewe is steadily growing. The lowest price option is the Ja! PLB, which is usually purchased by economically weaker customers. The original idea behind this brand was to counter the cheap prices of Aldi and Lidl products. Nevertheless, if there are many discounters directly surrounding a Rewe store, it can be wise to exclude the Ja! products from the assortment, as Schäfer did once in his store in Bad Neuenahr, due to a lack of demand and sufficient profitability. However, since close competitors such as Edeka were offering low-cost PLBs and Schäfer was the only one not to, he re-listed the product in his assortment again. Besides a lower discounter density at the other store in Ringen, the price entry brand Ja! sold better in general, due to a higher share of economically weaker customers in that area.

The second private brand is Rewe red, which is located in the medium price segment offering a high quality, whereas the third brand Rewe-Feine Welt addresses the customers looking for high-price/premium goods. Whereas Rewe created the brands and still owns them, the products are produced by regional/national suppliers, which sometimes also produce industrial brands at the same time. In that case, usually the same products are offered to Rewe, being sold with a slightly different packaging though (Schäfer, 2014). Although the quality varies to some extent between the different types of own brands, they all have to pass the Germany quality standards according to “Stiftung Warentest”.

<b>Brand name</b>	<b>Characteristics</b>
Ja!	Low-price segment, economically weaker customers, used to compete with discounters
Rewe-Red	Medium price segment, high quality
Rewe-Feine Welt	High price, premium quality

*Table 4: The main private label brands of Rewe in Germany*

The final interview was conducted with Vasco Brinca, Senior Vice President EMEALA (Europe, Middle-East, Africa, Latin America) and former Jerónimo Martins Category Management Director. He has dealt with private labels for the last 20 years and has accumulated knowledge through having collaborated with numerous retailers around the world. His expertise at Daymon stretches from private brand development to design, sourcing, consulting and strategy implementation. In his current role, he is more concerned with the company's strategy and overall performance at various accounts and is less involved in the day-to-day operational work at the accounts (Brinca, 2014).

Brinca (2014) explained that his company Daymon Worldwide, established in Europe (in the Portuguese market) in 2008, is the only full-service global retail branding and sourcing partner that works directly with the world's leading retailers and manufacturers. They provide private brand diagnostics, insights, development, strategy and implementation. So far, the company has gained experience by closely cooperating with leading retailers in Portugal, Spain, Germany, Poland, Ukraine, Norway and others all around the world. Furthermore, Daymon accompanies retailers from the idea of a new private brand, via the design, the strategy towards the actual implementation in the category. Furthermore, through their additional insights into shopper marketing, Daymon has accumulated diverse knowledge throughout the whole private label brand chain.

The same interviewee also indicated that his former employer Jerónimo Martins is his biggest customer today, which is why he used the company for illustration purposes during this interview. Their supermarket chain Pingo Doce has a current own brand share of approximately 40%, offering various sub-brands brands under the Pingo Doce name, mostly food products, whilst for instance household and cleaning products are sold under the name Ultra Pro. The reason for this separation is that the company does not want to blend the food

category with certain non-food categories, because they think that the Pingo Doce brand image, which represents quality and taste, would suffer from a single-tier strategy, causing a negative spillover effect from certain non-food to the food products (Brinca, 2014). In terms of quality and pricing Pingo Doce benchmarks their own labels against the category leaders, trying to offer their products at a more affordable price though. All of their brands are produced by external suppliers, some focusing on PLB only and some being A-brand suppliers as well. In order to fulfill the needs of Pingo Doce, they receive an idea about the development of the private brand and produce/source the products accordingly.

<b>Brand name</b>	<b>Type of product</b>
Pingo Doce	Private label mainly used in the food category; various sub-brands sold in different price-segments; main proposition is high quality (taking the category leader as benchmark) for a low price
Ultra Pro	Household and cleaning products; main proposition is high quality (taking the category leader as benchmark) for a low price

*Table 5: The main private label brands of Pingo Doce*

## 4.2 Private brand share insights

With regard to a potential optimum share for a particular grocery retailer, which represents the base of the research question, the opinions slightly differed. On the one hand Jung (2014) explained that determining an optimum share sounds too easy in theory, but does not function in practice. By simply excluding certain national brands from the assortment, while retaining the same amount of PLBs, the share would already increase without having changed anything about the amount of store brands. So in practice, according to his opinion, there can be no optimum.

At Rewe another company-specific factor comes into play (Schäfer, 2014). While the company usually wants 100% of its existing store brand range to be located on the shelves, but only if they are selling well of course, the franchisees can take the decision to exclude some of them from the assortment, e.g. due to a high discounter density as in Schäfer's case. As stated previously, currently almost all of them can be found on his shelves again. In order

to find out which private brands and also how many should be sold at a Rewe store (determining the optimum), Rewe has planograms and test markets/stores, where they experiment things and try out stuff, in order to plan their PLB launches according to revenue numbers per market (Schäfer, 2014).

Vasco Brinca (2014) regarded the optimum in a somewhat dissimilar way. He stated that based on his experience he believes that nearly every retailer has the ambition to increase his share to reach a certain amount. However, he stated that there is no formal overall optimum, as it depends on the format of the retailer as well as the corporate strategy. For instance, the product variety at a supermarket is higher, so in relation to the entire assortment there are less store brands, whereas in absolute terms the amount of own brands might be similar to the discounters or even higher. This shows that none of these three experts' views really correspond to each other, posing an important topic for further discussion in the next chapter.

In terms of influencing factors, which are also part of the research question of the underlying paper, all three experts mentioned a wide range of aspects that could possibly affect the decision about a retailer's private label share. The first aspect to be mentioned by Jung (2014) was **competition**. He described that his company employs one person that is only responsible for observing the competitors' actions, might it be the change of prices or assortment adjustments in terms of how many private label brands do other comparable stores sell (amongst others). While the price adaptation can be recognized fairly easy, Jung explained that changes in the assortment are rather difficult to detect, except for Aldi's, because all of their stores are almost alike.

Further, he mentioned that **procurement and quality** are important aspects determining the amount and the need for PLBs. If for instance other players in the market use palm oil in their products, Jung's company might decide to develop a PLB without that ingredient. Besides these, the **amount of products listed in the assortment as well as the constellation** are of significant importance for any PLB decision. If there already are numerous national brands offered by a certain retailer, the question will be, whether it makes sense to add another store brand to the assortment and whether to kick out one/some less profitable national brand instead (Jung, 2014). The latter might make sense, since usually the gross margin of private brands is higher, meaning that the same amount of revenue could lead to higher profits.

Additionally, the **demand of the customers** is an important criterion for the amount of PLBs. However, when considering to introduce a new brand to the assortment this information is rarely known and one has to rely on estimations by the controlling department. While the cost of goods sold can be determined by supplier prices, the selling price can be set along with competitors' prices of similar goods. The final point that Jung mentioned was the **supplemental amount** a certain product entails compared to not being on the shelves. Here, a retailer also has to take into account any sort of cannibalization occurring, meaning that he needs to assess how much revenue might be taken away from other products. However, if a retailer does not have accumulated experience with a comparable product, it is very hard to anticipate these impacts.

The second interviewed expert Jörg Schäfer (2014) also mentioned that **competitors** are of significant importance in the decision making process about the private label share, being in line with what Jung said. Not just the neighboring discounters as Aldi and Lidl, but also the supermarkets such as Edeka can pose a threat to his company, since he wants to offer the same variety of national brands and private label brands to customers as the other players do. In particular the Ja!-products (price entry) are supposed to help enticing customers away from the discounters, which is why also one Rewe employee checks e.g. Aldi' prices daily to adjust the Rewe PLB prices accordingly (like Jung's firm does). Furthermore, Jörg Schäfer did not seem too happy about the fact that these Ja!-products have a low profit margin, but they represent the **"weapon" against the cheap discount stores** (Schäfer, 2014). What acts in favor of a higher private label brand share is the fact that the more upper-priced store brands Rewe red and Rewe-Feine Welt have **high margins**, sometimes even being higher than those of industrial brands, which in turn is more enjoyable for his business. In addition to that, he stated that **national brands nowadays only sell well during promotion offers**, meaning that people explicitly wait for special offers to buy more at once and stock products at home. For instance usually one pack of coffee is sold per day, whereas he sells 70 packs of coffee when it is on promotion. This represents a major reason in favor of offering more affordable own brands (Schäfer, 2014).

Besides the previously mentioned, Vasco Brinca (2014) explained that there are various **goals** that a retailer pursues with regard to private label brands, which are part of the retailer's strategy. These are **price perception** (especially for discounters), **margin enhancement** (bigger margin, more profit), increased **customer loyalty** or a **mix of all three**. First of all,

the price perception can be a factor that affects the decision towards a higher or lower PLB share, since it supports the creation of a “value-for-money” image. Due to the fact that many retailers’ PLB margins (of low-price store brands) have been squeezed, Brinca explained that store brands are considered the “necessary evil” in fighting cheap (discount) competitors, because they might lead to a decreasing profitability mix, which corresponds to Schäfer’s (2014) view, too. Further, he emphasized that as soon as the negative impact on the store profitability is too high, the amount of store brands should be limited.

The next possible retailer goal highlighted by Brinca (2014) is **customer loyalty**. If a brand manages to differentiate towards unique benefits for the consumer, offering high quality, this brand will make people come to a certain store only to buy this particular brand. This is what experts call a destination brand (frequency generator) and what is one of the most desirable characteristics for a PLB as it creates strong store loyalty (Brinca, 2014). The pre-requirement for that is that a retailer offers **consistent quality**, otherwise costumers will hesitate to try new products and might become less loyal. Further, permanently high/good quality might even pull costumers away from A-brands. Combining the consistent quality with the previously discussed differentiation - as for instance Trader Joe’s achieved by offering very special, innovative PLBs - will make customers demand a company’s goods leading to a higher store brand share eventually. However, this can only be done up to a certain point when the overall profit starts decreasing (Brinca, 2014). The final aspect that can be part of the goal setting is the **more attractive margins** that store brands usually offer to the retailers. In general, PLB serve to increase the overall profit of a retailer, making a higher store brand share attractive to the retail firms (Brinca, 2014).

Subsequently, the experts were asked, whether their companies have consciously adapted their private label share before. The first interviewee, Ralf Jung (2014) mentioned that his company currently wants to increase the share of its premium store brand. They started out with 170 SKUs, reached an amount of 300 products by now and want to increase it further to 400 items. But instead of just increasing their PLB share from 21% - 25%, they want to do it in a more sophisticated way by improving the brand and e.g. enhancing the product design. In addition to that, he mentioned that the motivation behind their share adjustment is that his company wants to offer the client an above average quality equal to a national brand, being available at a medium price-level, leading to a higher gross margin per category (Jung, 2014).

In contrast to that, Schäfer (2014) referred to the re-introduction of the Ja!-brand in Bad Neuenahr again and stated that there was not any direct impact recognizable. The introduction just served as a means to be able to offer the Rewe clients the full-range of PLBs/products again. Eventually, the brand was selling ok, but he considered it more to be a supplemental service to the customers (Schäfer, 2014).

The Daymon expert Vasco Brinca (2014) explained that his customer's supermarket chain Pingo Doce is always striving for retaining the private brand penetration between 36% and 42%. He said though that there is no overall optimum, but that the optimal share rather depends on the retail chain strategy. Brinca further mentioned the same dilemma as Jung (2014) did, emphasizing that a broader variety of national brands would decrease the percentage PLB share, although the absolute amount of store brands on the shelf has stayed equal. Therefore, it has to be defined, how the PLB share is measured at retailer. Moreover, Brinca said that in case of Pingo Doce the share should never go beyond the 42%, because the margin mix will become worse. Due to the relatively higher quality at Pingo Doce (caused by strict quality controls and regulations at Jerónimo Martins), there is a high pressure on the margins of these products in general (Brinca, 2014).

Although the experts of the underlying study did not identify a general optimum, they mentioned various factors that might influence the private brand share, respectively the decision to maintain a certain amount of PLB in one's assortment. These insights will be discussed during the subsequent discussion chapter.

### 4.3 Importance and success criteria of private brands

In the next section of the interview, the author asked the respondents about the importance of private labels within their respective companies, since this could reveal important information for determining the store brand share. Jung's opinion about this is that the big advantage of private label brands compared to national brands is that they save a lot of marketing costs for the producers, meaning that store brands can be of a similar/the same quality, but sell at a lower price, leading to a usually higher profit margin. This value for money is why these products have gained a lot of popularity during the last years. However, Jung (2014) also mentioned that owing to UK retailers, private label brands are not just price-entry brands but some are also offered as top quality product (e.g. Tesco's Finest).



Consequently, national brand manufacturers, who did not want to produce private brands initially, have changed their mind in that regard and started producing store brands, too, and are glad today that they took this decision (Jung, 2014). However, Schäfer (2014) highlighted that for instance Coke would never produce private labels for e.g. Aldi, meaning that some national brands have to be listed in order to appeal to customers, in turn affecting the overall PLB share.

Besides the margin aspect, Schäfer (2014) illustrated that private label brands do not just support the retailer in enticing customers away from the traditional discount markets (low-price segment), but also provide a real added value for the customer (medium- and high-price segment) that is nowadays perceived throughout society, because high quality products can be bought at a lower price than the industrial brand counterparts. This has also led to an increased trust in private brands among consumers. Furthermore, Schäfer believes that the existence of strong private label brands contributes to the creation of customer's brand awareness, meaning that they will become more loyal to Rewe. Additionally, retailers prefer products not being in a price-fight (i.e. if Aldi lowers its prices, one needs to follow), which is why differentiated/unique own brands are very desirable for their business as they help gaining satisfactory profits.

Further, since most of the national brands nowadays only sell well during promotions, the revenue they produce is not sufficient during regular sales periods. Therefore, private labels can be considered as reliable income-protectors. This has been long realized by UK retailers, who sometimes have an 80-90% PLB penetration in their stores in order to secure their income. However, also Rewe pays close attention to private labels, trying to steadily increase its private label share, having one of the highest shares in the German market (among supermarkets) (Schäfer, 2014). Further, a higher share increases the clients' store loyalty, being a major reason for offering own brands to the customers (Brinca, 2014).

In addition to the importance of private brands for their respective companies, the author also interrogated the experts about the success criteria of PLBs in general/in their company. Ralf Jung (2014) indicated that private brands allow grocery retailers to cover a broader range of customers and create a possibility for the customers to identify themselves with a particular store, since the retail brands can only be purchased at this chain. This in turn facilitates the revenue generation for the retailer. However, he highlighted that the quality has to be

consistent, an opinion he has in common with Vasco Brinca (2014), who also regards consistency to be of major importance.

Jung (2014) stated that another great advantage of PLBs is the retailers' ability to adjust their products in terms of quality and design according to changing customers needs and wants, if necessary. This is rarely done by NB manufacturers, since they do not have the same direct insights as the retailer does. If for instance the quality management of the retailer detects a quality deficit in one of its own brands, the suppliers will be contacted and held accountable for the potential loss and an immediate amendment of the specific product will take place. Due to these tight controls, the customers benefit from ever improving product enhancements.

Schäfer (2014) regards the own brands' quality and image as essential for its success at Rewe. A good brand image and awareness will also facilitate Rewe in the competition against e.g. Edeka. Furthermore, he is of the opinion that by following a multi-tier private label approach (offering various private label brands), Rewe can demonstrate its ability to also perform successfully in the premium own brand sector to the company's customers and thereby increase the trust in the retailer brands. Finally, the private label brands provide the clients with price security, meaning that the prices are retained (no unforeseen increases) so that they can rely on them when planning their shopping budgets (Schäfer 2014).

On top of the success criteria mentioned by Jung and Schäfer, Brinca (2014) illustrated that the execution of the private label brand strategy has to be consistent, while also being linked to, respectively being dependent on the overall corporate strategy of a particular retailer. From the customers' point of view the success criterion of a PLB is value for money, which has become increasingly important due to a growing shopping cleverness of the consumers. Moreover, private brands benefit from being efficient, due to the lack of huge investments into marketing campaigns (as mentioned earlier), which results in significant cost savings for the retailers. Additionally, the Daymon expert described that both retailers and especially consumers are gradually becoming aware of the augmented quality of PLBs in general (Brinca, 2014).

## 4.4 Category-specific insights

After having discussed the importance and the success factors of private labels for a retailer, some more category-specific questions were raised. Due to the fact that some categories traditionally accommodate more private labels than others, as mentioned in the previous literature review, the decision criteria for selecting a certain category to introduce PLBs were addressed. Further, the key informants were asked, whether there are any categories in which PLBs are more/less successful. These questions were intended to additionally foster the understanding of the criteria affecting the PLB share of grocery retailers. Eventually, any insights gained about store brand-affine categories could affect the decision about the private brand share of a grocery retailer.

When being asked about these decision factors, Jung (2014) answered that beyond the pure success of a brand, numerous other criteria such as competition, quality, the available amount of a particular type of product that can be delivered by a supplier, the absolute amount of gross profit and the relative profitability play a role in the decision to select a certain category for a PLB introduction. It might also be that the depth and the width of the assortment have to be enlarged in some categories to avoid losing customers, in case they expect/need more products, which could be an opportunity for enlarging the store brand share by introducing private brands to these categories.

Moreover, Jung (2014) pointed out that fresh products as well as cooled and frozen goods experience a fairly high store brand share and successful PLB performance, while e.g. private label spirits can hardly be found anywhere and store brand beer is not that popular either. Although some highly trusted drug stores such as DM have various health and beauty care PLBs, grocery retailers do not sell store brands in this category either, because customers generally trust national brands more in this category. He also mentioned that introducing a “copy-cat”-product might be a possibility to enter these categories. On the one hand though, if the products are too similar to the original, retailers might get trouble with trademark rights, on the other hand a too-differentiated product might lack the necessary trust of the consumers. The expected key performance indicators of a private label brand are determined before the introduction into the market. Important aspects against which private labels are benchmarked after their introduction are similar to the factors that affect the decision regarding the overall private label share mentioned by Jung (2014). These are the profit the store brands can

generate, the cannibalization of other products' sales, which might have a higher margin than the introduced PLBs, and the anticipated amount of unit sales. Of course, potential external impacts have to be taken into account as well.

Vasco Brinca (2014) indicated once again that there should always be a link to the corporate strategy as well as to the category management – also when introducing new products. Moreover, the role of each brand needs to be determined in advance, whether it serves e.g. as a destination good, which makes a person come to a store, or a routine good, which helps the costumers fulfill his routine shopping tasks, stocking certain items etc. This way, the retailer will be aware of what attracts people to his stores. As mentioned earlier, store brands are an important means to create store loyalty, which can drive a decision to introduce a new store brand into a certain category. However, according to Brinca (2014), there are categories without any brand loyalty (e.g. tooth picks or matches). There are no A-brands present in these categories, since PLBs can fulfill the needs of all consumer groups alone. In other categories, the lack of brand loyalty for a PLB can have other reasons. For instance, some own brands might be “fancy brands”, meaning that the retailer name is not stated on the packaging and costumers do not identify the product as a retailer's brand. Hence, this lack of loyalty cannot just affect the decision, whether to add a new product to the assortment or not, but also which type of private brand will be introduced.

In addition, he emphasized that a retailer should never introduce private brands to a certain category, if a decent and consistent quality of the products cannot be assured, since it could jeopardize the reputation of a company's brand and the perception of products in other categories. Furthermore, when being in a new market, retailers should start with categories to which customers are less loyal and products that are easy to copy (e.g. batteries) (Brinca, 2014).

## 4.5 Success stories and failures of private brands

Afterwards, the respondents were asked to share a success story or a failure of a PLB introduction, since this might contribute valuable insights for the determination of an optimal share for a grocery retailer. Jung (2014) described that initially retailers observe the performance of innovative national brands, which serve as a model for any new private label to be introduced. However, there might be situations where there is a need, respectively an

anticipated demand for a certain product that does not exist, yet. In such a case, a retailer might decide to develop a product, as in the case of Jung's company's new ecological own brand food line, which is based on healthy ingredients only. Nevertheless, he highlighted that usually the idea for a store brand is based on a well-functioning national brand model, being the reason that the probability of failure is rather low (Jung, 2014).

This opinion is also shared by Schäfer (2014), who confirmed that PLBs are generally only offered in categories, in which national brands run well. Moreover, so-called GFK numbers offer additional insights about current consumer behavior, market trends etc., enabling the retailer to anticipate the potential success of any new PLB. Although he could neither provide a success nor a real failure story, Schäfer (2014) stated that the Rewe-Feine Welt brand experiences some difficulties succeeding in the market.

Finally, Vasco Brinca (2014) reported the success story of the Portuguese Pingo Doce ice tea, which was first geared towards a wrong benchmark. After having realized that, the company switched to the category leader as a benchmark and adjusted the pack-size and the flavors. As a result, the brand started to boom and currently even accounts for higher sales than Lipton or Nestea. He also described the failure of introducing the Gaspacho soup at Jerónimo Martins in Poland, where the Spanish dish was not as successful as it used to be in JM's home country Portugal. Although it had a specifically market-oriented packaging, the performance was so bad that the product did not survive more than three months on the Polish shelves. These examples show that both the benchmark and the market characteristics can be important for the success of a private label introduction.

## 4.6 Vertical integration and supplier relations

The next section addressed the production and the supply of private labels, including the reasons for retailers to produce a private label brand on their own (vertical integration) or rather relying on the (existing) relations with the suppliers, which might have an effect on the retailer's PLB share, too. Jung (2014) illustrated that the decision to produce a store brand on one's own has to do with size. If a firm can sell enough of a certain product to make the production process profitable, it could pay off. However, economies of scale cannot be exploited, because retailers cannot use their excess capacity for producing products for their competitors. Hence, only the really big national retailers could fully utilize their capacities

producing in-house. Further, Jung emphasized that manufacturing is not the core business of a retailer and there are too many different store brands to be able to produce them on one's own. This opinion is also shared by Vasco Brinca (2014), who said that such a vertical integration represents a loss of focus and is in need of totally different competences and resources. As Jung, Brinca also believes that huge volumes as well as a great salability of the product are needed to be successful and to obtain a satisfactory ROI. However, he stated that Migros in Switzerland has been successful in doing that, but building up that manufacturer knowledge takes time. Without being extremely efficient, it is almost impossible to build the same sophistication as suppliers, who already have decades of experience. One way to gain this knowledge immediately is through acquiring supplier(s) or building strategic partnerships, alliances or joint ventures as it is done by Mercadona in Spain. Admittedly, there is no need to divert huge investments, which is why the Daymon expert recommends utilizing the already existing excess capacity of current supplier partners (Brinca, 2014).

In addition, producing fashionable or trendy products would entail the danger of suddenly losing popularity, leading to a forced closedown of the production. Jung's (2014) company used to produce coffee on their own, as it is an easily producible product, but they stopped doing it, due to a lack of sufficient profitability (Jung, 2014). Also Schäfer's company Rewe is involved in a joint venture with the Colombian beer producer Richmodis, but only being responsible for marketing and sales. However, this was an attempt to save a small brewery from bankruptcy, still performing rather badly and hardly impacting the retailer's revenue (Schäfer, 2014).

Another interesting issue related to the production of private labels is the supplier relations. Since retailers selling private label brands represent the national brand suppliers' customers as well as competitors, this situation might have an impact on the quality of the relationship between those two. In order to make sure that they can keep some sort of competitive advantage against the retailers, Jung (2014) indicated that NB manufacturers such as Mars or Ferrero would never produce an identical private label copy to make sure that their brand equity will not be destroyed in the long run. Usually, industrial manufacturers would slightly adapt the ingredients' mix of their products when selling them as PLBs leading to differences in taste and appearance. It might even be that some national brand manufacturers produce a product for the premium store brand line that has a higher quality than their own national brands, according to the needs and wants of the specific retailer. This is the case in the UK,

where some retailers introduced private label brands with a top quality first (e.g. Tesco's Finest) (Jung, 2014).

Moreover, Schäfer (2014) provided an explanation of why national brand manufacturers benefit from producing private brands, too. He stated that from his experience suppliers rather prefer keeping the additional revenue of producing PLBs to themselves rather than leaving it to another supplier/competitor, since the national brand would lose some of its revenue as well as category share to the store brands in any case. Thus, if e.g. Melitta rejects to produce the Rewe coffee, Jacobs might do so instead and benefit from the additional sales. If an A-brand supplier already produces private labels for another retailer, he could even take the same product and just change the packaging, leading to significant economies of scope and synergies for the manufacturer. Consequently, private label production can be an important supplemental business for them.

In relation to that, Brinca (2014) added that especially C-suppliers, who cannot offer the products at the same competitive prices as A-brands and whose brands are not the market leader should shift their business and focus on producing PLBs efficiently. This is the reason why some C- and even B-suppliers started producing store brands only. The same expert also mentioned that even A-brands should utilize their excess capacity more profitably by producing private labels. This will in turn improve the relationships with the retailers, as the competitive relationships will relax once again.

Further, if some retailers have a really strong position in the market, they might be able to afford banning an A-brand from its stores if the suppliers do not offer their products at competitive rates. This was for example done by Pingo Doce in Portugal once, which excluded all Nestlé brands from its assortments for two months until the Swiss company started offering better conditions to the retailer. In most of the cases, the A-brand manufacturers have to pay in one way or another for being listed in the leading retailers' assortments (Brinca, 2014).

## 4.7 Private brand marketing

In the final part of the interview, the marketing of private label brands was addressed. Although there seems to be no direct link between the marketing and the optimum private

label share, a retailer might need to enhance its sales of certain products by increasing their marketing without having to adjust the actual store brand/national brand ratio. For instance, Ralf Jung (2014) illustrated that some “fancy brands” (private brands not showing the name of the retailer) might need marketing in order to sell well, since customers will not be aware of the fact that it belongs to the retailer’s own brand range and as a consequence will also not know how to assess their quality, unless they tried it before. Further, in case the margin of the private brands is lower than the one of the national brands, as might be the case in the low-price segment, it is better to market the national brand counterparts. All in all, it is important to make customers understand the additional service that a retailer offers by providing private label brands though. It basically eliminates the necessity for clients to go to a discount store, since both premium and discount products can be bought at the same store. If such a level of consumer awareness is reached, it increases customer-loyalty and favors a high brand-share. Brinca (2014) added that the uniqueness of PLBs needs to be communicated to get customers really like and appreciate a specific retailer.

Besides the customer awareness, the store marketing varies according to seasonal differences as one expert explains (Schäfer, 2014). For instance during Christmas or Easter, people are willing to spend more, meaning that the expensive, high-margin national brands as well as the premium private brands should be marketed. After these periods, when the money becomes scarcer, the low-price products should be highlighted in order to keep up revenues and retain customers (although the margins are generally lower). At Rewe, usually all items being on promotion are lowered in price, except for the Ja! products, which are offered at a discount price throughout the entire year (Schäfer, 2014).



## 5. Discussion

In the following chapter an analysis of the previously identified results will be provided. The mentioned aspects will be discussed with regard to general insights regarding the optimum, category-specific insights, vertical integration and marketing of private label brands. All relevant pieces of information have been grouped in the course of the data collection, allowing to contrast and to compare the data more thoroughly in the succeeding paragraphs. Besides the content of the interviews, the insights gathered during the literature review will be included in the discussion, as well, although it is important to note that the literature about private brand share was rather limited. Due to the fact that the non-verbal communication of the interviewees did not seem to have a direct effect on the content of the respondents' answers, they will only be taken into account where applicable.

### 5.1 Private brand optimum share

As could be seen in the results section, all experts agreed on the fact was that there is no “one-fits-all” optimum private label brand share for grocery retailers, since there are various factors that play a role in determining an optimum share. In order to be able to compare private label shares, the comments of Jung (2014) and Brinca (2014) need to be considered. They said that an optimum is not just dependent on the absolute increase of store brands, but also the amount of national brands in contrast to this. Therefore, it is important to always regard the like-for-like amount, comparing PB numbers to a steady amount of national brands, excluding seasonal fluctuations, meaning that an optimum can only be determined, if the amount of total SKUs is not going to change.

It is important to note that usually each retailer in a market has a different private brand share and sometimes the amount of own brands varies dramatically. However, there does not seem to be a correlation between store brand shares of retailers mentioned in the literature review and the success of those best-in-class retailers (Kumar & Steenkamp, 2007). What can be said though is that private brands enjoy a higher growth rate than national brands (Miguel et al., 2002), which is also shown by the fact that both Schäfer's (2014) and Jung's (2014) company want to grow their own label share. This could mean that a particular optimum might be increasing during the years to come.

In addition, although Vasco Brinca (2014) stated that every retailer is ambitious about increasing its PLB share to a certain point and that there is no overall optimum, he mentioned that each retail format and its corresponding corporate strategy possesses an optimum private label share. The example of Pingo Doce, avoiding to get to a PLB share beyond 42%, due to a diminishing profitability (Brinca, 2014), shows that a specific retailer should be able to define its own optimum range or at least maximum private label share. This answer might indicate that the question about the optimum might have been phrased slightly ambiguous and misunderstood by Brinca, since his initial answer concerning the existence of an optimum was that there is no such thing. His final answer provided a valuable insight addressing the original question though. Schäfer's (2014) description of the planograms and the test markets at Rewe further demonstrate that the relative amount of private labels can and should be experimented in practice in order to find the optimum ratio of national brands and private brands. One thing that has to be taken into consideration though is that this optimum is to be understood as a guideline or a favorable range percentage as there can never be the perfect amount of private labels.

Connecting to what Brinca (2014) said regarding the ambition of retailers to reach a certain share, Kumar & Steenkamp's (2007) findings state that a retailer can also put too much emphasis on the PLB, if he forgets about the core business striving to serve the customers to the greatest extent. This means that retailers should be careful about growing their store brand share. However, in their opinion, store brands represent an important source of differentiation from other retailers and customer loyalty to a particular retail chain, which the same authors consider one of the major upsides of store brands. Hence, there seems to be a threshold, where consumers would not find enough national brands anymore or would not be entirely satisfied with the own brands.

The view that there is no exact overall optimum for every retailer is further supported by the findings of other authors that an economic upswing or downturn impact the PLB share, meaning that the overall private label penetration within a country is dependent on macroeconomic factors. However, as Lamey et al. (2007) and Aperio (2014) stated, consumer learning and awareness of the advantages, the quality enhancements and added value of private labels (making them become "real brands") is the reason that the share does not decline as much as it increases when a recession begins. Since the degree of consumer learning cannot be anticipated and neither can the resulting demand for PLB, an exact

optimum can hardly be determined. In addition to that, Lamey et al. (2007) reported that the global store brand share will continue to grow, due to an increasing acceptance of private brands among customers (Miguel et al., 2002). This might imply that due to changes of the market and the consumer demand also the optimum share will increase for some retailers, who will face different conditions than before.

Besides the aspect that PLBs can be regarded a worthy substitute of national brands, the interviewed expert Jung's (2014) opinion is similar to the findings of Kumar & Steenkamp (2007) that in some very sophisticated markets such as the UK there are private label brands offering a higher quality than their national brand counterparts (e.g. Tesco's finest), demonstrating that private brands are not just for economically weaker customers. However, one can notice the difference between the importance of PLBs in the UK and in Germany, where premium private labels such as Rewe-Feine Welt do not sell that well yet and the target group of private labels still seems to be smaller (Schäfer, 2014). Although a broad customer range might entail higher profits and would favor a higher PLB share due to a greater product variety per category, a store in a less wealthy neighborhood would face a different demand in terms of PLBs than one in a richer area. Hence, the overall store share has to take into account the profiles of its customers, as was also explained by Schäfer (2014), who reported that his Ja! brands sell better at the store in the economically weaker area.

Moreover, if a retailer wants to increase its private label share without parallelly decreasing the amount of national brands present, which would cause the PLB share to rise, a multi-tier strategy, offering various options of store brands will probably be the most suitable. However, if the premium line does not sell well, this poses a limitation to the optimum private label share (if amount of NBs stays constant). Consequently, it might sometimes even be wiser to dispense with the offer of premium products in order to retain a satisfying level of profitability.

Although there seems to be no agreement of how to determine the exact optimum, taking into account that some discounters offer up to 90% of PLBs (Kumar & Steenkamp, 2007), numerous factors influencing the optimal private label share were discovered during this research and will be discussed subsequently. First of all, the behavior of the competition seems to be an essential factor when determining the private brand share, as their activities are observed by several companies (Jung, 2014; Schäfer, 2014). Schäfer in particular highlighted

the importance of offering the same variety as the competition, having been the reason for him to re-introduce the Ja!-brands in one of his stores. However, some differentiation is also needed in order to be able to convey a unique selling proposition, meaning that the right mixture has to be found in this context. This shows that the competition among retailers involves a very complex strategy-game, meaning that sometimes a retailer's activities are highly dependent on those of their counterparts. When Schäfer (2014) perceived the local market power of Aldi and Lidl in the low-price segment too high, he did not consider it worthwhile to sell Ja! brands anymore. Besides the direct impact at the store, not offering a certain kind of private label anymore can even affect the retail chain strategy and in turn also cause customer satisfaction and loyalty to decrease.

Moreover, the procurement and quality of the products are of major importance in order to ensure that customers perceive a high level of quality, comparable to the one of national brands, when deciding for the purchase of own brands (Jung, 2014). Schäfer (2014) illustrated that this added value of private brands is nowadays perceived by a broad range of diverse customers. Also the amount of products in the assortment play a role in the decision-making about the PLB share, since the size of the retail store can pose a limit to offering more store brands, too.

Further, the constellation (how many NBs are already present in the category) affects the amount of store brands to be introduced. Particularly, the amount of national brands should not be underestimated (Eide, 2010), because only these, in contrast to the own brands, allow customers to compare prices across different retail chains. At discounters, they can additionally serve as important traffic builders (Ailawadi & Harlam, 2004), since Lidl or Aldi hardly sell any national brands in general, which is why some "core" national brands such as Coke are/should be part of their assortment (Kumar & Steenkamp, 2007). Furthermore, some very well known brands such as Coke or Mars would not even consider producing private labels, meaning that only the brands itself can provide the customers with the products they want, as no copy product can really achieve the same taste (Jung, 2014).

In addition, Jung (2014) indicated that the presence of too many national brands would raise the question about whether it is wiser to un-list a NB with a lower profitability and replace it with a store brand. However, the author believe that by adding another reference price product (high or low price) to the category, one might be able to increase the sales of a medium-

priced, high-margin good, be it a national or a private brand. Hence, adding a supplemental private brand could help selling more profitable national brands, too. The other impacting factors Jung mentioned, which are the customer demand for that product, the supplemental amount of unit sales and possible cannibalization, influence the previously identified use reference pricing though. Hence, if a certain PLB only faces a low demand, adding little to category sales, but can enhance the sales of other products without causing cannibalization, the introduction of such a private label would still be sensible.

Furthermore, both Schäfer (2014) and Brinca (2014) described the low-price products as a weapon, respectively a necessary evil against discounters such as Lidl, which are drastically growing in importance, as mentioned earlier (Immobilien Zeitung, 2014). Since low-cost PLBs decrease the overall profitability mix of a retailer though, the retailer has to make sure that they do not inhibit the store sales too much; otherwise the amount of low-margin products needs to be decreased. In contrast to that, the more upper-priced store brands such as Rewe-Feine Welt have fairly high margins, which can even be higher than those of premium national brands (Schäfer, 2014). This in turn makes them very attractive for any retailer as they contribute to the increase of the overall profit and do not find themselves in a price-fight with other brands.

What was not mentioned in the literature though is the insight provided by Schäfer (2014) that national brands nowadays only sell well once they are on promotion and people actually try to anticipate when that will happen and stock the products at home accordingly. Hence, offering the clients a more affordable alternative in the form of a private label brand can stimulate the store sales and create additional loyalty. As Schäfer (2014) mentioned, PLBs can serve as an income-protector during the non-promotion phases. This shows that the strategic game involving the PLB share and the retailer profitability represents an important aspect when determining the optimal private brand share.

With regard to private brand profitability and the fact that very loyal, heavy PLB buyers are less profitable than medium buyers (Ailawadi & Harlam, 2004), the trade off of having too many extremely loyal customers needs to be discussed. While one of the motives of a high PLB share is store loyalty, retailers might decrease their margin mix, if customers buy many low-cost private brands, as was already explained by Vasco Brinca (2014). Consequently, the presence of some more profitable products (e.g. national brands) is of significant importance.

However, one aspect that can be criticized about the research of Ailawadi & Harlem (2004) is that they only considered the loyal customers buying the cheapest version of a retailer's store brands. As was discussed previously, the premium products can yield great profits, reducing the negative effect of an increased amount of store loyal customers. Once again, Schäfer's (2014) argument that national brands usually only sell well during promotions comes into play as well. Due to the fact that own brands serve as an income-protector in some categories, retailers might opt to retain a high amount of these, even though the profitability might slightly decrease.

Another factor, which is of importance in terms of own brand share, is the consistent quality of the products, which can be assured, due to a constant quality management of the retailers. This possibility of adjusting the private brands according to the feedback/to the needs and wants of the clients is an advantage over national brand manufacturers, who can only do general market studies that are not so close to the point of sale. Although the retailer might need to make investments to get this POS data, the scanning of the products can already reveal information about certain fluctuations of the demand for store brands. However, to gain insights into the quality perception of customers, retailers have to make additional efforts. Eventually, once customers have discovered that a retailer is also able to play in the class of premium-products, consumer trust can be increased significantly and a higher store brand share can be achieved.

Moreover, the expert Vasco Brinca (2014) mentioned that the private label strategy needs to be aligned with the corporate, respectively the retail chain strategy. Hence, also the retailer's goal mix of price perception, margin enhancement and customer loyalty (Brinca, 2014) is dependent on and forms a part of this strategy. If a company for instance decides to create a brand identity and retail chain strategy based on discount prices, it would try to highlight its low prices. However, this would in turn affect their margins, but could help in terms of customer loyalty, since PLBs provide price security to the customers' planning of shopping costs allocation (no unforeseen increases). This example demonstrates the interplay between these three aspects and the overall strategy, which in turn affects the decision about the store brand share. As a result, discounters, offering a smaller product variety and a lower amount of total SKU's than supermarkets such as Pingo Doce or Rewe, will consider different aspects when determining their own brand share than their larger counterparts.

Moreover, even when being aligned with the corporate strategy the optimum share might vary between countries, due to the macroeconomic differences as well as the variations in consumer preferences. As the example of the Gazpacho has shown, own brands that sell well in country A, do not necessarily become successful in country B. Thus, country-specific characteristics such as consumer behavior need to be taken into account as well when determining the optimum share, which is why not just the corporate strategy but also the local retail strategy need to be in line with the private label strategy.

Another discussion should be held about the differentiation of own brands and the potentially resulting loyalty of customers. Rao's (1969) statement that price-conscious consumers hardly distinguish between the same products of different retailers, meaning that they are indifferent when buying them, contradicts the input of Brinca (2014). He illustrated that every retailer should make use of store brand differentiation in order to win customers' loyalty and even entice them away from national brand competitors, while not forgetting about the previously discussed cannibalization aspect when increasing the PLB share. Therefore, it is questionable, whether the findings of Rao in 1969 are still valid or whether it is a great example of a shift in mindset when it comes to consumer behavior. Furthermore, the fact that Kumar & Steenkamp (2007) consider store loyalty one of the major benefits of PLBs demonstrates that there must be something that differentiates specific stores from each other.

In the same context, Dick et al. (1996) stated that retailers can leverage their store loyalty by offering constantly high quality private label brands (as the interviewed experts suggested, too), which are only available at a particular retail chain. That way, customers have to come back to the retail store over and over again when planning to buy this specific product. As soon as a retailer manages to continuously attract customers with its private label brands, the own brand share as well as the profitability can be leveraged. An example of this is Rewe's Ja!-brand, which used to be regarded as a cheap brand. However, eventually Rewe was able to convince its customers of the great value-for-money the product is offering, thereby significantly increasing the brand's popularity (Schäfer, 2014).

What is most astonishing about the investigated results is that, in contrast to the common perception, the price gap between private label brands and national brands was neither mentioned as an influencing factor of the store brand share nor as a success factor of private brands. The former might have been an influential factor, depending on the general price level

of national brands within a certain store or category and the resulting price gaps. If private brands could be offered much cheaper than similar national brands (in the low-price and medium-price segment), a higher share might increase private brand sales. However, the retailer has to consider the impacts on profitability of course, meaning that a huge price gap could also imply much lower profits of store brands. The fact that the price does not seem to be a success factor of store brands corresponds to the view of Kumar & Steenkamp (2007), who illustrated that perceived quality has the greatest impact on the success of a store brand.

## 5.2 Category-specific private brand shares

With regard to category-specifics, it is important to note that Batra & Sinha (2000) have highlighted that the private label growth differs from one category to another, meaning that some categories seem to be more PLB affine than others. This idea was also supported by Hoch & Banerji (1993), who illustrated that there is a higher PLB share in larger categories, offering higher margins, since retailers face less competition by other players and have to invest less in advertising. These include for example milk, frozen vegetables and sugar (Batra & Sinha, 2000). The reason for that can be a lower technical sophistication needed to produce the product, meaning that in these categories the quality variation potential is limited and the previously discussed consistency can be achieved. These views also correspond to the response that Jung (2014) provided during the interview. He mentioned that the PLB share for perishables as well as cooled and frozen products is higher and that also the success of these own brands is higher.

When having a look at the motives, why customers favor a higher store brand share in some categories rather than in others, Batra & Sinha's (2000) insights revealed that customers prefer PB products, whose quality they regard as similar to national brands and whose characteristics can be easily studied prior to the purchase, since this will reduce/eliminate potential negative and severe consequences for the consumers. Consequently, 'search' good PLBs are more frequently bought than 'experience' private label brands (as explained in chapter 2), which is why retailers should focus on these 'search' categories when planning to grow their own brand share and only gradually approach 'experience' good ones. Further, these insights also imply that if the assortment of the retailer consists of relatively more 'experience' goods the overall own-brand share will be somewhat limited.



Furthermore, as highlighted by Brinca (2014), a retailer should only sell store brands that perform well in order to retain a good reputation and a favorable image, and should not just launch products for the sake of increasing the overall store brand share. This is another reason, why categories based on low technical expertise have a higher PLB share than others, and why retailers should only steadily increase the amount of products with high technical demands, according to their abilities and previous experience. Further, lower manufacturing requirements will in turn cause the quality gap between private brands and national brands to be lower (Batra & Sinha, 2000) and make consumers regard the quality variation between the two brands to be smaller, leading to more private label sales within a category with easy-to-produce products. As a response to that, retailers can increase the store brand share in these specific categories.

Moreover, retailers should not forget that certain types of PLB products with a higher (perceived) social risk attached could also affect store brand popularity and in turn the PB share within certain categories (Zielke & Dobbelstein, 2007). However, as soon as consumers learn about the added value of certain private labels, both the quality risk and the social risk should start to diminish. Also the overall image of the retailer might have an effect on the perceived social risk. While e.g. Rewe also offers premium own brands and might be perceived as quality chain, Aldi is well known for its cheap own brands, leading to a more price- and less quality-related reputation.

Furthermore, as Kumar & Steenkamp (2007) noted there is a vicious circle that retailers as well as national brand manufacturers can be pulled into. Whereas the stimulated price-consciousness of customers searching for private brands with the best value-for-money will favor the increase of the own-brand share and lower the power of national brands, a too high share within a certain category can lead to an over-saturation, since customers usually expect a certain variety of brands. Therefore, some customers might be left dissatisfied, because their favorite national brand is not part of the assortment anymore, eventually causing a loss of income for both the retailer as well as the NB manufacturer. This connects to the previously described insight of Jung (2014) that the interplay between the already existing products in an assortment is of vital importance for the decision regarding the store brand share and that a certain assortment depth and width is necessary to prevent the retailers from losing customers, who might need or expect a broader range of goods.

Another aspect that Jung (2014) illustrated was that all private label brand products are usually based on an innovative idea presented by a national brand manufacturer, meaning that the amount of PLBs is usually dependent on its national brand counterparts. Sometimes though, a retailer's idea based on anticipated demand can also lead to a new product innovation, e.g. an ecological food line, demonstrating that the retailer is not solely dependent on the industrial manufacturers' ideas.

Further, in case the category is very challenging in terms of technical sophistication, the introduction of a "copy-cat" brand can be a possibility. However, if the product is too similar to the original, the retailer can get problems with the copyright and if it is too differentiated, customers do not perceive the similarity to the original anymore. Hence, in categories that are predestined for this kind of copy brands, a retailer could introduce more store brands. However, a copycat product might bear the danger of harming the overall retailer reputation as well as the customer loyalty. In order to determine, if the entry into a certain category will be successful, the generated profit, the caused cannibalization of higher-margin products and the amount of unit sales will be estimated (Jung, 2014). These aspects also serve as key performance indicators after the products were introduced to the market.

In relation to this, the initial category selection when introducing private label brands does not just depend on the pure success and profits of a brand, but also on the competitor's actions, the quality than can be offered compared to the quality demanded and the suppliers' ability/availability to produce and deliver a product (being similar to the factors impacting the PLB share). Also the store size as well as the corresponding shelf space availability are to be considered when trying to introduce a news private brand to a category (Jung, 2014). What is more, also the availability of certain resources can have an essential impact on the amount of private labels present in the assortment of a particular retailer, taking into account the insights provided by Wernefelt (1984).

As Brinca (2014) illustrated, every decision needs to fit into the overall strategy and the current category management. Also the roles of each product should be determined and adjusted in line with the strategy. If a retailer is able to place a destination good PLB into a very profitable category, this will almost certainly increase some customers' store loyalty. It has to be taken into account though that PLBs in some categories do not experience any brand loyalty, either due to the type of products or because they are sold as "fancy brands" (not

showing the retailer's name) (Brinca, 2014). This means that the PB share is also partly affected by the amount of categories with no brand loyalty and usually an absence of national brands. These are mostly low-revenue categories with routine goods (e.g. matches or tooth picks), meaning that retailers can neither generate high profits, nor increase/affect their store loyalty, making these categories less attractive for additional private brand entry. A high amount of these non-important goods would drive the own brand share up though, which means that retailers have to consider the impact of those categories in terms of unit PLB share when determining their share objectives. This example further demonstrates that there can be a huge difference between the PLB unit share and the PLB revenue/profit share. Therefore, retailers need to clarify, whether the "optimum" they want to reach has to be understood in terms of number of SKUs or profit share.

### 5.3 Vertical integration and supplier relations

If retailers do not just sell their own label brands, but actually engage in vertical integration also producing these products, this can drastically affect the decision about the own brand share, since each additional own brand requires supplemental resources for the production of the good, which otherwise could have been used for identifying the optimum range of the private label share. As stated by Wernefelt (1984), at the moment when a retailer decides to start producing some of its store brands on its own, he faces a resource position disadvantage compared to other suppliers. This corresponds to the view of Vasco Brinca (2014), who considered vertical integration to be a loss a focus on the core business, since both the resources and the competences involved are not really complementary to those of retailing.

If existing suppliers do not have sufficient excess capacity or are not willing to supply due to insufficient profitability, a retailer could consider this kind of diversification and start producing its own products though, which would be a way to increase the own brand share at the same time. However, they need a certain size (and amount of available resources) to be able to handle being a retailer and supplier at the same time and to sell enough of a particular store brand to make the production worthwhile. The problem of this vertical integration is though that retailers can hardly benefit from economies of scale, since they can only produce the products for themselves and cannot sell it to other players in the market, since they were

otherwise supporting their competitors. This means that, unless retailers have a sufficient demand on their own, there will be some excess capacity left unused (Jung, 2014).

Besides that, that those size advantages are not always made use of to engage in vertical integration is demonstrated by Aldi and Lidl. As Jung (2014) illustrated, although their size as well as resource base would allow them start their own production, they rather focus on strategically using their volumes for sourcing products cheaper than their competitors. Their buying power is considered to be the greatest in the market, which is why both of these companies actually benefit from higher margins, also for private labels. This demonstrates that two of the currently most successful retailers (Immobilien Zeitung, 2014) do not consider the production of own brands more profitable. However, this might have to do with their particular discount format, meaning that the same logic might not apply for a regular supermarket chain as Edeka or Rewe.

Further, as Brinca (2014) stated, the sophistication and experience of existing manufacturers can only be reached through acquisition and the resource allocation planning, involving capital, employees and knowledge, plays a critical role for the success of such an investment. Moreover, Hoch (1996) already questioned the retailer's ability to only manage 300 categories (private and national brands) as well as running the brand management of the store brands. Thus, also producing these private labels at the same time seems to be impossible. This situation will become even worse, once the own brand share starts increasing, which is why a vertical integration would probably cause the "optimal share" to decrease at the beginning. Hence, the only way to make an own-label production by the retailer work seems to be through acquisition of an already existing production facility.

Besides that, Hoch (1996) also stated that pure category management of national brands yields much higher profits than also managing many private labels. However, the same author probably considered a high store brand share of low-margin private brands mostly, meaning that he did not account for more profitable premium store brands. In favor of his argument, one has to take into account that pure category management involves fewer resources than managing national brands and private brands (including their development) at the same time, which might lead to higher relative bottom line profits (in %) eventually. In case of vertical integration this difference of profitability percentage would probably become even larger, since even more resources will have to be deployed. In absolute terms retailers might be able

to increase profits, although the percentage profits might be lower. Nevertheless, unless the ROI of vertical integration clearly outweighs all the risks and initial investments by far (through high revenues and high profits), a retailer should refrain from starting to get involved in this vertical integration. In relation with this, according to Brinca (2014), only huge volumes can justify the vertical integration of a retailer. For example also Jung's (2014) company stopped producing its own coffee, because it was not profitable enough and lacked the critical volumes, and the volume was probably too small.

A direct benefit of keeping the focus on retailing only is the easily sustainable price advantage that a retailer has, since he can utilize his PLBs to pressure national brands manufacturers for better conditions or even threaten them with a potential exclusion from the assortment, as it was done with Nestlé at Pingo Doce once (Brinca, 2014) (as described previously). In some occasions, national brand manufacturers need to pay to be listed in a particular assortment. This clearly demonstrates that retailers can leverage their private brand share against manufacturers – a high share and PB penetration means less sales of national brands, while a lower share and higher retailer margins of national brands benefits the retailer against its competition and the national brand sales within the store simultaneously.

Besides the price advantage gained through leverage, private brands are generally more efficient (Brinca, 2014) than national brands, as retailers do not have to make heavy investments into trade promotion (Baltas & Argouslidis, 2007), except for some occasional marketing expenses. It needs to be noted though that a higher store share will inevitably require more investments and resources in order to be able to offer the same quality and service level to the customers. Nevertheless, retailers still enjoy a more favorable position than national brand manufacturers in terms of product costs eventually.

What makes the relationship with the retailer even more complex is the fact that some A-brand manufacturers produce premium private labels that might even have a better quality than their own NBs, according to the demand of a particular retailer (e.g. Tesco's Finest). As stated earlier, this interplay between retailers and suppliers is called co-opetition. This means that retailers should not just use their private brands to attack national brands, but should also demonstrate the added value to the manufacturers. The fact that roughly half of the NB manufacturers secretly produces store brands shows that these producers have come to understand the benefits of such a dual strategy and that eventually it is not the brand that

makes their business successful but the profitability. As Schäfer (2014) stated, industrial manufacturers should consider the turnover they will lose to any private brand as a chance to recover their income by producing these private labels for the retailers. It is better to retain the revenue in-house than losing it to a competitor. However, they need to be aware of the “vicious circle” (Kumar & Steenkamp, 2007), meaning that a too high focus on PLBs will diminish their national brand sales in the long run (as indicated earlier).

In contrast to the previously mentioned strong position of the retailer, the leverage might also reside on the suppliers’ side. It might be possible that a national brand manufacturer also producing a retailer’s private label could force him to reduce the amount of private labels in a certain category by announcing to discontinue the private label production. However, this leverage is dependent on the availability of substitute suppliers and the market power of both of them. The less hostile alternative for the supplier would be to offer lower prices, in case the retailer reduces his amount of PLBs in a particular category. This shows that the optimum share is also dependent on the agreements and contracts between the retailers and the suppliers. Such a relationship based on mutual benefits can be very advantageous for national brand manufacturers, which is why they should also engage in PLB production. However, it has to be taken into account that every retailer deals with various big industrial suppliers in numerous categories, meaning that these kind of agreements have to fit the overall PLB strategy. Furthermore, although these special deals might represent a possibility to successfully close some negotiations, they should be treated with care from both sides, since also suppliers do not just deal with one retailer.

## 5.4 Private brand marketing

Although there seems to be no direct link between the marketing and the optimum private label share, a retailer might want to enhance its sales of its own brand products (maybe due to a better margin) by increasing the marketing of the brands without having to adjust the actual store brand/national brand ratio.

As explained earlier, Burton et al. (1998) indicated that consumers either buy national brand products being on sale or private brands, but never doing both during the same purchase occasion, which provides some interesting insights. If the findings are still up to date, retailers should adjust their own brand marketing accordingly, meaning that certain private brands

should only be marketed, if their national brand counterpart is not on promotion. Due to the fact that any retailer is always aware of all the national brand promotions at his store (Aperio, 2014), the marketing of private brands can easily be adjusted accordingly.

In addition to this, retailers might consider adjusting their store brand share according to the fluctuations. However, there might be customers, who generally prefer to buy own brands, because they e.g. like their taste better and don't bother about any national brands being on sale. If they are loyal to certain private brands, they will probably not spend their time checking prices during a NB promotion, but just pick the PLB they always choose, also being aware of that product's affordable price/ value for money. In order to fulfill the needs of these store brand loyal customers, the private brand share cannot simply be reduced during the national brand promotion phases. Furthermore, the national brands being promoted are not necessarily cheaper than the low-price PLB, meaning that there might not even be a price advantage so that any comparison effort might not entail any benefits. Therefore, whilst the marketing could be tailored, retailers should refrain from adjusting the store brand share during the NB promotion phase in order to avoid losing sales and customers, even though the demand for PLBs might be temporarily lower.

This adjustment limitation only refers to the absolute amount of private brands in the assortment. Since during special seasons such as Christmas and Easter many national brands will be on sale (Schäfer, 2014), the relative share of PLBs might be affected, if some national brand variations or special editions are added to or withdrawn from the assortment, as is the case during the "Ferrero summer brake" for instance (Schäfer, 2014). This means that the optimal relative store brand share might vary according to the seasons, too. Additionally, each store should investigate, whether a promotion-related adjustment of PLB marketing actually makes sense.

Another reason for the marketing of private brands can be that "fancy brands" (not stating the retailer's name) might not sell well and hardly experience any consumer loyalty, since customers cannot identify them as own labels. So retailers can either opt to ban them from the assortment, reducing the overall PLB optimum or they can decide to market them more intensely until the customers have understood how to assess their quality and their relation to the retailer. In another case, customers might also believe they are B-brands, which could lead to a positive spillover effect from the generally good quality perception of B-brands to this

particular fancy-brand. However, if these “fancy brands” are too low-cost oriented and only have a very low margin, it might be more sensible for the retailer to market the NBs instead and to stop offering those low-cost brands. Further, if the funds to be spent on marketing are limited or not available at all, it makes more sense to entirely dispense with “fancy brand” marketing and to reduce the overall PLB share (excluding those bad-selling products).

Besides marketing any products in particular, the marketing of PLB can help educate customers in general. As was illustrated by Brinca (2014), customers need to learn that the store brands represent a supplemental service, preventing them from having to go the discount store to buy value-for-money products. It provides them with an “all-in-one” grocery solution. Additionally, customers need to be convinced that the quality of PLBs is really high and can sometimes even outperform the one of national brands. In order to achieve this consumer awareness, tailored marketing, including free trials, demonstrations, money-back guarantees, coupons and promotions, might be needed. This will hopefully lead to greater familiarity and lower perceived risk among customers. If the retailer is successful in making customers receptive for own brands, this can lead to a leverage of loyalty to a specific retailer and can contribute to a higher store brand share eventually as it will affect the decision about which PLB to keep in the assortment.

This view is also connected to the findings of Miguel et al. (2000), who confirmed that a higher awareness of store brands and a perceived similarity in terms of quality significantly increased consumer trust and can turn into a competitive advantage. However, what is important to note is that even though customers have become much more educated over the past years and have developed a clear idea about PLBs, their in-store behavior might not always correspond to their general thoughts outside the supermarket (Guerrero et al., 2000). This means that the marketing might not be sustainable and might not last in consumers’ mind until the next purchase occasion, making the investment less effective. If then in turn some customers would be willing to buy PLBs, but do not do so when being in-store, the overall store brand might need to be reduced accordingly.

Another aspect that is connected to brand loyalty and the private brand share in equal measure is the brand image and brand equity of the own brands. As stated previously, brands are one of the most precious assets of a firm (Keller & Lehmann, 2006), which is why retailer should regard their store brands as essential to the business. However, the findings of De Wulf et al.



(2005) that the own brand image and equity mainly stem from the overall store/retailer image (in terms of trust in quality and price) demonstrate that it seems to be the retailer itself that creates that store loyalty of customers. Besides the fact that this emphasizes and confirms Brinca's (2014) opinion that the PLB (brand) strategy needs to be in line with the overall retail chain/corporate strategy, this might also be an indicator that a certain degree of store loyalty might even be accomplished without having a high own brand share. Although a lower PLB share would mean that customers would be exposed to less store brands, they would still stay loyal to a certain retail store. However, a counter argument to this view is that the role of the products, might it be destination or routine goods, should not be underestimated, since some customers might only come to a certain store, because of one specific product/range of products. If this product is no longer available, they might also stop going to that particular store.

What is important to note with regard to the store brand image is that especially the low-cost store brands' quality perception among customers suffers from its low price (Dick et al., 1996). Customers believe that the relatively cheap price is also an indicator for the products' quality, leading them to exclude these from their purchase consideration set. Although this would argue in favor of a lower PLB share, the overall private brand image (from low-price to premium) should be taken into account as well as the necessity to offer the customers what they are looking for in order to retain the current level of store loyalty. One possibility to increase the consumers' quality perception of the products, while at the same time serving their needs and growing their involvement with the retail chain, is to let them participate in the product development. This will benefit the retailer through a gain of trust among consumers, whilst consumer help to reach/maintain a high store brand quality, which in turn would lead to a higher customer loyalty and would favor a higher store brand share (Planet Retail, 2011).

In addition, as presented previously, Kumar & Steenkamp's (2007) findings revealed that the overall turnover of a retailer grows if the price gap between national brands and private label brands is reduced. Thus, by closing the price gap through lowering the national brands' prices, combined with the right communication, retailers can increase profitability and counter the skepticism of customers, allowing the retailer to have a higher store brand share, too, without losing money.

All in all, as retailers have come to understand that their private labels need the same amount of diligence as national brands do, they also need to realize that the marketing of their PLB's PODs is of major importance to make customers appreciate their actual value (Mullick-Kanwar, 2014). Moreover, in some countries such as Germany, all low-cost products will usually set their price according to Aldi's lead (Jung, 2014). Consequently, the PODs also have to be defined in relation to other retailers' store brands not just national brands and it is important to also reach differentiation as well as a unique selling points against those brands. Further, customers need to realize, as they have already done in the case of clothing brands such as Zara, that also grocery store brands have a great value. By combining a product-centric with a consumer-centric approach, it might be possible to make private brand become a lifestyle, which would essentially benefit store loyalty. However, in order to be successful a focus on high-quality product consistency is of vital importance, as was significantly highlighted by Brinca (2014) and Jung (2014).

## 5.5 Propositions

Based on the insights gained during the underlying study, the propositions derived from the literature review will be discussed in the following paragraphs.

1. A relatively lower private brand share and a high focus on category management will generate higher profits.

Due to the fact that more private brands lead to a broader assortment range, a retailer might be able to attract a wider group of clients. Thus, the correctness of this inter-relation can be questioned and should be tested empirically.

2. The majority of the retailers is currently aiming for higher shares, since brand shares are constantly increasing.

Because of increased consumer learning and a higher awareness of the quality of private brands, store brand shares are growing (Lamey et al., 2007; Miguel, 2002). However, it depends on the retail chain strategy, whether retailers actually want to enhance their PB share or not. In order to find out, why retailers around the globe are actually growing their shares, further research is necessary.

3. Since the financial crisis started in 2008, the overall private brand share should have increased drastically, impacting NBs in a negative manner.

Although the amount of private brands is currently growing, according to the author there has been no literature stating that the recent financial crisis significantly benefited this trend. Also the negative impact on national brands has not become evident based on the previous discussion. Hence, empirical testing will be necessary to make any statements about this inter-relationship.

4. A higher store brand share increases customer loyalty, meaning that a high share store such as Aldi should enjoy an extremely high customer loyalty.

Since literature stated that customer loyalty is the highest among the medium buyers (Ailawadi & Harlam, 2004), a higher share does not necessarily increase the loyalty of consumers. However, as discussed before, the findings of the authors can be criticized, since they only considered the loyal customers buying the low-cost private brands, meaning that this argument against the assumption is not that strong. Since the discussion did not reveal any insights that would support the statement, a future study should validate this assumption. Further, to find out what other factors, besides the store brand share, influence e.g. Aldi's store loyalty is another aspect that should be tested empirically.

5. A high PLB share causes the profitability of a retailer to decrease.

According to theory, a too high focus on private brands can reduce a retailer's profitability (Kumar & Steenkamp, 2007). Although the underlying research has disclosed that there is a point, where the overall profitability might decrease significantly, the example of Aldi with a 95% PLB share demonstrates that this proposition cannot be completely true. Consequently, further research is needed to identify the impact of the store brand share on profitability.

## 5.6 Limitations and future research

In the following sub-chapter the research limitations will be discussed. Due to the fact that this paper was developed as a master thesis, it was subject to time and resource constraints. Consequently, there are a few limitations that will be addressed subsequently.

First of all, the amount of interviewed experts was fairly small and represents a weakness of the underlying research in terms of generalizability/external validity. Initially, the author planned to apply triangulation and conduct interviews up to the point where no additional insights were provided, but he was not able to do so. Since it was very difficult to find suitable experts for the study at hand, the author had to focus on extracting the maximum of information from the three experts Ralf Jung, Jörg Schäfer and Vasco Brinca. In addition, the diversity of the investigated grocery retail cases in terms of markets/countries and the variation in terms of size, location and format reduced the external validity of this research. Hence, the representativeness of Germany and Portugal has to be validated, since especially Germany is a very particular market (high price competition). This is why future research should not just focus on a larger sample, but also on different countries in order to draw a wider/global picture of the factors influencing the optimal range for a retailer's private label brand share on the one hand. On the other hand, it could also be interesting to investigate how country-specific/macroeconomic characteristics actually affect the determination of a favorable private label share in general.

Secondly, further consequences of having reached an optimum PLB share (range) such as increased profitability or company growth could have been researched. This would have gone beyond the scope of this thesis though, which is why future research is needed in order to elucidate the effect of having reached a retailer-specific optimum. In general, future research should also broaden the scope towards factors influencing the optimum PLB share and the consequences attached to it. This could be done through testing hypotheses about potential impacts. Additionally, more questions regarding the interplay of category management, supplier relations, vertical integration and PLB marketing could be addressed.

As a third point, one has to take into account that consumer behavior has changed a lot in recent years and that all the articles at hand were written before the financial crisis. Recent developments could act in favor of PLBs. Although the discussion questioned some very old insights, the limited amount of relevant articles available increase the difficulty to provide useful findings. Further, there has been no literature, yet, which explicitly addresses the resource-based view when talking about private label brands. This could be another topic of interest for future research. Also the propositions presented in the previous sub-chapter, which were based on the literature findings, are in need of future research, since the amount of key

informants was not sufficient to confirm or reject any of the assumptions based on their insights.

All in all, it was the goal of the underlying thesis to investigate the optimum share of private label brands for a grocery retailer and the factors influencing share variations among retailers. All insights provided through relevant literature or expert opinions were compared and challenged, and a clearer idea about the topic of the thesis was developed. Nevertheless, more inductive findings could have been generated by conducting even more detailed interviews, including the previously identified areas or research. Hence, future research, which can be based on the findings at hand, will be necessary in order to provide more reliable findings about certain interrelations.

## 6. Conclusion

Taking all the previously mentioned aspects into consideration, it can be concluded that there is no “one-fits-all” optimum private label brand share for a grocery retailer. Although it was already expected at the beginning of the underlying research that there is no universal answer to the research question, it has become clear that even in the case of a particular retailer no exact optimum can be determined. Instead, the optimum should rather be understood as a guideline or a range that provides direction to a retailer’s PLB strategy. Furthermore, retailers have to be aware of the fact that a relative change in units does not always represent a change in absolute terms, meaning that each retailer should define how PLB share is understood at his company. Retailers should note though that there is an approximate maximum share that should not be exceeded in order to avoid losing customers as well as profitability.

Due to the fact that the private brand share varies among retailers, the sub-research question already assumed that there are various factors that come into play when an optimal share is defined by a grocery retailer. As was found out in the course of this research, macroeconomic factors usually affect the popularity of private brands, leading to a private brand higher share during economics downturns. Additionally, the activities of competitors, procurement possibilities, respectively supplier availability and their ability to deliver quality-consistent products, the retailer’s assortment, the price image a retailer wants to convey as part of the retailer strategy, the margins a particular PLB might entail, the degree of customer loyalty it wants to reach, and the current ratio of national brands versus private brands are important aspects that impact the PLB optimum. Another essential factor is that store brands can function as an income-protector during the periods when national brands do not sell so well, being a reason in favor of a higher own brand share.

Furthermore, when considering to introduce a supplemental private label brand, the experts mentioned potential cannibalization, supplemental sales, customer demand, which is country-specific, and especially customer loyalty, being an essential reason for having own brands, as potential factors influencing the decision about the store brand share. What was astonishing from the author’s point of view was that the price difference between private brands and national brands was neither mentioned to be influential within the optimum share decision-making nor to be a success factor for the good performance of private labels.

With regard to category-specific decisions retailers should only introduce and sell private brands that perform well and that can deliver a high and consistent quality to avoid diluting the brand image in other categories. Since categories with lower technical sophistication are more PLB affine, retailers can use “copycats” to succeed in the technically more difficult areas. A too high store brand share per category is to be avoided, as this might lead to over-saturation. Moreover, each retailer should pay attention to the available product variety within a category, because some customers might be looking for a certain product that they could not find if the assortment was too small. This variety in turn affects the overall PLB share. Further, “search” goods have proven to be easy to study, meaning that customers perceive buying these types of PBs to be less risky. Finally, while some categories face very low consumer loyalty, also due to the absence of NBs, there are others with very high customer loyalty to PBs, sometimes even causing certain store brands to become frequency generators.

Another important topic for retailers is vertical integration. It was found out that a successful vertical integration only seems to be reachable through acquisition of another manufacturer. Unless the ROI and the volumes are extremely high, retailers should dispense with this type of activity, since it represents a loss of focus from its core business. Besides that, when sourcing externally retailers need to thoroughly manage the complex relationship with its suppliers, who might be competitors (as NB producers) and store brand suppliers at the same time. Consequently, the optimum private label share is also dependent on the strategic game and the agreements with the manufacturers.

In terms of store brand marketing it can be said that it facilitates customer education about the high quality of PLBs and the added value of having the possibility to buy all products at the same store (from cheap to premium store brands). Further, retailers need to ensure that their image corresponds to the overall private brand strategy, as it represents a vital success factor of their own brands. Ultimately, it was found out that closing the price gap between PLBs and national brands by reducing the latter can increase a retailer’s profitability significantly.

All in all, retailers should note that it is of vital importance to align the PLB strategy with the overall retail strategy, respectively the corporate strategy. All factors mentioned previously are part of a strategic game and usually, if one factor comes into place it will be affected by another and so on. Consequently, there can be no clear determination of the potential factors’ effect on a specific retailer’s optimum private brand share, respectively optimum range.

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# Appendices

## Appendix 1: Questionnaire of semi-structured interview (adapted for each interview)

Firstly, a short introduction of the author and an explanation of the interview, as described in the method chapter, were provided to the respondents before the start of the interview.

Regular questions are black, follow-up questions are green:

Before we start with the actual interview, I would like to know a bit about your background:

1. How long have you worked at your company?
2. What is your current position within the company?
3. What is your responsibility in terms of PLBs? (Strategy, controlling, operations?)

### Start of the interview

Intro: Descriptive questions

1. What is the share of PLB within your company?
2. What is your profit distribution of PLB vs. national brands?
3. Who manufactures your PLBs?

Past experience:

4. What is your company's past experience with private labels?

Share:

5. You mentioned the PLB share a few minutes ago. Is it a conscious decision to retain this amount/a certain level? If yes, how is the decision made? Which factors play a role in the decision?
6. Have you ever consciously adapted your PLB share? **If yes, why? What is your past experience with doing so? Did you notice any changes? Did you adapt towards an "optimal %"? Is there an optimal share (overall or within a certain category)?**

General:

7. Are private label brands considered important within your company? **Why are they important? Why do you sell PLB?**
8. What are the success criteria of PLBs in general/in your company? (Price, quality?)

Category-specific:

9. What are/were the decision criteria for selecting a certain category to introduce PLBs?
10. Are there any categories in which PLBs are more/less successful? **If yes, which? How did you determine a “success”?**
11. Were there any failed projects/success-stories? **What happened? E.g. PLB share in the breakfast category is really low? What were the key learnings?**

Round off:

12. I have another question regarding your suppliers: You mentioned that XY produces your PLBs/you produce them yourself: **Why? Does it have to do with your company’s resources? Do you own the PLBs or just sell them?**
  - a. (How high is your level of vertical integration? Manufacturing costs, controlling, marketing, others investments?)
  - b. **If produced externally:** What about the relations with the suppliers (competition vs. supplier relationship, bad climate)?
13. Do you explicitly market/brand private labels or is it just included in the retailer’s portfolio? **If yes, why do you think that is important?**