Specificity of Developing Private Labels of Trade Networks in Europe

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Abstract: The work determines motivation of producers developing private labels for retail networks. We compare retail networks of different classes on the parameters for positioning brands of trade networks; besides we carry out comparison of control function trends at the interaction of trade network and production company during the development of a private label. It has been found out that private labels appear to be the solution to the problem related to sales volume and advertising costs; besides, we analyze interaction of companies located in different countries in the field of development and realization of private brands. The matrix of private label name dependence on price and quality is proposed. We define the notion of private brand, provide their classification and consider a number of advantages.

Key words: Private brand · Private label · House brand · Brand of trade network · Trade marketing

INTRODUCTION

Trade is an important branch of economy which is determined by macro-economical indicators of socio-economic development of Russia and is characterized by industrial and agricultural development as well as by the indicators of foreign-economic activities of the country.


American researcher F. Fitzell studied the private brand start-up and devoted one of his numerous books [3] to the analysis of rapid growth of private labels in the territory of the North America. He investigated prerequisites of private brand appearance and revealed future trends of their development. N. Kumar and Jan-Benedict E. M. Steenkamp [4], L. Keith and T. Lars [5] in their works also pay special attention to private labels of trade networks.


Material and Research Methodology: The following methods were used in this work: field studies in supermarkets and trade networks of Germany, Czech Republic and Russia, complex analysis of brand marks of trade networks and benchmarking being the best of foreign experience. The field studies were performed in...
2012. The research materials included data from the trade networks Tesco, Aldi, Pyaterochka, Magnet, Eldorado, Metro, etc. The theoretical basis of research included the works of Russian (S.V. Logunov, Yu.Yu. Medvedeva) and foreign (A. Ezrachi, U. Bernitz, H. Neubauer, F. Fitzell, O. Solovei and N. Lisnyak) scientists.

**RESULTS AND DISCUSSION**

The private label is a house brand of the retail network produced in free production facilities of proper suppliers or in special factories equipped especially for private brand production. The synonyms or more precisely, the words with close meaning denoting the private label, are house brand (if in trade-house brand, private label), brand, logotype and trade mark. The latter one is used in legislation; others represent the lexicon of marketing specialists and brand-managers. The logotype-logo-normally presents the graphic part of the trade mark.

The private labels compared with the 2000-s ever more often show up in the windows of the Russian retail network stores.

In England the private labels are rather widespread and over 70% of turnover falls to the share of the private labels [8].

The private labels are widespread in such world trade networks as: Wal-Mart, Carrefour, Metro Group, Ahold, Tesco, Lidl, Aldi, Sainsburys, etc.

Classification of private labels of Tesco retailer is rather extensive and is based on the business trends. Tesco Value (normal private label), Tesco Originals (natural goods without chemical additives), Tesco Finest (premium-class goods), Tesco Free Form (goods for consumers suffering from allergy), Tesco Healthy Living (low-fat goods, dietetic healthy food), Tesco Carb Control (low-carbon goods), Tesco Fair Trade (goods indicating prime cost and margin for producer and retailer) and Tesco Kids (goods for kids). Thus, it is possible to determine the level of development of private labels in Europe. The above mentioned classification covers the types of brands using a reference to the retail store. Based on the western experience the Russian retailers may also plan and organize production of goods with private label. This approach may be advantageous in terms of competitiveness.

If in the past the problem related only to the introduction of private labels, now the strategic management is directed to the development of individual categories of goods and business trends.

Registration of the trade mark is performed in the Federal Institute of Industrial Property (Rospatent) having a monopoly right for trade mark registration.

The private label development may be a realization of the corporate social responsibility manifested in cutting prices of goods and management flexibility dynamically reacting to the consumer demand.

Among the Russian private labels of household appliances the following brands appeared: Elenberg-belongs to the trade network “Eldorado”; Techno-the trade network Technosila; Trony-the trade network “MIR”; and DNS-the trade network “DNS”. Meanwhile, the majority of consumers still believe that the trade mark Elenberg is produced in Germany.

The advantages of private labels:

- independently forming the range of goods according to the consumer demand and considering the territory specificity;
- independent pricing regardless of producers but taking into account local people well-being;
- increasing loyalty of consumers by managing quality and price policy;
- developing perspectives in business diversification;
- strengthening retail brand;
- attempt to take into account and follow the competitors;

Reasons of retailers for developing private labels:

- inexpensive production;
- pressing down suppliers by partially rejecting their original brands;
- decreasing costs for product promotion;
- minimal price for the goods persuading the consumer to increase loyalty towards the retail network;
- turnover increase;
- increase of marginal profit;
- possible introduction into production sphere;
- distinguishing private labels from competitors by merchandizing;
- if there is no stock of original goods the managers do not rush to order a new consignment thereby decreasing the company’s turnover since for top-managers it is hard to control every step of their teams. In terms of private labels the situation is different and private labels are controlled more rigidly;
- high flexibility of local brand control;
Motivation of producers developing private brands for retail networks:
- utilization of free capacities;
- additional profit;
- guaranteed profit;
- decrease of advertising costs and costs related to sales channels;
- decrease of costs for administrative personnel;
- closer relations between producers of private labels of original goods and retailers for searching sales channels for original brands.

What companies producing original goods can do to win the battle for consumer?
- diversify the companies especially established for private brands;
- ban default for cooperation with retailers in private brand development (it is necessary to consider possible difficulties of new owners and managers because of future over-saturation of the market of productive capacities. There will be new production companies oriented at development of private labels for trade networks);

O. Solovei and N. Lisnyak distinguish five types of private brands [9]:
- Store brand is based on the retailer’s name that is used on the good packaging;
- Store sub-brand—the retailer’s name is mentioned on the package but is not the key wording;
- Umbrella branding-brand of the type of goods or nameless goods not indicating the name of retailer but indicating the kind of goods (“Sugar”, “Flour”, etc.);
- Individual brand-brand name relates to and determines one class of many goods;
- Exclusive brand-name of one class of goods for promotion with “added value” used for premium class products.

Along with the above mentioned classification there are two more types: similar in the name of a store (private label “Techno” that belongs to the retail network “Technosila”) and private brand independent from the retail network (private brand “Elenberg” of the retail network “Eldorade”).

The responsibility for goods quality lies on the shoulders of the trade network, accordingly, during the private label introduction the managers having self-respect and respect to the trade network introduce quality control beneficial for final consumers. At the same time during the transfer of original product from producer to final consumer the goods quality decreases at the moment of goods delivery to wholesale and retail companies (due to additional cycle) and because of the longer storage period. The main reasoning of consumers for buying private labels is low price and high quality compared with the original brands. Introducing the strategy of private labels the retail networks may increase the number of consumers and add to their loyalty; since the consumers will constantly purchase goods in one network.

In terms of private label development the positioning of the economy-class networks will be mainly based on low price compared with the analogous goods (Table 1). For premium-class stores the decisive factor will be the improved quality compared with the similar goods of other original brands; at that the positioning of the private brand goods shall not effect the price. The middle-class network for its positioning will opt for the goods quality improvement and price-cutting.

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Economy-class</th>
<th>Middle-class</th>
<th>Premium-class</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>Decreases significantly</td>
<td>Decreases</td>
<td>Does not decrease</td>
</tr>
<tr>
<td>Quality</td>
<td>Does not improve</td>
<td>Increases</td>
<td>Increases significantly</td>
</tr>
<tr>
<td>Uniqueness</td>
<td>No</td>
<td>Not pronounced</td>
<td>Pronounced</td>
</tr>
</tbody>
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Over 50 % of original brands are produced by proper capacities of private labels [10].

The retail stores control producers of original goods by means of barriers to entry into retail networks. The producers control the retail networks setting up prices for private brand development. In perspective there is a chance of mutual agreement—a compromise solution.

On the other hand, there are goods that by means of a brand and vast and focused advertising form the demand for certain goods (for instance, the energy drink Burn after the marketing campaign in the festival of e-music “Kazantip” in Ukraine; elite alcoholic beverages (Henessey after the festival of electronic video clips “The night of advertising predators”); watches Rolex and many stable luxurious brands), as well as tobacco brands; until there is no ban for smoking the original cigarettes will be popular among the smokers. If the original Marlboro
tobacco is wrapped into paper with private label logo there will be no boom around new cigarettes among the smokers).

In the situations difficult for producers of original brands namely at excessive development of private brands the government helps by developing and adopting new laws regulating private labels growth and distribution. Perhaps, the Federal law “On competition” will be changed. There is a chance that the market environment itself will put everything into place, during healthy competition the number of original brands will disappear (or substantially decrease) and the time of local brands-private labels-will come.

Private brands differ from original brands by the fact that their sales volume in one store or within one trade network is rather high and advertising costs are lower (within one network). Accordingly, this fact is taken into account at pricing and the final consumer benefits in terms of the goods price. The brand historicity is practically absent and the consumer treats the product pragmatically, i.e. selects the product rationally rather than emotionally.

To form the “European” image and “European” attribution during private label introduction it is possible to use the scheme (Fig. 1).

In this scheme private brands develop and function due to the interaction of four companies located in three countries:

The company-initiator, owning capital for private brand development. The company, having a managerial potential, establishes a subordinate company-the distributor vested with an exclusive right for goods realization. The producing company is located in the country with low tax rate including for personnel salaries and inexpensive labor force, for instance China. The company with financial and managerial resources establishes a company in Europe for registration of the European trade mark. The European attribute of the goods will allow the company-(seller-trade network) presenting the house brand as a European one attributing the respective equality. This mechanism serves to increase the margin of the initiating company. In this case the consumer is indirectly deceived since he is informed that the brand has European origin but the history and mission of the brand remain unclear.

The private labels being realized outside proper trade networks may loose in the competition with the known brands of original goods. Perhaps the series of non-food products will suit for widening the sales channels, for example, clothes that does not depend on service life. Therefore, this class of goods is more adaptable for realization beyond the proper trade network. This strategy may cause difficulties related to local brand recognizability and methods of its sale by merchandizing. The price of goods may become a considerable advantage since advertising costs are not included by default, but the income of the company-the private label owner-is considered. More successful strategy should be based on profitability minimum.

Realization of the private label beyond proper trade networks should be organized far from local territories, if possible, in different municipal districts or regions where there is no retail network of the private label.

Modern dynamically developing catering unit can not function without the Private label strategy. The most widespread food product in catering units is draft beer. The manager of an average café should sign a contract for beer supply and sell it under the brand name of the café.

CONCLUSIONS

Today in Russia private labels in retail market are at the stage of formation. Many domestic trade networks are trying to use the experience of foreign colleagues, even
attributing the European origin to their goods. This aspect of naming at private label development substantially influences the consumer at goods selection. Until in Russia people prefer European brands (European names) the number of private labels with European names will go on increasing. Development of private labels is a natural process for Russian economics-every producer tries to reach the higher added value and it becomes possible by means of private labels realization. To launch the proper brand the retail network should expand their business to better sell the goods, since one store or small retail network can not provide large sales of goods. The consignment is measured not by hundreds but by five-digit numbers of goods. It should be noted that the larger is the consignment ordered from the producer the lower is the final price and the easier the producers set contacts in order to render assistance in private label development. In turn, the producers are interested not only in profit from private label production but in setting up trade contacts for searching sales channels for original goods.

REFERENCES

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