MAJOR FACTORS CONTRIBUTING TO THE SUCCESS OF PRIVATE LABEL BRANDS IN THE CANADIAN GROCERY RETAIL SECTOR WITHIN THE FOOD AND BEVERAGE CATEGORIES

By: Pankaj Maitraiya

Applied Project-MBA

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Advisor: Dr Dwight Thomas

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ABSTRACT

In Canada, Private Label Brand (PLB) products have greatly evolved from being low price and low quality items to being a major challenger to National Leading Brand products (NLB). These products now utilize the same strategies as their NLB counterparts and are considered an important part of the overall strategy of grocery retailers.

The purpose of this research is to examine the major factors that have contributed to the success of PLBs in Canada’s retail grocery channel within the food and beverage categories.

The research will accomplish this objective through the following:

- Identifying the factors that have contributed to the success of the private label business within the Canadian grocery retail sector in the food and beverage categories
- Examining the strategies employed by PLBs in the grocery retail sector in Canada. This will also include the influence of European and US private label strategies.
- Examining and exploring strategies employed by NLB manufacturers to counter the strategies of PLBs
- Providing leading brand companies in Canada that are operating within the retail food and beverage categories with a better understanding of the factors contributing to the success of PLBs in Canada.

This research will accomplish the above objectives through an exploratory analysis of secondary sources.

The following are the major findings of the research:

- The Canadian grocery retail market structure contributes to the existence of PLBs as the market is concentrated and only a few large retailers dominate.
- The Canadian grocery retail market is very similar to the UK market
- PLB brand presence varies across product categories. They are more dominant in products that are utilitarian in nature rather than hedonic. PLBs are also dominant in categories characterized by the following:
  - Low innovation
  - Product category sales are large and growing.
  - Category is dominated by few national brands
• In Europe, US and Canada, the grocery retailers with the largest share of PLB sales are also the most profitable.

• Consumers are more willing to buy PLBs when quality attributes can be determined through product information and labels rather than trial.

• The PLB strategies employed by Canada’s grocery retailers are very similar to European and US retailers.

• PLB strategies have evolved over the years and retailers may pursue a number of different strategies.

• In Canada the top three grocery retailers utilize a two-tier brand strategy.

• NLB manufacturers can counter the affect of PLBs through the following:
  • Effective advertising and product innovation strategies.
  • Consolidating and eliminating low market share and low equity brands.
  • Forming better relationship with the trade through strategic partnerships.

• Consumer welfare is maximized when there is a positive impact on prices, increased level of competition between PLBs and NLBs and wider choice of product availability.

• Overall PLBs have had a positive impact on consumer welfare.

The findings in this report can serve as a major source for NLB manufacturers to better understand one of their major competitors. Advertising, product innovation, and product quality are major strategies that can aid NLB manufacturers in countering the success of PLBs. By forging stronger relationships with retailers, NLB manufacturers have an opportunity to become value added partners. This role provides NLB manufacturers with the opportunity to educate retailers on the long-term benefits of having the right mix of NLBs and PLBs.
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1.0 INTRODUCTION
The days when a retailer’s Private Label Brand (PLB) conjured up images of poor quality, generic packaging, low creditability and low price are a distant memory. PLBs currently employ the same strategies as National Leading Brand (NLB) manufacturers and have certain brands that are equal in quality to their leading brand counterparts. Their lower price and equivalent quality provide greater value to consumers. PLBs are considered a key element in the overall strategy of grocery retailers. They are also considered an important strategic weapon that is used by retailers to gain concessions from NLB manufacturers and achieve their overall retail strategy.

In 2000, PLB sales in Canada represented 23% of the total sales (Chart 1) in the grocery retail sector. According to AC Nielson, during the years 2002-2003, PLB sales in Canada grew 5%. In 2006, the Canadian grocery retail market had a size of $71.8 billion (Newswire Canada, 2006). This translates to a PLB share of approximately $17.2 billion dollars (24%) based on growth of 5%. Sales of PLBs such as President’s choice represented 24% of sales for Loblaw in 2007. Loblaw has plans to grow this to 30% over the next few years (Loblaw 2007 annual report, 2007, p.5). Other major Canadian grocery retailers such as Sobeys and Metro also have their own PLBs.

In Germany and Great Britain, the share of private label is 34.5% and 43.1% respectively (Ac Nielson, 2008, p.25). The success of PLBs in these European countries provides further evidence of the growing popularity and consumer acceptance of PLBs. In the US, the share of PLBs is below that of Canada and Europe; however, certain grocery retailers such as Safeway have enjoyed a higher level of success with their PLB strategy. The success of these retailers in Europe and the US has influenced the strategies utilized by Canadian retailers and provides insight into the future direction of PLBs in Canada.

Despite the fact that the PLB share in Canada is not as significant as the above mentioned European countries, they still have a very significant presence in the Canadian grocery retail channel. It is therefore important for manufacturers of NLB products and brand managers to take the threat from PLBs seriously. Taking PLBs seriously will allow them to effectively compete in the market.

2.0 RESEARCH OBJECTIVE
The purpose of this research is to examine the major factors that have contributed to the success of PLBs in Canada’s retail grocery channel within the food and beverage categories. This research will accomplish this objective through the following:

- Identifying the factors that have contributed to the success of the private label business within the Canadian grocery retail sector in the food and beverage categories

- Examining the strategies employed by PLBs in the grocery retail sector in Canada. This will also include the influence of European private label strategies.
- Examining and exploring strategies employed by NLB manufacturers to counter the strategies of PLBs
- Providing NLB companies in Canada with a better understanding of the factors contributing to the success of PLBs.

2.1 Research questions

The objective of this report is summarized through the following question:

**What factors have contributed to the success of PLBs in the Canadian grocery retail channel within the food and beverage categories?**

In order to fully explore this question, the following sub questions will also be used to accomplish the objectives of this research:

1. What unique characteristics within the Canadian grocery retail sector have allowed PLBs to flourish?
2. Why do retailers carry PLBs?
3. Why are consumers attracted to PLBs?
4. What strategies are employed by PLBs to gain market share against NLB products?
5. Are there similarities in private label grocery retail strategies utilized by Canadian, US and European retailers?
6. What counter strategies have been employed by NLB manufacturers against PLBs?
7. What is the impact of PLBs on consumer welfare?

The answers to the above questions will be given within the context of the Canadian retail grocery sector’s food and beverage categories. The report will mainly concentrate on the strategies employed by Canada’s three largest food retailers:

- Loblaw Companies Ltd
- Sobeys Inc
- Metro Inc

3.0 LITERATURE REVIEW

There is very limited research that deals with PLBs specifically within the Canadian environment. However, there is extensive research related to the US and Europe. The report will draw on this research by showing parallels with the Canadian environment. Majority of the existing research deals with very narrow and specific factors that are
responsible for the success of PLBs. For this reason, this report will rely on many different sources to present a fully comprehensive view of the major factors contributing to PLB success. The corporate websites of Canada’s three largest retailers will also be used to analyze the specific private label strategies utilized by Canadian retailers.

3.1 Understanding the grocery retail channel and conditions that give rise to PLBs

A proper understanding of PLBs requires an understanding of the retail grocery channel. Porter’s five forces model will be helpful in explaining the unique industry characteristics that have given rise to PLBs brands and the impact they have on each of the industry elements.

Husson’s research (2002) closely examines common industry and market conditions that have influenced the success of PLBs within the UK, US and Canada. This report will extensively draw on this research to provide a comprehensive view of the factors responsible for PLB success in Canada. One major shortcoming of Husson’s research is that it does not explore PLB impact on consumer welfare.

3.2 Understanding retailer strategy and the role of PLBs

Husson’s research (2002) evaluates many of the strategies used by private brand retailers and the evolution of these strategies over time. The case study of Tesco, Safeway and Loblaw in this research provides insight into the similarities that exist between Canada and other major retailers in Europe and the US.

PLB success varies not only across different countries and market structures but also across product categories. Batra and Sinha’s research (2000) provides insight into the factors that explain variations in purchasing preferences for NLBs versus PLBs across different categories. Previous researches have highlighted these differences but this research explores these differences from a consumer perspective.

Hassan and Dilhan’s research (2006) findings conclude that consumers are more willing to buy private label products if the risk associated with its quality is low and if they can assess its quality without experience through information such as product quality labels. This research explains the growth of premium PLBs and their use of quality symbols and logos as an assurance of quality.

The research by Sloot and Verhoef (2008) further builds on the product attributes that contribute to the success of PLBs. This research in particular examines the success of PLBs in Hedonic products versus utilitarian products.

Sloot and Verhoef’s research (2008) also provides insight into the important role that PLBs play in the deterrence and signalling strategies used by grocery retailers. Insight is provided into the thought process that both retailers and manufacturers must go through before deciding on their individual brand attack and counter attack strategies. This report will use this insight to provide a better understanding of the roll PLBs play in curtailing the power of NLB manufacturers.
The following are the corporate web sites of Canada’s three largest retailers; Sobeys, Metro and Loblaw. This report will use these sites to gain more insight into the PLB strategies of these retailers:

http://corporate.sobeys.com/English/Our_Company/image_map.asp
http://www.metro.ca/corpo/accueil.en.html#

3.3 PLB: affect on competition and consumer welfare
Porter’s five forces model will once again come in handy to evaluate the impact of PLBs on competition in the grocery retail sector. Increased competition more adequately serves the needs of consumers.

Steiner’s research (2004) states that consumer welfare is maximized when there is an increased level of competition between retailers and manufacturers. He also states there may be a form of collusion taking place between the retailer and manufacturer. In these instances, consumer welfare is not maximized. This report will draw on this research to analyze the state of competition between PLBs and NLBs within Canada. There have also been specific studies conducted on the impact of PLBs on price. The studies by Anselmsson (2008) and Soberman (2004) offer contradicting views on the impact of PLBs on prices. This report will examine the major assumptions associated with these studies to determine if they are still valid in this new era of PLBs.

3.4 Overall evaluation of the current literature
Each of the above research studies are narrowly focused and are successful at explaining the factors behind PLB success related to specific factors. A single source that considers all major factors and provides a full comprehensive view of these factors from the perspective of the consumers, retailers and NLB manufacturers does not exist. This report will attempt to fill this gap and further contribute to the existing literature by examining all major factors contributing to the success of PLBs from these different perspectives.

4.0 METHODOLOGY
The questions in this research will be answered through an exploratory analysis of secondary sources. The research will concentrate on the food and beverage categories within the retail grocery sector in Canada. As the sources related to the Canadian environment are limited, parallels will be drawn from research related to PLBs in Europe and the US.

5.0 MARKET CHARACTERISTICS
There are certain market characteristics that foster the emergence of PLBs. Porter’s five forces model will be used to gain insight into these unique characteristics and the interaction that takes place between PLB retailers and NLB suppliers.
The US market serves as example of a market where PLBs are not dominant. The UK market serves as an example of a market where PLBs are very dominant and enjoy the one of the highest market shares globally.

5.1 PLB share and retailer concentration
In the US market, the share of PLBs is significantly smaller than the UK and Canada (chart 1) because retailers are less concentrated. The US market has many retailers and a few large national retailers. In this market, the top five retailers (year 2000) accounted for only 45-50% of the total grocery retail market share (chart 1). At the same time the share of PLB sales as a percentage of total grocery retail sales was 15% (chart 1).

In contrast, the UK market is very different. In the UK market, the top five retailers accounted for over 80% of the total grocery retail market and the PLB share of sales was between 40-45% (year 2000) (Chart 1). For this reason, this market is considered to be highly concentrated as the top five dominate the market.

5.2 Porter’s five forces: Analysis of the market
5.2.1 US market
Analysis of the US market – Porter’s five forces model reveals the following:

- Threat of Potential entrants- Opening a large retail grocery store requires a significant amount of capital investment. Therefore, the threat of entry in this part of the market is low however; a small retail corner store can be opened without a large amount of capital. Therefore, the threat of entry from small stores is high.

- Threat of substitutes- This threat is high as there are many retailers that carry food and beverage products and consumers can shop in a variety of stores and store formats.

- Bargaining power of Suppliers- As there are many retailers, the bargaining powers of NLB manufacturers and suppliers is high. If a retailer threatens to de-list a brand, the supplier/manufacturer has the option of selling their products through many different retail grocery outlets. De-listing at a retailer will not result in a loss of significant market share as retailers are not concentrated and market share is spread amongst many retailers. The only exception to this is Wal-Mart as it is the largest global retailer overall and therefore has more bargaining power.

- Bargaining power of buyers (buyers are the customers of retail stores) - The bargaining power is high. Customers do not have restrictions and can easily switch stores if a store does not carry a NLB that they desire. Due to low share and less development of PLBs, customers in the US are not attracted to stores solely based on their PLB offerings.
• Rivalry amongst firms- There is increased competition and rivalry amongst firms as the market share is not concentrated. The profit margin of retailers is lower versus markets where PLB share is higher.

5.2.2 UK market

An analysis of the UK market based on Porter’s five forces model reveals the following:

• The threat of potential entrants- Opening of a large retail store requires a large amount of capital investment and reduces the threat of entry in the large grocery retail sector. The fact that market share is controlled by a small concentrated group of retailers is also a major deterrent in the small convenience retail sector where the capital investment required is smaller.

• Threat of substitutes- Even though retailers are concentrated, the threat of substitutes remains high as consumers can easily switch stores and have the choice to shop at a variety of outlets and store formats. However, retailers such as Tesco have attempted to foster retail loyalty by offering unique PLB products and loyalty programmes.

• Bargaining power of suppliers- As retailers are concentrated and the top five controls over 80% of the market, the bargaining power of suppliers and manufacturers of NLBs is reduced. As PLB share constitutes 40-45% (chart 1) of total sales, many retailers with large markets shares have significant power and their PLBs constitute a major threat. NLB manufacturers and suppliers are always under the constant threat of having their products de-listed if they do not concede to the demands of retailers.

• Bargaining power of buyers (buyers are the customers of retail stores) - The bargaining power of buyers is high as they do not have restrictions on switching stores. However as the proportion of PLB sales for retailers is higher, many retailers have made significant efforts to develop unique PLB products and there may be a certain group of customers that shop at certain retail outlets due to their unique PLB offerings and loyalty programmes.

• Rivalry amongst firms- Rivalry remains strong even though few retailers dominate the market.

Based on the above data and analysis, presented below is summary of Porter’s five forces model as it applies to the US, Canada and UK markets:
5.3 Major conclusions related to market characteristics and PLB penetration

Major conclusions that can be made about the market structure and conditions that give rise to PLBs based on the above analysis and data in Charts 1, 2 and Table 2 are:

- As chart 1 indicates, PLBs flourish in markets where the retailer concentration is high. This explains the success of PLBs in the UK and Canada. It also sheds light on the low market share of PLBs in the US, as retailers in this market are not as concentrated. As chart 1 indicates, the penetration of PLBs in Canada (in 2000) was between 24 and 25%. This lies in between the low penetrations countries of Italy, Ireland US and the high penetration countries of UK, Switzerland, Netherlands and Denmark. Table 2 supports the fact that the Canadian market is concentrated as the top three controlled 74.8% the grocery retail market in 2007. In 2000 (chart 1), this share was around 70%.

- As retailer concentration grows due to consolidation, the share of PLB also increases as the larger retailers are able to realize cost savings, reduce costs, and re-invest in their PLBs and offer lower prices. The larger size of the retailers also provides them with greater resources to invest in the development of their own PLBs. Chart 2 further supports this fact by showing the gradual change in PLB share as the UK market became more concentrated through consolidation.

- Retailer Consolidation also increases the customer base for PLBs and provides them access to larger markets. In a consolidated market, top line sales growth is hard to find and the only way to boost the bottom line is through PLBs. In a consolidated market, fewer new stores are built and again PLB can be used to create a point of differentiation (Husson, p.5). This further explains the large share of PLBs in the UK market.

- Retailer consolidation and presence of PLBs leads to decreased bargaining power of suppliers and higher profitability for retailers.
Chart 1: Retail concentration VS. Private label penetration (Percentage of supermarket sales 2000) (Husson, p.6)

![Retail Concentration Chart](chart.png)

<table>
<thead>
<tr>
<th>Sales ($Billions)</th>
<th>Operating Income</th>
<th>Operating Margin</th>
<th>Number of Stores</th>
<th>Total Sq ft (million)</th>
<th>Sales/Sq ft</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loblaw</strong>*</td>
<td>29,384</td>
<td>736</td>
<td>2.5%</td>
<td>1,455</td>
<td>592.42</td>
</tr>
<tr>
<td><strong>Sobeys</strong></td>
<td>13,768</td>
<td>363.8</td>
<td>2.6%</td>
<td>1,300</td>
<td>515.66</td>
</tr>
<tr>
<td><strong>Metro/A&amp;P</strong></td>
<td>10,645</td>
<td>459.8</td>
<td>4.3%</td>
<td>816</td>
<td>569.23</td>
</tr>
<tr>
<td><strong>Total</strong>^</td>
<td>53,797</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2: Canada’s top three grocery retailers

**Sobeys 52 weeks ending May 2008 (Sobeys INC, n.d.)
***Metro fiscal 2007 (Metro INC 2007 Annual report, 2008)
^ Represents 74.8% of Canada’s total Grocery retail market
Market characteristics are not the only factor affecting PLBs. Specific category and product characteristics also play an important role. The next section of the report will explore these specific characteristics.

6.0 CATEGORY & PRODUCT CHARACTERISTICS

PLB success varies across product categories, as there are certain product attributes and factors that make PLBs successful. Listed in Appendix A are the top 20 private label items purchased by heavy, occasional and infrequent shoppers. Many of the products listed in Appendix A have common product and category characteristics that explain the reasons for their success as PLBs.

6.1 Product characteristics

Product characteristics that affect PLB success (Quelch et al., p.108):

- Product is easy to make from commodity ingredients
- Product is perishable, thereby favouring local suppliers

Many of the products in Appendix A are made from commodity ingredients that are easily available in the open market. As NLB, products use the same ingredients, and most likely source their ingredients from the same supplier, NLB manufacturers cannot offer consumers a unique product. This is especially true in the milk, cheese, butter, eggs, baked goods, and canned/frozen vegetable product categories. These products
(especially dairy, eggs and baked goods) are extremely perishable and are more efficiently supplied by local suppliers in the form of a retailer’s PLBs.

6.2 Category characteristics

Product characteristics that affect PLB success (Quelch et al., p.108):

- Product category sales are large and growing. Therefore PLBs can more easily garner sufficient volume to be profitable
- Category is dominated by a few national brands

According to AC Nielson (Ac Nielson Executive News, 2008, p.7), the fastest growing categories globally in terms of absolute dollar value in 2007 were Dairy, ($4.7 billion), Cheese ($2.6 billion), and Meat ($2.6 Billion). This supports the above fact that PLBs will flourish in categories where sales are large and growing as there is an opportunity to earn a greater amount of profit. These same products are also included in Appendix A.

In Canada, milk is sold under there major brands Sealtest, Natrel and Nielson. Nielson is a PLB owned by Loblaw. In the eggs category a NLB does not exist as most eggs are sold under the retailer’s PLB in Canada. The small presence of NLBs in the milk and eggs categories in Canada again sheds light on the dominance by PLBs in product categories where freshness is important and NLB dominance is non-existent. These same products are also included in Appendix A.

6.3 Level of innovation

The following holds true in relation to innovation in categories dominated by PLBs (Quelch et al., p.108):

- National brands are offered in few varieties
- New product introductions are infrequent and easy to copy

PLBs flourish in categories where the pace of innovation is very low such as dairy, eggs, sugar, salt, canned and frozen vegetables. These items also have fewer line extensions. Innovation is costly and requires a significant amount of investment and resources. Retailers lack the ability to make this investment and NLB manufacturers are not willing as well, due to a lack of significant on shelf presence and market share.
As chart 4 demonstrates, the cheese, syrups, oil, rice and pasta categories are characterized as having a very low level of innovation. As a result, the penetration of PLBs in these categories in the UK is high. This insight is also applicable to Canada and explains the strong presence of PLBs in low innovation categories.

6.4 Price and promotion factors
The following price and promotion factors are common in categories with a strong PLB presence (Quelch et al., p.108):

- Retail gross margins in the category are relatively high
- Price gaps between national brands and PLBs are wide
- National brand expenditure on price promotions as a percentage of sales is high. This raises price sensitivity and encourages consumers to switch brands and only stock up during promotions.
- Credibility of national brand prices is low because of frequent price promotions
- National brand expenditure on advertising as percentage of sales is low.

In the beverage category, the juice and water categories have many of the characteristics described above. In these categories, gross margins are high and the price gap between NLB and PLB is large. Tropicana (the NLB leading orange juice) is usually priced around $3.99, Minute Maid is priced around $3.50 and PLB is usually between $2.99 and $3.23. The same level of price gap also exists in the water category. The NLBs, Tropicana and Minute Maid often drive most of their sales volume through price and trade discounts. According to the author, this has lead to the commoditization of these brands and has reduced their credibility. As a result, many consumers wait for
these discount sales and stock up on these NLB products. This has lead to an increase in PLB sales, as these products are always priced lower.

All the above factors related to the product and category characteristics provide insight into the specific conditions that support the existence of PLBs. Many of Canada's PLBs share these same characteristics. This is evident in the fact that PLB sales account for 23% of total sales in the Canadian retail grocery sector (chart 1) and are higher in products listed in Appendix A.

6.5 Hedonic and Utilitarian products
The research by Sloot and Verhoef (2008) further builds on the product attributes that contribute to the success of PLBs by examining the success of PLBs in Hedonic and Utilitarian products.

Hedonic products such as ice cream and salty snacks provide more experiential consumption (fun pleasure and excitement) whereas utilitarian products such as detergents and toilet papers provide instrumental and functional benefits (p.285).

PLB products tend to be more abundant and successful in the utilitarian product category than the Hedonic product category. This further supports the fact that PLB products dominate the eggs, flour, salt and vegetables categories.

Product and category characteristics are not the only factors that have contributed to the success of PLBs. In addition, other specific factors that influence a retailer's decision to carry PLBs. The next section of the report will examine these specific retailer related factors.

7.0 GROCERY RETAILER RELATED FACTORS AFFECTING PLBS
This section will examine the major factors that influence a retailer's decision to carry PLBs.

Retailers carry PLBs due to the following reasons:

- Higher profitability for the retailer
- Less risk with greater return
- Use as a strategic weapon against NLB manufacturers
- Part of an overall differentiation and customer loyalty strategy

7.1 Profitability
One of the most obvious reasons for carrying PLBs is profit. A NLB product diverts most of the profit to the manufacturer. In some cases, the profit has to be split at three levels that include the retailer, distributor and manufacturer. This means that less of the
profit goes to the retailer. Presented in table 3 is a hypothetical example showing the effect of PLBs on profitability for a typical supermarket:

<table>
<thead>
<tr>
<th></th>
<th>Weak Private Label</th>
<th>Strong Private Label</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>$B</td>
<td>%</td>
</tr>
<tr>
<td>Sales</td>
<td>100%</td>
<td>$30.00</td>
</tr>
<tr>
<td>% of sales...</td>
<td>$</td>
<td>5%</td>
</tr>
<tr>
<td>- Private label</td>
<td>$1.50</td>
<td></td>
</tr>
<tr>
<td>- Branded</td>
<td>$28.50</td>
<td></td>
</tr>
<tr>
<td>Gross Margin on...</td>
<td>$</td>
<td>35%</td>
</tr>
<tr>
<td>- Private label</td>
<td>$0.525</td>
<td></td>
</tr>
<tr>
<td>- Branded</td>
<td>$7.125</td>
<td></td>
</tr>
<tr>
<td>% of sales operating expenses</td>
<td>$</td>
<td>23%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>2.5%</td>
<td>$(6.90)</td>
</tr>
<tr>
<td></td>
<td>$0.75</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

Table 3: The effect of private label on profitability: A simple Model (Husson, p.10)

The above example compares two situations. In situation one (weak PLB), the percentage of sales from private label is 5% and in situation 2 (strong PLB), the percentage of sales from private label is 30%. The gross margin from the PLB is 35% and from branded products is 25%. A 25% increase in PLB sales leads to a 100% increase in operating profit (from $0.75 to $1.50) as the PLB has a GM% that is 10% higher (35% vs. 25%). This example clearly demonstrates the effect that PLBs have on profitability and the importance retailers place on them.

The profitability of PLBs is higher due to the following:

- A PLB does not have to recover the same level of R&D costs (as a NLB) related to new product development as the majority of PLB products are, “me too products” with the same product attributes as the NLB products.
- A PLB does not have to pay listing fees
- A PLB does not have to spend large sums of money on advertising and benefits from the halo effect of advertising done by the NLB.

Chart 4, further demonstrates the effect that PLBs have had on the distribution of profits between manufacturers, wholesalers and retailers.
As chart 4 demonstrates, the profit pool has shifted from the manufacturer to the retailer as PLB share grew from 25% to 45% in the UK market. This has lead to an increase in retailer profits of 20% and a decrease of 20% for the manufacturer.

7.2 Risk

There is always risk associated with the launch of a new product or brand for a NLB manufacturer as it is very difficult to accurately predict the reaction of consumers and competitors. Even though market research and product testing are done, it does not provide a guarantee that a product or brand will be successful. A PLB retailer can minimize this risk for its own brands by effectively utilizing the sales and consumer data (that it has available) related to newly launched products, brands and specific categories. This data assists retailers in identifying products, categories and product attributes that are important to consumers. Retailers can then develop their own PLBs with the same product attributes at a lower price and at lower risk by riding on the tailwinds of success associated with NLB products. The retailer can also analyze the data and conclude that it does not want to create a private label version of the national brand because it is not meeting the sales and market share goals.

7.3 Strategic importance

Sloot and Verhoef’s research (2008) provides insight into the important role that PLBs play in the deterrence and signalling strategies used by grocery retailers. By de-listing a NLB, a retailer can make room for its own PLB or threaten the manufacturer into making other concessions. This research indicates that a number of brand and store related variables must be taken into consideration to determine if this strategy will have a negative or neutral impact on a retailer’s sales and profitability. If a brand is a strong
NLB and ranks amongst the top three brands within the category, then this strategy may not be effective because it will influence sales negatively. Consumers may end up switching stores. Prime examples of brands where this strategy will not be effective are Coca-Cola and Pepsi. On the other hand if this national brand ranks 4th in market share, then this strategy will be successful and the retailer may be able to get other concessions from the manufacturer in return for keeping their brand listed. These concessions may take the form of a minimum gross profit guarantee on the product or extra trade funds to offset the lower margins. Sloot and Verhoef’s decision tree (chart 5) provides an overview of the thought process that a retailer must go through when considering the consequences of this signalling strategy to de-list a national brand product.

Chart 5: Options available to a NLB manufacture to deal with the threat of brand de-listing. (Sloot & Verhoef, 2008, p.284)

Sloot et al., State that the following conclusions can be drawn about the consequences of the major strategic options in the decision tree above:

If the retailer’s demands of accepting a lower buying price are accepted by the manufacturer in return for some extra facings or promotional space, then this concession will secure distribution but erode gross margin for the manufacturer. This may lead to cost cutting in the area of advertising and product development. This may lead to further weakening of the brands and further de-listings in the future. This strategy therefore is only valid as a short-term survival strategy or possibly a long-term strategy for cost leaders.
A Manufacturer may choose to fight by resisting the retailer’s demands. If the retailer accepts this strategy, manufacturers can improve gross margins in the short-term but they also risk a brand de-listing, sales losses and severed relationships with the retailers. If consumers start complaining to the retailer and if the retailer looses customers due to the brand delisting, the retailer might come back to the manufacturer and accept its demands, which would strengthen the negotiating power of the manufacturers. In the short-term, this strategy might lead to losses for both retailers and manufacturers. In most cases, manufacturers would prefer to fight, but this strategy is only viable for manufacturers that possess strong brands in hedonic product categories (p.84).

Brand equity and brand market share are not the only items that will determine the effectiveness of a retailer’s de-listing strategy. The perceived power of the retailer will also affect the outcome. Large retailers with a high level of market share have a very strong level of perceived power as they have the authority to decide whether a manufacturer attains access to the consumers that shop at their stores. Another factor is store loyalty. Store loyalty generally is stronger than brand loyalty and there are various strategies that can be pursued by retailers to develop store loyalty. In markets where retailers are concentrated such as Canada and the UK, retailers attempt to build brand loyalty through their unique store brands and service. The retailer’s PLB offerings are an extension of the overall retail brand name of the store. Loblaw’s President’s choice brand is an example of this strategy. Specific PLB strategies that are sub components of an overall differentiation and store brand loyalty strategy will be further examined in another section of the report.

This section of the report has provided insight into the specific factors that influence a retailer’s decision to carry PLBs. However, all these pale in comparison to a consumer’s desire to buy a PLB. If consumers do not demand and buy PLBs, then the retailers cannot justify carrying them regardless of the strength of the other factors. The next section of the report will examine the consumer level factors that are responsible for the success of PLBs.

8.0 CONSUMER LEVEL FACTORS AFFECTING PLBS
This section will explore the consumer level factors that have contributed to the success of PLBs.
As depicted in chart 6, price is the biggest factor that influences a shopper’s decision to purchase PLBs. The next biggest factor is quality that includes the following sub factors:

- PLBs offer Better value than branded equivalent
- PLBs are the same as branded products
- Product looks appealing
- Retailer has a good reputation for own-brands

Therefore, from a consumer’s perspective, there are two main factors that influence the purchase of a PLB product:

- Price
- Quality

8.1 Price

There are certain PLBs that compete purely based on price. Loblaw’s No name brand is a prime example of this brand and is highly visible in its value chain No-Frill stores. Safeway’s Select, A&P’s Master Choice and Sobeys Smart Choice are other examples of retailer owned value priced PLBs in Canada. These value positioned PLB products are targeted towards the price conscious consumer. In the US, these price fighter brands flourished during the recession of the early 80’s and mid 90’s (Quelch et al., p.99). In the backdrop of the recent economic down turn, Loblaw in Canada has once again started to push its No-name brands on television advertisements. However, in the past as the economy has improved, the percentage of PLB sales from the lower
priced value brands has decreased while the sales from premium PLBs has increased. The quality attributes of the product are secondary considerations for consumers in this segment targeted by the value PLBs.

8.2 Quality factors

8.2.1 PLBs are the same as branded products

Majority of the top ten products listed in Appendix A are considered to be inexpensive and low risk purchases for consumers. Batra and Sinha’s research (2000) provides insight into the low risk association that consumers have with many of these products and the effect that this has on their intentions to purchase. The research explains variations in purchasing preferences for NLB products versus PLB products across 12 different categories. The research supports the notion that PLB sales are higher in categories where the consequences of making a wrong purchasing decision are low. If the category or products benefits require actual trial and experience then PLBs are less successful as this increases the level of risk associated with making a wrong decision. On the other hand, if consumers can determine product attributes with out trial by reading product labels, then PLB sales will be higher. Batra and Sinha (2008), refer to this as, “attributes of trial and experience” (p.188) that affect the degree of uncertainty associated with the quality of a product. From a consumer perspective, better insight is gained (from this research) into understanding the success of PLBs in areas such as dairy and eggs where sales from private label make up over 50% of the total sales in Canada. Milk, eggs, canned and frozen vegetables are products where consumers perceive there to be little difference in quality from one brand to the next. Consumers in this product segment are more willing to try PLBs without trial, as the risk associated with making the wrong decision is low. This also holds true in items such as salt, and flour. In chart 6, this is reflected in the fact that consumers buy PLBs because they are the same as branded products.

8.2.2 PLBs offer better value than branded equivalent

The consumer attributes of trial and experience are further supported by Hassan and Dilhan’s research (2006) findings. This research concludes that consumers are more willing to buy private label products if the risk associated with their quality is low and if they can assess quality without experience through information such as product quality labels. Many PLBs have taken advantages of this in the organic food category with organic certified labels. The organic certified label provides consumers with the assurance that PLB quality is equivalent to a NLB even though it is priced lower. Wal-Mart and food chains such as Whole foods, Trader Joe and Wegman’s offer their own brand of organic food products in the US. In Canada, Loblaw’s President’s choice and Sobeys our compliments brands have a line of organic products. These products carry the certified organic symbol and are premium priced to the stores regular PLB products and may sometimes be priced the same as (or lower than) NLB products. The lower price and assurance of quality translates in to better value and is reflected in chart 6 as the fact that, “Consumers buy PLBs is because they offer better value than branded products.”
According to research by Quelch and Harding (1996),

Brand names exist because consumers still require an assurance of quality when they do not have the time, opportunity, or ability to inspect alternatives at the point of sale. Brands simplify the selection processes in cluttered product categories in the time pressured dual income households (p.101).

Any information with regard to the quality of PLBs will help increase their sales. Hence, the use of product quality labels by PLBs has become very common as it provides consumers with the assurance that the quality and value of the product is comparable or higher than a NLB product.

8.2.3 Retailer has good reputation for own-brands

Many retailers have a good reputation associated with their PLB products. This includes premium PLB brands like Wal-Mart's Sam's choice (US), Loblaw's President's choice (Canada), and Tesco's Finest. These premium PLB brands do not attempt to copy the NLB but attempt to distinguish themselves based on quality. Most premium priced PLBs are still cheaper than NLBs. However, there are exceptions to this rule. Premium priced store brands were pioneered in the UK by retailers such as Marks & Spencer, Sainsbury and Tesco. In Canada, Loblaw utilizes a similar strategy to position its President’s choice brand. The specifics related to this strategy will be further explored in another section of the report. According to Husson (2008),

Private label appears to be most successful in countries, retailers and categories where it offers good quality at a good price rather than average quality at a low price (p.25).

Retailers such as Tesco (UK), Safeway (US) and Loblaw (Canada) have a reputation of offering PLBs of good quality at a competitive price.

This report, up to this point has explored the various product, category, retailer and consumer factors that have contributed to the success of PLBs in Canada. The next section of the report will examine the various strategies employed by PLB retailers to maximize market share and profitability while taking into consideration these various factors.

9.0 STRATEGIES BEHIND PLB SUCCESS

In this section, specific strategies related to the success of PLBs will be examined.

PLB strategies fall into three main categories (Husson, p.31):

- Generic (1st generation)
- Quasi Brands (2nd generation)
- Store brand or Group brand (3rd generation)
- Differentiation brand strategy- Building brand equity (4th generation)
Husson states that,

These strategies may not be utilized by stores in succession as they may use a combination of different strategies (p.31).

9.1 Generic

This is known as the first generation strategy. The main objective is to help retailers increase margins and provide lower priced products to consumers during inflationary times (Husson, p.23). The main characteristics of this strategy are (Husson, p.23):

- Products are perceived as being lower quality and utilize low technology compared to NLBs.
- Supply contracts are awarded to national manufacturers based on auctions to the lowest bidder and little effort is put forth in building long-term relationships.

PLBs employing this strategy are also known as the, “fighter brands” (Husson, p.23). The main strength of the brand is evident during inflationary and tough economic times when consumers cut back spending and are looking for cheaper substitutes. A Major weakness of this strategy is that it is not considered a long-term market growth and customer retention strategy. As economic conditions improve, consumers may switch to better quality and higher priced brands.

9.2 Quasi-brands

This is known as the second-generation strategy. The main objective of this strategy is to increase retailer margins and reduce manufacturer power by setting the entry price through price matching and lowering of prices by eliminating smaller competition (Husson, p.21). Major characteristics of this strategy are (Husson, p.21):

- Quality is considered average.
- Large volume products that lag behind in technology of the market leader.
- Price is once again the main attraction feature for consumers.
- Many of the products are self-manufactured in retailer owned plants (bread and dairy). National manufacturers that partly specialize in private label are also utilized. There is little effort put forth in building long-term relationships with manufacturers as manufacturing contracts are awarded through auctions.

There are two sub strategies that are part of this strategy (Husson, p.9):

- Pure-Quasi brand- PLBs are produced under separate invented brands that do not have linkage to the retail store.
- Endorsed-Quasi brand- PLBs are sold under separate brands, but small retailer logos are used to give consumers assurance.
The major strengths of this strategy are (Husson, pp.16-17):

- Creates the impression of a wide product selection and range. This allows the retailers to replace secondary and tertiary brands with its PLB offerings.
- Shoppers do not associate product defects and quality with the store.

Major Weaknesses are (Husson, pp.16-17):

- Low quality low price approach does not lead to customer loyalty.
- Shoppers do not directly associate the brand with the store.

Chart 6 provides a schematic of the above strategies.

![Chart 6: Quasi brand sub strategies used by PLBs](image)

Chart 6: Quasi brand sub strategies used by PLBs (Husson, 2002, p.19)

**9.2 Group brand or Store brand**

This is known as the third generation and the umbrella brand strategy. The main objective of this strategy is to enhance total category margins, expand product assortment and enhance retailer image amongst customers (Husson, p.21). The characteristics of this strategy are (Husson, p.21):

- Big category products with an assortment of SKUs.
- Quality and technology employed to produce products that are in line with leading brands.
• Consumers attracted to the brand due to emphasis on both quality and price.
• Supplied by national manufacturers that specialize in private label. Attempts are made to establish long-term relationships with manufacturers rather than simply auctioning contracts to the low cost bidder.

There are four sub strategies under this strategy (Husson, p.20):

1. Uniform brand-All PLB products under a uniform store or group brand are clearly identified with store labels.
2. Brand + Sub-brands-All PLB products under a uniform store or group brand, however some sub-brands do exist.
3. Tow-tier Brands-Private label products sold under two or more distinct brands, mainstream and budget.
4. Mixed Strategy-PLB products sold under two or more distinct and separate brands that have sub brands.

Major strengths of the store brand strategy (Husson, p.16):

• Creates association with the store through clear brand messaging
• Drives both long-term sales and profit through higher prices

Major advantages of the group brand strategy (Husson, p.17)

• Product packaging and development costs can be shared and spread over a larger base.
• Brands can be used across multiple store formats owned by the retailer.

The major weaknesses associated with these strategies are (Husson, pp.16-17):

• Group brand strategy does not create an association with the retailer or store and can reduce the appearance of selection and range.
• Both the group and store brands require significant investment of time effort and resources over the long run to cover brand costs related to research, development, advertising and in-store support

Presented below is visual schematic of the Store or Group Brand strategy:
9.3 Two-Tier Value added strategy

This is also known as the 4th generation strategy where PLBs are segmented into sub brands. Traditional brand building techniques are utilized to increase customer retention and enhance total category margins (Husson, p.21). Major characteristics of this strategy are (Husson, p.21):

- Existence of small volume SKUs
- Innovative technology results in product quality equal to or superior than NLBs.
- Consumers attracted to the product because of truly superior attributes
- International manufacturers that specialize in PLB production are utilized. Long-term relationships are established with suppliers and manufacturers.

Retailers utilizing this strategy also attempt to create a differentiated store image by offering consumers a unique shopping experience. This may involve the extension of their PLB brands to non-food products and financial services to create a one-stop shop. The major strengths of this strategy are:

- Allows a retailer to differentiate its product offerings from competitors
- Builds a differentiated store image (Husson, p.23).

The major weaknesses of this strategy are (Husson, p.17):
• Requires retailers to make significant investments to become more backward integrated within the supply chain. Also requires the same level of investment in marketing resources that were identified earlier as a weakness under the store brand strategy.

10.0 COUNTRY SPECIFIC STRATEGIES

In the next section of the report, specific PLB strategies used by retailers in the UK, US and Canada will be examined. This will allow strategies across different countries and retailers to be compared to Canada.

10.1 UK and Europe

The UK is a market that can be described as being concentrated, as 65% of total dollar sales are controlled by the top 4 supermarket chains (Table 4)

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<th>2004</th>
<th>2005</th>
<th>2006</th>
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<td>1.4</td>
<td>1.4</td>
<td>1.5</td>
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<tr>
<td>Aldi</td>
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<td>1.3</td>
<td>1.4</td>
<td>1.5</td>
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<tr>
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<tr>
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<td>20.0</td>
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<tr>
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<td>100.0</td>
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Table 4: Overview of UK grocery retailers (Competition Commission, 2008)

In 2006, total PLB sales in the UK grocery channel were an estimated 30 billion pounds (Competition Commission, 2008). This represents more than one-third of total food and drink sales in the UK and the highest proportion of PLB sales globally. The tremendous success of PLBs in the UK has prompted many retailers globally and in Canada to consider this market as a source for forming their own PLB strategies.

The UK grocery market differs from the rest of Europe in that the large grocery retailers rather than Limited Assortment Discounters (LADS) (Competition Commission, 2008) have led growth in PLBs. Retailers such as Aldi and Lidl mainly represent LADS in the UK. These retailers mainly compete based on a Generic and Quasi brand strategy (Husson, p.22). The resulting PLB products from these strategies are characterized as being the low price low quality products. As shown in chart 8, Germany and Austria are dominated by LADS. On the other hand, large retailers that employ a Value-Adding strategy dominate Switzerland and the Netherlands. In the early 90’s the entrance of
the large discount retailers prompted many UK retailers to also launch their own version of value brands (Husson, p.38).


As Chart 9 indicates, since its height, budget private label share in the UK has fallen while the overall share of PLBs has increased. The rise of budgeted PLBs was driven by the entry of Aldi and other discount retailers in the UK market.
The subsequent fall in the share of budgeted PLBs, indicates that LADS have not been successful in the UK. It also indicates that the large existing UK retailers have been successful in neutralizing Aldi’s market entry strategy by employing a value added strategy through their mainstream store brands and sub-brands. As table 5 illustrates, the top UK retailers have employed various strategies that are different from the pure price-fighting strategies used by retailers in Germany and Austria.

<table>
<thead>
<tr>
<th>Company</th>
<th>Private Label % of Sales</th>
<th>PL Strategy</th>
<th>Brands Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tesco</td>
<td>51.8%</td>
<td>Store brands and sub-brands</td>
<td>Tesco&lt;br&gt;Tesco sub-brands (Value, Organic, Finest)</td>
</tr>
<tr>
<td>Sainsbury</td>
<td>59.2%</td>
<td>Store brands and sub-brands</td>
<td>Sainsbury&lt;br&gt;Sainsbury sub-brands (Novon, Gio, etc.)</td>
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<tr>
<td>Asda</td>
<td>54.2%</td>
<td>Two-tier brands + pseudo brands</td>
<td>ASDA&lt;br&gt;Smart Price (replacing Farm Stores)&lt;br&gt;George (apparel)</td>
</tr>
<tr>
<td>Safeway</td>
<td>54.8%</td>
<td>Store brands and sub-brands</td>
<td>Safeway The Best&lt;br&gt;Safeway&lt;br&gt;Safeway Select&lt;br&gt;Safeway Savers</td>
</tr>
<tr>
<td>Somerfield</td>
<td>36.0%</td>
<td>Store brands + generic</td>
<td>Somerfield&lt;br&gt;Kwik Save and No Frills (Kwik Save)</td>
</tr>
</tbody>
</table>

Table 5: Top 5 UK grocery retailers- PLB strategies
10.1.1 Tesco’s PLB strategy

Tesco is a globally recognized retailer that has effectively employed a PLB strategy and has successfully neutralized the threat from LADs in the UK. Tesco has been able to expand its PLB strategy and customer base by offering a wide assortment of food and non-food products through its PLBs. This strategy has also been mimicked by Loblaw in Canada. As Tesco’s share of PLB sales has increased, EBITDA has also increased (Chart 10 and Chart 11).

Tesco has three main types of PLBs that employ different strategies and are an overall part of the stores value added strategy (table 6). Tesco’s Finest and Organic products are superior quality products that are equivalent in quality to NLBs (or higher). These products are targeted at high-end shoppers and their aim is to capture margin in new categories. These products also employ innovative technology and make use of...
traditional brand equity building techniques used by NLBs. Tesco’s Organic and Finest line of products are well positioned to take advantage of the health and wellness trend.

Tesco also utilizes the Quasi-brand strategy through its Tesco (generic) and Tesco value line of products. This Tesco (generic) line offers the same quality as NLBs but at a lower price and its aim is to increase margins versus NLBs by being the brand of choice. The Tesco value line was created to address the competition from LADs such as Aldi, Netto and Lidl. Value brand products are cheap basic products that are considered low quality.

As evident in table 6, 84% of Tesco’s PLB sales are from the non-value line of products and are the main reason for its success. Other retailers in the UK have also taken a similar approach. This is evident in the fact that budgeted private label share has decreased while the overall share of private label driven by products that are priced higher and offer equivalent or better quality compared to NLBs has risen (see Chart 9 above).

The Tesco PLBs have a clear association with the retail store brand and combined with other non-food offerings, contributes to increasing customer loyalty. Tesco employs the value added strategy through its offering of non food services and products such as financial services, cell phone and other merchandise such as toys, furniture, electronics and jewellery. This strategy has allowed the retailer to truly become the one-stop shop for consumers. Tesco also utilizes a club card program to maintain and increase customer loyalty. Under this program, shoppers are awarded points for shopping at the retailer. These points can be redeemed for a range of in-store items. The combination of these value added offerings along with PLBs that have a clear link and association with the retail store have contributed to increasing customer loyalty.

Most retailers in the UK (with the exception of Tesco’s non-food offerings) have employed very similar PLB strategies (Table 5). This has lead to one of the strongest private label programs globally. Tesco’s has gone a step further than other retailers have by extending its PLB food items to non-food items. The success of PLBs in the UK has influenced the strategy of Canadian retailers and holds many lessons for them.

10.2 US

The US grocery retail market is very different from the UK, and Canadian markets. In 2001, the top 5 retailers only accounted for 18% share of the total grocery retail market. Small regional retailers such as Publix, Supervalude, Winn-Dixie, and Fleming (Global Planet Retail, n.d) shared the remaining 78% of the market. According to latest estimates, by 2004, Wal-Mart had increased its share of Grocery retail to 19% and it is expected to have 35% of the share by 2010 (Warner, 2005). This clearly makes Wal-Mart the largest grocery retailer in the market. However, most of this share shifting has not affected the rankings of the other top four players as shown in table 7.
### USA: Top Five Grocery Retailers, 2001

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Total grocery sales (USD m)</th>
<th>Grocery market share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wal-Mart</td>
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<td>2</td>
<td>Kroger</td>
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<td>Albertsons</td>
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<td>5</td>
<td>Ahold</td>
<td>19,926</td>
<td>2.1</td>
</tr>
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</table>

Table 7: USA Top five grocery retailers (Global Grocery retail trends, n.d.)

As evident in table 8, many of the US super markets have a PLB strategy. Most of them are utilizing the Store group or group brand strategies.

The retailers with the largest share of PLBs also have the highest EBITDA margin (Chart 12). Based on this, Safeway is the undisputed market leaders as in 2000, its percentage of sales from PLB were 29% and it had the highest EBITDA.

### PLB strategy of top 5 US grocery retailers

<table>
<thead>
<tr>
<th>Company</th>
<th>Private Label % of Sales</th>
<th>PL Strategy</th>
<th>Brands Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wal-Mart</td>
<td>Grocery 8%, Non-food 11%</td>
<td>Two-tier group brands + pseudo brands¹</td>
<td>Sam’s Choice (grocery), Great Value (grocery), Ol’ Roy (dog food), Special Kitty (cat food), White Cloud² (tissue)</td>
</tr>
<tr>
<td>Kroger</td>
<td>25%</td>
<td>Three-tiered group and store brands</td>
<td>Private Selection, Banner Brands (Kroger, Ralph’s, King Sooper), EMV (For Maximum Value)</td>
</tr>
<tr>
<td>Albertsons</td>
<td>27%</td>
<td>Store brands</td>
<td>Albertsons, Jewel, Albertsons-Osco (OTC drugs)</td>
</tr>
<tr>
<td>Safeway</td>
<td>29%</td>
<td>Store brands and sub-brands</td>
<td>Safeway Select, Safeway Select sub-brands, Safeway, Safeway sub-brands, Vons, Dominick’s</td>
</tr>
<tr>
<td>Costco</td>
<td>7%</td>
<td>Group brand</td>
<td>Kirkland Signature</td>
</tr>
</tbody>
</table>

Table 8: PLB strategy of top 5 US grocery retailers (Husson, p.53)
Based on the above facts, this report will mainly concentrate on examining the PLB strategies of Safeway and Wal-Mart. Safeway is an important player as it has the largest percentage of sales from PLBs and has influenced PLB strategy in Canada through its presence. As Wal-Mart's share of the grocery retail continues to grow, its PLB offerings will become more influential in both the US and Canada.

Safeway’s PLB brands are shown in table 9.

10.2.1 Safeway

<table>
<thead>
<tr>
<th># of lines</th>
<th>Sales ($B:00)</th>
<th>% of PL Sales</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>900</td>
<td>$2.5M</td>
<td>34%</td>
<td>- Quality as good as market leader&lt;br&gt;- Capture margin in new category&lt;br&gt;- Increase margins vs. branded</td>
</tr>
<tr>
<td>200</td>
<td>$5.0M</td>
<td>66%</td>
<td>- Same quality as national brand&lt;br&gt;- Basic choice for everyday needs&lt;br&gt;- Increase margins vs. branded</td>
</tr>
<tr>
<td>300</td>
<td>$1.0M</td>
<td>90%</td>
<td>- Two strong heritage sub-brands&lt;br&gt;- Leveraging manufacturing plants&lt;br&gt;- Limited in-store competition</td>
</tr>
</tbody>
</table>

Table 9: Safeway PLBs Year 2000 (Husson, p.69)
As evident, in table 9, 34% of Safeway’s PLB sales were from the Safeway select and Safeway select sub brands. The Dominick's, Vons, Mrs. Wright’s and Lucerne brands contributed 64% of PLB sales.

The Select brand products are positioned to be premium priced high quality products. They are aimed to capture margin in new categories and offer higher margins vs. branded products. The select brands also have the sub labels, “Primo” and “Taglio”. These are used for more upscale deli products. In late 2007, the Safeway Select line was renamed Signature Café. The Signature Café brand offers an array of soups, sandwiches, salads, side dishes, and pre-cooked meats (2008 fact book, p.10).

The Dominick’s and Vons brands offer the same quality as national brands. The Mrs. Wright’s and Lucerne brands are strong heritage brands that leverage the manufacturing capabilities of the retailer. The Lucerne brand has been producing quality dairy products for over 100 years. In 2005, Safeway introduced its organic line, “O Organics”. The organic line consists of over 300 certified organic food and beverage products (2008 fact book, p.10). In the spring of 2007, O Organics for baby and toddlers were launched. This truly speaks to the trust and high quality perception that this brand has built. The baby food category is mainly dominated by trusted NLBs and is not a category where PLB products are found. The, “Eating Right” brand is another premium product brand that was launched in the second quarter of 2007 and is in line with the health and wellness trend. This line has grown to over 150 great tasting, “better for-you items” (2008 fact book, p.11). Safeway also has a value brand, “Basic red”. This value brand does not contribute to a significant share of PLB sales for the retailer.

These organic and other premium products are very similar to Tesco’s finest and organic brand products. Both these retailers have made effective use of certified organic labels to reduce the purchasing risk associated with the quality of their PLB products. Both Safeway and Tesco utilize the Store-brand and Sub-brand strategies. Tesco’s competitive advantage is derived from its vast food and non-food offerings but the source of Safeway’s competitive advantage is very different.

Safeway’s unique competitive advantage is evident in the extent of control that it has over the supply chain.

<table>
<thead>
<tr>
<th>Facility type</th>
<th>U.S.</th>
<th>Canada</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk Plant</td>
<td>6</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Bakery Plant</td>
<td>6</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Ice-Cream Plant</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Cheese and meat packaging plants</td>
<td></td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Soft drink bottling plants</td>
<td>4</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Fruit and Vegetable processing plants</td>
<td>1</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Cake Commissary</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20</strong></td>
<td><strong>12</strong></td>
<td><strong>32</strong></td>
</tr>
</tbody>
</table>
Table 10: Safeway manufacturing and processing facilities by type and location (2008 fact book, p.9)

As table 10 indicates, Safeway owns and operates 32 manufacturing and packaging facilities in North America. These facilities are responsible for producing 22% of the retailers PLBs and are an important element of the PLB strategy (2008 fact book, p.9). Ownership of these manufacturing facilities allows Safeway to have greater control of its PLB packaging, ingredients and manufacturing elements. By exercising this degree of control, Safeway is able to develop unique products with unique packaging and ingredients that are exclusive to the retailer. It also leads to greater customer loyalty, as customers are attracted to a retailer due to its exclusive PLB offerings.

In 2005, in order to further differentiate its self from the competition and strengthen its retail brand image, Safeway began a brand repositioning campaign. This included a redesigned logo and new slogan, “Ingredients for Life”. Many locations were also redesigned to include new employee uniforms, Sushi, and olive bars and the addition of in-store Starbucks Kiosks (Wikipedia, n.d.). The change also involved the use of a loyalty program to target special promotions towards loyal customers. The redesign effort has brought greater alignment between the premium PLB offerings of the retailer with its retail brand image.

10.2.2 Wal-Mart

Even though Safeway is the leader in terms of PLB offerings, (based on year 2000 data), Wal-Mart’s aggressive growth though its Super center format stores have propelled it to the largest US grocery retailer position. This aggressive growth over the last 9 years has also lead to a growth in its share of PLB offerings. In 2000, Wal-Mart’s total PLB sales were 18%. Out of the 18%, 8 % (or 44% of total PLB sales) was derived from PLB grocery products. According to Citigroup, Wal-Mart’s PLB penetration could exceed 40% by 2011 as the company replaces slow-moving brands with its own-label products (Supermarket News, 2008). Based on this data, it is reasonable to assume that Wal-Mart currently derives some where between 8% to 15% (15% is 38% of 2011 forecasted sales of PLBs) of its PLB sales from grocery products.

Wal-Mart employs a two-tier group and store brand strategy. The Sam’s-Choice brand is a premium brand that is sold through the club store format. The great value brand is a value brand that offers the same quality as NLB products at a discounted price. Wal-Mart’s PLB offerings are in-line with the overall low price and value image of its retail brand. Even though, Wal-Mart offers an organic line of PLB products, consumers do not expect the same quality as the premium NLB or PLB offerings of other retailers. Many of the great value brand products are replicas of existing NLB products and are not considered innovative. Wal-Mart does not own manufacturing facilities but contracts out large manufacturers such as Cott’s and ConAgra foods.

Wal-Mart's expansion in the grocery retail sector has mainly been derived through its Super center format. This store format does not emphasize the PLB offerings of the retailer. It puts more emphasis on every day low prices and convenience through one-stop shopping. However, as the economy has taken a turn for the worse in the US and
globally, Wal-Mart is making efforts to revamp the image and packaging of its PLBs. The re-branded products will start appearing in stores in early 2009 (News Guide US, 2009). Through this re-branding effort and increased emphasis on PLBs, Wal-Mart hopes to gain PLB share and sales as consumers switch to cheaper alternatives in these tough economic times. It will be interesting to witness the impact of this re-branding on the retailer’s PLB sales.

Grocery retailers in the US have traditionally focused on opening large hypermarket/super center formats, offering shoppers extensive ranges of food and non-food items. However, with shifting consumer lifestyles and socio-demographics, US retailers are now realizing that this one size fits all model does not meet everyone’s needs (Bakkavor, 2007). As a result, retailers are starting to experiment with smaller-format stores in highly populated locations, appealing to the convenience shopper. Prior to the recession, Tesco had ambitious plans to expand in the US through its small format stores called “Fresh & Easy Neighbourhood market”. If Tesco revitalizes these plans in the future, its PLB strategy will put it in direct competition with Safeway and Wal-Mart. If Tesco’s UK market success can be replicated in the US, it will definitely have a profound impact on PLBs in the US.

10.3 Canada

This section will examine the PLB strategies of Canadian retailers and compare them to UK and USA retailers by particularly focusing on Tesco and Safeway.

The Canadian market is positioned between the US and UK market in terms of retail concentration (chart 1). A trend that the Canadian market has in common with the UK and USA is that grocery retailers with the largest share of the PLBs also earned the highest operating profit (Chart 13).

![Chart 13: Private Label VS. Profitability in Canadian supermarkets Year 2000](Husson, p72)
Safeway and Loblaw are the clear leaders in the area of PLB share. However, Safeway does not command a significant share of the overall grocery retail market as it mainly operates in western Canada through only 222 stores that have 1.6 million sq ft of space (Safeway, 2008). Despite having a small market presence, Safeway has had a significant impact on the success PLBs in Canada through its strategy. The PLB strategy of the Canadian subsidiary is very similar to its parent company in the US and other retailers such as Sobeys, Metro and Loblaw have incorporated certain elements of this strategy into their own strategies. The most significant players in the Canadian grocery retail market in Canada are Loblaw, Sobeys and Metro as they controlled 74.8% of the grocery retail market in 2007 (Table 1).

10.3.1 Sobeys

Sobeys is Canada’s second largest retailer. The retailer’s PLB products are not considered as innovative and leading edge as the PLB products of Tesco, Safeway and Loblaw. They are considered copycat, “me too” products. Sobeys value brand (Our Best) was launched in the 1990’s in response to the success of Loblaw. In 2002 the brand was renamed, “Our Compliments”. The Compliments brand has more than 2,400 products under the following three tiers (Sobeys INC, n.d):

- Compliments Value/Smart choice-Low price low quality offering.
- Compliments Selection- Mid range brand that is priced lower to NLBs but is equivalent in quality.
- Compliments Sensations/Balance (introduced in 2005)-Premium line of products that are priced equivalent to NLBs and are considered to be higher or equal in quality. The Balance line of products is aimed towards health conscious consumers and includes products that are certified organic and include the health check symbol.

Sobeys mainly employs third-party manufacturers to manufacture its products and does not own manufacturing facilities. Unlike Loblaw and Tesco, the retailer’s PLB and overall retail strategy has mainly been focused on food. One of the areas where it has differentiated its PLB strategy is in its partnership with Disney. In 2008, this partnership resulted in the co-branded Compliments Junior Disney line of products for kids. More than 75% of these products bear the health check symbol (Sobeys Inc, 2008). The use of health check labels and collaborating with a trusted brand such as Disney has allowed the retailer to convey the quality of its PLBs to consumers. It has also reduced the consumer risk associated with making a wrong decision. The retailer has also imitated Tesco and Loblaw though its store loyalty program and credit card offerings. The retailer’s exclusive focus on food is the main factor that distinguishes it from Loblaw and Tesco. It has also been the main advertising message conveyed to consumers recently. Through this message, Sobeys is attempting to convey the simplicity of its offerings and store layout compared to Loblaw stores that offer a full line of food and non-food items. This approach is also in line with the recent trend in the US where Grocery retailers are focusing more on food and are moving away from being all things to all customers.
10.3.2 Metro

This retailer became Canada’s third largest retailer after the acquisition of A&P in 2006. Prior to the acquisition, both retailers had PLBs of their own. In the spring of 2008, the retailer revamped its combined portfolio of PLBs. This has lead to a two-tier PLB strategy. The two brands in this strategy are (Metro, 2007):

- **Selections**—The products in this brand category are equivalent in quality to NLBs, but are priced lower, offering consumers’ great value. There are plans to introduce over 200 products on a progressive basis by end of 2009 under this brand.
- **Irresistible**—This brand offers consumers premium quality products and exclusivities that reflect both market trends and changing consumer habits. Healthy organic, allergy-free and fair trade are characteristics that distinguish these products. This brand is complemented by the Irresistible Life Smart sub-brand. The products under this brand respond to several strict criteria such as containing no hydrogenated oil, artificial flavour or artificial coloring. They are also low in fat, calories, and salt. Many are also rich in minerals, vitamins and fibre.

Metro’s PLB strategy is very similar to Sobeys strategy. The PLB products of this retailer are considered imitation products launched in response to Loblaw’s and Sobeys success and the growing wellness and health trends. The premium line of health and wellness products are the main source of the retailer’s differentiating strategy. This is not is not a unique strategy as other retailers have similar strategies. Similar to Sobeys and Safeway, Metro is also exclusively focused on food. Metro’s PLB strategy is not complemented by a store loyalty program similar to the ones offered by other major retailers. In Ontario A&P and Dominion stores utilize air miles, but this is not linked back to the retailers PLB products.

10.3.3 Loblaw

Loblaw is considered Canada’s largest grocery retailer and its PLB strategy and success has had the most profound impact on PLBs in Canada and globally. Table 11 highlights the evolution of Loblaw’s PLB strategy over the years.
Table 11: Loblaw- PLBs (Husson, p72)

As evident Loblaw have a two tier and sub brand strategy. This involves the use of the no name and President’s choice brands. The no name brand is considered a value brand that was launched in 1978 and is regarded as an inflation fighter. The products offered under this brand are considered to be low price and low quality items. This brand is modeled on the Carrefour value brand strategy (Husson, p.82). The President’s choice brand is the retailer’s signature brand that was launched in 1983. Products sold under this brand are considered to have the same (or higher) quality as NLB products. The President’s choice products such as the decadent chocolate chip cookies and the, “Memories of…” line of sauces are well known products. These products have vast consumer appeal and are ahead of NLBs in market share in many markets within Canada. The fact that these products were also sold in non-Loblaw stores, speaks to the strong brand equity and market penetration of the brand. This brand is modeled on Marks & Spencer’s and Tesco’s premium brands (Husson, 2002, p.82). The sub-brands such as Organic, Green and Club Pack are targeted to meet specific consumer needs and aimed to capture margins in new categories. They are also targeted to take advantage of the healthy and green consumer trends. Loblaw has utilized the same strategies as NLB manufacturers to promote the President’s choice brand. The President’s choice products are widely advertised on TV and other media. In comparison, other Canadian retailers do not spend the same amount of money to advertise their PLBs. Following Marks & Spencer and Tesco, Loblaw has taken the lead in bringing new products from around the world to its customers. In many of these categories, a NLB does exist. Examples of these are main and side dishes that include Thai curry, Spring rolls and Samosas. Similar to Safeway in the US, Loblaw’s parent company Weston foods has its own manufacturing facilities that are involved in the manufacturing of premium bakery items such as breads and pastries through brands.
such as Weston, Brownberry, and Entenmanns. Weston also owns Neilson dairies. The ownership of these manufacturing facilities provides Loblaw with greater control over its supply chain, and new product development functions. Loblaw has also followed Tesco’s lead by extending the President’s choice brand to non-food merchandise and services. The brand has been extended to financial services, a loyalty program and cell phone service. As a result, this retailer has made inroads into the 4th generation two-tier value added strategy. The President’s choice strong brand awareness has lead to increased consumer trust and strong retail store loyalty. As a result, Loblaw is truly considered a one-stop shop that meets a customer’s food, clothing, personal care, house ware and financial needs. In this aspect, Loblaw has been able to replicate Tesco’s success as a one-stop shop.

10.3.4 Wal-Mart Canada

Currently Wal-Mart does not command a significant market share of the grocery retail market. However this may change in the future as the retailers had plans to open 21 Super centres in Canada by the end of Fiscal year 2008 (FlexNews, 2007). These stores will employ a PLB strategy similar to the US parent company. They will be in direct competition with Loblaw’s store format and PLB offerings that include both food and non-food items. In addition, the retailer also has plans to rollout its financial service offerings that will include credit card, and wire-transfer services. This will again be in direct competition with PC financial services.

This increased competition will most likely result in price wars as other retailers attempt to match Wal-Mart’s every day low prices and defend their market share. Loblaw is positioned well to meet this challenge as it has a strong PLB offering at both the premium (President’s choice) and value brand levels (No-name). Through its strong advertising, innovation, vast product offerings and PC points, Loblaw has also developed strong store loyalty. Loblaw must stay focused on its PLB strategy and must not get side tracked by short-term price wars if it is to effectively compete against Wal-Mart.

NLBs have various strategies at their disposal to counter the threat from PLBs. The next section of the report will examine these strategies.

11.0 COUNTER STRATEGIES USED BY NLBS AGAINST PLBs

11.1 Taking PLBs seriously

NLB manufacturers need to recognize PLBs as fierce competitors and must therefore treat PLBs with the same respect and vigour as other major competitors. Many of the brand building techniques used by NLBs are also utilized by PLBs. NLB marketing plans should include a section on strategies to limit the encroachment of PLBs. This plan should include specific actions to be taken in categories, trade accounts or regional markets where PLBs are gaining market share (Quelch et al., 1996).
11.2 Increase brand equity and awareness

Major NLB manufacturers must continue to invest in their brands in order to build brand equity and awareness. The strongest national brands have built their consumer equities over decades of advertising and consistent quality. From year to year, there is minimal variation in consumer rankings of the strongest national brands. Forty of the top 50 brands on Equitrend’s consumer survey were the same in 1993 as in 1991 (Quelch et al., 1996). Development of strong brand equity and awareness requires the following:

- Advertising- National and global advertising campaigns that send a consistent message about the brand to consumers and increases brand awareness. An example of this is Coca-Cola’s theme advertising campaigns such as, “Happiness starts in side” and “Coke side of Life”. These campaigns aim at delivering the same consistent message and image of the brand to consumers everywhere. Effective advertising must differentiate product qualities and attributes versus the competition. Procter & Gamble is very effective at achieving this by demonstrating the science and innovative research that goes into developing its high quality products. NLB food and beverage manufacturers must also include this in their product and brand launch plans.

- Innovation-Many PLB brands imitate existing NLB products and dominate categories characterized by low innovation. Therefore, NLB manufacturers must continue to invest in research and development activities that lead to new products and categories. Quelch et. al (1996) states,

  Many NLB managers have been guilty of just launching line extensions of NLB products to increase sales and on shelf presence. Most of these extensions add marginal value to customers and, dilute rather than enhance the core brand franchise, add complexity and administrative costs impair the accuracy of demand forecasts and are unprofitable on a full cost basis (p.106).

Considering this, NLBs must innovate intelligently by developing new products or packaging that adds convenience and enhances value for the consumer. Quelch et. al (1996) recommends that

  Specific innovation strategies must be developed by category to deal with PLB penetration differences. In categories with low PLB penetration such as candy and baby food, NLB manufacturers must understand and sustain the barriers to entry. In categories with emerging PLB penetration, it is useful to consider value-added packing changes that make the product stand out on the shelf, draws consumer attention and raise the costs for PLB imitators (p.108).
11.3 Use of Fighting Brands

A common approach taken by NLB manufacturers to counter the success of PLBs is to develop their own version of value and fighting brands. The purpose of a fighting brand is to avoid the huge contribution loss that occurs when price sensitive consumers switch to PLB products and the NLB loses market share. By offering these consumers a lower price alternative, the NLB manufacturer is able to recoup some of the profit lost due to market share. According to the author, Coca-Cola uses this strategy in its orange juice business. Coca-Cola has two brands of chilled orange juice, Minute Maid is the fighter brand and Simply Orange is the premium priced brand. In the short-run, this strategy may stem the loss of market share but it is not a long-run viable strategy. Rarely do these brands make money after the allocation of fixed costs and consideration of other management resources (Quelch et al., p.103). Diverting these cost and resources to brand building activities will offer a better return.

11.4 Use of Manufacturing Spare Capacity for PLB Production

An approach taken by many NLB manufacturers is in line with the notions that, “If you can’t beat them, then join them.” NLB manufacturers often use spare manufacturing capacity to produced PLB products for retailers. There are both advantages and disadvantages to this approach.

Main advantages:

- Allows the NLB manufacturers to lower its costs of production by spreading fixed costs of production over a larger volume.
- Allows the NLB manufacturer to benefit from the success of PLBs.

Main disadvantages:

- PLB sales are in direct competition with the manufacturers NLB products and may lead to cannibalization of existing sales.
- Additional costs related to added complexity of the manufacturing processes by PLB use of different packaging and formulas.
- Administrative costs associated with managing and negotiating PLB contracts.

All these above costs are not fully taken into account as the decisions to produce PLBs is most often based on allocation of fixed costs rather than fully allocated costs (Quelch et al., 1996).

The decision to produce PLBs must be examined by each NLB manufacturer based on their unique circumstances. The unique circumstances that must be taken into consideration are the following (Dunne & Narasimhan, 1999):

- PLB is a premium line- The margins may be higher for the NLB manufacturer and the risks to the main NLB may be lower as the product is not an exact copy.
This may also offer the NLB manufacturer access to new categories and new customers.

- Entry barriers are low- If new competitors are likely to enter the category with a close copy of the NLB, it makes sense to produce PLBs. It is better to retain some of the profits rather than pass them to the other competitors and new entrants.

- The manufacturer’s brand is not the market leader- If brand share and equity are low and the brand is not amongst the top three NLBs, then this may be an effective strategy to attack the market leaders.

Based on the above reasoning, it does not make sense for a NLB manufacturer with high market share, and strong brand equity to produce PLBs. However, brand manufacturers that do not rank amongst the top three should consider this strategy or face greater losses from de-listing and shrinking market share.

11.5 Build trade relationships

NLB manufacturers should attempt to develop stronger relationships with their trade customers. This will allow them to become more than just simple suppliers of NLBs, as they are capable of providing other value added services. The goal of these valued added services is to maximize profitability for both parties. The value added services may involve the following (Quelch et al., pp.106-107):

- Assist Grocery retailers in analyzing their sales data- Retailers have access to consumer data that provides them with greater insight into categories and consumer trends but they do not have the resources to analyze and act on this information. NLB manufacturers can assist retailers in jointly maximizing category profits by accurately analyzing and interpreting this data.

- Subsidize in-store experiments-Assist retailers in conducting in-store research that demonstrates the benefits of having a full product offering with a variety of NLBs rather than just PLBs.

- Exploit sales promotion tactics-NLB manufacturers can be more involved in merchandising efforts by assisting retailers set up in-store customized displays that show case their products. An example of this is Unilever. Unilever has a merchandising team that goes to various Wal-Mart locations and sets up in-store displays that highlight its various brands.

- Assist in Category Management-Many retailers such as P&G and Coca-Cola now offer retailers such as Wal-Mart resources and assistance in managing specific categories. Coca-Cola is Wal-Mart’s beverage category captain in Canada and provides the retailer with unbiased advice on the products that should be stocked and displayed on shelf to maximize profitability. Coca-Cola has fully dedicated and funded account team that provides this service.
11.6 Taking action against copy cat PLB products

Many of the PLB products are copies of NLB products. These products often copy the packaging colours of a NLB and may also occupy shelf space right next to them. The following example based on the authors experience at Unilever illustrates this situation.

Loblaw’s PLB margarine (Celeb) has the same identical packaging as Unilever’s Becel brand. The letters in the Celeb brand are scrambled letters that make up the brand name Becel. Both products are positioned as heart healthy life-style products. Loblaw also strategically placed the Celeb brand next to Becel. This constituted a serious threat to one of Unilever’s largest brands. Unilever did not take legal actions as this could have severed the relationship with its largest customer. Legal action could also have prompted Loblaw to react negatively by de-listing this brand or other products and by reducing the number of facings on the shelf. Many retailers are often faced with this same delicate situation when dealing with a competitor that is also a customer. In most cases NLB manufacturer’s do not take action. Even though legal action is not a realistic possibility, the NLB manufacturer can take other forms of action:

• They can offer volume incentive programs by providing higher trade funds if volume targets for the brand are achieved.
• They can compare their brand to PLBs casting doubt on their quality and highlighting strengths of their brands through advertising.
• They can withdraw other value added services offered to the retailer such as sharing and funding of category research projects.

As evident, NLB manufacturers can counter the success of PLBs through a number of strategies, but before they pursue them, they must first begin with taking the threat from PLBs seriously.

12.0 PLB IMPACT ON CONSUMER WELFARE

This section of the report will explore the impact of PLBs on consumer welfare.

Consumer welfare is maximized when:

• PLBs have a positive impact on prices
• There is increased competition in the market
• Innovation and wide variety of products are available to consumers.

12.1 Impact on price

Many studies and research findings have explored the impact of PLBs on price. Research conducted by Anselmsson, Johansson, Maranon and Perrson (2008) implies that as PLB market share within a category increases, average price decreases or is held back. The decrease in price is not a result of NLBs lowering prices due to loss of
market share but consumers switching to the less expensive PLB brands. From a consumer’s perspective, this study suggests that PLBs have had a positive impact on consumer welfare. However, from a manufacturer’s perspective they have had a negative impact as they have lowered profitability. The lower profit of NLB manufacturers also translates into lower investment in the brands and new product innovation. As a result in the long-run society is unable, reap the benefits of new product development and invention. One of the major drawbacks of this study is that it mainly examined the low price, low quality PLBs and did not take into consideration the new premium PLBs that are equivalent in quality to NLBs and also make use of the latest technology.

On the other hand, Research conducted by Parker and Sober (2004) concluded that PLBs have lead to an increase in advertising by NLBs and an increase in average category prices. NLBs react to an increase in PLB share by increasing advertising expenditures. The extra advertising cost is then recovered through increases in average prices. The higher prices also allow NLBs to charge consumers a premium for the value they place on the brand quality and advertising. Therefore, from a consumer welfare perspective, this has a negative impact on consumers but a positive impact on NLB manufacturers as they are able to charge a premium for their products and recoup their investment costs.

12.2 Impact on innovation and small scale manufacturers

PLB market share in most cases is earned at the expense of brands that rank below the top three NLBs. NLB manufacturers react to this by reducing their product offerings and by focusing only on their top brands. The author has been involved in a number of SKU rationalization projects at Unilever that involved the elimination of these trailing peripheral brands and SKUs. This elimination further decreases consumer choice and variety. Many of the small national manufacturers are also victims of PLB success as they do not have top brands and are an easy target for replacement by PLBs. This has lead to a reduction in competition as these manufacturers have gone out of business or have been absorbed by other large manufacturers. Based on these facts, PLBs have had a negative impact as they have reduced consumer choice and competition.

Contrary to the above argument is the fact that PLBs are effective at filling the gaps in customer needs. They offer products in categories where NLB manufacturers do not wish to compete due to low profit potential or requirements of a complex supply chain structure. PLBs have evolved over the years and retailers such as Tesco and Loblaw have PLB products that are considered innovative and leaders in their categories. In Canada, Loblaw has introduced a variety of products that cater to different ethnic groups through products such as Thai curry, Naan and Butter Chicken. These are areas where NLB manufacturers do not have product offerings and have been slow to react. Many PLB manufacturers are small local companies and in many cases, a number of them are used. From both a consumer and economic perspective, this has a positive impact as consumers benefit from new PLB product innovations and local communities benefit from the jobs created by utilizing local manufacturers. In contrast, NLB manufacturers have large centrally located manufacturing facilities that supply products on a national basis. According to the Boston consulting group, “PLBs have
served as a catalyst for companies to re-evaluate how they can create and sustain competitive advantage over own-label and other brands" (Working paper on own label, n.d). If a NLB manufacturer does not adequately fulfill a consumer need, retailers with their lower cost structures can offer a PLB that is equivalent in quality or higher. The same holds true with price, if a NLB product is priced too high, a PLB that is equivalent in quality and lower in price can easily replace it. Based on this perspective, PLBs have had a positive impact on consumer welfare. Market research from the UK supports the above fact by highlighting the positive impact of PLBs through the following (Working paper on own label, p11):

- R&D expenditure in the agriculture and food production industries does not indicate any significant decline since 1996
- In the periods 1998/99 to 2004/05, ratio of R&D expenditures to sales for 13 leading food and drink manufacturers has shown a significant upward trend.
- PLB development of premium products in organic, Kids and healthy categories has had a positive impact on competition by increasing consumer choice and competition.

The above research is based on the UK market where PLBs have one of the highest penetration rates globally and therefore provides an accurate indication of PLB impact on consumer welfare in Canada.

12.3 Collusion between NLB manufacturers and retailers of PLBs

Steiner in his research states that the category captain role that NLB manufacturers often take on to form better relations with the trade, can often lead to a reduction in competition through collusion. Steiner (2004) in his research states the following:

“In the weak form the captain’s suggestions are merely advisory, but in the strong form, the retailer essentially accepts the category captain’s recommendations. Category management has achieved efficiencies but is also capable of producing several kinds of anti competitive effects, including taking control of the retailers private label program” (pg.124)

Collusion similar to the one described above, will negatively impact consumers. It would lead the category captain to take actions that maximize profit for both the retailer and manufacturer rather than produce the best outcome for the consumer through competition. It may also lead to agreements where the PLB retailers and NLB manufacturers agree to maintain a pre-determined price gap to maximize sales and profit.

Previous research that had concentrated mainly on the first generation low quality PLB products concluded that PLBs had a negative impact on consumer welfare. However, the market in the UK and Canada where retailers are employing the fourth generation (see pg.25) strategy to produce new innovative premium products, the impact on consumer welfare is positive. These products keep NLB prices in check, offer consumers a wider choice of equivalent (or higher) quality products and have increased
the level of competition at both the retail level and manufacturing levels. However, regulators must closely monitor the joint category management efforts of retailers and manufacturers to ensure that the interests of the consumer are well protected and competition is not weakened through collusion activities.

13.0 CONCLUSION AND MANAGERIAL IMPLICATIONS
The main conclusions that can be drawn about the success of PLBs in Canada from the above report are the following:

- PLBs are an important strategic element utilized by all major food retailers to increase profit, market share and differentiate their overall retail brand. They also serve to curtail the power of NLB manufacturers.
- The grocery retail market structure in Canada contributes to the existence of PLBs. In this market, retailers are concentrated and only a few large retailers dominate the market.
- The Canadian grocery retail market is very similar to the UK market.
- Lower prices are not the only factor contributing to PLB success.
- PLB brand presence varies across product categories. They are more dominant in products that are utilitarian in nature rather than hedonic. PLBs are also dominant in categories characterized by the following:
  - Low innovation
  - Product category sales are large and growing.
  - Category is dominated by few national brands.
- In Europe, US and Canada, the grocery retailers with the largest share of PLB sales are also the most profitable.
- Consumers are more willing to buy PLBs when quality attributes can be determined through product information labels rather than trial.
- The PLB strategies employed by Canada’s grocery retailers are very similar to European and US retailers.
- PLB strategies have evolved over the years and retailers may pursue a number of different strategies.
- A successful Private label strategy must be integrated with the overall image of the retailer. A retailer known for low prices must reflect that in their PLB offerings by offering value brands. On the other hand, a retailer known for its store layout
and unique shopping experience must offer a premium and unique line of high quality PLB products.

- Retailers that have been able to create a clear association with their PLBs and retail outlets have enjoyed the greatest success. Tesco, Loblaw and Safeway have definitely accomplished this.
- In Canada the top three Grocery retailers utilize a two-tier brand strategy.
- NLBs can counter the effect of PLBs through the following:
  - Effective advertising and product innovation strategies.
  - Consolidating and eliminating low market share and low equity brands.
  - Forming better relationship with the trade through strategic partnerships.
- Consumer welfare is maximized when there is a positive impact on prices, increased level of competition between PLBs and NLBs and wider choice of product availability.
- Overall PLBs have had a positive impact on consumer welfare.

### 13.1 Managerial implications

The findings in this report can serve as a major source for NLB manufacturers to better understand one of their major competitors. Advertising, product innovation, and product quality are major strategies that can aid NLB manufacturers in countering the success of PLBs. By forging stronger relationships with retailers, NLB manufacturers have an opportunity to become value added partners. This role provides NLB manufacturers with the opportunity to educate retailers on the long-term benefits of having the right mix of NLBs and PLBs.
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APPENDIX A: TOP TWENTY PRIVATE LABEL ITEMS BY SHOPPING FREQUENCY

Top twenty Private label items, by heavy, occasional, and infrequent private-label shoppers (A.C. Nielsen, Nielsen Consumer Information Services 2004)

HEAVY
1. milk
2. bread and baked goods
3. cheese
4. vegetables-canned
5. vegetables-frozen
6. juices/drinks-shelf stable
7. packaged meat
8. paper products
9. juices and drinks refrigerated
10. eggs-fresh
11. cereal
12. pet food
13. sugar/substitutes
14. juices/drinks-frozen
15. tobacco and accessories
16. fruit-canned
17. snacks
18. cottage cheese/sour cream
19. jam/jellies/spread
20. packaged milks and modifiers

OCCASIONAL
1. milk
2. bread and baked goods
3. juices/drinks-shelf stable
4. juices and drinks refrigerated
5. cheese
6. vegetables-frozen
7. vegetables-canned
8. eggs-fresh
9. paper products
10. sugar/substitutes
11. pet food
12. packaged meat
13. juices/drinks-frozen
14. fruit-canned
15. vitamins
16. cereal
17. cottage cheese/sour cream
18. snacks
19. wrapping materials and bags
20. butter and margarine

INFREQUENT

1. milk
APPENDIX B: LIST OF TERMS

Private Label Brand (PLB)-A brand owned by a retailer that is specific to that retailer. “House brand”, and “Own brand” are other similar terms.

National Leading Brand (NLB)-A non-retailer brand that commands significant market share and is widely available through different retailers.

National brand-Non retailer brand that is widely available through different retailers and may (or may not) command significant market share.

Trade-Refers to the retailers in the grocery retailing industry.

Trade discount-Discount offered to retailers by manufacturers on products they purchase for re-sale.

Trade funds-Funds provided to retailers by manufacturers to cover the cost of promoting and selling the products in their retail outlets.

Stock Keeping Unit (SKU)-A unique number assigned to each flavour/size combination of a product. For example, there are three types of Peanut Butter sold by Kraft; Smooth, Light and Crunchy. Each of these flavours is available in 500g and 1Kg sizes. Therefore, there are 6 SKU’s in total.

SKU rationalization-The process of reducing the number of SKU’s that a manufacturer sells. The main targets are the low sales and low profit SKU’s.

Premium brand-A high priced and high quality brand that is targeted towards high end consumers.

Discount/Value brand-A low priced brand that may be equivalent or lower in quality to a NLB product. The main target is the price conscious consumer.

Limited Assortment Discounter (LAD)- Retailers that offer a limited number of SKU’s with a significant focus on private label. Examples are European retailers Aldi and Lidl.

Category Captain-A retailer nominated supplier that assists the retailer in managing a particular product category by providing resources, research and advice.

Category Management-The strategic management of product groups through trade partnerships that aim to maximize sales and profit by satisfying consumer and shopper needs (Institute of Grocery Distribution).

Cannibalization-The reduction in sales, profit, or market share that happens in one product when the same manufacturer introduces a new product.

Listing/ Slotting fee-The fee charged by grocery retailers to list a manufacturer’s product on their shelves. The amount of fee charged varies depending on the size of the market.