"IMPACT OF PRIVATE LABELS (IN-STORE BRANDS) IN EMERGING MARKETS [INDIA] ON FMCG COMPANIES AND WAYS TO MITIGATE THE CHALLENGE"

Submitted By

Hemchandar R,
Indian Institute of Management Bangalore [2nd year student]
Bannerghatta Road,
Bangalore 560 076
India
Telephone: +91 95 9157 2232
Email: hemchandar.ramesh10@iimb.ernet.in / hemchin@gmail.com

Understanding Private Labels:

Private labels are goods produced or manufactured under own labels either by a retailer or by a manufacturer. When the Retailer manufactures their own brand it is called as in-store brands or simply store brand. “Great value” from Wal-mart is an example of own label of store brands under which some thousand odd products exist. They are manufactured and are in direct competition against branded products, offering customers a cheaper substitute and more choice apart from national brands. Though the consumers typically used to see them as low-cost replications or cheaper version of branded products, private labels have overcome this status and have attained significant growth in recent years. Store brands are the most commonly available private labels for consumers. Department stores, electronics stores, apparels and office supply retailers sell private label products or services. Nowadays, store brands exist in 95% of consumer packaged goods categories.

Private labels possess several advantages over national brands and thus provide several benefits to both retailers and customers, driving the segment's rising acceptance. For retailers, margins on private label products are an average of 10% higher than those on national branded productsi. Customers benefit from private labels' cheaper rates, which are often considerably less than those of national brands. This combination, while advantageous to retailers and consumers, can put considerable pressure on the manufacturers of branded goods, who have to compete against their own customers (the retailers) for market share.

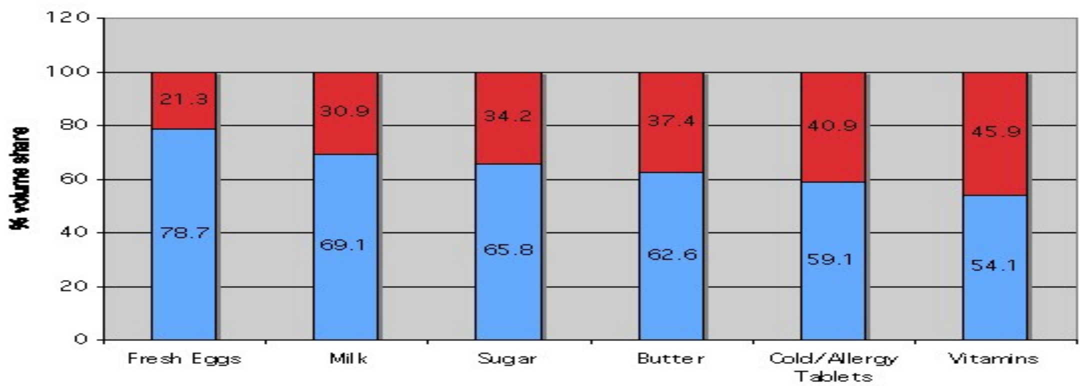


Figure 1: Largest category of Private label CPGii

Indian Context- Growth in Organized Retail

The whole retail industry constitutes around 360 US billion dollars where, food and beverages constitutes the major pie in the retail. The retail industry in India is estimated to grow to $543.2 billion by 2014 and according to the BMI India retail report; the food retailing in India dominates the shopping basket. The organized retail today contributes five per cent of the total retail business in India and the growth in the sector over the last five years has been over 30 per cent. However, in the organized retail it’s the apparel segment that constitutes the largest share and hence there is a huge scope of growth involved in the Food space.

The shopping behaviour has dramatically changed in the Indian, with the consumers are now well informed and want to have an experience while shopping. Hence there is a proliferation of growth in the shopping malls, supermarkets, hypermarkets etc. Shopping malls represent the traditional one-stop, shop-till-you-drop. According to the ACNielsen report, the higher number of people attending organized retail stores, leading to the growing density of store chains as they compete to enhance their position. Some 37% of consumers now visit hypermarkets, supermarkets, convenience stores and similar outlets on at least a monthly basis, a seven percentage point surge year on year.[from 2011 report]

Emerging Importance of in-store brands:

With the growing importance of the shift in shopper behaviour and the proliferation of the number of stores, the Indian retailers are increasing their in-store brands at a rapid pace. A Shoppers Trend Study by Nielsen found awareness about private labels has gone up from 64 per cent in 2009 to 78 per cent in 2010 across 11 cities in India.

The project focuses on the impact and threat of major Indian retailers like Reliance [Food world], Future Group [Big Bazaar], Aditya Birla's [More], Bharti, Trent etc. These are the major retailers who form the bulk of the organized retail or modern trade in India.

The modern trade in India is growing at a rate of around thirty percent, thanks to the increasing importance of in-store brands. Indian retailers are concentrating on the sales of in-store brands or called as the private labels for the Retail stores. This is also due to the enormous success of the in-store brands in the west and the profit margins they were able to get. There are important dynamics to concentrate on why the reason behind Indian retailers focussing on in-store brands, What are the advantages in creating store brand private labels, what are the challenges faced in terms of negotiation with the powerful FMCG brands, how it a threat to manufacturer brands and in what sense they have an edge over the national brands etc

Penetration of the Indian Retailers

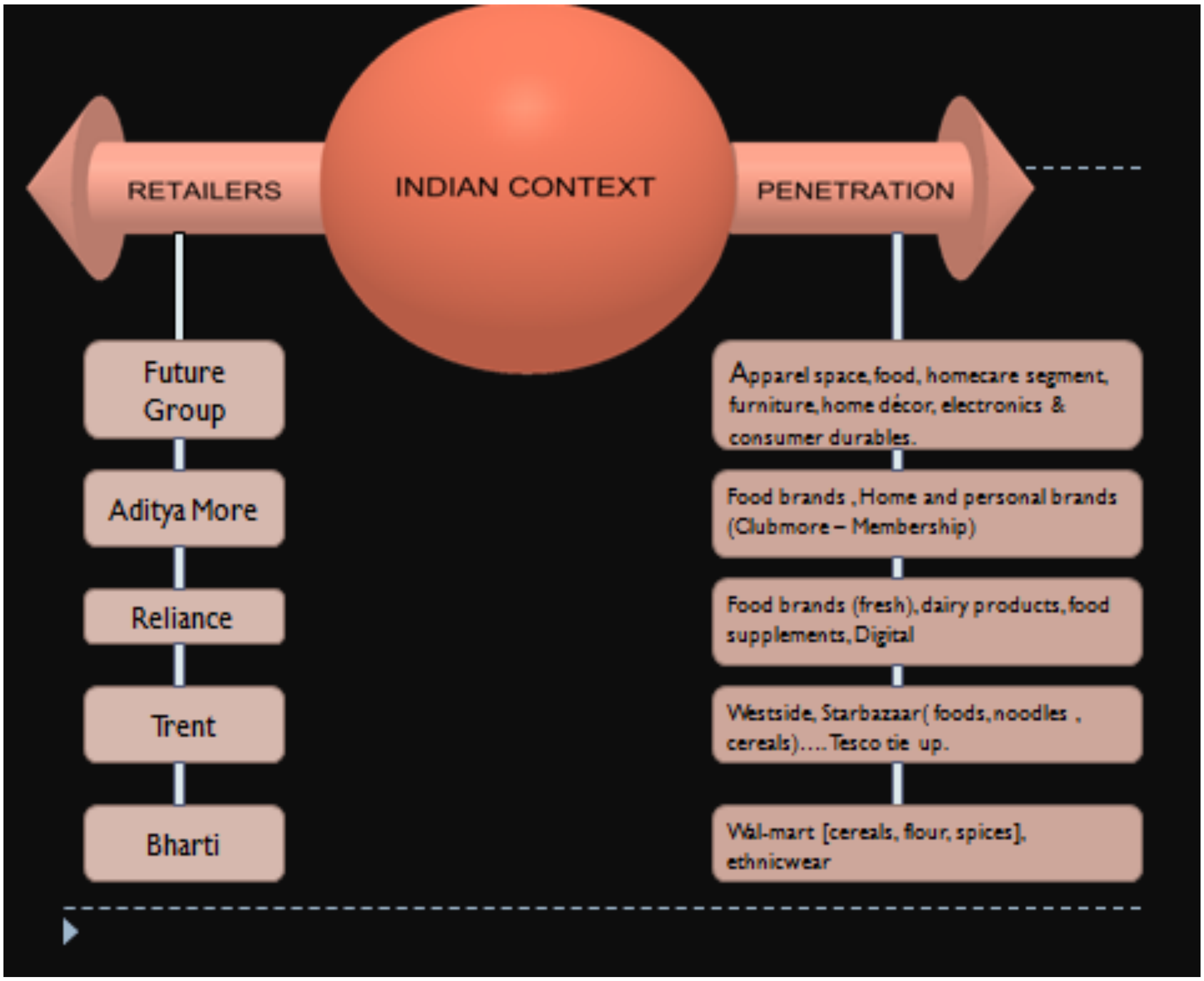
Aditya Birla Group: It has around 645 stores in the Hypermarkets and supermarkets category and private labels of around 345 products. The private labels range from food to homecare segments giving a cut throat competition to FMCG brands. These brands contribute 6 % share in 'More' stores and has 18% penetration with `Club More' loyal customersiii. More's private label brands are cheaper offer 8-10% incremental margin over national brands.

Future Group [Pantaloon retail, Big Bazaar]: It has around 150 stores in India, with around 50 private label products of its own. The private label brands in the category of apparel and electronic categories, generate approximate sales of around 567 crore rupees. Pantaloons, Food Bazaar, Central, Home Town and eZone are some of the retail chains they operate. The team has a range of private brands — Tasty Treat, Fresh and Pure, Clean mate, Caremate, Sach, John Miller, Premium Harvest and Ektaa.

Trent: They are Tata's Trent. They were the first to introduce Private labels in India in the apparels category providing westside's brands. Trent has majorly penetrated into apparels and in the food space through the launch of star bazaar, Book stores [Landmark], electronics [Croma], jewellery [tanishq] etc. In 2008, it tied up with Tesco

Reliance Retail: It has around 600 stores with the proliferation of private labels from the electronic categories to food space to apparels. Its formats include apparel chain Reliance Trends, beauty and wellness format Reliance Wellness. Reliance Retail's private label food brands - Reliance Select, Reliance Value, Healthy Life, Good Life and Dairy Pure - contribute over 25% of the total food sales from its outlets. Reliance Fresh has opted for a strategy similar to British retailer Tesco by having private labels at two price points — one above the rest of the brands and one below — for a number of categories . The company has launched private label brands in non-food category with introduction of floor cleaning products under the Expelz label.

Shopper's stop: - On the other hand, there are others like Shoppers' Stop which believe in capping the percentage of private labels in apparel in spite of being one of the pioneers of private label concept in India. Currently, 20 per cent of apparel section at Shoppers Stop constitute of private labels



Reason for moving towards in-store brands

Higher Margins:

As typically with private labels just as in the west, the in store brands for Indian retailers are able to generate higher margins. Typically, the Indian Retailers generate around 10-12 % margins from the leading manufacturer brands or the national brands. With the advent or the proliferation of in-store it gives them margins as high as 20 % on an average which is even expected to go to around 40 %. In-store brands primarily give Retailers a bargaining power, used as a negotiation tool against powerful national brands.

Faster Breakeven point:

The Indian retailers have many more years to reach the breakeven point before earning profits. In-store brands are a way to reach the break even faster and hence there Is even greater motivation for Indian Retailers to go more and more towards having their own private labels.

Traditional view among Indian consumers

Traditionally, in-store brands are viewed as cheap low quality products among the Indian consumers; also the concept of Modern trade was not present then.

Advertising played a major role in determining the value of the brand and hence national brands like HUL, P&G, Nestle, Kellogg, Lays had a powerful say in the consumer's choice. Brand gave consumers the trust factor. Even when customers wanted to choose a product, it always considered the brands that they recall or the brands that is commonly bought in the store [for eg: Britannia Marie gold, good day]. Hence the national brands enjoyed higher margins as the competition is only with regard to other national brands and they differentiated themselves in promotions, quality, brand equity.

In-store Brand Analysis

Consumer Behaviour - [Industry expert –Appendix]

It was very clear from the daily observation that, in order to make the customer buy their product, Retailers have to match the quality of the national brands and at the same time make it cheap to give an incentive to the customer to switch from their loyal brands. They were confident of this as they are closer to the consumer than any other national brands.

It is the Retailers who can observe the patterns in purchase behaviour of the customers real time getting to know what kind of products they buy, any repeat purchases being made, how is the behaviour of the brand loyal customer, is the customer thinking in buying a product or is he predetermined, is the customer going for any new product release or one dimensional, how well the in-store promotions are affecting their shopping behaviour.

Imitation

Indian Retailers made sure that, in order for the customers to try their product, their switching must be low. Industries like foods, household segment caters very well for the Retailers. Apparel segment attracted middle class and low class consumers who are not brand conscious but value for money customers.

After having the technical knowhow of the methodology being adopted by the national brands to attract the consumers, it took no time for the Retailers to copy the same for their store brands. For e.g.: *[They imitated similar packaging, lowered the price of their products, placing their products in shelf near to the leading product category, significant shelf space, discount promotion offers]*

Increased Awareness and Penetration Levels

In the Indian markets, Private Labels have emerged predominantly in House hold segment, foods, beverage and in apparel categories.. Low-involvement categories such as household cleaners were among the first to see the entry of private labels (17-44 per cent of sale in modern trade), bringing in huge margin-lifts for modern retailers. In categories such as food products — jams, biscuits and staples — private labels today contribute more than 25 per cent of modern trade sales

Reason:

- The products are easily imitable
- Not much formula or R&D process involved
- The process of manufacturing is not cumbersome [e.g.: oil]
- No legally certified products [Vicks, dental toothpaste] --This is because, Indian retailer are very cautious when they venture into Health related products as they are not expertise in the field and due to lack of R&D infrastructure
- The products should be faster to produce

Sourcing in-store brands

Traditionally, the leading Brands manufactured their own brands and distributed to the Retailers. Later, they began to outsource some of their own products to the third party manufacturers who were willing to produce at a cheaper rate while the national brands focused more on their R&D.

The Retailers then decided to approach the third party vendors to manufacture them the same product that is being manufactured to leading national brands but the label being their store name. Hence, essentially the quality is being matched more or less with the national brands in the apparel category, house hold segment, with the taste being almost the same for the foods and beverages as the formula required to produce the products are easily imitable. [As mentioned above household, apparel and foods are the major penetration in the Indian in-store brands]

Promotions

Indian Retailers today have in depth understanding of attracting customers through point of purchase promotions. They focus on impulse buying rather than traditional advertising of the products. On learning the art from national brands, they now come up with best strategies for in-store promotions, with their low price strategy to attract customers to pick their products and try. Indian Retailers are confident that once the customer tries their products, the customers will definitely try their product on the next visit.

They have the advantage of making effective promotions, knowing whether customer are making repeat purchases if no, what is the remedy for the problem. As they are in close interaction with the customers, it is very easy and quick for them to point out what went wrong than for other brands –***Industry expert***

Elimination of Intermediaries –Low cost – [Industry *expert]iv*

One of the chief reasons why Retailers are able to price their products significantly low [10-15% lower] than other brands is that, they eliminate the intermediaries. There is no distribution or sales personnel or promoters of the brands involved. The shelf space is theirs and most importantly they do not spend much in advertising. Most vendors directly supply to retailers' distribution centres, cutting out cost leakage at the distributor's and carrying and forwarding centres. Direct access to store shelves and aisles also cuts out the high mainstream advertising costs that brands have to bear. By clever product arrangements and in-store promotions, retailers can sway the shopper and draw attention to the price advantage. Their R&D costs are significantly low as they do not venture into products involving significant expense. Hence the overall operating expense for a product is extremely less such that they are able to gain adequate margins even after pricing their products low.

E.g.: *Future Group brought down logistics costs further by 6-8 per cent by appointing vendors in more than one region for 10 of its product categories to fill its distribution centres*

Portfolio of Product Lines:

After significant success in Private Labels, the Retailers are very keen on extending the Brand lines to low priced, medium priced and premium priced products still lesser than the National brands. This is done essentially to compete with the National brands as they occupy the shelf space by having a line of brands in the same category. By placing all three lines along with the National brands, the in store brands offers more choice to the customers. Hence through this, they develop the trust among the consumers and hence attract significant market share from the national brands.

Example -*Future Group too has its 'good, better, best' policy in place. In **staples**, the stores offer some products 'loose', such as rice, wheat, lentils, which is at the bottom of the ladder. Its **Food Bazaar** version of the products straddle the middle category, and above the two is its brand, **Premium Harvest**, retailing at a price higher than some manufacturer brands*

In-store Brands –An Emerging threat to FMCG Companies

With the change in Shopper Behaviour in India, Retailers' importance in India grew more than ever for the FMCG companies to drive their sales. Although the organized retail sector is still less than 10% of the overall retail space, this has been growing at a rapid pace with more and more consumers prefer modern trade shopping. FMCG companies very well know that this is the trend going forward. Moreover they do not want to let go of their market share for any reason to their competitor, which forces FMCG companies to be dependent on the Retailers for the sale of their products. With the proliferation of Private Label in-store brands, customers now have more choices to choose the product from a particular category. For FMCG companies, it has become a twofold problem, as they are now not only competing against other national brand competitors, but also against Indian Retailers who are now emerging as competitors. The situation is slightly more complex, as Retailers are both their customers as well as their competitors.

The following factors make us understand why they are competitors and threat to national brands and FMCG companies.

High Demand for Retailer's Margins

This has been the single most threat or problem currently faced by the Indian National brands. Retailers now are demanding excess margins from the leading manufacturers to place their products on the shelf. Here, the profit margins are getting squeezed and ultimately there is a pressure to drive more sales for their products. Earlier they were paying around 10-12 % , now they are forced to pay around 15-16 % margins. However these margin details will differ across different Retailers but nevertheless there has been an average increase of about 3-4% in margins.

Threat – Big Bazaar & Kellogg's

When Kellogg's refused to pay the margins demanded by Big Bazaar, its products were taken out of their shelf from all the 150 stores. Meanwhile Big Bazaar launched its own label brand "Tasty Treat" which occupied the shelf space. During those three months, The Tasty Treats brand of cereals, after fallout with Kellogg's, has been able to capture 18% market share (in Future Group's stores) for cereals. Kellogg's later re-negotiated with Big Bazaar with regard to margins, and its products were back to shelf.

Big Bazaar & Cadbury [2008]v

Big bazaar boycotted the Cadbury products in its shelf across all outlets and in food bazaar outlets following the accusation that Cadbury discriminates against giving higher margins for the other global retailers. Later on, the negotiation took place in terms of deciding on the margins and issue got settled amicably. Similar lines were found with Pepsi's Frito lays.

Reckitt Benkiser vi - As Reckitt Benckiser the maker of Dettol, Harpic and Lizol, cut their margins by 2 more per cent due to increase in the cost of input. Future Group in protest boycotted its products while setting precedent for others to follow suit. It had stopped placing fresh orders with Reckitt in the second week of February 2011. The slack in Reckitt products was taken up by other brands such as Lifebuoy, Santoor and Care Mate in hand wash and in home care categories such as toilet cleaners by Domex and Clean Mate. Later the margin issues were settled offline with the Indian Retailers.

Losing Market Share

As the private label margins are increasing, they lose their market share and the profit margins. The margins demanded by Private labels are as high as 14-16% from a mere 10 % before. Hence, there is a pressure to increase their sales volume and gain market share. On the other hand the private label segment itself is going at a phenomenal pace with margins ranging from 19-25% making it attractive for Indian Retailers to pursue this venture.vii

Where do Retailers score over Manufacturers?

They take less time to come up with the products [Industry expert]

> Indian Retailers take almost less than 3 months to come up with the new product in the shelf and at the max 6 months for a product depending on the category. This is a huge advantage given the fact that for a new product launch, an FMCG company takes at least a year, as R&D involvement is high. This is due to the high levels of imitation and Private Labels venturing into easy to imitate product categories. This gives them a huge lead time against FMCG companies and turnaround time to earn higher profit margins.

Retailer's Argument

- It makes perfect economic sense for them to pursue in the route of private labels as they are able to offer more choices to the consumers
- They are there to fill the gaps in the product line
- They offer customers more options at varying price points level
- They are trying every possible way to match national brands in terms of quality and gaining customer loyalty, trying to build an image for store brands itself

Insights developed from Retailer's Threat

An online poll was conducted by Retail wire with regard to the measure of fairness as to whether Retailers by taking the products of the manufacturers brand out of the shelf, thereby reduces consumers choice of choosing the brand from the shelf. Legally this is not a problem, as this practice has been followed in other Retail stores in the western countries like Aldi, Tesco, and Target etc.

Retailers overall had a positive review with regard to their actions of delisting products from the shelf. However, the suppliers are also to be blamed equally to about 33 % as they form a conflict of interest by agreeing to produce both the Manufacturer's brand and the Retailer's brand.

Supplier's argument

The supplier's argument is that, there is no conflict of interest as before the advent of private labels in India, they were not at all in the business and the margins demanded by big manufacturers were huge . Small suppliers were struggling to get contracts against big FMCG companies; hence they were practically dis-intermediated from the Business. Now, with the growth of private labels in India, Retailers have approached the suppliers for manufacturing their private labels or in-store brands. Following which, even the small suppliers were pulled into the business. There has been a constant struggle with the Manufacturers and suppliers with regard to producing the same brand with different brand names. But, as long as there is no patent and with the information of the products easily available, the suppliers are under no threat for producing or sourcing the products to the retailers. Also, the suppliers being few in number, the FMCG companies had to depend on them. As supplier's relationship and network is often long and strenuous to build, FMCG had to be silent. For suppliers, especially small suppliers, it is about business and making money out of taking contracts with retailers.

The key insights are

- Small suppliers seek solace from the Retailers
- Suppliers grow as Retailers grow
- This is because of the fact that, with the constant expansion, and proliferation of private labels, it generates more business to suppliers.
- For the Retailers, it is a platform to compete against the national brands

Two-edged sword

For the FMCG companies, the relationship with suppliers is very essential. The suppliers have long standing relationships with the FMCG companies. They understand the processes, brand really well. Now with the conflict of interest that is taking place with the private labels, FMCG brands have to move very cautiously. This is because, the situation is changed, as the dependency level for the Suppliers is not so much on National brands because of the proliferation of Retailer brands and the demand from Retailers to manufacture their products. Moreover, the switching costs for the FMCG brands are higher when they engage in a war on suppliers agreeing to source the same products to retailer brands. This is because, the new supplier must be trustworthy, understand the nuances of the brand portfolio. The culture of the company and more importantly understand how the brand is positioned in the minds of the consumer. This might take significant amount of time which might prove costly in the end.

FMCG'S reaction against Retailer's threat:

Price Wars:

The initial reaction of the big FMCG companies to counter the threat of the private label threat in India was to resort to price war. The reason behind the action being is very evident as they viewed Private Labels, competing against them in the form of only on a price factor.

For e.g.: Hindustan Unilever cuts prices of its products-

India's biggest consumer goods company cut the prices of some of its brands and increase the pack sizes of others. This was in response to the intensifying competition in the own-label brands segment. The company reduced the price of its Wheel Active Blue detergent by 20%, and increased the weight of packs of its Wheel Green brand from 275g to 300g, and from 560g to 600g. Other products that have seen the launch of a size include its Lifebuoy soap that increased the volume to 4%.

Procter & Gamble in response to the Private Label Reaction

It reduced the cost of the 750g pack of its detergent Tide by 19.5%, to compete against the emerging threat of private labels. This move also prompted Hindustan Unilever to launch a larger variant of its Rin Advanced offering in the same category.

Hence, it is very clear of the pressure being imposed by the private labels on national brands on price factors occupying a significant chunk of the market pie especially in marge metros and tier1 cities in India. This has forced the major FMCG companies to take some aggressive action giving Private labels and Retailers the signal of its power.

Communication message during packaging of the product

Manufacturer brands started communicating message in the packaging of the products like "This is not a private label product". This is happening increasingly in the case of new product launches of the national brands thereby clearly differentiating themselves from the private label products.

Through the communication message in the packaging it acts as a signalling that, the private label products are cheap in quality and are not to be trusted. This can really be looked upon as a long term strategy for the FMCG brands to attack the retailer store brands. Here, the brand loyal customer might hesitate to buy the products when a national brand indicates a negative connotation by using private label brands. Customers reading the message get a feeling that the private label products are of inferior with regard to the FMCG brands.

Aggressive price promotion at other stores

The national brands in confrontation, with the Retail stores taking the products out of shelf, started aggressive price promotions in the other competitive stores. This is a short term strategy as this policy would direct more in-store customer traffic and would affect the Retailer's business. However, the other competitive stores also started demanding higher margins. Also, by doing this, the FMCG brands are also giving an opportunity for its customers to try the competitive brands and private label brands.

This might prove catastrophic as there can be a permanent switch from its brand to its competitor brands, if customers find it to be more likeable on trying the product.

Producing products at different price points

In response to the Retailer's argument that, they are able to fill the shelf space with products at various price points, the FMCG companies also started initially to produce products within the same category. However, this is appropriate only when there is a need in the category. When the category of products is priced high in the market, then it might make sense, if a FMCG company decides to attract low, price conscious and value for money customers.

Strategies to counter the threat of Private labels

To fight back Private label intrusion, Brand manufacturers should remove their notion that PL's are inferior and should not focus their effort on competing brands alone. They should recognize that private labels became an important player in the competition. They should benchmark factors like consumer attitudes, product quality against private labels in addition to national brands. Indian brand manufacturers like Hindustan Unilever Ltd, Marico and Britannia should devise their strategy similar to the western companies' strategies to safeguard their market share and compete effectively alongside private label in the Indian market. We have detailed below the strategies for the Indian companies.

Constant Innovation

Indian FMCG companies must ensure that they must constantly look ahead in order to differentiate themselves from the emerging private labels. Also they should look for the categories in which, the products are not that easily imitable. This is to create a sufficient know how in the field of the category products in which the company is operating. Here, the private labels will not dare to venture into the area where

- The products are not easily imitable
- The process is heavy and cumbersome – [Manufacture of oil e.g.: Saffola Oil]
    - This is also because of the fact that Private Label do not want to invest so much time in either manufacturing or take up a process that is heavy as they want to have a shorter lead time
- Any health related products – As health requires certification from Industry experts and extreme loyalty in the brand is required which will take a sufficient amount of time to build. Moreover to convince the customers switching from say [Saffola oil or Colgate] to own label products are extremely hard, since these products are supported by the key influencers like Doctors and other professional practitioners. Hence private labels will give a deep thought before going into these categories.

New product Launches – A habit

In order to sustain ahead in this game,   FMCG companies have to aggressively come up with innovative business models and have a national rollout strategy for its new product launches. These new product launches has to supported by

- Aggressive campaigning

- Providing free samples to the customers to delight them
- Creating and re-enforcing the strong brand equity

Innovation is a key factor to counter the threat of Private labels in India. As we could clearly see, this will take some time for the private labels to figure out the processes involved in making a new product, formulas used, imitability factor etc. Also by the time a private Label like Big Bazaar or Aditya Birla Group comes up with the imitation of their own label of the new product, a FMCG brand can easily capture the first mover advantage and gain significant toe-hold among new and loyal consumers.

Risks involved

On the other hand, there are significant risks and costs involved in new product launches. The new product might fail in the market resulting in huge investment loss. Also, the R&D costs involved coupled with adequate promotions are very high for FMCG brands. However these risks can be mitigated by

- Understanding in –depth the emerging consumer needs, trends and satisfying them
- Right mix of marketing promotions improving the brand image of the brand

Strategy adopted for effective Marketing Communications- Advertising, Word of Mouth

One key factor that FMCG brand can do to counter the threat is to adopt effective marketing communication for the innovations they pursue, for the business models they build and essentially for the new product launches

Advocacy Models – Strategy to enhance product experience and Brand equity

FMCG brands while innovating new brands have to communicate effectively to capture market share. In order to enhance the brand image, building advocacy models either through Influencers and target customers or the early adopters of the products.

Sampling new products – Building Product experience and effective word-of-mouth

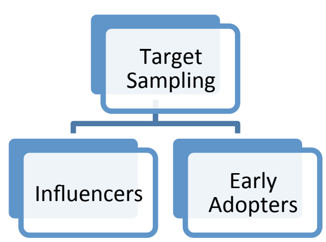


Figure 2: Sampling

Through sampling of the new products, before the actual launch, FMCG brands are creating positive impression .This sampling technique enables to raise awareness levels, make customersfeel proud that they are being valued which internally generates positive word of mouth effect.

Figure 3: Building brand experience

Here the private label of any new products in the store

- Lacks Awareness of the new product launch
- Cannot have Sampling techniques
- Lacks word-of mouth
- Customers cannot have brand experience

Their only source of advertisement is through in-store promotions

Strong Signalling

FMCG brands need to go aggressive against the imitation of private labels of their products in terms of copying the formulas, processes .These brands have to file for IPR [Intellectual property rights] for any new innovation being done. This might prevent or delay the imitation factor. FMCG brands also can make lawsuits against Private Labels for copying. This creates a strong signalling effect that Retailers will twice think before going for products in these categories.

However filing a lawsuit or an IPR will involve significant costs and time for a manufacturer brand. This might also involve hampering the relationships with the existing Retailers. Hence it is a delicate balance and a fine thread to deal with the situation.

Threat of Products being taken out of the shelf

This is a tough situation especially when Retailers demand higher margins for the shelf space and Retailers own brand occupying a chunk of their market share. Here the strategy that is essential is that

- The products must try to position not as a "Me-too" brand
- Essential for the category of brands to be either No:1 or No:2 or No:3
    - Here, if the category brand is a leader or one of the leaders, then it becomes difficult for the Retailers to take the products out of the shelf. This is because of either the strong brand loyalty with the customer or the product providing the key benefit
- The FMCG products must strive to achieve more extension of the brand lines. As this might fill the shelf space and cater to the target audience not allowing the chance for the Private Label to dominate in one segment.

Effective partnership

The relationship between retailers and manufacturers is such that former depends on the latter for product assortment while manufacturer need retailers to sell their products and to increase their sales volume. The sales of brand manufacturer through retailers have grown considerably over the years. A typical CPG company sells around 40% of its product through top 10 retailers around the world. Hence manufacturers should strive hard to establish positive relation with retailers. The main advantage of retailers is their efficient distribution network at low cost, which enables them to sell products at low prices to the consumer. Retailers too need national brands in their shelf to increase their assortment and they also need private labels to be manufactured at low cost and of high quality. Hence retailers also need to establish sustainable and conducive positive relationship with manufacturers.

Retailer's need

Retailers want to differentiate themselves from competing retailers by having wide product assortment mix in their shelves. National brand manufacturers can supply the retailers with exclusive brands, categories or offers in a mutually beneficial way. But supplying specific brand cannot be a long term strategy, since manufacturer would like their best-selling brands to be available in all retail shops and retailers would like it to be only in their shop. Manufacturer could sell a particular category through a specific retailer e.g. Nestlé's custom made Vittel water container especially for Lidl retailer. Discounters want to maintain a healthy mix of private label brands and manufacturer brands to satisfy all types of customers. Also they need to have competitive advantage other than price difference over other discounters. Discounters who emphasized only on private label brands have shown decline in sales compared to their competitors. e.g. In 2005, Penny's sale decreased by 7% while Lidl's increased by more than 10%. Thus Lidl got benefitted from brand sales and manufacturer's sales volume increased resulting in mutual profit. We have detailed below the main factors which are essential in creating a mutually beneficial relationship.

1. Ideal price difference should exist between manufacturer brands and store brands so as to signal to the consumers that they are targeted at different customers

2. Packaging of Manufacturer brand should be attractive and display worthy enough to differentiate the superior quality of the brand

3. Brand experience should be created around the brands to increase customer loyalty

4. Offering variety of package size to target various segments

Manufacturers should take into account the needs of the retailers/discounters before deciding on developing new product. Distribution cost should get reduced and brand's portfolio should match strategy of retailers. Working to meet the needs and wants of customer will drive both players towards common goal.

Is it an Emergency Situation?

As far as the emerging markets like India is concerned, it is essential to understand the nature and dynamics of Private Labels and its impending threat. With the kind of culture and landscape that India has, Retailers almost have to do a Wal-Mart in terms of expansion in rural areas, which is a humungous task to ask for. This is in consideration of the fact that, large Retailers are running in debt and still 4-5 years away from the break-even point. Moreover they are also in expansion phase in the leading Tire -1 cities and other metros. Hence catering to the semi-rural and rural area, where the majority of the population lies is not possible. In an developing economy like India, where the diversity and income level variation is so huge that unorganized retail [80% of retail share] is hard to replace.

Hence private labels threat is not an emergency situation, but they are definitely a factor for the FMCG brands in creating a dent in their market pie. They are seen and will be seen as a threat in the major metros and in organized form of Retail. The unorganized retail will prevail and it rules the roost. The leading manufacturer brands however have raised the eye-brows of the aggressive behaviour of Retailers.

In Retailers side, they have to be cautious in threading the path of Private label, as they try to imitate like Western counterparts. Here they have to note that, the business climate, population and income level; government policies play a significant role in their development and vary greatly w.r.to India.

APPENDIX

Industry expert – [Brand Manager, Retail]

Q: What do you think about the current proliferation of in-store brands in India?

A: "Well, in western countries, some Retailers almost dominate e.g.: Walmart and Tesco and are more on even terms with the manufacturers. In India, the Private label scenario has improved to a large extent in the past 5 years. Especially the downturn recession in 2008, helped us a lot in terms of gaining market share and the trust among the public, people started going for private labels as they are cheap. It is a good sign in the sense it offers more choice for the customers to select the products "

Q: Has it changed the relationship between you and the manufacturer?

A: "Little bit, as you know it is definitely eating away their market share and at the same time, our products are cheap and laying tremendous emphasis on quality. In fact, ABG Retail has a separate division for testing the quality of our products. FMCG are viewing us right now as competitors. "

Q: Is there always a tension between you and the FMCG companies or other national brands, because you exorbitantly raise the margins and sometime even delist the products from the shelf space?

A: "Not exactly, we demand higher margins for the shelf space. The scenario has changed now, as we have our own products to fill the shelf and customers are buying it .Having 10% margins is very old contract which is bound to be changed sometime or the other. We try to increase the margins on a smaller scale but not dramatically. In terms of de-listing, it happens when they normally are adamant about their pricing and occupying huge shelf space, for e.g.: Kellogg's. The tension is there as they are not able to accept the fact that Private Labels are actually improving....They will have to realise that going forward Private Labels is a way of life and it will be the trend in the future"

Q: How did you gain the trust among the public, how were you able to change the perception of a cheap brand to a trusted brand?

A: "Initially, we tried to understand the consumers, their shopper behaviour and how they get attracted to different products. We realised in order to compete against these brands, we need to be similar to them in terms of packaging, design aspect or even better them and price it low. It also depends on the category in which we are operating. "

Q: "Pricing it low, how are you able to do that, it seems you price almost 15% lower than the national brands "

A: "Yes, that is one advantage of being a Retailer. There is no sales and distribution cost, there is no manufacturing cost for us. Of course we have some, but we outsource most of our products to the third party vendors, interestingly, it is these same vendors that supply to the FMCG sectors as well. We identified these vendors, approached them, and sealed a contract. Also, we do not advertise, what we do is to attract customers as he enters the store and make him buy our product, hence our overall expense is quite low, moreover we also do not incur R&D costs much, but quality yes... So, we are comfortable extracting margins even while pricing low."

Q: Why is it that, your R&D costs are low, i mean you target only specific categories?

A: "We normally would like to go into the categories where the process of manufacturing is less heavy. e.g.: foods, beverages, house hold. Moreover we come out only with the existing products, hence more or less the same composition of elements or materials are used and customers need not worry about the product category, as our sole purpose is to make customer switch from the national brands to our brands"

Q: "Where do you think, the Retailers has the edge over manufacturers?

A: "This is the key , we normally roll out any products within 3 months, we plan for a month and then launch it after 3 months, which FMCG companies cannot possibly do, on the other hand, we are more closer to the consumers than they do. We have a data cruncher or data specialist appointed by us who analyzes the buying patterns, estimating the correlation on various factors which are required from our side and we get it, we observe it much faster than they do, plus we have the technology that is already present. By the time they realise that this is the problem, we would have rectified it and moved towards the implementing the solution. Hence, the lead time for us is the key, as we continue to roll out more products within short time "

Q: "Do you really think you are posing a threat to the FMCG companies"

A: "Well, you can view in two different angles. In any industry competition is a given factor. Any new players entering the industry like us, can be a threat in the eyes of National brands on the other hand, as long as the competition is healthy, it offers more choices for the consumers, more choice means more decision making and more thinking involved. It is good for the economic perspective as well. Hence , I view it as not being a threat as we both can co-exist very well, we have western

Industry expert – [Brand Manager, FMCG]

Q: How do you view the current proliferation of private labels in India?

A: Private labels in India are a recent phenomenon. It started gradually some five –six years back in India with some of the players like Big Bazaar and Aditya Birla Group, growing in prominence. Private labels in general are considered to be cheap quality brands by the way.

Q: But the perception is slowly changing and now has become a competitor to leading FMCG companies, occupying significant market share..How do you view this?

A: No doubt, they have grown in size in recent years and have posed some issues to the FMCG companies. In terms of the market share, they are nowhere close to the margins we have overall, but yes, you could say that their private labels is giving them more margins than they could have asked for over other national brands and that is a motivation for them to pursue in this path.

Q: Do you view the emergence of Private labels, a hindrance to FMCG's growth?

A: Well, it depends on how you look at it. On one hand yes they will negotiate and bargain hard with us over the margins. But on the other hand, they also need us. It is a hard fact that they cannot ignore us, as we are more directly responsible for generating the in-store customer traffic. Customers come in search for our brands in the store. Hence our brands are important in the Retail shelf space and that is a strong hold for us. Moreover, our revenue or market share from these Retail store are minimal where the majority of the revenue comes from the Kirana stores and in rural areas. If you take organized retail as a whole, the market share is just around 10 %. Hence the growth lies in unorganized retail .HUL per se has a large and effective sales and distribution network such that, it caters to diverse regions across the country. If you could see with regard to the private labels, they are happening only in metros. Even the expansion in the number of stores happen in metros

Q: We have had instance where retailers like Big Bazaar have the guts and courage to take out even products of big brands like Kelloggs, Reckit Benkiser out of the shelf? This is a signal of the kind where FMCG companies may not take it lightly ..

A: Well to some extent you are right, such actions, initially would have proved to be a shock for those brands. But if you could see, we do not have any such problems with Retailers so far. It depends on how you negotiate it. Rather than viewing them as a threat, we need to find effective ways of co-existing together. In terms of taking the product out of the shelf, they cannot do that on a sustained basis for all brands. If they do that, they might lose potential customers who might get disappointed on not seeing their favourite brands in the retail shelf.

Q: The confidence of Indian retailers comes may be from the success of western Retailers over national brands..Do you view a similar situation like this in India?

A: Well, in order to analyze the western retailers over Indian retailers, our Retailers are still in the very nascent stage. There the culture, landscape is totally different than in India. Almost 90 % of the shoppers go to the malls and then buy the products.. Here as I said organized retail is just around 10 % and this might not be suitable to cater to the people in rural and semi-rural areas. But in Metros, I again think it might be extremely difficult. This is because of the fact, that Indian retailers at present are very good at imitating the products not come up on their own. This is not the case with Europe where stores like Aldi has 90 % of its own private labels and people have high store loyalty. In Indian landscape, the consumers are very brand loyal and they need our brands.

Q: True, But they are also trying to improve their quality by setting up R&D facilties and pricing low ?

A: Well, right now these trends are seen, not with all Retailers though. But at the end of the day , they do not have adequate resources nor technical know-how to manufacture products like "VIM". They cannot do that and customers need VIM. Hence we are safely positioned. But yes, having said that , they can damage our share in the areas where imitation is high by pricing low and improving the quality. This is where, we need to be cautious and try to find adequate ways to counter the threat.

Q: Then how do you think you can avoid the threat of private labels in India?

A: Here we need to understand that, Private Labels is a way of life in India. It is there and will continue to be there. Hence, we need to understand that and find ways to improve ourselves.

Q: Where do you think Private labels have caused significant damage in India?

A: Well, I certainly think, it has made its mark in Metros. In terms of the brands, the smaller players might take a hard hit as they cannot compete with them in the price aspect nor can they do have the bargaining power to negotiate the margins. Hence instead of those products in the shelf, Retailers place their products along with our products. This is where the damage is being done and especially to the smaller players. This also to my mind re-enforces of the fact that, nowadays the brand has to be strong or there must be a good amount for customer demand for a particular product.

Q: Finally what do you think FMCG companies should do? What strategy they should follow?

A: Well the strategy does not differ much, except that, we should have a strong Brand equity, If not build a strong image through advertising and extensive promotions. Also, it is very important to come up with our own products as this is where it will differentiate from Private Labels in general. We can also take leverage of our strong R&D facilities. For smaller companies, it might prove to be a costlier affair, but they can concentrate more on unorganized retail and then later come to retail stores aggressively.

I think it is also important to have smooth relationship with Retailers. It is essential at the end of the day as they are our customers as well!!!

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