



Strategic management of store brands: an analysis from the manufacturer's perspective

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Abstract

Purpose – The main aim of this research is to provide empirical analyses about the store brand management by manufacturers and retailers from the manufacturer's perspective, in the current context, which is one of intense competition between manufacturer and store brands. Particularly, this research pursues to analyse the profile of store brand manufacturers, their perceptions about the retail management of these brands and their own product management of the same.

Design/methodology/approach – A postal survey was carried out directed at manufacturing business units of mass consumer products in Spain. Multivariate techniques are used in the information analysis such as contingency tables, variance and principal component analysis.

Findings – The results highlight the differences between manufacturers and non-manufacturers of store brands in their competitive position and in the type of manufactured product; the consensus of both groups regarding the perception of favourable merchandising for store brands; the greater number of production and market motivations versus the relational motivations in the manufacture of store brands; the no convenience of producing store brands for leading manufacturers, and the slight differences in the manufacturing process between manufacturer and store brands.

Research limitations/implications – The main limitation of this research is the fact that only the manufacturers' perceptions have been considered. It would be beneficial in future research to consider the opinion of retailers about their own management of these brands.

Originality/value – The main value of the paper is the empirical analyse of the store brand management from the manufacturer's perspective. This subject has been analysed from a general and basically theoretical perspective until now.

Keywords Generics, Brands, Strategic management, Merchandising, Spain

Paper type Research paper

1. Introduction

The store brand currently constitutes an important marketing tool. Since its appearance, distributors have gone from conceiving it as a tool for increasing market share and profitability, to seeing that there are important benefits derived from the correct management of these brands. Store brands are no longer presented to consumers as the lowest-price products in the shelf space, but rather they endeavour to be an alternative option of value or quality to manufacturer brands. Store brands are

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moving away from their first concept as generic products, and they are ceasing to be considered by distributors as counter-brands, with extrinsic characteristics similar to those of the leading brands and at a substantially lower price. Distributors pursue the creation of an identity for their store brands that allows them to make their establishment profitable, to differentiate it and to make customers loyal.

In order to achieve this, distributors intensify the marketing effort aimed at their store brands and increase the quality controls of the same, without thereby causing these factors to generate a considerable increase in the retail sale price for these brands, which would dissuade customers from considering them as choice alternatives. Factors such as the reduction of the quality differential perceived by customers between store brands and manufacturer brands, their favourable price and the reduction of the number of brands present in the shelf space have positively contributed to the market share of store brands.

These brands have been implemented in clear competition to manufacturer brands. Distributors are no longer the customer of the manufacturer as regards the brands that the manufacturer supplies to the former, but rather they are emerging as considerable competitive agents. In this regard, the manufacture of store brands can represent serious disadvantages for the rest of the manufacturer brands, which include a decrease of market share – as from the moment when the store brand becomes a part of the purchase alternatives of consumers – and a detriment to the image achieved by manufacturer brands – to the extent that consumers may be aware of the same origin of both brands.

The extensive number of manufacturer brands existing on the market, the restricted number of brands that are successfully marketed on the shelves, the growing power of distribution, and the cost of ceasing to manufacture store brands contribute to the fact that producers co-operate with retailers when investing in the quality of the brands of the latter agents.

Various studies examine the subject of the strategic management of store brands from a general (manufacturer-retailer) and basically theoretical perspective, thereby pointing out the advantages and the risks of producing these brands, the distributor's objectives or the manufacturer's strategies to compete with store brands (McMaster, 1987; Quelch and Harding, 1996; Hoch, 1996; Recio and Román, 1999; Dunne and Narasimhan, 1999). Others carry out empirical research from the retailer's perspective in order to draw conclusions of a descriptive nature about the phenomenon of store brands (Simmons and Meredith, 1983; Puelles, 1995; Fernández and Gómez, 1999).

Nevertheless, no research studies that empirically analyse the store brand from the manufacturer's perspective have been found in the specialised literature. The main aim of this research is to provide empirical analyses about the store brand management by manufacturers and retailers from the manufacturer's perspective, in the current context, which is one of intense competition between manufacturer and store brands. Particularly, this research pursues to analyse the profile of store brand manufacturers, their perceptions about the retail management of these brands and their own product management of the same.

The strategic management of store brands includes an analysis of the strategic aspects of their marketing and the strategic aspects of their manufacturing. The former aspects include:

- the retailer's objectives with the store brand; and
- their marketing management, which encompasses both product management and merchandising management.

The latter aspects include:

- the manufacturer's motivations with the store brand; and
- the comparative management of the manufacturing and marketing process of store brands and manufacturer brands.

This paper hereby provides an appropriate review of the literature on each one of these aspects, and it sets forth empirical research from the manufacturer's point of view. This research endeavours to determine the strategic aspects of the manufacturing and marketing of store brands in the Spanish consumer goods market.

2. Strategic management of store brand marketing

2.1 Retailer's objectives

The growing share of store brands in a large number of markets and the greater acceptance of these brands by consumers reinforce the interest by distributors in marketing the same. The option of offering store brands is considered by retailers as a means to develop a powerful competitive tool (Hoch, 1996; Kasulis *et al.*, 1999), a means to provide an establishment with an image (Dhar and Hoch, 1997; Recio and Román, 1999; Corstjens and Lal, 2000), to obtain greater margins that result in higher profits (Simmons and Meredith, 1983; Narasimhan and Wilcox, 1998; Recio and Román, 1999), to have greater flexibility in setting prices and promotions (Nandan and Dickinson, 1994) and to offer the consumer more information and a greater guaranty about the products at a lower cost in relation to the cost supported by manufacturers for their brands (Pellegrini, 1993; Davies, 1998).

Each of these objectives is analysed below:

- To develop a powerful competitive tool: store brands differentiate the inventory of a chain, and they help distributors to build and maintain a competitive advantage over other establishments. The proper management of a store brand should be favoured by the direct contact by distributors with consumers and by the credibility earned among consumers over the years, both of which are factors that constitute opportunities for distributors to successfully extend their brand.
- To provide an establishment with an image that may trigger consumer loyalty: in order to achieve this, distributors provide their brands with the best locations in the shelf space, and they benefit from not having to support certain costs, such as the slotting fees that manufacturers support when they decide to introduce a new brand in an establishment.
- To obtain better margins that may allow higher profits to be earned: a distributor obtains greater profitability from store brands in comparison with manufacturer brands. Moreover, store brands allow distributors to offer greater value for money to the consumer in the transaction – a better price-quality ratio in comparison with manufacturer brands.
- Having greater flexibility in setting prices and promotions: a consumer cannot directly compare the prices of the store brands of various establishments, given

that most distributors cannot manage the store brand of another retailer. Moreover, consumers do not usually know if a store brand is produced by a leading manufacturer of recognised prestige in the market or by a regional or local manufacturer who is scarcely known and less reliable.

- To offer the consumer more information and a greater guaranty about the products at a lower cost in relation to the cost sustained by manufacturers with their brands: distributors can benefit from their closer position to consumers, both at a geographic level and as a member of the distribution channel.

2.2 Retailer's management

A retailer who decides to market a store brand has to support the costs of acquisition and marketing of these brands. Clark (1981) observes that the acquisition cost that distributors support for their own brands is close to the manufacturer's marginal cost of production for these brands, basically for two reasons: First, due to the greater accessibility of distributors to the knowledge of this cost, given the low marketing effort assigned by manufacturers to the same; and second, due to their greater negotiating power with the manufacturer, which empowers them to demand a list price for their brands that is close to the stated cost.

As regards the marketing costs, Coe (1971) highlights that distributors have to support lower advertising and promotion costs for their own brands than those the producers support for their manufacturer brands. Distributors do not need to invest considerable amounts in the advertising of their brands, just provide strong support to the assortment of the same. Moreover, distributors also do not need to invest in researching the needs and desires of consumers or to research the launch of new brands, given that they capitalise on the effort of manufacturers by penetrating into proven and demanded categories.

Therefore, it seems that retailers can establish lower prices for their store brands than the prices that manufacturers set for theirs, and obtain greater levels of profitability by not having to make strong investments: supporting innovation costs, the risk premium of introduction into a market and the high communication and distribution costs.

In spite of the lower marketing effort that distributors need to make for their store brands, various studies observe a rising marketing effort by retailers towards the product management of store brands. Hoch and Banerji (1993) and Sethuraman and Cole (1997) underscore the importance of the quality of store brands when they are selected by consumers and, consequently, in attaining profitability, differentiation and loyalty to the establishment (Corstjens and Lal, 2000). This fact has increased the distributor concern to reduce both the objective and perceived quality differential of its own brands with respect to manufacturer brands.

Authors such as Halstead and Ward (1995) stress that retailers allocate a growing marketing effort to their store brands, which is reflected in improvements in their quality, in the design of their packaging and in a greater variety of their assortment. Nevertheless, they emphasise that these improvements are not usually accompanied by a significant increase in the price of these brands.

Works such as those by Wolinsky (1987) note that distributors, just like manufacturers, are starting to develop mixed brand strategies with their products that consist of applying different prices to store brands with similar content but with

differentiated packaging. Along this line, Dunne and Narasimhan (1999) likewise indicate the incipient practice by distributors of incorporating premium store brands into their product portfolios in order to apply higher prices to alternatives to which consumers assign a higher quality. By marketing premium brands and price leader brands, retailers differentiate their own brands, and they turn the price of the common store brands – value store brands – into the reference price for consumers in a category, whereby they influence the final brand selection (Oubiña, 1997; Fernández and Gómez, 2000; Fernández, 2000; Puelles and Puelles, 2003).

As regards the retail management of the shelf space, specialised literature highlights that these brands are guaranteed a complete distribution and a suitable place in the shelf space. Hoch (1996) observes that, given the fact that 90 per cent of people are right-handed, retailers invariably position their store brands just to the right of the leading manufacturer brand, object of comparison, which reduces the marketing resources that retailers must allocate to positioning their brand with respect to the competition. Simonson (1993) and Simonson and Tversky (1992) observe how distributors take into account the various ways products are presented in an establishment in order to modify consumer selection. Thus, Simonson (1993) finds that consumers are less likely to choose the cheapest brand in the shelf space when the products of the category are organised according to criteria of design or variety, instead of based on criteria of organisation by brands. This author observes that when a store brand has high quality and a high price, sales are increased by organising products by model or variety, while if the store brand has a low price in comparison with other brands of the category, the sales of the store brand are increased if the distributor opts to organise the shelf space by brands.

Moreover, as regards the share of shelf space by store brands, Fernández *et al.* (2001) find in their research performed on consumer products manufacturers that there is a generalised perception that store brands reduce the number of manufacturer brands in the shelf space, as well as the space allocated to the same.

Distributors, by marketing their store brands, reduce the number of manufacturer brands in the shelf space, thereby eventually offering, in most cases, the undisputed leading manufacturer brand, another brand with considerable market power, the store brand and the generic brand (Fernández, 2000). In this regard, Simmons and Meredith (1983) find in their research that there is a consensus among distributors to provide consumers, in most product categories, with the leading manufacturer brand, probably a second brand and the store brand in the categories in which this is possible. Nevertheless, almost all the distributors in their study stated their agreement as regards the fact that in certain product categories it was sufficient to have the leading manufacturer brand and a store brand in order for the consumer to make a choice.

In addition, Iniesta and Agustín (2000) observe how retailers allocate shelf space to their store brands that is proportionally greater than their market share. Fernández and Gómez (1999, 2000) show in their research that store brands hold a privileged place – a central location, between the manufacturer brands of the category, and on the middle or upper shelves – and advantageous shelf space – whereby the number of slots provided to store brand products in the shelf space is greater than the number of slots provided to manufacturer brand products.

Currently, store brand management requires considerable marketing, product and merchandising efforts in order to expand its potential demand and to provide a benefit for the differentiation, loyalty and profitability of the establishment.

3. Strategic management of store brand manufacturing

3.1 *Manufacturer's objectives*

The manufacturer's objectives through the production of a store brand have been analysed in various studies (McMaster, 1987; Puelles, 1995; Puelles *et al.*, 1997; Fernández and Reinales, 1998; Dunne and Narasimhan, 1999; Méndez *et al.*, 2000). In general, store brands represent a considerable threat to manufacturer brands. However, there are a considerable number of producers that, after evaluating the advantages and disadvantages of producing store brands, have opted to manufacture them as a way to achieve the following objectives:

- *Economic-financial objectives.* To take advantage of economies of scale, to avoid excess capacity or idle capacity and to reduce costs.
- *Strategic objectives.* To benefit leading manufacturer brands, given that store brands compete with lesser brands; and to prevent other manufacturers from producing store brands. Occasionally, manufacturers choose to produce these brands as a means of exercising their control (Méndez *et al.*, 2000).
- *Relational objectives.* The production of store brands can improve relations with distributors in the short term, which can contribute positively to the merchandising of manufacturer brands. Distributors receive information referring to the purchasing habits of consumers via bar-code readers, and they often require the co-operation of manufacturers in order to analyse this information. Manufacturers will not only be able to have access to the data, but they will also be able to advise the distributor about the shelf space management and promotion policy (Dunne and Narasimhan, 1999).
- *Market objectives.* The production of store brands allows manufacturers to enter the market, without having to assume high advertising and sales promotion costs. This objective is especially important for producers of non-leading brands and small producers, for whom the manufacture of store brands, due to the lesser number of references in the shelf space, constitutes an opportunity to remain in the market and even an opportunity to enter new markets and subsequently develop their manufacturer brands (Puelles, 1995; Dunne and Narasimhan, 1999).

3.2 *Manufacturer's management*

The production of store brands may bring about a growth in the manufacturer's market share. However, this growth may mean lower manufacturer's profitability due to an increase in the price awareness of the consumer. This will be further enhanced if the consumer is able to identify the producer of the manufacturer brand as the producer of the store brand. Moreover, if the store brand is considered to have a similar quality than that of the manufacturer brand, but a better price, the so-called cannibalisation of the manufacturer brand could take place.

Puelles (1995) and Dunne and Narasimhan (1999) dissuade manufacturers of leading brands from producing store brands. These latter authors notice that a manufacturer's profit derived from the production of a store brand could turn out to be

scarce or null if its manufacturer brands have a competitive advantage in costs or differentiation with respect to the brands of the competition, if they have high salience or equity or if they are protected by a patent.

A store brand producer with recognised manufacturer brands must differentiate its manufacturer brands from the store brands that they produce, giving up a part of the market, the low-price part, and increasing the distance of its manufacturer brands from the store brands (Puelles, 1995; Hoch, 1996; Dunne and Narasimhan, 1999). In order to prevent the price competition involved with the store brand, the producer can offer new or improved products, thereby preventing the consumer from perceiving its manufacturer brand as similar to the store brand in quality or from perceiving its manufacturer brand unfavourable as a result of the price. A manufacturer has to invest in the value of its brand, in obtaining the desired positioning, in increasing the imitation costs, etc. Only by this way, the manufacturer will achieve that the store brand not be able to resemble its manufacturer brand in quality and not be perceived as an attractive brand for the consumer (Simmons and Meredith, 1983).

The previous makes that only in certain contexts the production of a store brand may turn out to be advantageous for manufacturers (Dunne and Narasimhan, 1999):

- when the store brand is a premium brand, since, the potential profits, the improvement of relations with distributors and the growth of the store brand can be significantly higher than those obtained by manufacturers with their brands[1].
- in a market where there is low barriers to entry and where new competitors can launch brands that are similar to those of the manufacturers already installed;
- when the manufacturer brand is an unrecognised brand, since the manufacturer may opt to produce a store brand in order to increase its market share; and
- when there are substantial economies of cost.

The production of store brands can represent an alternative to be considered for manufacturers of products with high fixed costs but low variable costs. Store brands would allow these manufacturers to earn additional income with a low increase in the investment.

4. Methodology

Ad hoc research is performed for studying the strategic management of store brands. It is based on a postal survey directed at manufacturing business units of mass consumer products in Spain. The technical form is presented in Table I. It summarizes the main characteristics of the survey carried out.

A business database was used to find the necessary information – Spanish National Industry Classification (CNAE) and sales volume – in order to select the sample of companies. In order to obtain the necessary information, a questionnaire was developed in close collaboration with various representatives of companies in the sector, who co-operated in the design and pre-test phases. Moreover, the Spanish Association of Brand Manufacturers (PROMARCA) co-operated in encouraging the response of member manufacturers of their association (manufacturers with a high turnover in the mass consumer products).

Information obtaining technique	Postal survey
Universe	Manufacturing business units of mass consumer products in Spain, belonging to the categories of food and drink, personal hygiene and home cleaning
Sampling	Questionnaires sent to 801 companies with a turnover higher than 4.8 million euro Valid questionnaires: 161 Sampling error: 7 per cent Questionnaires received from business units: 174 Confidence level: 95 per cent Response rate: 22 per cent Incorrect questionnaires: 13
Work period	Period carried out: December 2000/April 2001
Information analysis techniques	Analysis of contingency tables by χ^2 -test Variance analysis Principal components analysis
Computer program	SPSS 13.0

Table I.
Technical characteristics
of the survey

The questionnaire was sent by postal mail to 801 companies in the sector (with a turnover exceeding 4.81 million euros), and in the event the company had various business units, each company was requested to complete a questionnaire for each unit. The field work was performed from December of 2000 to April of 2001.

The total number of questionnaires received was 174, and 161 were valid[2]. For the statistical analysis of the data, the SPSS v.13.0 statistical package was used. The analysis techniques applied were, on the one hand, contingency tables and variance analysis to examine possible differences between groups of manufacturers (store brand manufacturers – non store brand manufacturers; leading manufacturers – non leading manufacturers) in relation to their descriptive characteristics, to their opinion about store brand management by retailers, or about their own management of these brands. On the other hand, principal component analysis was used to determine the main aspects of the store brand management by retailers, according to the manufacturers. The sample size was sufficient in order to apply all the information analysis techniques that serve to describe the strategic management of store brands from a manufacturer's perspective.

The majority of business units that conform the sample manufacture and market general food and beverage products (60.0 per cent), they compete in relatively concentrated markets (57.3 per cent), they sell their products mainly in the Spanish market (82.4 per cent), their turnover is less or equal than 120 million euros (80.6 per cent), and they do not manufacture price leader brands (80.1 per cent).

In a more rigorous analysis of the competitive profile of the researched business units, significant statistical differences are verified between manufacturers and non-manufacturers of store brands regarding the competitive position – when the sample is divided into leaders and non leaders[3] – the type of commercialised product, and the manufacture of price leader brands (Table II). However, statistically significant differences were not observed in the concentration of the sector, the size of the business unit, innovation or the advertising expense.

Table II.
Store brand
manufacturers' profile

	Store brand (SB) manufacturer		Total	X ²
	Yes	No		
<i>Competitive position</i>				
Non leader	69.0 per cent (58)	56.6 per cent (43)	63.1 per cent (101)	2.67 ^{*a}
<i>Product category</i>				
General food and beverage	59.8 per cent (49)	60.3 per cent (44)	60.0 per cent (93)	5.34 ^{*a}
Perishable food	34.1 per cent (28)	23.3 per cent (17)	29.0 per cent (45)	
Personal hygiene and home cleaning	6.1 per cent (5)	16.4 per cent (12)	11.0 per cent (17)	
<i>Price leader brand manufacturers</i>				
Yes	31.8 per cent (27)	6.6 per cent (5)	19.9 per cent (32)	15.982 ^{**a}

Notes: We only include column percentage; **, *Significant at $p \leq 0.01$ and $p \leq 0.10$ levels, respectively; ^a0 cells (0.00 per cent) have an expected frequency less than 5

Nowadays, based on data from Information Resources, Inc. (IRI) for the year 2003, the store brand market share in Spain is very high in food products (27.7 per cent in value). However, it remains low for products related to personal hygiene and baby care, with market shares of 16.6 and 13.2 per cent in value, respectively.

5. Results

5.1 Strategic management of store brand marketing

In the analysis of the strategic aspects of store brand marketing, we first analyse the manufacturer's perceptions about the objectives pursued by retailers with their own brands. Then, we examine the manufacturer's perceptions about the store brand management by retailers. We use principal component analysis to identify both, the main objectives and the main aspects of the store brand management by retailers. The results of the principal components analysis are obtained after extracting the factors with a self-value greater than one unit and after performing varimax rotation. Finally, we apply variance analysis over the principal components to identify possible differences between manufacturers and non manufacturers of store brands.

5.1.1 Retailer's objectives. Three main objectives are obtained in the principal components analysis (Table III): the attainment of establishment image that triggers consumer loyalty towards the same, designated as *the equity of the store name*; the development of a powerful competitive tool, named as *competitive position*; and the attainment of bigger margins, designated as *profitability*.

The equity of the store name consists of the differentiation of the store, the salience of the store name, and the store loyalty, competitive position is defined by the vertical integration, negotiating power and market share, and profitability consists of the profit margin and the use of store brands as loss leaders. Manufacturers and non-manufacturers of store brands give medium-high importance to each one of the stated objectives, and significant differences are not observed between both groups for the three, stated chief objectives.

5.1.2 Retailer's management. The marketing management applied by retailers to their own brands is analysed, according to the perception that manufacturers have of the retailers' merchandising and shelf space policies and according to their actions on the quality and price of store brands (Table IV).

Concerning the merchandising management, the results obtained in this research clearly show a high degree of agreement by store brand manufacturers and non-manufacturers for all the questions posed referring to the asymmetrical competition between manufacturer brands and store brands in the shelf space in favour of the latter brands. A grouping of all the affirmations into a single factor is obtained, which is designated as the retail management of shelf space.

As regards the retail product management, the results obtained clearly show the existence of two principal components: one is designated as the relative value of store brands and the other as the variability in the quality of store brands. Manufacturers and non-manufacturers of store brands differ about the relative value of these brands, and store brand manufacturers are the ones who declare a higher level of agreement about the affirmations pertaining to this aspect. As regards the variability in the quality of store brands, there is consensus among manufacturers and non-manufactures of these brands.

Table III.
Retailer's objectives in
store brand marketing
(manufacturers'
perceptions)

Retailer's objectives in SB marketing	MED	Equity of the store name	Factors Competitive position Loadings	Profitability	Communality
Differentiation of the store	4.98	0.94	0.06	-0.09	0.89
Saliency of the store name	4.88	0.89	0.24	-0.11	0.87
Store loyalty	5.44	0.59	0.23	0.44	0.59
Vertical integration	3.82	0.05	0.75	-0.10	0.57
Negotiating power	5.07	0.17	0.69	0.08	0.51
Market share	5.18	0.25	0.67	0.32	0.62
Profit margin	5.35	-0.05	0.09	0.70	0.50
Use as loss leaders ^a	4.43	0.10	0.55	-0.55	0.62
KMO	0.67				
Bartlett's test of sphericity	318.45				
Explained variance per cent	Total: 64.51	26.57	23.88	14.06	
Factor scoring (SB manufacturers)		0.07	0.11	0.03	
Factor scoring (non-SB manufacturers)		-0.08	-0.13	-0.03	
F-Snedecor		0.73	2.102	0.11	
P		0.39	0.149	0.74	

Notes: 1: Not important at all . . . 7: very important; ^aStore brands can be used as loss leaders in order to incentivise their competitive position via prices. Conversely, distributors cannot make use of this practice in order to prevent detracting from their profitability for store brands. Both facts explain the high loadings and opposite sign of this item in competitive position and in profitability

Retailer's management of SB	MED	Retail management of shelf space	Factors of SB's Loadings	Relative value of SB's	Variability in the quality of SB's	Communality
SB's are positioned in more advantageous places in the shelf	5.50	0.84	-0.04	0.10	0.72	
SB's occupy more shelf space than what corresponds to them according to their market share	5.30	0.78	-0.25	0.15	0.69	
The introduction of a SB reduces the manufacturer brands (MB's) in the category	5.21	0.70	0.21	0.15	0.55	
Distributors position their SB's in the shelf space around the leading brand	5.18	0.71	0.04	-0.27	0.59	
The quality of SB's is increasingly better	4.96	0.23	0.78	0.10	0.66	
The quality of SB's is below that of the leading MB's	4.33	0.27	-0.66	0.33	0.57	
An SB has a better price/quality ratio than that of MB's	4.09	-0.01	0.75	0.06	0.56	
There are considerable quality differences among the SB's of various establishments	4.71	0.03	0.07	0.77	0.66	
SB's do not guarantee consistent quality	3.74	0.05	-0.17	0.66	0.58	
KMO	0.69					
Barlett's test of sphericity	279.96					
Explained variance per cent	Total: 61.73					
Factor scoring (SB manufacturers)	27.00		19.30	15.43		
Factor scoring (non-SB manufacturers)	0.02		0.27	-0.04		
F-Snedecor	-0.02		-0.30	0.004		
p	0.05		13.85	0.002		
	0.82		0.00	0.96		

Note: 1: Totally disagree ... 7: totally agree

Table IV. Retailer's management of store brand (manufacturers' perceptions)

5.2 Strategic management of store brand manufacturing

Within the scope of store brand manufacturing, we first examine the producer's objectives with these brands and subsequently, their management. Based on the literature recommendation of not producing these brands for leading manufacturers, we apply analysis of contingency tables by chi-squared test and variance analysis in order to examine if some differences exist between leading and non leading manufacturers in their objectives or in their management of store brands, respectively.

5.2.1 Manufacturer's objectives. A high rate of response was obtained in:

- economic-financial motivations, such as obtaining economies of scale, taking advantage of idle production capacity or profitability;
- market and strategic motivations, such as the growth of the company's market share and preventing the production of store brands by the competition; and
- relational motivations, such as assuring co-operation with large distributors. See Table V.

Puelles (1995) and Dunne and Narasimhan (1999) advise against the production of store brands by leading manufacturers, and they recommend that they be produced by companies who have difficulty introducing or maintaining their manufacturer brands in a channel. In order to appraise this recommendation, additional information from the questionnaire is used. Specifically, the manufacturer's competitive position, its objectives and the retailer's demands in the production of a store brand (Table VI).

The results of the contingency analysis show that leading manufacturers produce these brands as way of controlling them and improving their negotiating position, probably in order to benefit the merchandising of their manufacturer brands. Non-leading manufacturers declare that they mainly produce these brands in order to remain in the channel, or to increase their market share. Alternatively, it is observed that while retailers demand that non-leading manufacturers do not include their identification on the label, they also require a certain assortment variety from leading

Manufacturer's objectives in SB manufacturing	Number of manufacturers	Valid per cent
Obtaining economies of scale	54	63.5
Growth of the company's market share	52	61.2
If we do not do it, the competition will	48	56.5
Assuring co-operation with large distributors	45	52.9
Taking advantage of idle production capacity	43	50.6
Satisfactory profitability with these brands	26	30.6
Possibility of entering new channels	24	28.2
Improvement of the negotiating position	22	25.9
Only possibility of remaining in the channel	17	20.0
Imposition by the distributor in order to be able to distribute my brands	16	18.8
Way of controlling the SB	13	15.3
Obtaining better treatment of my brands in the shelf space	11	12.9
Dominant the shelf space	3	3.5
Demand of distributors (others)	1	1.2
Possibility of development without an advertising budget (others)	1	1.2
Total	85	100

Table V.
Manufacturer's objectives in store brand manufacturing

	Competitive position		Total	χ^2
	Non leader	Leader		
<i>Manufacturer's objectives</i>				
Improvement of the negotiating position	20.7 per cent (12)	38.5 per cent (10)	26.2 per cent (22)	2.93 ^{*a}
Way of controlling the SB	8.6 per cent (5)	30.8 per cent (8)	15.5 per cent (13)	6.73 ^{** *b}
Only possibility of remaining in the channel	25.9 per cent (15)	7.7 per cent (2)	20.2 per cent (17)	3.67 ^{**a}
Growth of the company's market share	70.7 per cent (41)	42.3 per cent (11)	61.9 per cent (52)	6.13 ^{** *a}
<i>Retailer's demands</i>				
Assortment variety	32.8 per cent (19)	57.7 per cent (11)	40.5 per cent (50)	4.63 ^{**a}
Periodic revisions of the contract, without guaranty of continuity	41.4 per cent (24)	65.4 per cent (17)	48.8 per cent (41)	4.14 ^{**a}
No manufacturer identification	37.9 per cent (22)	11.5 per cent (3)	29.8 per cent (25)	5.98 ^{**a}
Non price revision in a periodic way	36.2 (21)	15.4 (4)	29.8 (25)	3.72 ^{**a}

Notes: We only include column percentage; ^{***}, ^{**}, ^{*}Significant at $p \leq 0.01$, $p \leq 0.05$ and $p \leq 0.10$ levels, respectively; ^a0 cells (0.00 per cent) have an expected frequency less than 5; ^bany generalisation of this result must be taken carefully due to 1 cell (25 per cent) has an expected frequency less than 5. The minimal expected frequency is 4.02

Table VI.
Manufacturer's objectives
and retailer's demands
according to the
manufacturer's
competitive position

manufacturers. These results alert leading manufacturers to the possible disadvantages of manufacturing these brands in their relationship with distributors over time, given that even though leading manufacturers produce these brands in order to improve their negotiating position, distributors require a certain assortment variety from them, and it is possible that this may act in detriment to manufacturer brands and in benefit to store brands in the long term.

5.2.2 Manufacturer's management. Finally, as regards store brand management within a manufacturer's strategy, the results obtained, described in Table VII, clearly show that, on average, the economic effort of producers in the cost items related to manufacturing is practically identical between manufacturer and store brands. The quality of the internal and external components is likewise similar. Only as regards the costs that refer to the product development – innovation – and to the commercialisation process – logistics and marketing – is the effort invested by manufacturers in store brands less than the effort that they make in their own brands. Moreover, these costs are particularly low for leading manufacturers.

6. Conclusions, limitations and future lines of research

Interesting conclusions about business decision-making can be drawn from the research as regards:

- the differences existing between producers and non-producers of store brands according to the characteristics of the product category with which they work and the variables of competitive strategy;
- the manufacturer's perception about the retail management of store brands and
- the producer's management of these brands.

Table VII.
Manufacturer's
management of store
brand

Differences between the SB's elaborated by producers and their MB's	Competitive position			
	MED	Non leader	Leader	F-Snedecor
Packaging cost	3.96	3.98	3.92	0.11
Manufacturing cost	3.90	3.88	3.96	0.24
Cost of the raw materials	3.89	3.93	3.80	0.42
Packaging quality	3.87	3.95	3.68	2.06
Quality of the raw materials	3.80	3.89	3.60	2.28
Logistics costs	3.28	3.36	3.20	0.42
Innovation	3.05	3.25	2.54	5.01**
Marketing expenses	2.35	2.56	1.92	3.37*

Notes: 1: Far less in SB ... 7: far higher in SB; **, *Significant at $p \leq 0.05$ and $p \leq 0.10$ levels, respectively

The analysis sample is distributed uniformly between manufacturers (52.8 per cent) and non-manufacturers (47.2 per cent) of store brands. An analysis of the profile of both groups does not report significant differences regarding size, sector concentration, innovation or advertising expense. Nevertheless, it is observed a significant higher percentage of store brand manufacturers in food products and in non-leading companies.

The perception about the marketing management developed by retailers with their store brands differs between manufacturers and non-manufacturers of these brands only regarding the product management. Even though there is a high degree of agreement regarding favourable merchandising by retailers with their store brands, the business units that produce these brands consider that they represent value alternatives for consumers, and in turn they differ from the non-manufacturers of store brands about the lower quality of these brands with respect to the quality of the leading brands. The results of this research suggest that non store brand manufacturers try to positively differentiate their manufacturer brands from the store brands. Nevertheless, they must be conscious of the increasingly threat that store brands represent for them, as long as store brand manufacturers assure that these brands are now alternative options of value or quality to manufacturer brands. The value and quality that retailers achieve for their own brands can be explained, to a large extent, by their greater negotiating power in the distribution channel.

Moreover, the study of the manufacturer's management of store brands clearly shows the motivations for their production and the differences of their management in relation to the manufacturer brands that make up their product portfolio.

As regards manufacturer motivations for producing store brands, the results reveal the greater number of economic and market motivations versus the relational motivations. Only five of the fifteen stated reasons obtain a relatively high appraisal (equal to or greater than 50 per cent). From highest to lowest, they highlight the following: obtaining economies of scale, the growth of a firm's market share, preventing the competition from manufacturing the brands, assuring co-operation with large distributors and taking advantage of idle production capacity. Nevertheless, certain differences that were found according to the manufacturer's competitive position should be highlighted. Thus, it is found that leading manufacturers mainly point out the

reasons of improving the negotiating position and controlling the store brand; and non-leading manufacturers underscore the reasons that it is the only possibility of remaining in the channel and the growth of the company's market share. These results clearly shows that while the production of store brands by leading manufacturers is centred on reasons of strategy, the decision of producing store brands by non-leading manufacturers is mainly centred on reasons of need. The reduced number of brands marketed in the shelf space makes it difficult for medium or small manufacturers to enter, remain or grow in a channel if they do not agree to produce store brands.

Moreover, it is observed that retailers are concerned about the quality and image of their brands, which is manifested through the various impositions of retailers on manufacturers as regards product management, thereby depending on their competitive position. The fact that leading manufacturers may decide to produce a store brand in order to improve their negotiating position, and that distributors may demand the presence of a greater variety of assortment from these manufacturers, unlike the rest, should warn leading manufacturers that, even though the production of store brands can contribute to increasing their negotiating power in a channel in the short term, in the long term, these producers could be forced to pay greater attention to store brands, to reveal structure costs or to share innovations in products and processes.

In addition, the analysis of the manufacturer's management of store brands shows evidence of slight differences in the manufacturing and marketing process of these brands in relation to the manufacturer brands that make up its product portfolio. The production costs of store brands, as well as the costs and quality of the raw materials and packaging are practically the same for both brands. Innovation and marketing expenses are the only aspects that show clearly lower values for store brands. Moreover, they are significantly lower for leading manufacturers. These results suggests that the differences in the quality of manufacturer brands and store brands are almost unappreciable, probably as a result of the scarce technological complexity existing in the markets that make up the scope of the study (Hoch and Banerji, 1993). The manufacturer brands differentiate from the store brands through increased product costs, meaning innovation, advertising, promotions, etc.

The lower magnitude of the marketing expenses also confirms that distributors are those who mainly support these expenses for their store brands (Hoch, 1996).

Finally, as regards the limitations of the research performed, one restriction to consider comes from the reduced percentage of manufacturers in the sample who state producing distributor brands in the perfume and drugstore sectors. More than 90 per cent of the store brand producers declare that they produce these brands in food categories, which means that the results obtained in this research mainly refer to this market, wherefore any generalisation to the consumer goods sector (food, perfume and drugstore) must be made with excessive prudence. In future research, it would be advisable to obtain greater representation of store brand manufacturers in the perfume and drugstore market, which may allow a better understanding of the store brand phenomenon of the totality of frequent consumer products. Moreover, it would allow individualised treatment in order to analyse possible differences between sectors. Another limitation is the fact that only the manufacturers' perceptions have been considered when analysing the strategic management of store brand marketing. It would be beneficial in future research to consider the opinion of retailers about their own management of these brands.

Notes

1. If consumers are highly sensitive to price, a premium store brand would not be profitable.
2. The data collection phase was sub-divided into two stages. Initially, 72 questionnaires were received, and 69 were valid. Subsequently the non-responses were solicited, and 102 questionnaires were obtained, 92 of which were considered valid.
3. We asked manufacturers for the average market share of the strategic business unit (SBU) and we offered them five alternative responses: leader; higher than or even 75 per cent of the leader; between 50 and 74 per cent of the leader; between 25 and 49 per cent of the leader; and less than 25 per cent of the leader. We found differences in the manufacturing of store brands between the leaders and the rest.

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