DEVELOPMENT of PRIVATE LABEL in TURKEY

Author:

Kenan AYDIN, Kocaeli Üniversitesi, İİBF, Umuttepe Yerleşkesi, İzmit – Kocaeli.

Telephone number: 09 0262 303 16 38

Mobile tel.: 09 0532 285 70 34

e-mail: kenanaydin@gmail.com

Co-author:

Tansu SAY, Kocaeli Üniversitesi, İİBF, Umuttepe Yerleşkesi, İzmit – Kocaeli.

Telephone number: 09 0262 303 16 35

Mobile tel. : 09 0532 302 92 52

e-mail: tansusay@yahoo.com

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Summary

There is substantial development of retailing in Turkey since 1980. This development is also on private labels as on the physical structure and assortments. In this paper, there is a comparison and interpretation of the research results of the international literature with the findings of the private research firms in Turkey in order to point out the trends in the field.

Key words: Private-label, manufacturer-label, loyalty, retailing.

Introduction

In the marketing literature, there are various definitions of private label. One of the definitions by early studies is[1]

. . . consumer products produced by or on behalf of, distributors and sold under the distributor's own name or trademark through the distributor's own outlet. (e.g. Schutte, 1969; Morris, 1979; Martell, 1986; de Chernatony and McWilliam, 1988).

According to Levy and Weitz,[2] private-label brands *are products developed and marketed by a retailer.* Typically, retail buyers or category managers develop specifications for the products and then contract with a vendor for production. Here the retailer, not manufacturer, is responsible for promotion.

Another definition by Dunne and Lusch[3] is the case *when a retailer develops on brand name and contract with a manufacturer to produce the merchandise with a retailer's brand on it, instead of the manufacturer's name.*

In the marketing literature besides various definitions there are many different terms such as private brands, store brands, own labels, generic brand, private label brands, dealer brands and retailer brands etc. used for the same meaning.

The increasing usage of private brands of grocery products reflects a major shift in the product mix offered by retailers. Today, some of the most successful corporate brands in the world are retail brands. These retailers make large investments to build brand image and brand equity. One part of this branding strategy is to launch store brands.[4] The importance of store brands in fast moving consumer goods marketing has increased recently. There are various reasons for this development.

Retail branding strategies varies from closely imitating manufacturer-brand trade dress and products to distinct brand images, from low product quality and prices to premium positioning, and from nonexistent promotion and merchandising to intense activity (Michael Harvey, et.al.1998). Private brands are grouped in four broad categories: bargain, copycat, premium, and parallel.[5]

For the retailers, using store brands creates expectation of increased store loyalty (Corstjens and Lal, 2000) and to become less dependent on the established brand manufacturers which leads to more bargaining power (Mills, 1995; Narasimhan and Wilcox, 1998). In order to increase customer loyalty for the store brand, the customer must first notice the product, develop some kind of interest, try the product the first time, become satisfied and then develop a preference which creates loyalty to the retailer.[6] The availability of proprietary brands not sold elsewhere may encourage store loyalty, increase store traffic and chain profitability. Once inside the store, the consumer also becomes a prospect to which to sell the entire grocery basket owing to the cost of time involved in multi-store shopping. They also offer lower prices owing to their lower manufacturing costs, inexpensive packaging, minimal advertising and lower overhead costs. In Turkey, Private-label brands are at average about 33% less expensive compared to national brands, according to a research by ACNielsen[7] in 2004. Especially in the categories where promotion expenses are high, the differences of price increase. In the category of the soft drinks the difference rises to 50%, in cleaning products it is 38 %, in paper products 23 %, in tea 34 % and in liquid oil 23 %. These help to increase store traffic and build store loyalty too. Although store brands are generally priced lower than established brands, they usually lead to higher unit margins and allow the retailer to cover the "low-price" tier within the range of goods (Pauwels and Srinivasan, 2004)[8]. The higher margins earned on these products enable retailers to expand into lower volume categories for which success depends on greater per unit contribution margins. The higher margins on private brands can also help stores defend themselves against supercenters. Furthermore, preference for private brands contributes to store loyalty, resulting in higher sales of both national and private label brands. This buffers the store from margin-killing price promotions and an ever escalating need to respond to competitive price pressures. Private branding also maintains a better control over shelf-space (Richardson et al., 1996). Although some of these advantages are potentially relevant to businesses in the service sector, private branding has not yet become a recognized component of service quality.[9]

Marketing studies have consistently shown in blind taste tests that consumers have difficulty distinguishing between private label and National brand grocery products.[10] This is reflected in the increase of the market share of store brands to about 19 percent of supermarket volume in the USA (The Economist, 1995).[11] According to Merrill Lynch, the market share of private brands (in units) is currently 19.9 percent and is expected to jump to 23 percent at large food retailers within five years (Supermarket Business, 1999).[12] The increase is even greater in Europe. For example, in the UK alone store brands comprise 35 percent of supermarket volume with dominant positions in categories such as wine (61 percent), dry pasta (51 percent), jam (47 percent), and potato chips (41 percent).[13]

In Turkey, according to ACNielsen, between 2004 and 2005 private label brands were only 8.6 % of the fast moving merchandise, but with a high growing percentage of 14.4.[14]

Given the strategic importance and market share potential of private label brands, it would appear to be in retailers' interest to better understand what makes consumers buy store brands and how store brand prone consumers differ from those less likely to buy these products. Such an understanding may provide retailers with better insight regarding how store brands may be better marketed and positioned.[15]

For the consumers, store brands provide consumers with a competitive alternative to established brands. Consumers buying grocery and other everyday products can select from different brands and own brands within the same product type and choose to shop for the same products in different types of retail outlet. Similar products often sell at very different prices across the market.[16]

Most own labels are not actually produced by the retailer. Manufacturers may elect to produce own-label products for retailers in order to achieve scale economies in production and distribution, utilization of excess capacity, sales increase without marketing cost, as well as Price discrimination because of image differentiation between branded and private-label products. Originally, private labels were only produced when capacity allowed it. Increasingly, entire factories are dedicated to production of private label products. Nevertheless, it appears that most own-label suppliers are small regional players not coincidentally playing on the major manufacturers' field.[17]

Nowadays private branding has become a successful marketing strategy and marketing tool in the retail sector. 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 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.[18]

The Literature

Research on store brands has been of substantial interest to both marketing academicians and managers.[19] Considerable work has been done on specific areas of store brand research such as brand strategy, market performance, competition, and market structure and buyer behaviour[20]. Major studies on private label are as following;[21]

The strategic role of store brands for retailers and manufacturers is discussed by Morris (1979), Makoto (1995), Burt (2000) and Horowitz (2000). Other researchers (e.g. Hoch and Banerji, 1993; Ailawadi, 2001) examine the market performance of store brand products. Of equal interest, are studies addressing differences and competition between manufacturer and store brands (e.g. Bellizzi et al., 1981; De Chernatony, 1989; Richardson et al., 1994; Baltas et al., 1997; Aggarwal and Cha, 1998, Ailawadi et al., 2001). An important stream of research is concerned with stochastic modelling of store-brand buying (e.g. Goodhardt et al., 1984; Ehrenberg, 1988; Uncles and Ellis, 1989). The application of such models to brand demand data detects several patterns. First, store brands are bought in a way that is consistent with the double jeopardy effect (Ehrenberg et al., 1990). Second, store brands are bought along with manufacturer brands. Third, parameters such as number of buyers and average purchase frequency can be determined by the Dirichlet model of buyer behaviour (e.g. Ehrenberg, 1988; Uncles et al., 1995). As will be seen below, the present study recognises that most consumers have a brand repertoire and adopts a demand variable that is based on the expenditure share of store brands (Ehrenberg and Barnard, 1994; Uncles et al., 1994).

Steve Burt studied about the strategic role of retail brands in British retail industry[22] George Baltas presents an empirical study on store brand demand and its determinants.[23] Mieres and Martı'n et.al examined antecedents of the difference in perceived risk between store brands and national brands.[24] Outi Uusitalo studied consumer perceptions of grocery retail formats and brands.[25] Archna Vahie and Audhesh Paswan worked on private label brand image and its relationship with store image and national brand.[26] George Baltas and Paraskevas C. Argouslidis studied consumer characteristics and demand for store brands.[27] Gary Davies and Eliane Brito studied on price and quality competition between brands and own brands is studied with a value systems perspective.[28] Kristof De Wulf Gaby Odekerken-Schroder et al., comparied consumer perceptions of store brands are comparied to national brands.[29] Javier Oubina, Natalia Rubio and Marı´a Jesu´s Yague analized strategic management of store Brands from the manufacturer's perspective.[30] Rita Martenson studied corporate brand image, satisfaction and store loyalty.[31] Stephan Zielke and Thomas Dobbelstein studied customers' willingness to purchase new store brands.[32]

Key Factors in Retail Brand Development

The differences between retail brand developments in the global markets can be explained by a number of inter-related factors. Most of these arise from the application of marketing approach to the retail business as follows.[33]

The Use of Retail Power in the Distribution Channel

The key factor in retail brand production is generally regarded as the shift in channel power from the manufacturer to the retailer. This is mainly is a result of the retailer size. There are tables which measure retail concentration ratios against retail brand market share to confirm this relationship. However, understanding the changing basis of power in the channel by the retailer and the subsequent use of that power seems to be the main reason.

Generally the development of retail power is considered to be parallel with buying power and economies of scale. As retailers grow in size and control difficulties were overcome by the use of computer systems; the floor-space, shelf space and ultimately sales were succesfully operated by them. Then they were able to use this adventage in using of the excess capacity in the manufacturing sector. As they searched for excess production capacity they have found suppliers, who are generally not the leading brand manufacturers and willing to produce product under the retailer name as specified and at a lower price. The willingness of manufacturers to act with retailer demands is mentioned in the literature (e.g. McGoldrick, 1990) due to the need of scale economies, to cover fixed costs and to utilise full capacity. Although this approach may be true in the beginning, which involved technologically simple ``me too'' products and quasi-commodity grocery products (positioned as acceptable quality for a lower price), the high price/high quality retail brand of today (positioned as equal if not better than the leading manufacturer brand) requires a more efficient use of market power.

This change in retail brand development in the global market is also supported by the information power besides pure economies of scale. The increased availability of information within the supply chain, powerful retailers were able to use this development in their favour. Parallel to this, retailers also wanted to create differentiation in the marketplace through image development and products only available in their stores.

Increased scale and information power is used in two ways to manage the distribution channel. First was to reinforce existing trading relationships with a focus on price. This resulted in driving down manufacturer prices to the retailer, increasing manufacturer support for promotion activities for branded products, or to source low cost production of retail brands. Alternatively, the ownership of information may be used proactively to change traditional channel relationships and roles, so that the unique skills and competencies of the retail and manufacturer base can be brought to bear for the mutual benefit of those involved. This switch in emphasis requires a rethinking of traditional channel approaches to the use of market power.

The Centralization of Management

The use of both buying and information power to reshape channel relationships is also associated to centralization the management.

The centralization of management activities such as product assortments, merchandising, store layout, pricing and promotion influenced retail brand development, especially in developing and maintaining a steady quality image and market position. The standardization in store operation provided a set of core values and ensured that these values were consistently delivered. These values were further reinforced through an increased promotion, which emphasized quality and value rather than price.

All of these increased retail control over the channel and provided them with means to establish and monitor the quality control procedures. Developments in distribution practices such as the move to centralized supply and combined deliveries (McKinnon, 1986; Smith and Sparks, 1993; Fernie, 1997) increased the opportunities for small and new suppliers who were unable to deliver to widespread locations.

Understanding the Value of Retail Image

The better buying and information power and the benefits of centralization caused the retailers to recognize the importance and potential of their trade name in developing image.

The critical factor in this case has been a clear understanding of how the retail trade name was perceived by the customer. The consumers transfer retail trade name to the products from their experiences of the retail store. If the chain has a poor image or a high quality image, these values will be transferred to the product.

The Differences in Perceived Risk between Retail Brand and National Brands

"Historically, it was believed that retail-brand products appealed differentially to the poor. However, in a review of 13 earlier studies, McEnally and Harris (1984) found only one study reporting a higher purchase rate for own brands among low-income customers. Own brands are treated by customers much the same as supplier brands (Uncles and Ellis, 1989). Their purchase can be linked to specific behavioural (Baltus, 1997) as well as demographic factors (Hoch, 1996) and to perceived risk (Batra and Indrajit, 2000) but this is true of any product within any market."[34]

Consumers' purchase intentions are greatly influenced by the perceived risks associated with product purchase (Bettman, 1973). Risk may manifest itself in a variety of ways such as fear that a product may not possess desirable attributes, uncertainty regarding product performance, or a sense that the purchase of a particular brand may invite social disapproval. Findings show that there is a significant difference between store brand prone and non-store brand prone shoppers with respect to the perceived risk associated with buying store brands. Low store brand prone shoppers are more fearful that store brands are of inferior quality and tend to believe that store brand purchase may result in financial loss. In addition, this group is more inclined to believe that the purchase of store brands may result in the perception that the individual is "cheap".

Value for money implies evaluation of product quality relative to the price required for purchase. Thus, a brand sold at a high price but with desirable product attributes (e.g. natural flavors, cane sugar instead of artificial sweeteners, vegetable colors instead of chemical dyes) may be viewed as delivering greater value for money than a competing brand sold at the same price but which offers less desirable attributes (e.g. artificial flavors, sugar substitutes). We find that store brand prone shoppers regard store brands as having much greater value for money than do non-store brand prone shoppers. This may partly explain why the latter segment shows such aversion to buying private label brands.

The perceived risk associated with the purchase of store brands could be a real cause to their adoption. British researchers (Livesey and Lennon, 1978) have reported that English consumers tend to serve national brand tea to guests in social settings but tend to consume store brand tea when such behavior cannot be observed. Perceived risk associated with store brand purchase may be minimized by organizing in-store taste tests to confront the popular notion of store brand inferiority. In addition, management might hire independent agencies to conduct benchmark studies and publicize the results of such studies directly on product packaging, on in-store information boards, and through public relations campaigns.

The financial risk associated with store brands could likewise be minimized by offering money-back guarantees and distributing free samples. Finally, image building campaigns could also be used to portray store brand shoppers as smart and quality conscious to overcome the social risk associated with store brand consumption.

The successful French chain Carrefour may provide a model that other retailers may wish to adopt. Carrefour actively markets its private label lines and positions these products as high quality alternatives to national brands. Carrefour seems to understand that positioning store brands on the basis of price may signal lower quality rather than greater value.[35]

The existing relationship between the consumers's perceived risk and the choice of store brands or generic brands as opposed to national brands has been the object of numerous studies in the last two decades. The first studies carried out in this area present a comparative analysis of the perceived risk of generic brand and national brand products and all conclude that consumers perceive more risk in generic alternatives than in manufacturer brands. Subsequently, store brands were incorporated into the above-mentioned comparisons. While the store brands surpass the generic brands with regard to the consumer's favourable perception of them, they are still considered inferior alternatives having greater risk than the national brands. According to Mieres et.al., data has shown that the greater the familiarity with store brands, the less the difference between these and national brands in terms of perceived risk, independent of the product category considered. Familiarity with store brands has also an indirect and negative effect on the difference in risk, both through reliance on extrinsic attributes of the product to evaluate its quality and through the perceived quality of store brands as opposed to national brands, so the total effect of this variable on the difference of perceived risk between store brands and national brands is rather important. Regarding the effect that experience with a product category has on the difference in perceived risk between store brands and national brands, results which differ in certain aspects depending on the product category have been obtained.[36]

Brand Loyalty and Customer Loyalty

Brand loyalty is defined as a habitual decision making that occurs when consumers like and consistently buy a specific brand in a product category. On the other hand Customer loyalty is the customers' commitment to shopping at a store.[37]

Consumers have variying degrees of loyalty to specific brands, stores, and companies. Oliver defines loyalty as "A deeply held commitment to re-buy or re-patronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause swiching behavior."[38]

Buyers can be divided into four groups according to brand loyalty status:

1. Hard-core loyals: Consumers who buy one brand all the time.
2. Split loyals: Consumers who are loyal to two or three brands.
3. Shifting loyals: Consumers who shift from one brand to another.
4. Switchers: Consumers who show no loyalty to any brand.[39]

The ultimate goal of most retailers is to have loyal customers. Loyalty can be an outcome of customer satisfaction. Customer satisfaction can be seen as a fulfillment of consumers' consumption goals as experienced and described by consumers. Satisfaction is consumers' "judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under- or over-fulfillment" (Oliver, 1997). In a review of earlier studies, there was a positive significant correlation between satisfaction and repeat-purchase in 15 of the 17 correlations studied (Szymanski and Henard, 2001). It is therefore most likely that satisfied customers will be more loyal to their main store. Customers are likely to be more satisfied with the product as the ability of the offering to provide consumers what they need, want, or desire increases relative to the costs (Johnson, 1998; Szymanski and Henard, 2001).

Private Label Practices in Turkey

In the following tables, private label spending percentage changes related to the categories, private label spending percentages according to marketing channels and the share of private label spending in the product categories.

Table 1: Private Label Spending Percentage Changes as to the Categories

Years / Product Categories	2002-2003 %	2003-2004 %	2004-2005 %	2005-2006 %
Food	47.3	35.2	58.6	25.0
Personal care products	29.3	45.9	38.1	11.9
Cleaning products	- 2.6	8.3	36.9	- 3.6
Others	128.1	21.9	5.2	12.5
Total	39.0	33.5	54.5	21.7

Retailing Institute and HTP – Private Label Report, Turkey-2006

Table 2: Private Label Spending Percentages according to Marketing Channels

Years / Marketing Channels	2002-2003 %	2003-2004 %	2004-2005 %	2005-2006 %
Hyper-super market chains	34.3	28.8	25.5	23.2
Wholesalers	1.1	0.4	0.3	0.2
Discount Stores	56.3	64.0	69.5	71.0
Others	8.3	6.8	4.7	5.5

Retailing Institute and HTP – Private Label Report, Turkey-2006

This shows that the majority of private label sales are in discount stores, which increased regularly from 56.3 percent in 2002-3 to 71 percent in 2005-6. The increase is a result of shifting from hyper-super market chains and others to discount stores and elimination of the wholesalers. As the customers of discount stores are mainly of the middle and lower income groups, this reinforces the belief that private label products still appeal to the low income customers in Turkey.

Table 3: The Share of Private Label Spending in the Product Categories

Product Categories \ Years	2002-2003 %	2003-2004 %	2004-2005 %	2005-2006 %
Food	2.2	2.5	3.3	3.9
Personal care products	2.9	3.8	4.2	4.5
Cleaning products	3.5	3.6	4.2	3.6
Others	1.9	2.1	1.9	3.1
Total	2.3	2.7	3.4	3.9

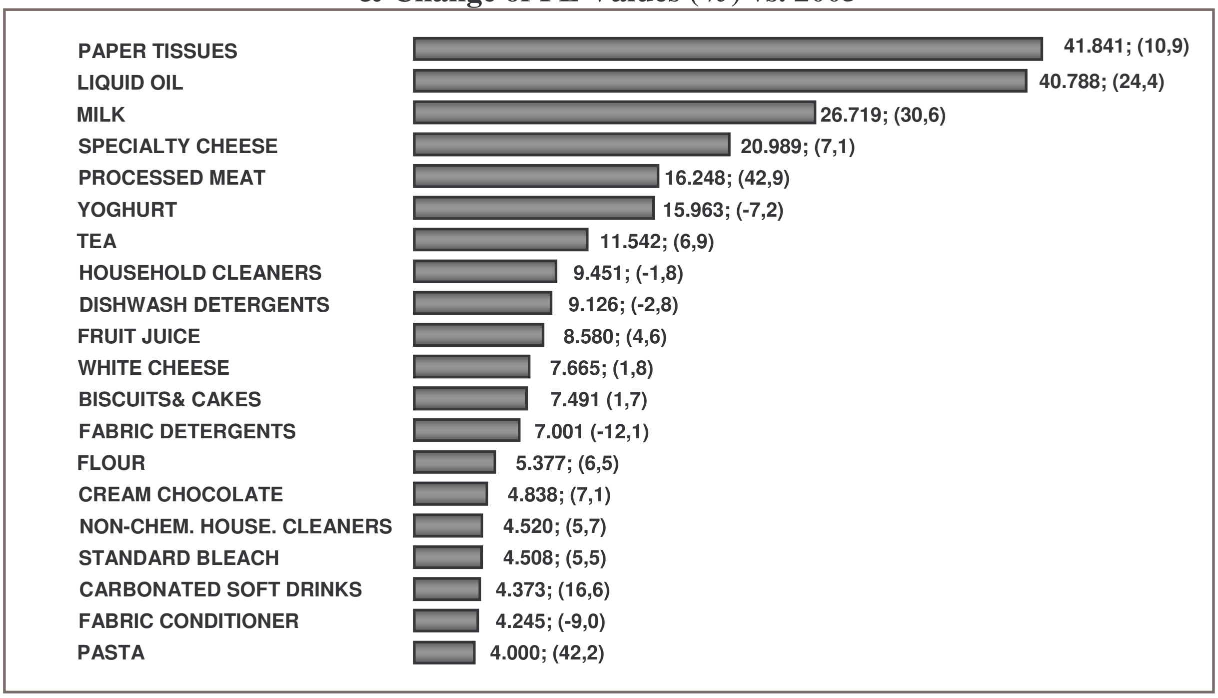
Retailing Institute and HTP – Private Label Report, Turkey-2006

In table 2 total percentages are given and they are similar with the percentages of the food categories because the weight of food is very important in the total spending, which also shows that the customers are from the lower income group.

According to Retail Institute and HTP in 2005 -2006, 73.8% of the household at least once bought the private label product. In this term, in all categories private label spending extended compared to the previous term. Food products still have the highest penetration with the highest number of households buying them. Consumer loyalty for private brands continued in all categories, except cleaning products with second, third and more purchases. The biggest loyalty growth is in personal care products with 19.4%. Paper tissues and grains (wheat, rice, beans, lentil, etc.) are the two subcategories with the highest turnover.

In the following tables (from table 4 to table 9), data are obtained by ACNielsen for the six biggest retail chain which are supermarket or hypermarket in Turkey.

Table 4: Top 20 Categories in Private Label Sales Value (000 YTL)* -2006 & Change of PL Values (%) vs. 2005



***Categories in Top 20, whose values are not displayed: Frozen Food**

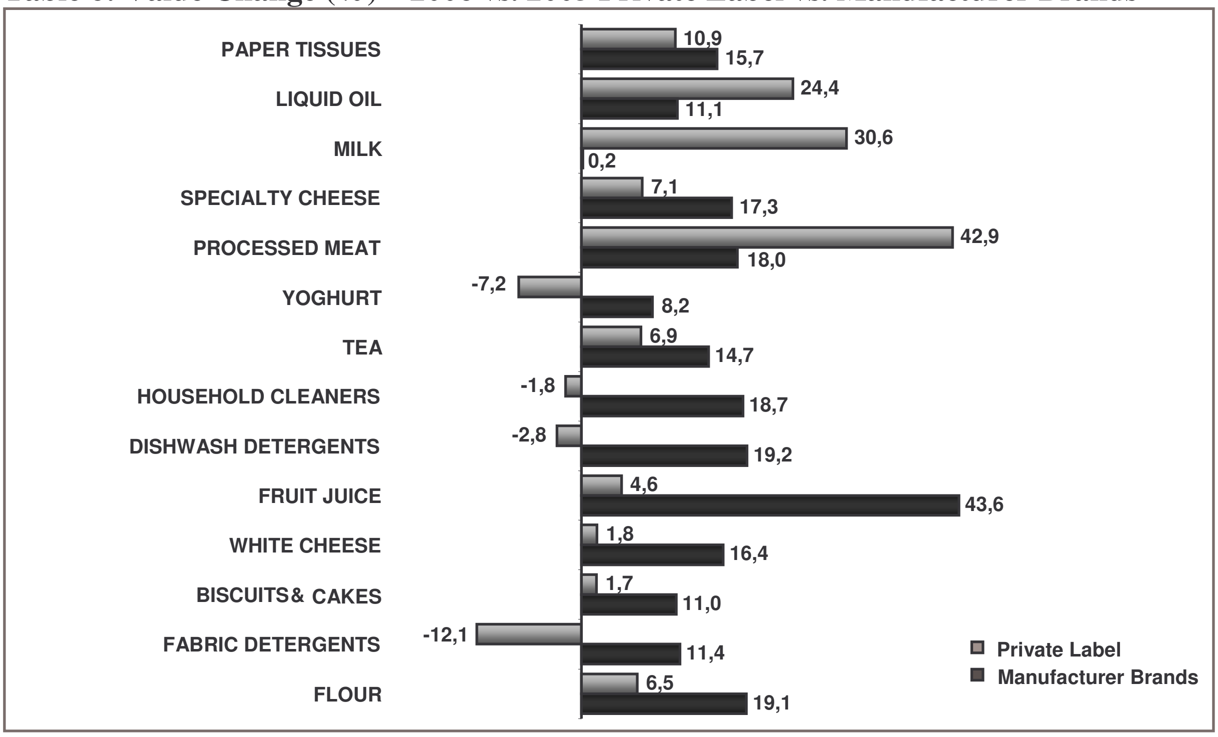
In table 4, sales values and percentages are seen for various categories. First three categories are paper tissues, liquid oil and milk.

Table 5: All Private Label Volume Shares (%) - 2006 and Change vs. 2005

	Value (000) YTL		Value (000) YTL
Paper Tissues	41.841	Instant Coffee	3.110
Liquid Oil	40.788	Canned Food	2.742
Milk	26.719	Soap And Shower Gel	2.621
Specialty Cheese	20.989	Baby Wipes	2.569
Processed Meat	16.248	Margarine	2.420
Yoghurt	15.963	Jam	2.326
Tea	11.542	Canned Fish	2.277
Household Cleaners	9.451	Tomato Paste	2.026
Dish wash Detergents	9.126	Cologne	1.890
Fruit Juice	8.580	Chocolate-Covered	1.873
White Cheese	7.665	Butter	1.693
Biscuits And Cakes	7.491	Stretch Film + Al. Folio	1.356
Fabric Detergents	7.001	Turkish Coffee	930
Flour	5.377	Air Fresheners	835
Cream Chocolate	4.838	Ketchup	826
Non-Chemical Household Cleaners	4.520	Infusion Tea	810
Standard Bleach	4.508	Mayonnaise	799
Carbonated Soft Drinks	4.373	Ready to Eat Cereals	734
Fabric Conditioner	4.245	Coffee Cream	699
Pasta	4.000	Toothbrush	395
Spread Cheese	3.526		

AC Nielsen Retailer Trends 2006

Table 6: Value Change (%) – 2006 vs. 2005 Private Label vs. Manufacturer Brands



AC Nielsen Retailer Trends 2006

Table 6 Continue: Value Change (%) – 2006 vs. 2005 Private Label vs. Manufacturer Brands

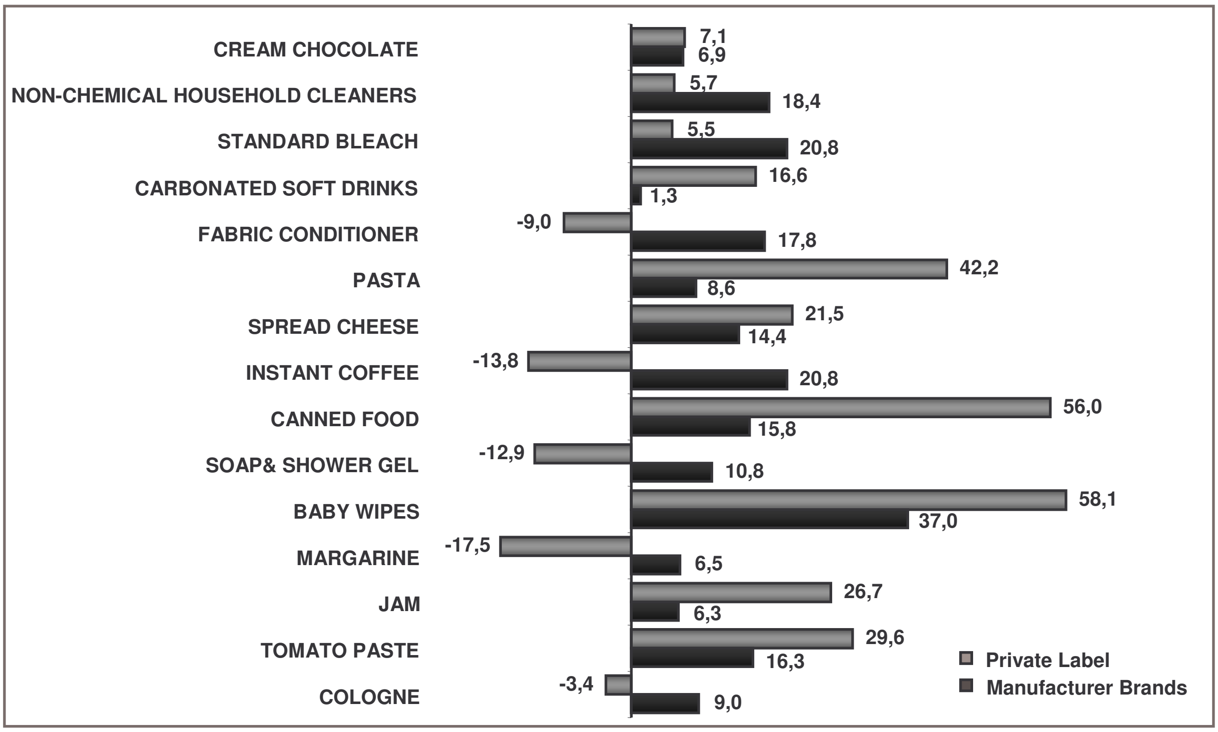


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Table 6 Continue: Value Change (%) – 2006 vs. 2005 Private Label vs. Manufacturer Brands

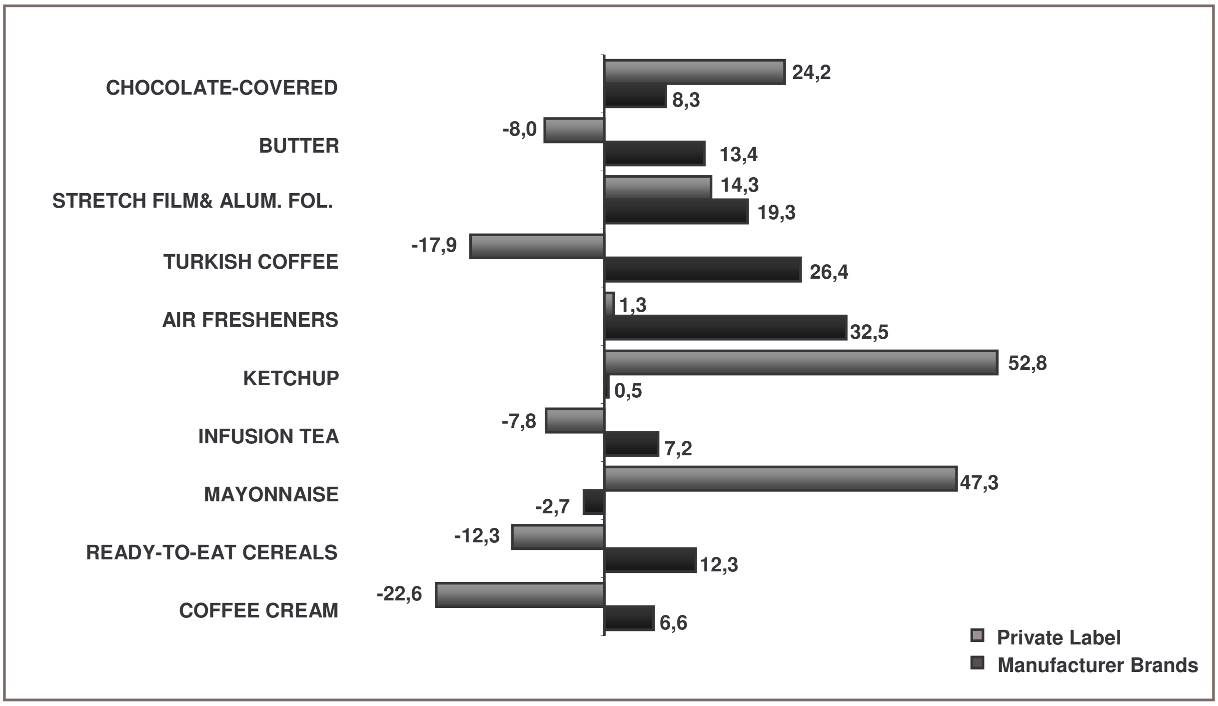

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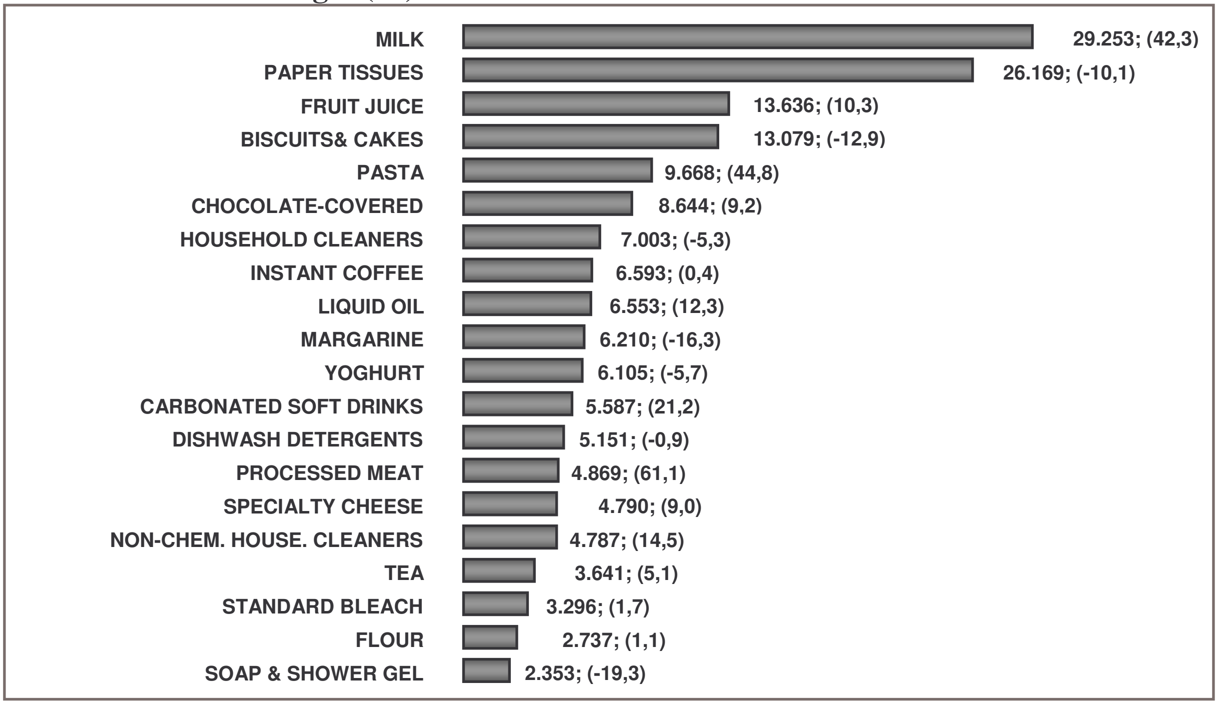
Table 7: Top 20 Categories in Private Label Sales Volume (000 Units)* - 2006 and PL Volume Changes (%) vs. 2005



*Categories in top 20, whose values are not displayed: Sparkling Water, Drinkable Yoghurt, Snacks.
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Table 8: Volume Change (%) (000 Units)- 2006 vs. 2005 PL vs. Manufacturer Brands

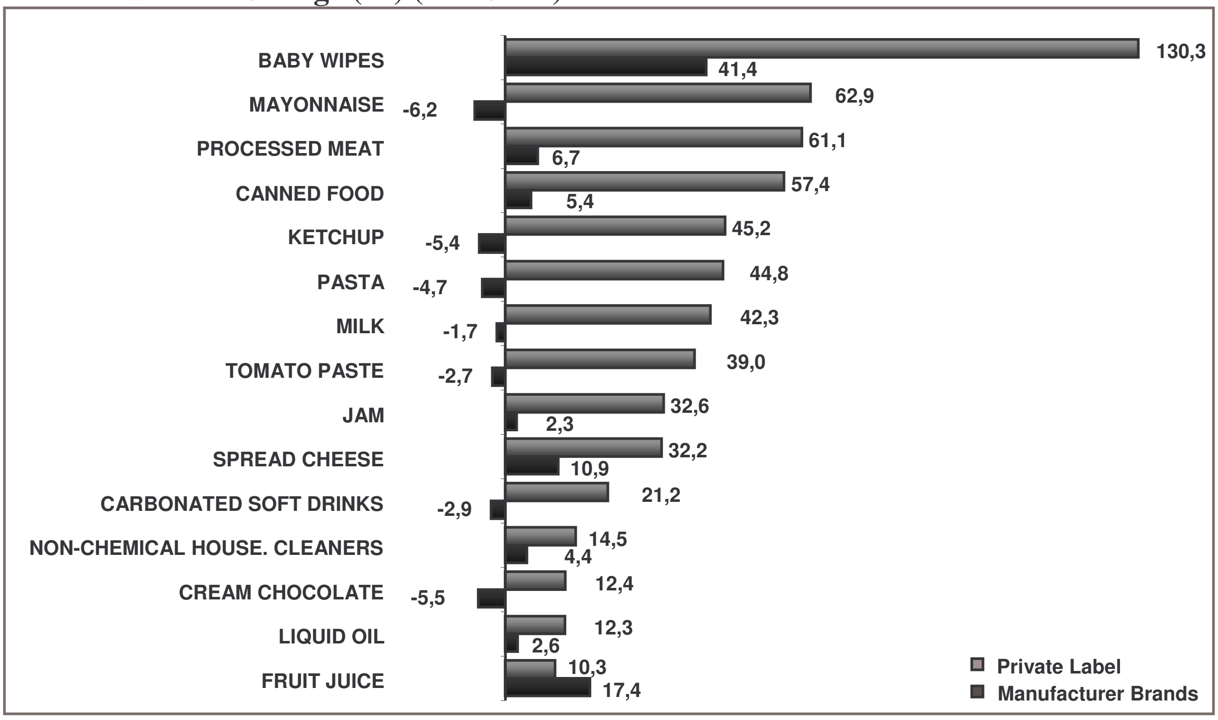

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Table 8 Continue: Volume Change (%) (000 Units)- 2006 vs. 2005 PL vs. Manufacturer Brands

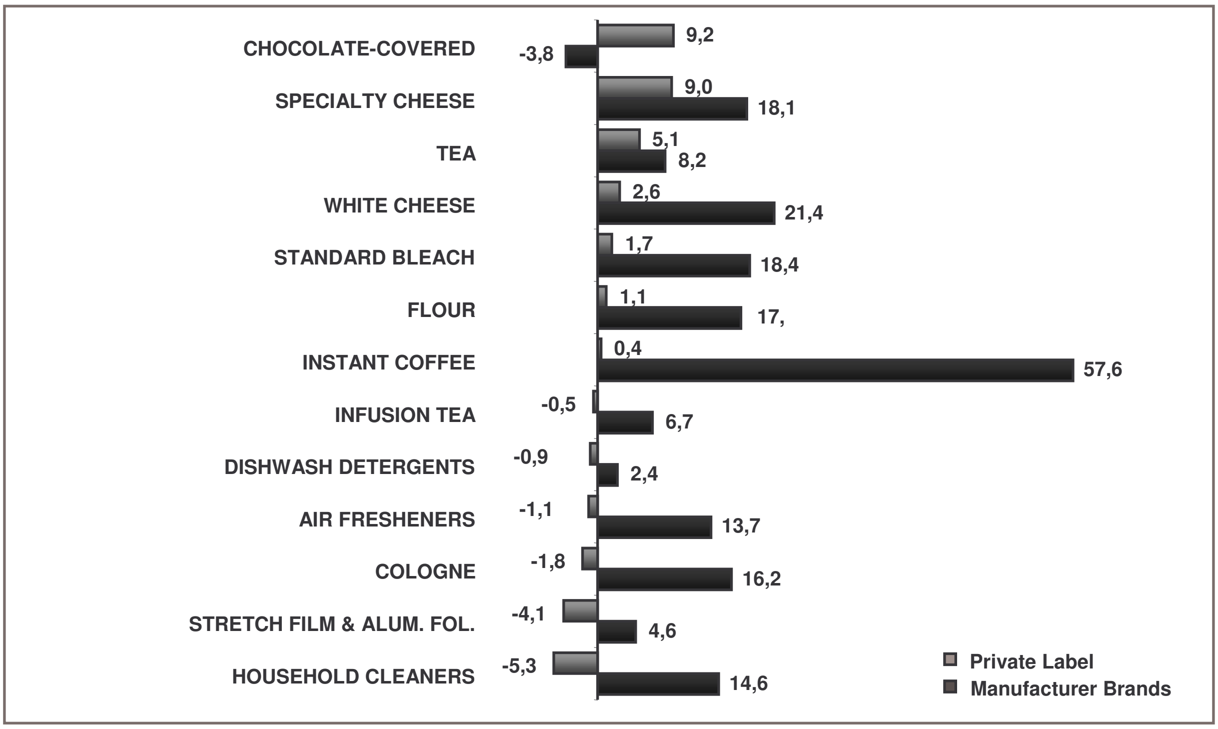

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Table 8 Continue: Volume Change (%) (000 Units)- 2006 vs. 2005 PL vs. Manufacturer Brands

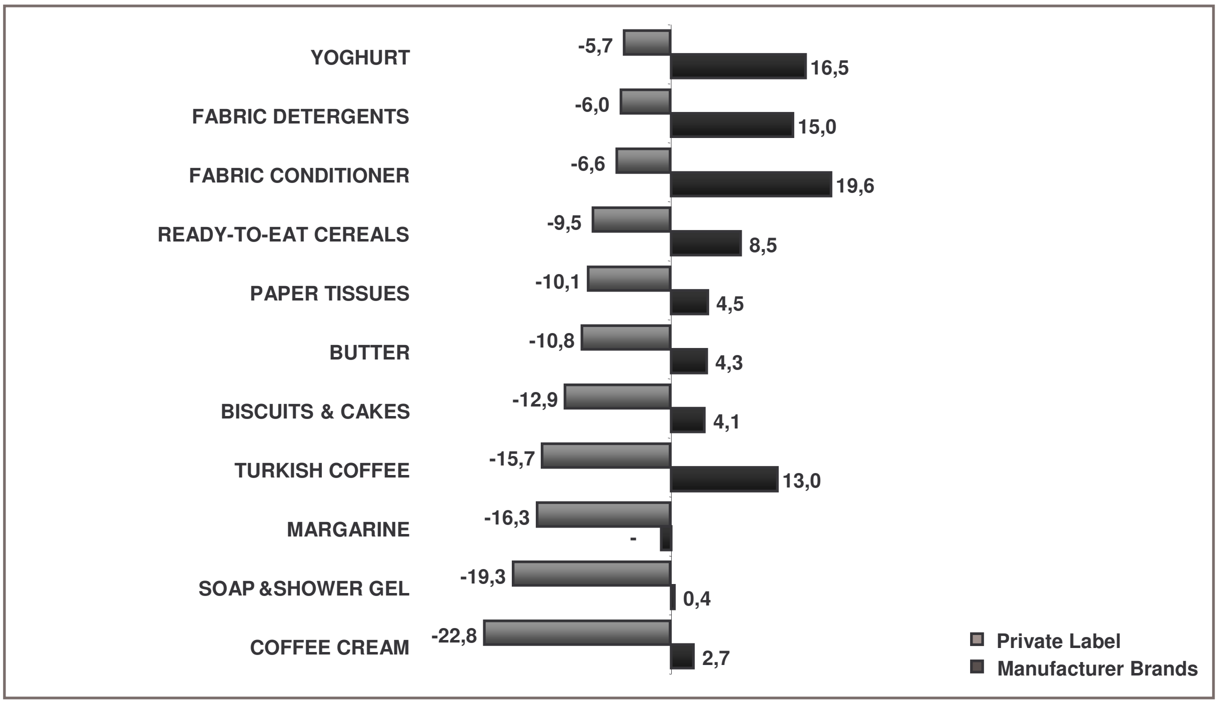

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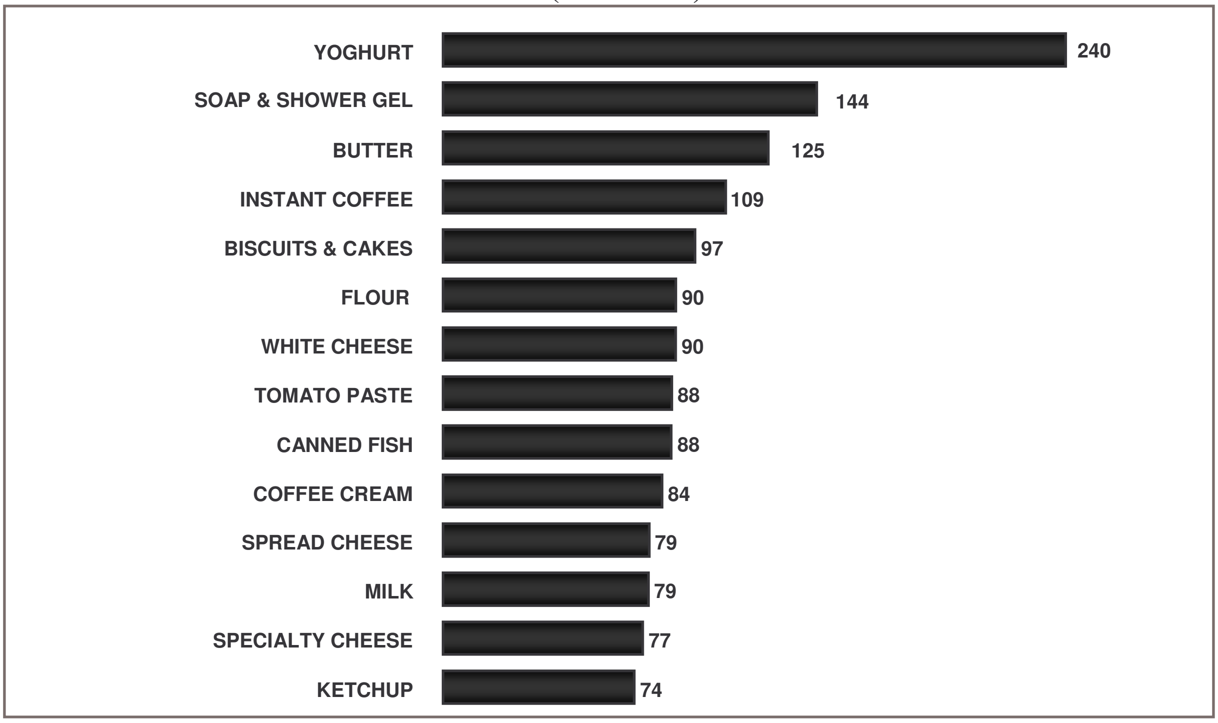
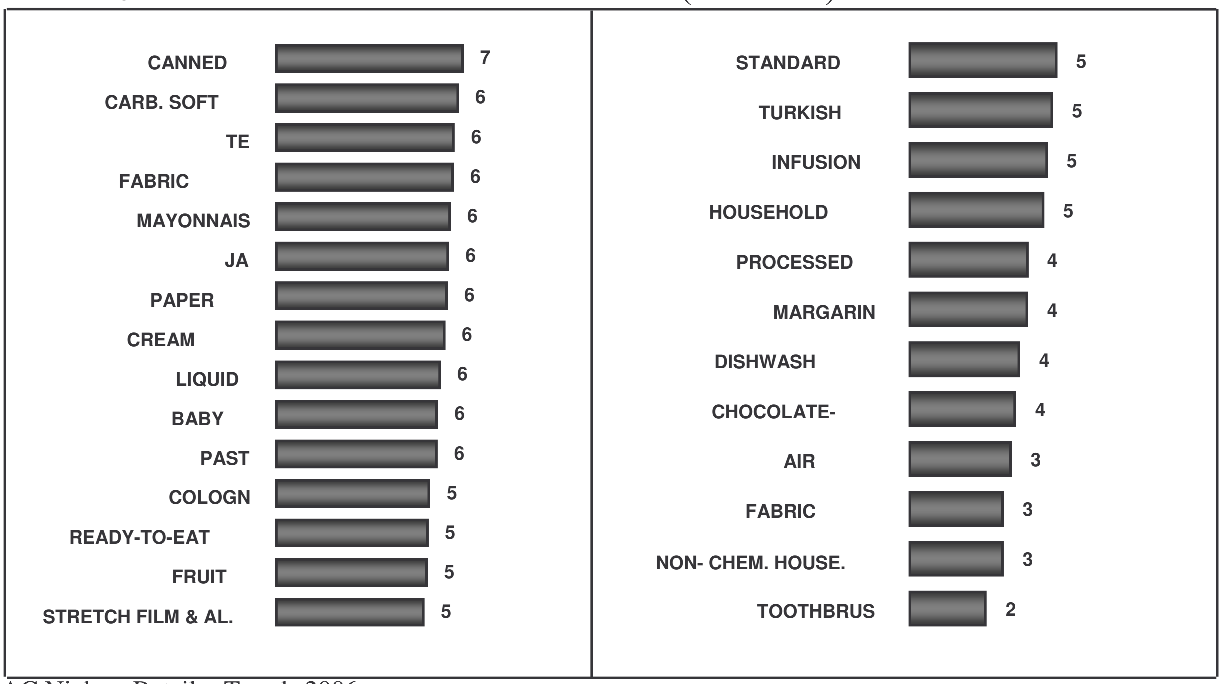
Table 9: Price Index: PL vs. MB – 2006 (MB = 100)



AC Nielsen Retailer Trends 2006

Table 9 Continue: Price Index: PL vs. MB – 2006 (MB = 100)



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Conclusion

We can say that there is a similar trend in the utilization of private label for most countries, but they are not at the same level of this trend. For example, Turkey is still in the level where England was several decades ago. Turkey can be considered to represent developing countries where England represents the developed countries. In the beginning price was the main issue in both of them. But later, while price still being important in developed countries, image and quality was also introduced as important issues in England. For Turkey this move is just in the beginning.

The ultimate goal of most retailers is to have loyal customers. Loyalty can be an outcome of customer satisfaction. It is therefore most likely that satisfied customers will be more loyal to their main store. The retailer that has loyal customers can use this opportunity in creating a private label loyalty and this private label loyalty may then in return create a store loyalty.

Store loyalty may also lead to private label product loyalty.

Private label products in Turkey are less expensive then manufacturer prices with an exception of four subcategories, as yoghurt, soap and shower gel, butter and instant coffee. Supermarkets can have a stronger position against hypermarkets by using private labels.

In Turkey, consumer preference for brand labels in some products categories are higher than others, due to perceived risk. Private label products are preferred by consumers who are not brand loyal, and who don’t want to bear the advertising expenditures and look for a lower price

Researches show that the majority of private label sales are in discount stores increased regularly from 56.3 percent in 2002-3 to 71 percent in 2005-6. The increase is a result of shifting from hyper-super market chains and others to discount stores and elimination of the wholesalers. As the customers of discount stores are mainly of the middle and lower income groups, this reinforces the belief that private label products still appeal to the low income customers in Turkey.

We can say that large retailers in Turkey are aware of increasing retailer power in the distribution channel, advantages of centralization of management and value of retail image in developing private labels. But to utilize these opportunities, needs a raise in buying power too.

We may predict that developments similar to developed countries will take place in Turkey as the level of development increase.

When we consider the private label trends in the other countries, we can conclude that there is a considerable potential for use of them in Turkey. Thus making use of the field can be recommended for the managers in general and the marketing and retailing managers specifically.

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