Store brand management and channel dependence: A model from the manufacturer's perspective

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Keywords
store brand; competitive position; management; dependence

Abstract
The extensive number of manufacturer brands that exist on the market and the restricted number of brands that are successfully marketed on the shelves cause many producers to manufacture store brand as a way to remain in or enter a channel. Many of the producers who have made this decision have achieved considerable market share in the store brands of their product portfolio. This competitive position in a specific asset of the distributor generates dependence on this agent, which will be affected by the product management of the manufacturer regarding the store brand and the retail management of the product and of the shelf space of these brands. This research proposes a structural model from the manufacturer's point of view, in which the following are analysed: (1) the direct relationship between the manufacturer's competitive position in the store brand and its dependence on the retailer and (2) the indirect relationship between both aspects through the product management by manufacturers and their perception of the retail management of the store brand.

Journal of Brand Management (2008) **15,** 272–290. doi:10.1057/palgrave.bm.2550118; published online 18 September 2007

CONSIDERING THE STORE BRANDS FROM THE MANUFACTURER'S PERSPECTIVE

Store brands have evolved extensively since they began to be marketed. They arose as generic products whereby distributors endeavoured to increase their margins and facilitate choice through price. We currently find segmented store brands however, positioned by value and by quality. Distributors are beginning to focus on the management of store brands in order to achieve a better image and loyalty towards the establishment. Therefore, they realise the need to venture on quality as a key element in achieving these objectives.[1] Over the last decade, a growing marketing effort by retailers towards store brands has been observed, which has materialised into improvements in quality, in packaging design and in the variety of the assortment. For these brands, retailers

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increase prices, but at a level below that of the improvements made.[2,3]

The extensive number of manufacturer brands existing on the market, the restricted number of brands that are successfully marketed on the shelves,[4–7] the growing power of distributors[8] and the cost of ceasing to manufacture store brands[9] contribute to the fact that producers cooperate with retailers when investing in the quality of the brands of the latter agents.

In the current context of coexistence between manufacturer and store brands, it must be pointed out that the production of a store brand represents a considerable threat to manufacturers, for the following reasons:

— The role of distributors in their relationship with manufacturers. First, their role as dual agents must be considered, given that on the one hand they are the customers of the producers by acquiring the manufacturer brands, and on the other, they are competitors, given that they market store brands together with manufacturer brands. Second, it is advisable to pay heed to the greater relative power of distributors in the channel and the use of this power in the success of more demanding store brands.[9]
— The reduced number of brands marketed on the shelf space. This fact causes minor producers to be excluded from the distribution channel if they do not consent to manufacture store brands. Moreover, these producers have to provide these brands with sufficient quality in order to prevent distributors from changing suppliers.
— The advantageous positioning in value and the market of store brands: In a large number of consumer goods categories, these brands reach a high market share, which, on occasions, is used by distributors to obtain better concessions from manufacturers in the distribution channel.[10]
— The closer position of the distributor to the consumer.[11] This aspect makes it possible for these agents to provide the consumer with more information and a greater guaranty about their products at a lower cost.

Various studies take on the subject of the strategic management of store brands under a general (manufacturer-retailer) and basically theoretical perspective, thereby pointing out the coexistence and the risks of producing these brands, the objectives of the distributor by marketing store brands or the manufacturer's strategies versus these brands.[9,12–15] Others carry out empirical research from the distributor's perspective in order to draw conclusions of a descriptive nature about the phenomenon of store brands.[4,6,7,16]

Nevertheless, no research studies have been found in the specialised literature that scientifically analyse the store brand from the manufacturer's perspective. An analysis of this kind would provide empirical evidence about aspects of special interest in the current context, which is one of intense competition between the manufacturer and store brands. The relevant questions to be analysed include the profile of store brand manufacturers, their perceptions about retail management models of these brands and their own management of the same.

In order to put forth some evidence that may contribute to limiting the vacuum existing in this area of study, research on store brands is performed, which is applied to the Spanish consumer goods market from the manufacturer's perspective. This research has a dual objective.

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On the one hand, it endeavours to establish a framework of theoretical analysis, supported by the findings previously published in the specialised literature, about the role that the store brand plays in the relationship between the objectives endeavoured by manufacturers in their channel relationships and their competitive position in the market. On the other, it endeavours to empirically test, within this framework of theoretical analysis, the causal relationship of the manufacturer's competitive position in the store brand with the dependence by the producer on the retailer, both directly and indirectly, through the factors that define the manufacturer's management of these brands and its perception about the retail management of the same.

The area of this study, the Spanish market of mass consumption products, is characterised by the relatively high negotiating power of distributors over manufacturers. The results of research performed by Cruz *et al.*[17] on manufacturers of mass consumption products shows that the distributor's power is revealed primarily in aspects like discount on the tariff price, the space assigned on shelves, respect to position on the shelf, the product's adaptation to the distributor's specifications, days for postponing payment and restocking of products.

Over the last two decades, the sector of distribution of mass consumption products has undergone significant changes, such as (1) a shift away from the traditional store to favour self-service, (2) an increase of entrepreneurial concentration as a result of the growth in size of distribution firms, (3) an increase in inter-type competition between different commercial formats and (4) a progressive incorporation of new commercial techniques in the sector, especially in information and communication.[18]

Retail concentration has been one of the factors that has contributed most to the asymmetrical power of distribution over manufacturers and that has most favoured the development of store brands. The data in Table 1 show a growing evolution of the retail concentration from 1995 to 2004. In 1995, the four leading firms in distribution concentrated 33.8 per cent of the sales. In 2004, they billed over half the sales of mass consumption products. In the same year, the eight leading firms achieved a figure just under 75 per cent of the market.

Over time, distributors have improved the quality standards of their own brands and have established manufacturing agreements for the store brand, with producers able to satisfy the necessary requirements. The high retail concentration and the large number of producers of substitute products have made it possible for a distributor to replace a manufacturer easily if he does not produce a manufacturer brand of recognised prestige or a store brand with the required characteristics. Oubiña *et al.*[19] find that leading and nonleading manufacturers opt for producing the store brand, although for different reasons. While the leading manu-

Table 1 Evolution of entrepreneurial concentration in the sector of distribution of mass consumption products

	1995	1997	1999	2001	2003	2004
CR4 (share of the four leading firms)	33.8	41.9	45.4	51.5	52.7	54.0
CR8 (share of the eight leading firms)	46.6	58.3	65.7	67.2	68.8	72.7

Source: AC Nielsen.[20]

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facturers do this mainly to improve their negotiating position in the channel or to control the store brand, nonleading manufacturers decide to produce these brands as a means of staying in the channel or increasing their market share.

Higher quality standards of store brands have contributed favourably to the acceptance of these brands by consumers and have consolidated them as key strategic tools for the retailer to achieve better concessions from the manufacturers in the distribution channel. In Europe, these brands have achieved unprecedented acceptance. According to The Power of Private Label 2005 study, developed by Nielsen,[20] eight European countries and two in North America show the greatest store brand market share. This study examines the level of development and growth of the store brand in 38 countries in Europe, North America, Emerging Markets, Asia and Latin America. The study was performed over a period of 12 months, ending in the first trimester of 2005. Table 2 shows the ten countries with the greatest store brand market share in value (SBMS), as well as the retail concentration in these countries (measured by the percentage of sales in value of the five leading retailers) (CR5).

Table 2 Countries with a greater store brand market share in value

Country	Region	SBMS (%)	CR5 (%)
Switzerland	Europe	45	86
Germany	Europe	30	65
Great Britain	Europe	28	65
Spain	Europe	26	60
Belgium	Europe	25	80
France	Europe	24	81
Holland	Europe	22	64
Canada	North America	19	62
Denmark	Europe	17	89
USA	North America	16	36

Source: AC Nielsen.[20] The Power of Private Label (2005).

It is interesting to note that, of the ten countries with the greatest store brand market share, nine show a retail concentration of 60 per cent or more.

MANUFACTURER'S COMPETITIVE POSITION IN STORE BRAND AND DEPENDENCE ON THE RETAILER

A fundamental determinant of the dependence of one organisation on the other is the absolute sales volume,[21–24] whereby its relative value constitutes an essential component of the competitive position. The sales volume of the store brand obtained by manufacturers increases their dependence on the retailer. Moreover, innovation or the marketing expenses allocated to store brands represent investments by the producer in specific assets of the retailer, and this consequently generates dependence by the manufacturer on the distributor.[25]

Based on the aforementioned, the following hypothesis is formulated:

> **H_1:** *The manufacturer's competitive position in the store brand intensifies the manufacturer's dependence on the retailer.*

In addition to the direct relationship between the manufacturer's competitive position in the store brand and its dependence on the retailer, it is possible to identify an indirect relationship through the manufacturer's and the retailer's management of the quality and value of store brands.

These brands are introduced by retailers as alternatives to manufacturer brands, which provide retailers with lower margins.[26] In spite of the low levels of quality and price that characterised their appearance, retailers have continuously been incorporating

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store brands into their product categories, store brands with quality levels that are equal to that of the manufacturer brands and at lower prices. This fact has resulted in great acceptance of store brands among consumers, thereby causing retailers to differentiate their store brand portfolio and to manage their high-quality brands or premium brands and their value brands or good price-quality brands.[27]

This differentiation strategy that retailers apply to the management of their store brand portfolio finds considerable support in some empirical studies based on PIMS data, which show a strong relationship between product quality and retailer profitability.[28–32] Therefore, the endeavoured optimisation of the profitability of the sales or shelf space advises retailers to adopt store brand management based on a joint marketing of the premium brands and the value brands. In this regard, the work by Rubel[33] observes that consumers perceive a higher quality in premium brands than in value brands, and furthermore, the work by Dunne and Narasimhan[15] indicates that consumers are willing to pay a higher price for high-quality store brands.

As regards the decision to produce quality and/or value store brands, depending on the manufacturer's competitive position, the *similarity effect* developed by Tversky[34] must be considered. This effect sustains that the introduction of a new brand in a product category more intensely affects the market share of similar brands. Taking this into account, the requirement formulated by retailers to produce store brands with a quality comparable to that of the premium manufacturer brands, or with a better price-quality or value relationship, it will be more acceptable for the producers who manage a portfolio of manufacturer brands with a low competitive position in the market.

In this regard, authors such as Puelles[16] or Dunne and Narasimhan[15] point out the convenience for manufacturers of nonleading brands to produce store brands with such characteristics. They indicate that the production of these store brands would give these manufacturers the possibility of entering into or remaining in a market without having to support the high costs of advertising or sales promotion of the manufacturer brands. The reduction of the number of manufacturer brands offered in the shelf space[4,7] and a progressive increase of the relative power of distributors in the channel[8] create a situation in which scarcely recognised manufacturers would not improve their position in the market if they did not decide to produce a quality or value store brand.

Unrecognised producers are those who bear a greater risk that their manufacturer brands will be excluded from the shelf space in favour of store brands.[35] Therefore, these producers are more willing to accede to the conditions imposed by retailers in the production of store brands, as regards both quality and value. By manufacturing these brands, producers with a low competitive position for their own manufacturer brands have achieved a considerable competitive position in the store brand. AGFA, Cott Corporation or the manufacturers of Presidents' Choice cookies in Canada constitute three representative examples.[15] Quality and the application of competitive prices favoured the success of the store brands of these companies.

The following hypotheses, which are introduced into the model, are formulated based on these arguments:

H_2: *The manufacturer's competitive position in the store brand positively affects the quality of its manufacturing.*

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H_3: *The manufacturer's competitive position in the store brand favours the retail management of value for store brands.*

Investment in the quality of store brands means dependence by producers on these brands and, therefore, on the retailer for whom they manufacture these brands. This dependence is sustained by the manufacturer's investment in a specific asset of the distributor, which lacks value outside of this relationship.[25] Moreover, the more limited the capacity of manufacturers to set the list prices of the store brands that they produce, the more evident this dependence will be. This capacity is highly limited in the value store brands.

The power of the retailer over the manufacturer in the distribution channel determines, to a large extent, the value of the store brands. Authors such as McGoldrick[35] affirm that the capacity of store brands to maintain lower prices than their equivalent manufacturer brands is due to the capacity of distributors to set manufacturers against each other. Consumer goods distributors who adopt the strategy of setting producers against each other can do so when the main factor for differentiating one manufacturer from another is cost. With few technological differences among companies, store brands of equal quality can be obtained from any manufacturer. Distributors will not, however, adopt this attitude when brands are differentiated based on quality and on image.

Therefore, in categories with idle production capacity, it is relatively easy to change the suppliers of a store brand. In these markets, the supply of these brands does not constitute a problem, and retailers obtain numerous propositions from manufacturers. Store brand producers can be forced to accept the value assigned by the retailer for its own brand and to comply with other impositions in order to continue manufacturing these brands. The concession of the producer's capacity, time and energy to a store brand can reduce the level of innovation towards its manufacturer brands, with the result that the producer will have few alternatives if the retailer threatens to change suppliers. Manufacturers may even see themselves as trapped in a relationship with a powerful distributor, before whom they have a limited response capacity.[36]

Based on the aforementioned, the following hypotheses can be posed:

H_4: *The higher the quality of store brands, the greater the dependence of the store brand manufacturer on the retailer.*

H_5: *The higher the value of store brands, the greater the dependence of the store brand manufacturer on the retailer.*

Moreover, as regards the merchandising of store brands, various studies point out that these brands are positioned in advantageous places in the shelf space,[7,13] and they occupy more space than what corresponds to their market share.[37]

The general perception by manufacturers of favourable store brand merchandising, which is clearly shown in the specialised literature, must be, however, refined by the incorporation of new considerations. On the one hand, as regards the disproportionate space of store brands, it is necessary to underscore the fact that a high percentage of these brands in the categories of study—categories of frequent consumption—already reach a considerably high level of market share.[38] On the other, as regards their location in the shelf space, retail management is in accordance with the positioning of these brands. The growth of store brands has

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been founded to a large extent on the evolution of their positioning.[39] In the first generation, store brands were presented to consumers as brands with lower quality than manufacturer brands and with substantially lower prices. Currently, distributors position their own brands as the best-choice alternatives in the shelf space, between the leading manufacturer brands and the generic brands.[5,16] Moreover, in some product categories, premium store brands are marketed with a quality that is similar to or greater than that of the leading brands and at an equal or somewhat higher price.

The positioning sought by retailers for store brands justifies that these brands be positioned in the central positions of the shelf space, thereby taking up a position between the products for which it is endeavoured to facilitate a comparison, meaning between the leading manufacturer brands and the generic brands.

Moreover, store brands provide the retailer with a higher profitability than manufacturer brands. In this regard, it is necessary to indicate that investment in quality has contributed notably to the improvement of the gross retail margins of these brands; in fact, the store brands with the highest quality have the highest profitability.[31] Retailers, in order to favour their gross margin per unit of space, develop a simultaneous management of price, promotions, shelf space, merchandising strategy and other aspects, thereby considering the changes in the environment and the brand choice behaviour of consumers.[26]

Against the retail profitability obtained for store brands, producers obtain a higher margin for their manufacturer brands, although under certain circumstances this fact can be inverted. Authors such as Dunne and Narasimhan[15] observe that the production of a premium store brand can lead to the attainment of margins for producers that are even higher than those of their own manufacturer brands.

It is probable that the profitability obtained by manufacturers with the store brand they produce plays a fundamental role in their conformity in how the shelf space is managed by the retailer. The relative investment of the producer in the quality of store brands, supported by the profitability of this decision for both agents, should be positively related to the merchandising management developed by distributors for their own brands.

Therefore, considering the aforementioned aspects, it seems reasonable to assume, first of all, that there is a positive link between the retail management of value for store brands and the merchandising management of store brands. Likewise, a positive effect can be expected from the investment in quality by manufacturers for store brands and from the retail management of distributors regarding their own brands. It is likely that manufacturers who allocate a higher investment to the quality of store brands or a more balanced investment for the quality of both brands—manufacturer and store—will show a higher degree of conformity towards the store brands with respect to the retail management performed.

The following hypotheses are hereby set forth:

H_6: *The retail management of value and the merchandising management of store brands are positively related.*

H_7: *The better the relative quality of the store brands of a manufacturer, the better the manufacturer's perception of the merchandising management for these brands.*

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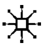

METHODOLOGY

A review of the specialised literature on the strategic management of store brands allows a theoretical model to be proposed regarding the dependence on the retailer that is created when manufacturers produce store brands (Figure 1). The variables considered in the analysis refer to the producers' competitive position in the store brand, their management, the retail management of these brands and the manufacturers' dependence on the retailer.

The producers' competitive position in the store brand is determined by the market power that these brands give them with respect to the manufacturer brands that make up their product portfolio. The relative sales that the manufacturer obtains through store brands, supported by the relative investment allocated to the same, are clear components of its competitive position. Moreover, the manufacturer's dependence on the retailer, which is triggered by the production of store brands, is conditioned by the importance of these brands in the performance of the manufacturer's production activity. The costs supported by the manufacturer in store brands constitute possible determinants of the degree of the producer's dependence on the distribution channel.

As regards the brand management by the manufacturer, it is well known that this agent is responsible for all the necessary economic activities for producing the final product. Therefore, it is understood that the manufacturer's management towards the store brand includes the allocation of resources to the production process and to the creation of value throughout the supply chain, as well as the product differentiation regarding the extrinsic and intrinsic attributes. Conversely, the composition and layout of the brands at the point of sale, as well as the positioning of store brands, are attributable to the retailer. Distributors are responsible for shelf space management, and they become involved in the product management of their own brands. Given that the sample units in this research are constituted by manufacturer business units, the information available about retailer management towards store brands is limited to the perceptions of the manufacturers about this aspect.

The objective of the proposed model consists of researching the nature and intensity of the effect that the manufacturers' competitive position in the store brand exercises on their relationship with retailers, both directly and through the factors that comprise store brand management by both agents. Therefore, within the limits imposed by the available information and by the sample size, the influence of the manufacturers' competitive position in the store brand is studied, as well as their strategic product manage-

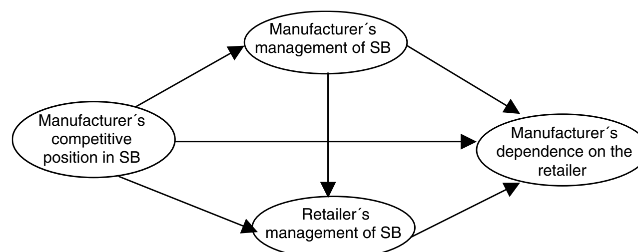

Figure 1 General theoretical model of store brand (SB) management from the manufacturer's perspective
Source: Own preparation

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ment and their perception of the retail management of these brands. The relative level of quality given by manufacturers to the store brand is considered to be a key aspect of the management of their brand portfolio, and the quality-price positioning and the merchandising of store brands with respect to manufacturer brands are likewise conceived as the central axes of the retail management of store brands, as set forth in Figure 2.

The proposed model is tested empirically by using a structural equation model. Structural modelling provides a direct method for simultaneously examining various relationships, and it offers indicators of statistical efficiency. It allows the representation of unobserved concepts in these relationships through the preparation of latent variables, and it considers the measurement error in the estimation process. Moreover, it provides the capacity for a comprehensive evaluation of the relationships, and it allows the transition from an exploratory analysis to a confirmatory analysis.[40]

The proposed structural model is estimated using the EQS statistical program designed by Bentler.[41] In order to estimate the proposed model, information obtained from a postal survey was used, which was sent to the business units of manufacturing firms of store brands in the Spanish market of consumer goods, with a turnover exceeding 4.80 million euros. The products included in the analysis belong to the food and beverage, personal hygiene and household cleaning categories. A database of companies was used to find the necessary information—CNAE (Spanish National Classification of Economic Activities) code and sales volume—in order to select the companies.[42] The fieldwork was carried out during the year 2001. A total of 400 questionnaires were sent and we obtained a 22.5 per cent response rate. The total business units manufacturing of store brands whose answers were considered valid for the analysis were 85 out of the 90 questionnaires received. The sample size was considered sufficient, given that the main producers of store brands in the

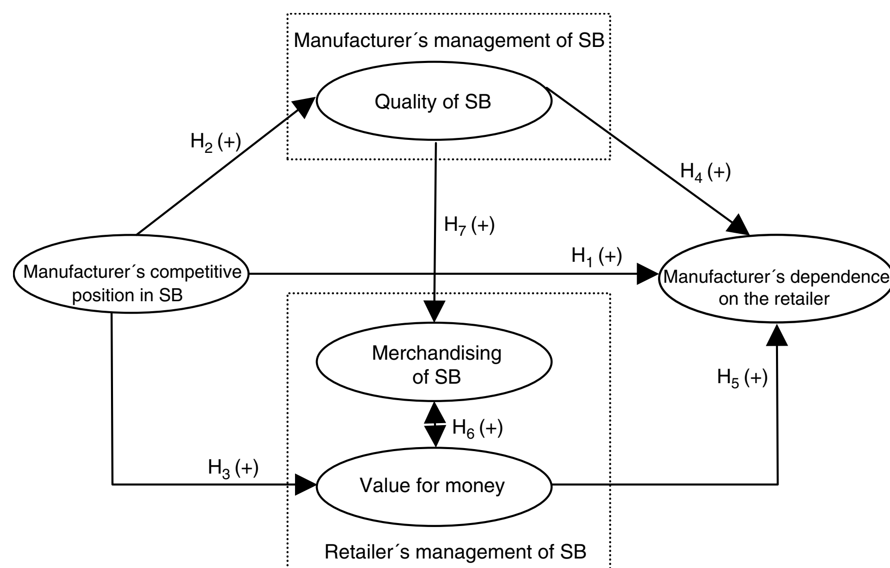

Figure 2 Theoretical model for examining store brand management from the manufacturer's perspective
Source: Own preparation

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Table 3 Description of the latent variables

	Observable variables				Latent variable*	
	Designation	**Measurement**	**Mean**	**SD**	**Designation**	
v1	Market share of store brand compared to the manufacturer brand	Interval 7 points 1: Much lower in	3.400	1.596	Competitive position in store brand	F1
v2	Relative innovation of store brand	store brands	3.050	1.330		
v3	Relative marketing costs of store brand	7: Much higher in store brands	2.349	1.477		
v4	Perception that store brands occupy advantageous shelf spaces	Likert scale 7 points	5.647	1.453	Inappropriate merchandising of store brands	F2
v5	Perception that store brands occupy disproportionately large spaces given their market share	1: Totally disagree 7: Totally agree	5.235	1.770		
v6	Perception that the store brands is not of a lower quality than the leading manufacturer brand	Likert scale 7 points 1: Totally disagree	3.859	1.760	Value for money of store brands	F3
v7	Perception that the store brand presents an increasingly better value for money than manufacturer brands	7: Totally agree	4.329	1.769		
v8	Impact on production costs of ceasing to produce store brands	Interval 7 points 1: Low impact	3.711	1.736	Dependence on the retailer	F4
v9	Impact on distribution costs	7: High impact	2.833	1.685		
v10	Impact on the profit margin		3.318	1.656		
v11	Impact on the market share		3.798	1.782		
v12	Quality of the raw materials of store brands compared to manufacturer brands	Interval 7 points 1: Much lower in store brands	3.805	0.808	Quality of store brand	F5
v13	Relative quality of the packaging of store brands	7: Much higher in store brands	3.867	0.777		

*The composite reliability and variance extracted of the scales used were, respectively, manufacturer's dependence on the retailer (0.85; 0.58), value for money (0.63; 0.48), inappropriate merchandising of SB (0.77; 0.63); quality of SB (0.61; 0.45); manufacturer's competitive position in SB (0.70; 0.44).

consumer goods market were represented in this number. Of the 85 questionnaires received, 57 per cent corresponded to business units in general food and drink, 33 per cent to perishable foods and 10 per cent to personal hygiene and housecleaning.[43]

The variables and factors considered in the structural model for representing the concepts described in the theoretical model are detailed in Table 3. Every variable and factor has been assigned a number for identification purposes. All the factors represent direct measures of the latent variables, except the factor F2 (*inappropriate* merchandising of store brands). Therefore, the signs for hypotheses H_6 and H_7 are expected to be negative.

RESULTS

Using the structural equation model, the causal relationship between the factors is identified, and the significance of the proposed relationships is tested. The structural equation model reveals whether the causal relationships between the latent variables set forth in the proposed theoretical model take place and therefore whether the formulated hypotheses are verified.

The values of the average absolute standardised residuals and of the measures of the overall fit of the proposed model can be observed in Table 4.

The first data that should be highlighted are the absolute mean of the

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Table 4 Standardised residuals and goodness-of-fit measures

Standardised residuals and goodness-of-fit measures			
Average absolute standardised residuals	0.049	Tucker–Lewis index	0.955
Independence model chi-square	382.562 on 78 degrees of freedom	Normed fit index	0.817
GFI adjusted for degrees of freedom (AGFI)	0.836	Bentler's comparative fit index	0.953
RMSEA estimate	0.054	Normed chi-square	1.211
Chi-square	74.051 based on 61 degrees of freedom		
Probability value for the chi-square statistic	0.122		

standardised residuals, whose value indicates that the original matrix of observed co-relationships is correctly reproduced by the model.

Other important results to highlight refer to the measures of overall fit, which include the absolute measures of the fit (likelihood ratio chi-squared statistic), the measures of incremental fit (Tucker–Lewis Index and Normed Fit Index) and the measures of the parsimony fit (Bentler's Comparative Fit Index and Normed Chi-Squared). Practically all the values obtained for these measures exceed the recommended values. Only for the Normed Fit Index was the result obtained lower but relatively close to the critical value of reference (0.90).

Therefore, the indicators used for evaluating the quality of the fit of the proposed model contribute sufficient evidence towards accepting that the results are a valid representation of the proposed relationships. Moreover, the model converges on eight iterations, which means a relatively fast, and therefore acceptable convergence.

The coefficients of the observable and latent variables can be visualised graphically in Figure 3. For all the causal relationships tested by the model, the standardised coefficients with their respective signs and their statistical significance are detailed. The formulated hypotheses are compared below in order to determine to what extent the proposed relationship model constitutes a suitable framework of analysis of store brand management from the manufacturer's perspective.

The analysis of the results obtained in the structural equation model allows us to verify the hypotheses set forth in the theoretical model. First, the positive relationship posed in hypothesis H_1 between the manufacturer's competitive position in the store brand and its dependence on the retailer is clearly shown. The relative sales that the producer obtains for the store brands and the effort in R&D and marketing allocated to these brands in comparison with the manufacturer brands increase the dependence of this agent on the distribution channel.

Moreover, it can be observed as to how the manufacturer's competitive position in the store brand has a positive impact on both the relative quality that producers assign to these brands (Hypothesis H_2) and on their perception of better price quality than manufacturer brands (Hypothesis H_3).

However, a significant relationship between the relative quality of store brands and the manufacturer's dependence on the retailer is not obtained. Authors such as Stern and El-Ansary[23] maintain that store brands provide the retailer with a means of assuring control in the channel. Moreover, to the extent that producers assign a higher quality to store brands in compar-

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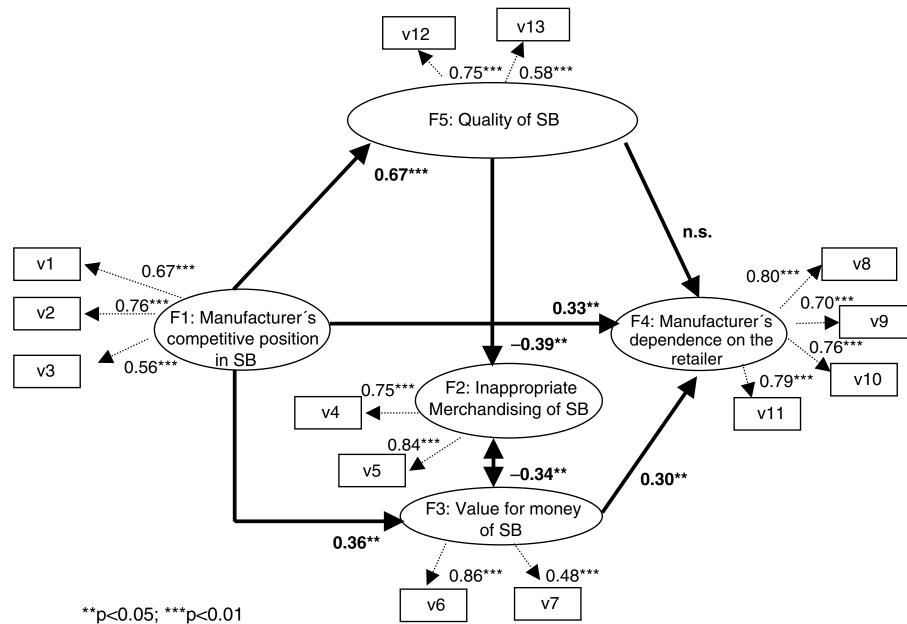

Figure 3 Explanatory model of store brand management from the manufacturer's perspective

ison with manufacturer brands, the producer's dependence on the retailer intensifies as a result of its investment in a specific asset of the distributor, which lacks value outside of the relationship between both agents.[25] Both arguments suggest a positive effect by the relative quality of store brands on the manufacturer's dependence on the retailer, as set forth in Hypothesis H_4.

Nevertheless, the result obtained suggests that the manufacturer's investment in a specific asset of the distributor does not always trigger a situation of dependence by the producer on the retailer. In this regard, Heide and John[25] indicate that producers in the marketing channels can commit themselves to a 'dependence balance,' thereby making investments in order to increase the distributor's dependence on which manufacturers are dependent. Therefore, producers can attempt to balance their dependence on distributors by providing quality to the store brand.

Under the transaction cost perspective,[44,45] the manufacture of a store brand can be considered a means to compensate for distribution power. Store brands mean an increase of the investment by retailers in their relationship with the manufacturer, to the extent that the producer is willing to undertake specific investments that may create a favourable atmosphere for the development of long-term contractual agreements. An important specific investment can be the knowledge acquired and developed by the manufacturer in the production of store brands. In order to maintain the required quality standards, the retailer may be forced to establish a long-term relationship with the manufacturer. For a producer, the benefits of such an agreement could include, for example, the capacity to raise the list prices of the store brand. Therefore, a manufacturer can balance the power of the retailer over the former by supplying quality store brands.

Considering the preceding aspects, it seems that there is no clear relationship

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between the investment in the quality of the store brand and the manufacturer's dependence on the distributor. Even though it can initially be inferred that the investment in the quality of a store brand generates dependence by the manufacturer on the retailer, various studies point out the possible compensatory nature of the quality of store brands in the relationship of dependence by the producer on the distributor.

A store brand can compensate the power of distributors, thereby making them more dependent on the manufacturers, or can make the producers more dependent on the distributors. In the first case, the compensatory power should mean an incentive for offering store brands. In the latter case, there should be a disincentive. The literature maintains that specific conditions that create a favourable atmosphere for each scenario can occur. Thus, the uncertainty of the environment[46] would contribute to the former scenario, while the power of information would favour the latter.

Moreover, the model allows discovering a positive influence by the price–quality relationship of store brands on the manufacturer's dependence on the retailer, as postulated in Hypothesis H_5. Even though this association is not especially intense (0.30), it is considered statistically acceptable because the critical value of the estimator (1.95) is very close to the minimum level (1.96). The weak association between both variables may be based on the fact that the retail management of value for store brands is included through a perception variable of the manufacturer.

Finally, the positive causal relationship between the manufacturer's management of store brands and the retail management should be noted. The relative quality assigned by producers to the store brands of their product portfolio has a positive impact on their perception of the merchandising management by the distributor for these brands (Hypothesis H_7). Moreover, a link is obtained between two aspects considered in the theoretical model in order to reflect the retail management of store brands: the value of these brands and their merchandising (Hypothesis H_6).

In summary, it is observed in the standardised solution of the model that the standardised factor loadings of the observable indicators in their respective latent variables show considerably high values, which demonstrates that they are true reflections of the factors. Moreover, practically all the proposed causal relationships are empirically ratified and show highly significant results. Therefore, it is concluded that the proposed model constitutes a suitable framework of analysis for the study of the manufacture of store brands according to the manufacturer's competitive position.

CONCLUSIONS

The proposed empirical model explains the manufacturer's dependence on the retailer according to the manufacturer's competitive position in the store brand, and provides evidence of a direct and positive causal relationship from this latter variable to the former. The results obtained refer to the Spanish market of mass consumption products. They are, however, of interest for all countries that have or could come to have contextual characteristics similar to those of the Spanish market, that is, countries where the store brands achieve large acceptance by consumers but still have many possibilities for growth through innovation and in which the distribution enjoys strong negotiating power derived from high levels of concentration.

This study shows that the investment in a specific asset of the distributor

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generates dependence by the manufacturer on the retailer, which is intensified by the store brand sales volume, which means a strong competitive position in this market. Store brands are affected by the exclusivity of their manufacturing for a single retailer. Therefore, against manufacturer brands, they have lower derived demand, which means that the producers who focus most of their attention on store brands are affected by greater dependence on the retailer for whom they manufacture these brands.

Moreover, an indirect relationship between the manufacturer's competitive position in the store brand and the manufacturer's dependence on the retailer is obtained through the manufacturer's perception of the retail management of value for the store brand. Nevertheless, a significant, indirect relationship is not observed through the management by the manufacturer of the quality of store brands. A detailed analysis of both relationships reveals that the producer's competitive position in the store brand is positively associated with both the perception of value of store brands and with their quality management by the manufacturer, but a significant causal effect by this latter aspect on the manufacturer's dependence on the retailer is not obtained.

On the one hand, the positive relationship of the manufacturer's competitive position in the store brand with (1) its perception of value and (2) its management of the quality of these brands can be explained by the greater influence that introducing a new brand into a category would have on the market share of similar brands.[34] This effect, known as the similarity effect, creates a favourable atmosphere so that manufacturers whose brands enjoy scarce prestige in the market are the most willing to accept the requirement to produce store brands with a higher quality and/or a better value than manufacturer brands.

On the other hand, as indicated previously, only the manufacturer's perception of greater value for store brands affects the relationship between the manufacturer's competitive position in these brands and its dependence on the retailer. In general, the perception of a greater value for store brands than for manufacturer brands can be justified by a producer's limited capacity to transfer, via prices, the greater relative expenses of innovation and marketing allocated to its store brands. The relative power of distributors, the ensuing 'knowledge' of the production costs of store brands and the positioning of these brands as the best shelf-choice alternatives are factors that condition the capacity of manufacturers to set the prices of the store brands that they produce.

However, a significant relationship is not observed between the relative quality assigned by manufacturers to store brands and their dependence on the retailer. This result clearly shows that the manufacturer's investment in a specific asset of the distributor does not always trigger a subordination of the producer to the retailer. Therefore, manufacturers can strengthen their weak position in negotiations with a distributor by using investments in assets that increase the retailer's dependence on which manufacturers are dependent.[25] In this regard, distributors may feel required to renew a store brand production agreement with a certain manufacturer who had achieved quality differentiation for their store brand. Such producers would have a reference power in their negotiations with distributors.

Finally, it would be advisable to point out the negative causal relationship between, on the one hand, the perception of value and the management of the quality of store brands carried out by the manufacturer

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and, on the other, the inappropriate merchandising of store brands. The positioning of these brands as the best shelf-choice alternatives[5,16] and the greater profitability obtained by the retailer for higher quality store brands[31] justify that manufacturers who perceive a higher value for these brands or who give them a greater quality may be more in agreement with the merchandising carried out by the retailer with the same.

MANAGERIAL IMPLICATIONS

The results obtained in this study have significant managerial implications. The store brand is an asset for the retailer, and the manufacturer should be aware that its production will generally involve a dependence on the retailer for whom these brands are produced.

The distributor manages the store brand product and imposes quality and price standards on the manufacturer; he also manages the merchandising of the brands he commercialises in his establishments. The manufacturers of the store brand in this study state that the store brands have a quality very similar to that of the leading manufacturer brands and an increasingly higher value in comparison to the manufacturer brands. As to merchandising, the manufacturers consider that the distributor favours the store brands on the shelves, giving them a better position and space disproportional to their market share. However, the better the manufacturers perceive the value of the store brands and the greater their relative investment in the quality of store brands, the more they agree with the merchandising policy applied by the retailer.

In the market of mass consumption products, it is relatively simply for a distributor to achieve a value store brand, that is, a store brand with a good price–quality ratio. In this highly competitive market, a large number of manufacturers are willing to make a store brand to remain in or to enter a distribution channel. Thus, a manufacturer who decides to develop a value store brand, with a good price–quality ratio, is not offering the distributor anything he cannot achieve from other manufacturers. Thus, producing the store brand entails a significant risk for certain manufacturers, specifically leading manufacturers.

Prior research by Puelles[16] and Dunne and Narasimhan[15] recommends leading manufacturers against producing a store brand. Oubiña *et al.*[19] obtain differences between leading and nonleading manufacturers in the management of the store brand, in the reasons for producing the store brand and in the retailer's requirements in the development of the store brand. Leading manufacturers dedicate significantly less relative innovation and relative marketing cost to store brands than do nonleading manufacturers; leading manufacturers develop a store brand for strategic reasons, specifically to improve negotiating position and to control the store brand, while nonleading manufacturers do so for reasons of need and market, as the only possibility for remaining in the channel or to achieve growth of the company's market share; finally, the retailer impose assortment variety and periodic reviews of the contract without guaranty of continuity on leading manufacturers, while retailers periodically impose nonmanufacturer identification and nonprice revision on nonleading manufacturers.

The leading manufacturers should favour their recognised prestige brands over the store brands that they produce. Their competitive position in the store brand will be much less than in the manufacturer brand, both in store brand sales and in innovation and marketing for these

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brands, but their dependence on the retailer will come from the development of value store brands that do not have their own identity but do have characteristics that can be improved easily by any other manufacturer. The production of a store brand is not advisable for leading manufacturers, as they might eventually be forced to share innovations in products and processes with the store brands, thereby endangering the competitive position of their manufacturer brand. This situation is more likely, the greater the economic and relational repercussions of having to stop producing the store brand for the manufacturer. Therefore, the production of the store brand by a leading manufacturer could improve his short-term negotiating position in the channel but could generate dependence on the retailer in the long term. It is thus necessary that the leading manufacturer, in the process of negotiating with the distributor to manufacture store brands, preserve the foundations that sustain the capital of its brand: reputation, image, perceived quality and consumer loyalty.

Producing a store brand is clearly an opportunity for small manufacturers with little-known manufacturer brands. These manufacturers can choose to produce a store brand with a good price–quality ratio or a store brand with its own identity. Because the store brand is an asset that is the property of the distributor, good competitive position in store brand sales will generate dependence of the manufacturer on the retailer. The less the store brand offers the retailer characteristics that cannot be achieved by another manufacturer, the greater this dependence will be. Thus, it is in the interest of small manufacturers to achieve a good competitive position in the store brand, not only in sales but also in innovation and marketing. In this case, the distributor will be interested in renewing this manufacturer's contract for producing the store brand, and the manufacturer will have greater negotiating capacity in fixing the tariff prices of store brands, better margins for them, recognition and continuity in the market.

The advisability of developing a store brand for manufacturers of secondary brands is more complex. Producing a store brand could favour their manufacturer brands if the distributor also allows them to commercialise their own manufacturer brands in the establishment. The manufacturer should, however, weigh the benefits of this decision against (1) the risk it involves for its manufacturer brands the production of a store brand with its own identity and (2) against the risk of dependence entailed by the production of a value store brand. It is advisable to consider the decision from a holistic marketing focus, in which both the relational and the transactional aspects are taken into account in the strategic decision to produce a store brand. It is a matter of achieving greater shelf presence and a competitive position in higher costs by offering a specific investment to manufacture a store brand product with a better price–quality ratio than that offered by either a small firm with limited resources or a leading brand that must to safeguard the value of its brand on the shelves. The long-term focus contributes to reducing the negative consequences of the high cost of dependence by increasing the degree of interdependence.

LIMITATIONS AND FUTURE LINES OF RESEARCH

The research work herein performed includes a set of limitations that advise cautious consideration of the interpretations and generalisations that may be drawn from the stated conclusions. First

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of all, it must be underscored that the limited number of observations restricts the number of variables to be used in the proposed modelling. Thus, variables considered in the survey are excluded— among others and whose incorporation could be interesting are the satisfaction with the distributor, the gross margin of the store brand, perceptions about the imitation of leading brands by store brands or variables that refer to the characteristics of the categories in which the distributor proposes the production of store brands by the manufacturer.

Another important limitation is related to the percentage of manufacturers in the sample who state that they produce a store brand in the perfume and drugstore sectors (10 per cent). The percentage that these manufacturers represent in the research is low, but we consider it sufficient for the aggregate analysis of the store brand for the Spanish market of mass consumption products for two reasons. First, the production of products of personal hygiene and housecleaning is notably more concentrated than the production of food products. Secondly, the store brand is present in a substantially higher number of food categories, as opposed to categories of personal hygiene and housecleaning. In future research, it would be advisable to obtain greater number of responses for the store brand manufacturers in the perfume and drugstore market, which would allow individualised processing in order to analyse the possible differences between markets.

Finally, another interesting question to consider in future research would be the separation of the quality construct pertaining to store brands into two latent variables: a first one representative of the intrinsic attributes of quality and a second one of the extrinsic attributes. Moreover, it might be especially interesting to compare the model with the retail perspective.

Acknowledgments

We gratefully acknowledge support from the Spanish Ministry of Science and Education, through the project SEJ2005-06105/ECON 'Gestión de las promociones y de las marcas de distribuidor para un desarrollo eficiente de la estrategia de marketing del minorista'.

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(43) Manufacturers classified themselves in a general business unit: food and drink, perishable foods, and personal hygiene and housecleaning. Later, they specified the Nielsen product categories where they develop a store brand. The product categories with representation in the research were: animal foods, oils, coffees and herbal teas, cookies, first courses, preserved fish, canned vegetables, sauces, appetisers, nonalcoholic drinks, low-proof alcoholic drinks, cold cuts, cheeses, frozen foods, dairy products, fresh foods, detergents, household cleaning products, cleaning tools, hair care products, shaving products, feminine hygiene and diapers.
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