Launching store brands in emerging markets: resistance crumbles

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Store brands are no longer a hallmark primarily of businesses in the developed world, as was the case for decades. The marketing efforts of retailers across the globe, and their competition with local manufacturers, have introduced store brands in almost every product category, and have made them available in both developed and emerging markets. It appears today that Europe and North America have maintained their position as the most developed store-brand markets, with an aggregated store-brand share of sales reaching 23 and 16 percent respectively, but with a moderate growth rate (5 percent). In comparison, store brands in emerging markets have achieved growth of up to 11 percent, and currently account for 6 percent of sales. This impressive growth is directly related to the expansion of global retailers beyond their traditional geographic borders.

This paper discusses the impact of store brands for retailers, including when a retailer should market a store brand. We explore the differences between approaches to the management of store brands in developed versus emerging markets and identify key marketing strategies for creating powerful store brands in emerging markets.

Why should a retailer promote store brands?

Store brands are generally owned, controlled, and sold exclusively by specific retailers. The products sold under these brand names are usually developed and packed by retailers rather than manufacturers and are marketed exclusively through their own stores. The entry of a store brand can aid retailers in several ways:

- First, store-brand entry can strengthen the bargaining position of retailers *vis-à-vis* national brand manufacturers. The retailer's channel power is believed to increase as a result of store-brand entry, which changes the nature of the manufacturer-retailer interaction. Store brands may allow the retailer to negotiate lower wholesale prices on national brands. In addition, retailers can strategically position store brands in the product space to strengthen their bargaining position when negotiating supply terms with manufacturers of national brands.
- Store-brand entry may increase the value of the entire category and expand category sales. In fact, store-brand entry may shake up a ''dormant'' category.
- The store brand itself may generate profits because of its high unit margin and potentially high volume.
- Store brands make shopping easier for consumers, and they enhance the store's image and store loyalty by improving store differentiation *vis-à-vis* other retailers.

When should a retailer decide to market a store brand?

The retailer's marketing strategy for store brands should consider manufacturers' interest in developing store brands and consumer interest in store brands. Despite the potential power of a store-branding marketing strategy, and notwithstanding its great popularity in a variety

DOI 10.1108/02756660710820785

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of sectors, applying a store-brand strategy does not necessarily promise instant success. Rather than viewing development of a store brand as a surefire recipe for success, retailers need to study the brand’s positioning and economic characteristics in depth to decide how and whether to apply a store-brand strategy. Several aspects should be considered:

- *The intensity of competitiveness in the sector*. Retailers that operate in less competitive markets necessarily hold large market shares. Because these retailers enjoy heavy regular traffic by consumers, they can offer variety in leading and non-leading national brands as well as store brands. As a result, it is more likely that consumers will consider the private brand to be a good buy. These brands thus help strengthen ties between consumers and the retail chain and enhance loyalty to the chain.
- *Economies of scale*. Since large retailers can exploit their strength to cut distribution costs, they can easily ask manufacturers to produce a store brand for them at lower cost. The savings achieved allow large retail chains to offer quality brands at reasonable prices.
- *The depth of the retailer’s product mix*. Consumers at retail chains with low positioning expect to find a more limited selection of brands, ranging from store brands to leading national brands. Since most consumers in these chains tend to buy non-leading national brands, it is more likely that the store brands will sell and become a regular feature in the shopping baskets of the chain’s customers in time.
- *The retailer’s expertise in different product categories*. Consumers in specialty stores develop only a weak dependence on national brands because they seek unique brands rather than the standard brands available in most stores. Against this backdrop, the prospects grow for the specialty shop to develop a line of store brands.
- *Price gaps*. Research shows that when there is a large gap between product prices (national and store) in certain categories, the store brand has better prospects for success. As the gap grows smaller, the prospects of store brands likewise shrink.
- *Promotion*. Promotion activities by national brand manufacturers, such as discounts on their own brands, lead to a loss of status and power for store brands, particularly among price-sensitive consumers. When distributors try to fight national brands through similar promotion activities, they may end up weakening the store brand and enhancing sales of national brands, as promotions can make consumers perceive the store brand as lower in quality than the national brand.

Position of store brands in emerging markets

Emerging markets are by definition small but potentially dynamic and rapidly growing economies. There is no universal agreement on what constitutes an emerging market. Many economists accept the World Bank definition of an emerging market as one whose GDP per-capita income is below $8,000 per annum. By this definition, emerging markets account for 80 percent of the world’s population and over 20 percent of global exports, with most healthy emerging markets found in South America and Southeast Asia. Businesses experts tend to divide emerging markets into two main groups: best-performing emerging markets (China, Russia, Thailand, South Africa, Taiwan) and less-performing emerging markets (Turkey, Malaysia, Croatia, Poland, Slovakia, Pakistan).

Although they started from a smaller base, store brands in emerging markets saw the fastest growth during 2005, up 11 percent. Marketing experts contend that this growth was primarily driven by the increasing strength of modern trade (where store brand goods are more prevalent), as well as the entry of store-brand products into new categories. These two factors convinced leading retailers such as Wal-Mart (USA), Carrefour, Casino (France), Sainsbury, Kingfisher, Tesco (UK), and TOPS/Ahold (The Netherlands) to invest heavily in emerging markets in preference to other markets. These large retailers, as well as many others, often find it difficult to introduce store brands into emerging markets, raising the issue of how these markets differ from developed markets in their acceptance of store brands.

Table I shows that there is still a significant gap between developed and emerging markets in store brand share of market and store brand growth.

Five factors seem to be important in differentiating the management approach to introducing store brands in emerging markets from the approach that has been successful in developed markets (Table II):

1. Store brands in developed markets can be found in hundreds of product categories. In developed markets, a store's image is derived in part from the number of store brands, and, as a result, many retailers make efforts to build up their store brands in every category. In emerging markets, store brands are marketed in fewer product categories because of the fear that customers who are not familiar with these brands will not buy them readily.
2. Many store brands in today's developed markets offer high a level of quality aimed at meeting customers' demanding standards. In countries such as Switzerland, Belgium, the UK, Canada and the Nordic countries, many store brands are premium brands that are strong competitors of the leading national brands. In emerging markets, by contrast, store brands tend to be of average quality, which limits their attractiveness to customers who are not defined as price-sensitive.

Table I Comparative statistics of store brand share and growth: developed versus emerging markets

Country	*Store brand share (%)*	*Store brand growth (%)*
Developed markets		
Germany	30	3
Spain	26	16
France	24	3
The Netherlands	22	8
Sweden	14	10
Emerging markets		
Hungary	8	44
South Africa	6	28
Croatia	2	77
Poland	2	115
Thailand	1	35

Table II Store brands' position in developed vs emerging markets

Characteristic	*Developed markets*	*Emerging markets*
Number of categories of store brands	Hundreds of product categories	Fewer than 100 categories
Quality of store brands	Premium and average	Average
Number of marketing levels for store brands	Two levels (high and average)	One level (average)
Manufacturers of store brands	International manufacturers	Primarily local manufacturers; secondarily international manufacturers
Type of products	High- and low-involvement products	Low involvement products

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3. Store brands in developed markets are marketed on two levels: a higher level, where the brands compete directly with the leading national brands; and a lower level, where they compete with weaker national brands (third and fourth in the category). In emerging markets, store brands compete only against the weaker national brands, as customers in these markets do not perceive store brands as offering quality equal to that of the leading brands (in both tangible and non-tangible values).
4. Store brands in developed markets are produced by the manufacturers of top international brands or by leading national manufacturers through global wholesalers that specialize in marketing store brands. A total of 75 to 80 percent of store brands in emerging markets are manufactured mainly by local factories, with only a quarter or fewer of these products – those for which the country of origin is a critical component in marketing – made by international firms.
5. Store brands in developed markets include both high-and low-involvement products, with even very high-involvement goods (e.g. hygiene products, vitamins, fashion products and electrical appliances) marketed through store brands. Products sold through store brands in emerging markets are characterized as low-involvement, in both the food and non-food categories.

Managing sustainable store brands in emerging markets

Enhancing brand quality

For a long time, the basic assumption that a product will best satisfy the consumer as long as it has desired benefits was, surprisingly, completely foreign to store-brand marketers in emerging markets. Thus, the basic mistake store-brand marketers in these markets made in their management policies, from the beginning, was to identify the store brand as a cheap brand in terms of its functional values. In the emerging markets reality, consumers were reluctant to adopt store brands because they did not offer functionality benefits that indicated quality, freshness, high performance, durability, high aesthetics and so on. Only recently have some managers in the best-performing emerging markets learned what the store brand really means to the consumer, and they have consequently enhanced its functionality and quality.

Overseeing manufacturers

In the past, most store-brand marketers tended to rely on small, local manufacturers who undertook to produce store brands. However, since these marketers failed to manage their quality-control process properly, the quality of store brands was especially low and lacked consistency. In addition, manufacturers did not produce products on a timely basis and consumers often faced shelves that were empty of store brands. Today, the selection of store-brand manufacturers is based on three fundamental principles:

1. Manufacturers must have good reputations with retailers.
2. Manufacturer must specialize and prove that they have ample experience in the production of store brands.
3. Manufacturer must produce goods for different retail chains throughout emerging economies.

Only recently have the leading retailers in emerging economies established store-brand management departments to ensure that brand quality is maintained in the long run and that products reach the stores on time and in the required quantities. A large part of these departments' activity is dedicated to ensuring the quality of store brands, both during different stages of their manufacture and during the time they sit on store shelves, by means of periodic sample inspections. In addition, these departments dedicate time and resources to track the regularity of supply and supply requirements.

Product scrutiny

In the past, store-brand marketers tended to introduce store brands into any and every product category without examining the chances for actual penetration. Today, this tendency has been replaced by market research to determine manufacturers' capabilities and consumers' desires. This trend is based on two management principles. According to the first, marketers should focus on those categories that are more amenable to the introduction of store brands, namely dry foods and cleaning products, due to the low risk associated with the introduction of such goods. According to the second principle, marketers should identify the product mix (basket) those key products that could successfully be transformed into store brands. To follow through on these principles, retail chains require both the operational capabilities needed to locate appropriate manufacturers and the strategic thinking necessary to take brands made by national manufacturers off the shelves and replace them with store brands.

Modern packaging strategy

Store brand packaging in the past lacked uniqueness and did not convey messages about product image and the consumer's lifestyle. Today the trend is to design the packaging of store brands to resemble those of the leading brands to minimize the perceptual gap among consumers. That is, the shape, material, color, and symbolism used in packaging national brands is carefully mimicked, without infringing on the legal rights of the national brand manufacturers, in order to ''borrow'' the values associated with these leading brands. At the same time, store brand marketers emphasize the manufacturer's name on store brand packages in order to enhance consumers' faith in the unknown product and educate them towards prudent consumption of products in an age of store brands.

Value for money (price flexibility)

One of the least understood issues in the area of store brand management is price. Even today, store brand marketers in many emerging markets have not yet learned how to price their store brands. The price gap between store brands and national brands in emerging markets is 7 percent on average (versus gaps of about 15-20 percent in developed markets throughout the world). Consumers in emerging markets do not perceive this price gap as sufficiently attractive, so it is no surprise that most of these consumers prefer national brands to store brands. Barring an additional decrease in the price of store brands, the concept of the store brand will lose its power and store brands will continue to be perceived as inferior or average products in comparison with the national brands on the market.

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Shelf space management

The process of store brand management requires a conceptual change with respect to the management of retail shelf space. Few retailers in emerging markets have succeeded in exploiting their power as a crucial intermediate factor in the marketing channel, adopting a marketing strategy aimed at minimizing the shelf space allocated to manufacturers and shifting the center of power to store brands. These retailers have removed non-leading national manufacturers' brands from the shelves while retaining the leading national brands to ensure adequate marketing activity. What is more, shelf space that receives the highest visual exposure is sometimes allocated to store brands (mainly those products defined in the store-brand strategy process as basic and essential), increasing the exposure of many consumers to the brand. These strategic steps clearly show that at least some retailers in the healthy emerging markets regard store brands as the key to their businesses' success, and that their business approach with respect to store branding is comparable to that of their counterparts in western countries.

Focused advertising

Although it is usually believed that store brands do not require high levels of commercialization, store-brand marketers in emerging markets understand that when the store brand is perceived as inferior compared to national brands, the store-brand concept will have only a poor chance of success without advertising. In recent years, these marketers have therefore promoted store brands in all kinds of media, and especially in newspapers and at the points of sale. In emerging markets such as Turkey, South Africa and Poland, retailers invest a significant amount of effort in indoor promotion of store brands, mainly in categories such as PPW (kitchen towels, toilet tissues) and shelf items such as jam, rice and pasta. The objective of advertising has been to tell potential customers about the wide selection of store brands, their high quality and low price compared to the more familiar national brands. The use of extensive advertising at the point of sale (within the retail chains themselves) is a good idea because the average visit by a consumer to a retail store lasts about a quarter of an hour, during which he or she is exposed to the advertising message dozens of times. Under low-involvement consumption conditions, the message is assimilated and will lead the consumer to try one of the chain's products.

Whether advertising is through newspapers, on radio and television or at the point of sale, store-brand marketers must remember that as long as the store brand is a new marketing concept, they should avoid presenting the names of different store brands in a given product category. This option is feasible only in markets where the store brand is a well-accepted and popular marketing phenomenon. Since the store brand in emerging markets is still a relatively new phenomenon, and the positioning of store brands is still far from their high positioning in western countries, the simultaneous advertising of multiple brand names must be avoided at all cost. This sometimes requires the addition of another symbol and additional advertising messages in order to ensure that potential customers focus on the name of the brand and its connection to the retail chain that is marketing it.

The outlook for store brands in emerging markets

The future of store brands in emerging markets depends more than anything else on the way retailers and managers handle and manage their store brands. It appears that the low income of customers in most emerging markets, and the increasing willingness of these markets to develop their economies, are making it more likely that store brands will one day present a real challenge to national brands. This happened less than 30 years ago in the developed world despite efforts by national manufacturers to avoid it (and despite their stated belief that store brands would not pose a serious threat). If the retailers and managers of store brands in emerging markets act swiftly and professionally, there is no reason why store brands should not be powerful forces that seriously threaten the existence of national brands in emerging as well as developed nations. With millions of new customers waiting to be won over, the entry of global retailers with store brands into these markets is simply accelerating this trend.

Keywords:
Generics,
Emerging markets,
Markets,
Marketing strategy,
Competitive strategy

Israel: quality and advertising give store brands a boost

In some emerging markets, private store brands are considered equal or even better in quality than national brands. In a recent survey of Israeli consumers, for example, 47 percent believed that private store brands are of equal quality as compared to national brands, while an additional 14 percent were of the opinion that private store brands are better quality.

Part of the success of private store brands in Israel is owing to focused advertising. Awareness of private brands in Israel is significant: the Super Class brand of the Supersol supermarket chain, the largest in Israel (254 stores, $1.6 Billion sales), achieved 48 percent awareness (29 percent of respondents claimed that they purchased the brand); while the Superpharm drugstore chain (120 stores, $555 million sales) achieved a 59 percent awareness for its Life store brand, with 33 percent of respondents purchasing. These examples show that providing high quality store brands and focused advertising can achieve significant market shares in emerging markets.

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