The private branding phenomenon

Improving the market share of private brands in emerging markets

Private (own-label) brands are big business in developed market, where they were originally aligned as low-cost alternatives to national, premium brands. Private brands are now available in 55 countries worldwide, with a total sales value estimated to be in excess of US$1tn. They are most prevalent in European countries, where they are available as alternatives to around 90 per cent of fast-moving consumer goods categories. Private brands now account for 16 per cent of all sales globally, and are set to exceed 50 per cent of the market share by 2025. With the ever-growing market share, private brands have seen an evolution away from low-cost products, and are now also breaking into premium goods categories. This is an attempt to further challenge the market dominance of national brands.

Yet private brands are struggling to get a secure footing in emerging markets, such as those in China, Latin America, India, and South Africa. While there is clear evidence to suggest that in these markets private brands are more popular during times of recession, there is little understanding of why they are not booming as much as they are in developed markets. The research of Herstein *et al.* (2017) looks at how private brand marketing strategies are being implemented in emerging markets, and why the chosen strategies are not performing ideally. The performance of private brands is important in emerging markets for four reasons:

1. They can generate greater profits for retailers than national brands.
2. Their affordability is often valued by customers.
3. They facilitate a retailer's engagement with a network of suppliers, reducing reliance on national brands and improving bargaining power.
4. Through promoting private brands, retailers can support the local economy by sourcing produce locally, improving employability and sustainability.

The power of the private brand

A retailer's public image can often be discerned by their use and quality of private brands. This ability to improve the image of a retailer is part of the reason for the shift toward premium quality private brands in developed markets. Typically, those retailers that successfully differentiate their private brands from national brands tend to have greater customer loyalty. Consequently, this loyalty can be transferred into consumer information, which in turn places the retailers in a good position to spot and capitalize on trends. Retailers with private brands are able to more quickly adapt product lines than national brands. Private brands are also able to capitalize on the merger of two consumer concerns: quality and price. When developed and promoted correctly, private brands can appeal to customers looking for quality products, but who are also price conscious. Importantly, consumers who turn to private brands during economic downturns are typically seen not to return to national brands.

Profitability of private brands is much higher than that of national brands for retailers. This is owing to the removal of middlemen, with retailers working directly with suppliers to source and create products that are then sold directly in store. This increased profitability also facilitates the ability for retailers to drop prices of private brands to remain competitive while still remaining profitable.

Integral to private brand success is marketing strategy. With national brands, retailers act as manufacturer vendors. Yet with private brands, retailers must consider the entire product life-cycle, and how they want to market these products alongside national brands. The decision for a retailer to market private brands follows three phases, as outlined by Herstein *et al.* (2017):

1. an initial in-depth examination of the private brand's prospects for market success, taking into account issues such as intensity of market competition, and the advantages and disadvantages of retailers compared with national brand manufacturers;
2. the subsequent adoption of an appropriate private branding strategy that seeks to maintain reputation, which also requires choosing the right manufacturer to produce a product that fits the retailers image and quality levels; and
3. finally, retailers must blur the perceived differences between their private brands and national brands.

Private branding in the emerging market of Israel

The food retail industry in Israel is characterized as highly competitive with narrow operating margins. While initially a diverse market, there are now only two large chain private brand retailers and some smaller supermarket chains that have begun adopting private brands to increase leverage with suppliers. Looking at the issues with private brands in this emerging market, Herstein *et al.* (2017) focused on Israel's second largest retailer, which has a market share of 12 per cent, with revenues in 2012 of over US$1.1bn, and a net profit of US$13.31m. Their chain of stores is broken into four categories: discount stores, "local" small stores in urban centers, low-prices supermarkets for the ultra-orthodox Jewish community, and organic and natural health food supermarkets.

Eight gaps have been identified by Herstein *et al.* (2017) between the retailer's policies and their practical implementation which hamper the growth of private brands. They are as follows:

1. *Retail chain philosophy foundations* – private branding is stated by senior management as being one of the three pillars of the marketing philosophy, running alongside service and atmosphere. Yet store managers see private brands as a temporary marketing campaign, implemented on an *ad hoc* basis;
2. *Product development strategy* – senior management states that the private brand strategy focuses on accelerated product development, with the best way of outperforming the competition is to produce more private brands. Store managers contradict this as they feel the national brands are still leading the chain,

Private brands now account for 16% of all sales globally, and are set to exceed 50% of the market share by 2025.

Profitability of private brands is much higher than national brands for retailers.

and that the main focus is on diminishing the gap between private and national manufacturers' product development strategies;

3. *Information management approach* – a holistic approach to the implementation of private branding strategy is highlighted as key by senior management, whereas store managers feel isolated and tasked to do this on their own. Furthermore, those store managers that implement a successful strategy are provided with no communication method to disseminate this knowledge to other stores centrally;
4. *Employee participation* – senior management believes that a key to private brand success is for employees to push those products ahead of national brands to customers. Store managers, however, argue that it is unclear what is expected of employees with regard to acting as ambassadors and promoting private brands;
5. *Pricing policy* – senior management understands that the price difference between private and national brands needs to be considerable for private brands to be an attractive option. However, store managers state that often customers see little or no real difference in prices, or in fact, that the private brands are more expensive;
6. *Place policy* – senior management believes that private brands should occupy the best shelf space available (at eye level), but store managers report that in fact national brands are often given the best shelf space as directed by the chain;
7. *Promotion policy* – as promotions are key to boosting sales, senior management claims that private brands are meant to be given priority for advertisement of promotions. Store managers, however, claim that senior managers force national brands to pay for the chain's printed advertising campaigns, meaning that national brands get the greater levels of exposure; and
8. *Quality policy* – senior management states that their private brands are of equal quality to national brands, yet the store managers report that customers often complain about the quality of the private brand products.

Aligning these gaps is integral to success. Private brand market share is expected to accelerate after reaching between 5-10 per cent, below which level consumers have minimal confidence in the products on offer. The success of private brands in Western countries tends to come from favorable legislation for greater autonomy in retailer operations. Furthermore, increased competition between retailers and manufacturers is a key driver of private brand adoption.

In emerging markets, retailers are often ill-placed to be viewed as brands in their own right, hampering their ability to use their own brand to promote products. Full adoption by retail chain senior management is crucial. If they do not believe in the products, then the marketing strategy will fail. Products should also be developed across all ranges in increased competition with national brands, with an overall push on promoting, advertising, and selling private brands over national brands. Furthermore, improved inter-store communication and head office message dissemination needs to be made a priority. Successful practices need to be adopted chainwide, as well as consistency in product placement throughout.

Commentary

The adoption by retail chains of private brands is big business in developed economies. Such products provide greater profit margins, more control over quality and supply, and improved leverage with existing suppliers. Western countries, particularly in Europe, have adopted private brands as a key aspect of boosting the performance of any type of retail chain. Yet in emerging markets, the using of private brands is significantly lower. Looking to understand why this is the case, and to provide research in an area that has tended in the past to only consider developed economies, Herstein *et al*. (2017) have looked into the food retail industry in Israel to understand why private brands are proving less successful. Because of the potential for private brands to boost the performance and profits of retail chains, as well as the economy of local areas and the nation as a whole, it is important to understand this disconnect between private brand success in developed and emerging markets.

Keywords:
Israel,
Emerging markets,
Marketing strategies,
Private branding,
Retail chain

Reference

Herstein, R., Drori, N., Berger, R. and Barnes, B.R. (2017), "Exploring the gap between policy and practice in private branding strategy management in an emerging market", *International Marketing Review*, Vol. 34 No. 4, pp. 559-578.