The Effectiveness of Private Label Brand Strategies in FMCG.

A research study submitted by

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February 2015

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CHAPTER 1. INTRODUCTION

1.1 Purpose of the Study

The purpose of this research is to evaluate and to understand the effectiveness of Private Label Brand (PLB) strategies in a South African FMCG retail environment.

1.2 Context of the Study

Whether you call them store brands or private label brands (PLBs), they both mean the same thing: a brand that is owned and managed by a retailer and manufactured under license on behalf of a retailer. PLBs are those brands that are managed by contract manufacturers and sold through retailer outlets (Beneke, 2010).

The private label revolution originated in Europe and Canada (Beneke, 2010). In the past several decades PLBs have emerged as strong competitors to national brands (NB) (Lamey, Deleersnyder, Steenkamp, & Dekimpe, 2012). The strength of PLBs has become a key challenge for NB manufacturers and marketers (Kumar & Steenkamp, 2007; Lamey, Deleersnyder, Dekimpe, & Steenkamp, 2007). PLBs allow the retailer to differentiate its proposition from competing retailers, although often without the resources afforded to NBs (Ailawadi & Keller, 2004).

The twentieth century was dominated by NBs with consumers moving from no-name products to branded manufacturer products driven by fast moving consumer goods companies such as Coca-Cola, Unilever and P&G.

PLBs were introduced to South African consumers in 1956 when Raymond Ackerman, the founder, introduced a no-frills “generic” brand offering to the market through the newly founded Pick n Pay stores (Prichard, 2005).

Although initially PLBs had substantially lower market share than NBs, the tide began to turn in the 1970s towards retailers mainly due to the proliferation of retail chains and their strength (Beneke, 2010).

PLB growth is, however, not spread evenly across time. The PLB market share grows disproportionately in periods of financial reduction, and much of this market share gain continues better economic times. Therefore PLB share is growing when compared to NB share (Ailawadi & Keller, 2004).

According to Citi (2014) PLB sales in South Africa accumulated to R25bn and is growing at 11.4% annually. This is compared to 7.2% growth for NBs. This shows that PLBs are gaining market share vs. NBs and that South Africa is aligning itself to European and North American levels of PLBs.

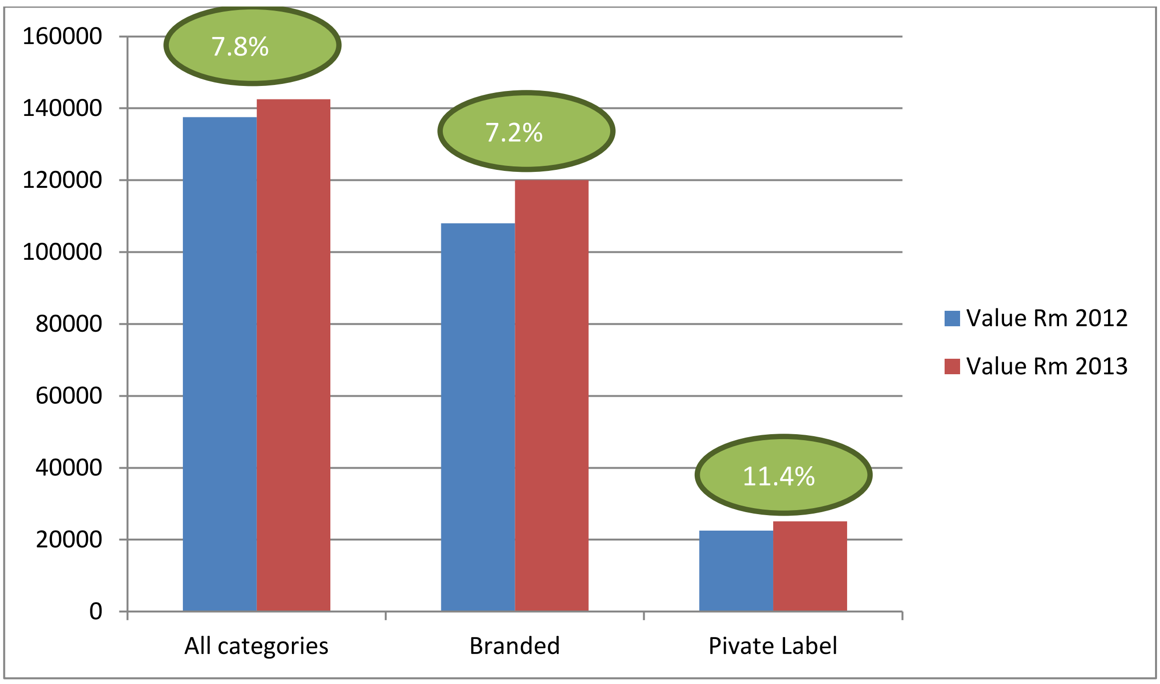

Figure 1: How Big Are Private Label Products? Source: Citi 2014

Walker (2006) admits that PLBs are often perceived as lower priced and thus inferior. This is contrasted by Verhoef, Nijssen, and Sloot (2002) who contend that this view is changing with many retailers re-positioning their PLBs as premium. Hoch and Banerji (1993) and Sethuraman and Cole (1999) agree that high quality seems to be more imperative in determining PLB success than a lower price. One example in South Africa is Woolworths who has an extensive range of premium PLBs that are positioned as more premium to NBs.

South Africa and other emerging economies, such as Brazil, Russia and China, have PLB penetration rates below their European and Northern American counterparts, as per Figure 2 below, and are thus playing ‘catch-up’ (Beneke, 2010).

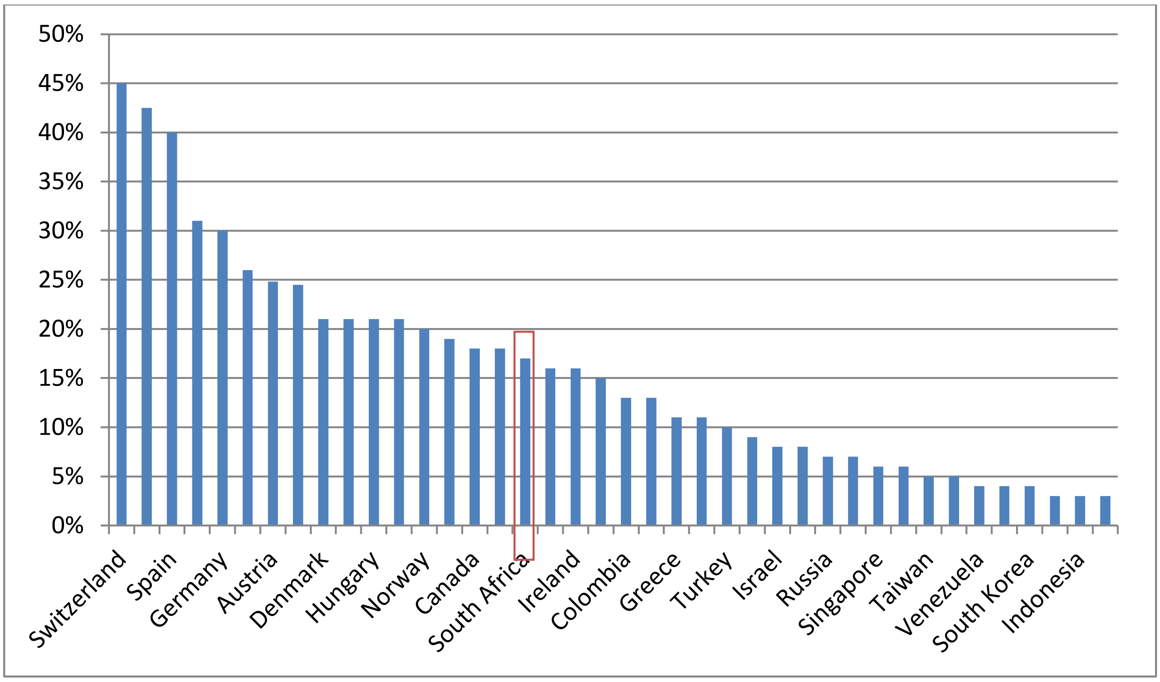

Figure 2: Private Label Penetration Source: City 2014

According to Nielsen (2006) in Beneke (2010), there are two iregularities that present themselves in terms of PLB penetration in South Africa:

- It has been proven that retail concentration is highly correlated with the success of PLBs. However, despite high levels of concentration by the supermarket chains, PLB have not reached the success rates of their global counterparts. A factor identified here is that lower income groups in South Africa do not always have access to the large retail stores where

PLBs are available. This leads to consumers shopping at "spaza" outlets that only carry NBs (Beneke, 2010). Blottnitz (2007) estimates that between 10% - 20% of fast moving consumer goods (FMCG) in South Africa occur in the informal sector.

- Lower income groups are globally the highest consumers of PLBs due to their generally higher levels of affordability. In South Africa, despite the majority of consumers being at the bottom-end of the pyramid, it is the higher Lifestyle Standards Measure (LSM) categories that purchase these brands. Mawers (2006) highlights research that uncovers that the more affluent a consumer is, the more they are willing to try various alternatives to trusted brands (NBs). Rusch (2002) further elaborates this anomaly by stating that consumers with more limited financial resources are more likely to purchases trusted brands (NBs) due to a higher potential purchase dissonance.

One of the interesting phenomena concerning PLBs is the fact that their growth has been highly uneven across product categories - Hoch and Banerji (1993) in Batra and Sinha (2000).

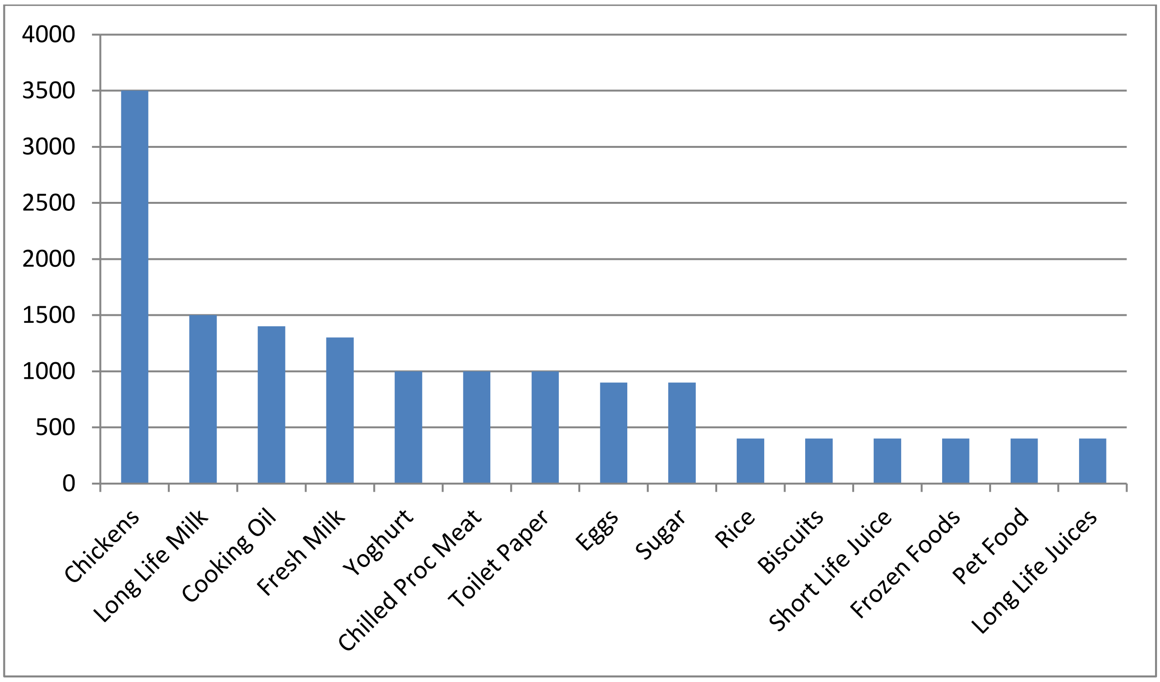

Figure 3: Private Label Categories - Best Selling Products Source: Citi 2014

The figure above shows that PLB penetration is successful in some and not all product categories in South Africa. Chicken is by far the biggest PLB product category followed by long-life milk and cooking oil. Although PLBs are primarily strong in these traditional products, nowadays PLBs are present in 95% of FMCG products (Kumar & Steenkamp, 2007).

Currently, PLBs represent between 10%-17% to retailers top-line, drawn by the prospects of bolstered profits and customer loyalty (Citi, 2014). Intensifying competition in the retail space could result in the retailers seeking to build operating margin and driving customer loyalty by investing in PLBs (Citi, 2014).

Table 1: Private Label Contribution to Revenues Source: Citi 2014

Retailer	**Private Label Penetration**
Pick n Pay	13.8%
Spar	17.0%
Shoprite	10.0%
Woolworths	90.0%

(Kumar & Steenkamp, 2007) state that “two facts are well known in the developed economies: there are too many brands and it is an overstored environment.”

As PLBs have evolved over the years, so has the offering. No longer are PLBs fighting for consumer share of wallet; and competing only on price. Magwaza (2014) states that several factors have led to the popularity of PLBs including: the recession experienced in 2008, consumers increased sensitivity to pricing and the fact that retailers have improved their quality.

The transformation of PLBs has made them an acceptable, and in some cases, an aspirational purchase for consumers. Kumar and Steenkamp (2007) state that two out of three consumers around the world believe that retailer PLBs are a good alternative to NBs.

PLB's have also introduced multi-brand strategies. Whereas in the past they offered only one value-based PLB, today's retail shelves are adorned with a proliferation of PLB brands pitched at various price-points and value propositions. Finding a unique consumer value proposition for PLBs is aggravated by the fact that most retailers today manage a multi-brand portfolio of PLBs, rather than simply having a single store brand.

Ailawadi and Keller (2004) state that PLBs can have their own unique brand, or be branded under the name of the retailer.

We can say with certainty that PLBs are, and will continue to be, part of a retailer's overall strategy, given their past success and more recent developments like multi-brand PLBs. This study will focus on the effectiveness of PLB strategies in the FMCG environment. Since this is a recent phenomenon, there has been very little research published to this effect, specifically for the South African environment.

1.3 Problem Statement

1.3.1 *Main Problem*

To assess the effectiveness of a retailer's use of PLB strategies as part of their overall FMCG branding strategy.

1.3.2 *Sub-Problems*

The first sub-problem is to ascertain whether retailers are using PLB strategies.

The second sub-problem is to identify the level of effectiveness of these PLB strategies.

1.4 Significance of the Study

This study will provide guidance to retailers and manufacturers of PLBs in understanding if and why PLB strategies are effective.

Geyskens, Gielens, and Gijsbrechts (2010) discuss in detail how PLB strategies are structured. Beneke and Montandon (2014) show that there is a growing proliferation of PLBs. However, there is little research in the South African market as to why retailers are moving towards PLBs and the effectiveness of this strategy.

1.5 Delimitations of the Study

- Non FMCG retailers will not be included in the study
- Only PLB strategies will be covered by the study
- The study only covers South Africa
- The study will focus on the large (formal) retailers and does not included medium and small (informal) retailers/traders

1.6 Definition of Terms

- Private Label Brands (PLBs): refers to those brands that are owned and distributed by retailers
- National Brands (NBs): refer to those brands are owned, manufactured and distributed by brand manufacturers

1.7 Assumptions

- The sample will consist of managers who have an understanding of PLBs. Any lack of knowledge or insight in this regard could jeopardise the credibility of the study
- Only a few respondents will be interviewed. We believe that since this sample represents the entire South African FMCG PLB market, the responses can be extrapolated onto the entire SA FMCG universe.
- If any respondent fails to give honest answers to the questionnaire, this could limit the credibility of the study.

CHAPTER 2. LITERATURE REVIEW

2.1 Introduction

PLB's are gaining hold in the FMCG market and getting as much, or more, shelf space as other popular NBs, as consumers trade-down and change buying patterns (Magwaza, 2014). The South African PLB market share in 2012 was 18% (Beneke & Montandon, 2014), this remains well below Europe's 30% average. A survey by Deloitte (2012) in Beneke and Montandon (2014) indicated that, despite this, consumers planned to increase their purchasing of PLB's by 17% in 2013. Hence, there is major scope for PLB growth in the South African PLB market, and NBs will be increasingly under threat.

This literature review will look at: discussing the use of PLBs and how these PLB's have evolved over time and are perceived as effective by retailers

2.2 Proliferation of PLBs

2.2.1 *Brand Building Basics*

According to Ailawadi and Keller (2004) there has been a growing realisation over the past decade that brands are one of an organisation's most valuable intangible assets. They go on to state that given retailing's highly competitive nature, branding can be highly important in swaying customer perceptions and in driving store selection and loyalty.

Growing consumer acceptance of PLBs has resulted in decreased loyalty to well-known NBs (Kumar & Steenkamp, 2007).This does not necessarily mean that loyalty is a thing of the past. The authors postulate that consumers are more and more becoming loyal to retailers and PLBs. In examining brand loyalty vs. store loyalty (Kumar & Steenkamp, 2007) for a number of FMCG categories among consumers in four continents they found that one-third of the consumers are store loyal, half are brand loyal and the remainder are undecided.

According to Dick, Jain, and Richardson (1996), consumers make judgements of brand quality on a combination of direct and indirect factors:

- Direct attributes include: ingredients, taste and texture
- Indirect factors include: price, packaging, advertising and brand

Direct attributes are more difficult for consumers to experience without actually consuming the product. Thus, consumers rely on indirect quality indicators such as packaging, brand name and price to make decisions on which products to purchase.

The objective of building a brand is not based on the number of consumers who trial the product once, but to create a loyal following (Beneke, 2010). Chaudhuri and Holbrook (2001) suggest that consumers become brand loyal when they perceive some unique value in the brand that no other alternative can satisfy.

By taking small incremental steps by introducing a succession of closely related but increasingly outlying extensions, it is possible for a brand to ultimately enter product categories that could have been more difficult to enter immediately: Dawar and Anderson (1994), Jap (1993), Meyvis and Janiszewski (2004) in Ailawadi and Keller (2004).

2.2.2 *Private Label Brands*

According to Kumar and Steenkamp (2007), brands help to give us meaning in our role as consumers. We want brands for the quality guarantee and the emotional satisfaction they promise to provide. Brands do not necessarily mean NBs, there can also be PLBs. Retailers are now positioning their PLBs as brands in their own right. PLBs are more than the functional products from a generation ago, but are gradually been embedded with emotion and imagery to make them into brands.

Beneke (2010) identifies three varieties of PLBs:

- Representative brands which, through logo, branding and packaging, announce that they are produced and exclusively owned by the retailer e.g. Pick n Pay's No Name brand
- Exclusive brands which are owned and produced (via contract manufacturers) by the retailer, yet this fact is not clearly communicated to the consumer through brand name and packaging e.g. Pick n Pay's Aim electronics line
- Confined brands are not owned by that retailer, but are sold exclusively through their stores

Despite strong success with PLBs, retailers want to increase their share of market even further (Kumar & Steenkamp, 2007). Because PLBs are already prevalent in many retailer categories, growth in PLBs must be sought from expanding the PLB offering. The Institute (2005) in Geyskens et al. (2010) urged its members to consider adopting three-tiered PLB multi-branded programmes. Today, there are a plethora of retailers manage PLB portfolios that incorporate multiple value propositions/brands (Martos-Partal & González-Benito, 2011).

Such multi-tiered PLB offerings, designed to meet the distinct quality and pricing demands of various consumers and various product categories, are popular among European retailers and are beginning to penetrate the globe, because having a portfolio of PLBs enables the retailer to penetrate several different customer segments across a multitude of categories simultaneously (Kumar & Steenkamp, 2007).

Ailawadi and Keller (2004) identified at least four tiers of PLBs:

- Lower quality "generics"
- Medium quality PLBs

- Less expensive but comparable quality products, and
- Premium quality PLBs that are priced in excess of NBs

They further state that whilst a retailer's PLB strategy should be guided, primarily, by its target market, a successful retailer will adopt more than one PLB tier if they are to achieve a broader market coverage. Most advanced retailers develop a multi-tiered PLB strategy, in that their PLB portfolio includes a number of different PLBs with varying value propositions (Kumar & Steenkamp, 2007).

According to (Kumar & Steenkamp, 2007) retailers have one of four general consumer propositions with which to compete against manufacturer brands and other retailers. These are:

- Generic PLBs
- Copycat PLBs
- Premium store PLBs
- Value innovators

The Table below summarises each of these.

	Generic Private Labels	Copycat Brands	Premium Store Brands	Value Innovators
Examples	No-name black-and-white packages marked soap, shampoo, bread	Pick n Pay Cola	Woolworths	IKEA
Strategy	Cheapest - undifferentiated	Me-too at a cheaper price	Value added	Best performance-price ratio
Objectives	• Provide customer with a low-price option • Expand customer base	• Increase negotiating power against manufacturer • Increase retailer share of category profits	• Provide added-value products • Differentiate store • Increase category sales • Enhance margins	• Provide the best value • Build customer loyalty to store • Generate word of mouth

Branding	No brand name, or identified as first price label	Umbrella store brand or category-specific own labels	Store brand with subbrand or own label	Meaningless own labels to demonstrate variety
Pricing	Large discount, 20%-50% below brand leader	Moderate discount, 5%-25% below brand leader	Close to or higher than brand leader	Large discount 20%-50% below brand leader
Category coverage	Basic functional product categories	Originates in large categories with strong brand leader	Image-forming categories, often fresh products	All categories

Table 2 - Four Types of Private Labels, Adapted from Kumar and Steenkamp 2007

2.2.3 *Private Labels*

Although there have been major developments in the PLB market, Generic and Copycat PLBs are still the main type of PLBs found in the market. Retailers usually start their PLB offering with these types of PLBs and according to Kumar and Steenkamp (2007) are still the dominant types of PLBs.

PLBs started out as cheap, inferior generic products. Initially they did not even carry the logo and branding of the store and were thus called generics (Kumar & Steenkamp, 2007). The package simply had the name of the product to identify it, for example, “Paper Towels”. They were undifferentiated, of lesser quality than the NB offering and at a significantly lower price point.

Historically generic PLBs did not account for a major portion of retailers’ volumes and thus were not strategically important (Kumar & Steenkamp, 2007). However, recently, generics have made a resurgence with retailers focusing their branding efforts on these ranges e.g. Pick n Pay’s No Name brand. To counter any quality concerns Pick n Pay offers a “Double Your Money Back” promise as well as the range being endorsed by Raymond Ackerman, the retailer’s iconic founder.

2.2.4 *Copycat Store Brands*

Some PLB’s imitate the NB in terms of product intrinsics and packaging. Often these copycat products are “uncomfortably close” to leading NB in packaging (Kumar & Steenkamp, 2007). Copycat PLBs are usually aggressively promoted by retailers using price and even comparative messages.

Retailers use “reverse engineering” to analyse and copy a NB product. According to Kumar and Steenkamp (2007) this allows retailers to “piggy-back” on the manufacturers innovation, research, product development, and image building activities for the brand. This process also minimises any product launch risks that a retailer would have, as only successful NB products are copied.

2.2.5 *Premium PLBs*

Retailers are no longer restricting themselves solely to generic and copycat PLBs. Over the years they have realised that although these are a tool against NBs, they do not differentiate the store against other retailers (Kumar & Steenkamp, 2007). In order to differentiate themselves and to avoid commoditisation, retailers are increasingly introducing and investing in premium PLBs.

According to Kumar and Steenkamp (2007), the emergence of the premium PLBs is “one of the hottest trends in retailing”. However, distinctions need to be made on whether this is a price and/or quality premium.

Historically ‘premium’ referred to the contrast with generic and copycat PLBs, however, compared to NBs, PLBs are usually priced lower yet advertised at a similar or premium quality (Kumar & Steenkamp, 2007).

Premium brands differ from copycat brands in that they distinguish themselves on superior quality and do not emulate or copy the NB in any way. There are two main premium brands (Kumar & Steenkamp, 2007):

- Premium-lite PLBs adopt the proposition of “better and cheaper”
- Premium price PLBs are positioned as “best that money can buy” – Woolworths is an example of a retailer that makes use of this positioning effectively

In order to introduce premium PLBs, a retailer will need to invest in research and development; and marketing (Kumar & Steenkamp, 2007).

2.2.6 *Value Innovator PLBs*

Retailers have recently started discovering that there are opportunities beyond that of generic, copycat and premium PLBs (Kumar & Steenkamp, 2007). The authors further postulate that by “brutally” confronting each cost element in the product, retailers can create a good, and in some instances an even better, quality product at a lower price. In delivering a value innovator, PLB process-related savings are key, see below.

	Design	Parts	Assembly	Logistics	Marketing	Service
Traditional furniture stores	• Independent designers • Sophisticated complex designs	• High work-in-progress inventory • Handicraft, custom manufacturing	• Labour intensive • Built to order	• Transport costly, bulky finished product	• Fragmented • Expensive, high street display	• Full service • Small-lot delivery to customers
IKEA	• In-house designers • Simple design to cost	• Modular, interchangeable parts • Mass production • New, cheaper raw materials	• By customer	• Computerised • Transport modular	• Leverage Scandinavian image • Cheap out-of-town display	• Serf-service • Customer transports home

Table 3 - IKEA's Unique Value Network - Kumar and Steenkamp 2007

According to Kumar and Steenkamp (2007), the core strength of the value innovator model is in delivering good-quality products at unbeatable prices. The authors further state that the lower product and process costs allow value innovators to provide the best value for money whilst not affecting their profitability.

One of the value innovator's key success factors is their pin-point targeting, but this is also their biggest weakness (Kumar & Steenkamp, 2007). Rather than being everything to everybody, these retailers focus on a very targeted market. However, the more successful the retailer becomes, the less potential for growth it has since it has already exhausted its core target market – there is a limited market. Kumar and Steenkamp (2007) suggest that in order to grow, value innovators need to either expand into new target markets or expand internationally.

In their quest to reduce costs, value innovators pass on many costs of the process of shopping onto the consumer (Kumar & Steenkamp, 2007). These costs could include transportation or the cost of having to visit multiple stores due to a value innovator's limited Stock Keeping Unit (SKU).

Retailers can follow a number of branding options for PLBs (Kumar & Steenkamp, 2007):

- No brand – this option was followed by retailers when PLBs where initially introduced. The PLB carried no brand only the name of the product.
- Store brand – the PLB carries the brand of the retailer only
- Sub-brand – the PLB has its own brand with the retailer brand as a sub or supporting brand
- Separate brand – the PLB has a completely new identity with no reference to the retail brand

2.3 Effectiveness of PLBs

2.3.1 *PLB Portfolio Segmentation*

Whilst individual PLBs fall into one of the four main categories: generic, copycat, premium and value innovator, most retailers manage a portfolio of brands incorporating multiple types of store brands. By having a portfolio of PLBs retailers can penetrate several different segments simultaneously (Kumar & Steenkamp, 2007).

In the past, brand portfolios and target market segmentation was the domain of manufacturers, nowadays though retailers are increasingly implementing a sophisticated mix of segmentation strategies to construct their own brand portfolios (Kumar & Steenkamp, 2007).

Kumar and Steenkamp (2007) identify three portfolio segmentation strategies:

- Price
- Category
- Benefit

Price segmentation requires two, and often three, products at different price points that appeal to different target markets (Kumar & Steenkamp, 2007). Many retailers now offer three-tiered PLB offerings with a low-end offering, a medium or standard range and a premium PLB.

Category-based PLBs span a number of different products but are within a specific merchandise category (Kumar & Steenkamp, 2007). The authors further explain that this is normally a house of PLBs strategy – where independent brands which are not affiliated with another are sold next to one another, and since they are not in the same category, they do not compete with one another. A brand spanning the entire category can support the communication of the unique brand associations and benefits that are important to the category.

Benefit-based segmentation builds the brand around specific customer needs as opposed to cost or category (Kumar & Steenkamp, 2007). One of the biggest benefit-based segmentation strategies in recent years has been the drive towards “organic” foodstuffs.

According to Kumar and Steenkamp (2007) leading PLB retailers are adopting the four types of PLB brands: generic, copycat, premium and value innovators with the three types of segmentation: price-based, category-based and benefit-based to create complex PLB portfolios.

It is clear from the figure below that PLBs are growing ahead of branded items in all categories except beverages and household goods (Nielsen, 2014).

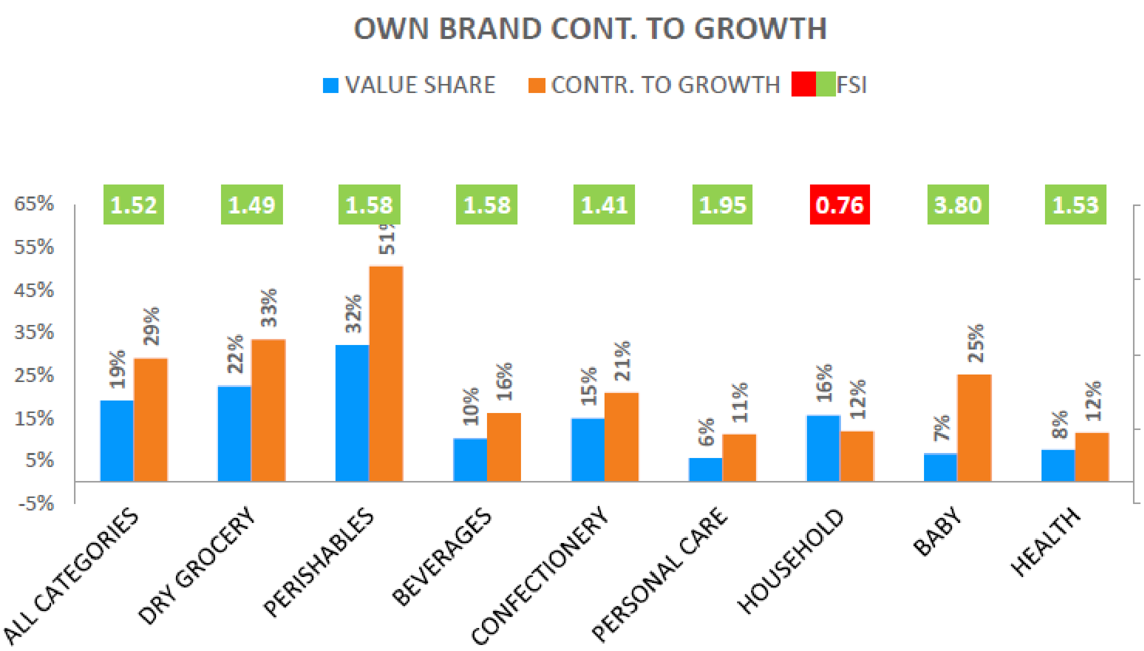

Figure 4 - Private Label Brand Category Growth Over Past 12 Months – Nielsen 2014

2.3.2 *Benefits and Drawbacks of Selling PLBs*

As is the norm with any business (and life) decision, there are both advantages and disadvantages in selling PLBs. However, it is clear that the advantages outstrip the disadvantages as the majority of medium-large sized retailers globally do sell PLBs. Fernie and Moore (2013) in Beneke and Montandon (2014) identified various benefits to retailers for the development of PLBs:

- Increased profitability through cost savings and increased profit margins
- Opportunities to seize new market ventures, and
- Increased store loyalty and the augmentation of a distinctive corporate branding identity
- Increased bargaining leverage with suppliers

PLB success has also been linked to economic conditions (Lamey et al., 2007). Retailers like PLBs because of their potential to increase store loyalty, chain profitability, provide control over shelf space, increase bargaining power over manufacturers and so forth (Quelch & Harding, 1996).

Beneke (2010) warns retailers to also acknowledge potential negatives in offering PLBs:

- Such brands, in various product categories, may expose the retailer to undue business risk (Fernie & Moore, 2013)
- The PLB's reputation may tarnish the consumer's perceptions of the retailer if it fails (Veloutsou, Gioulistanis, & Moutinho, 2004)
- The profitability per square metre generated by the PLB may not be on a par with that of NBs

2.3.3 *The Tussle Between A and B Brands*

According to (Beneke & Montandon, 2014), A Brands are first-tier NBs and B Brands are essentially second tier NBs. According to the author, B-brands are expected to become increasingly vulnerable in comings years as retailers look to replace such brands with their own PLBs in due course.

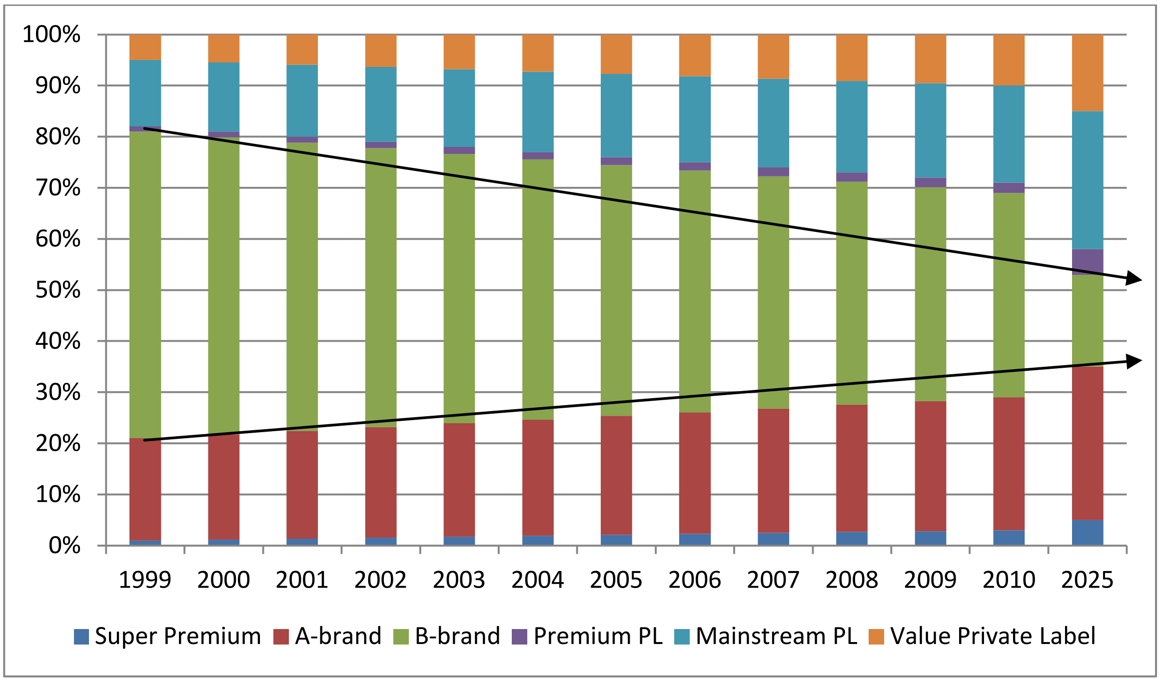

Figure 5 - The B-Brand Squeeze - Beneke and Montandon 2014

The figure above depicts this "squeeze". The role of A Brands is set to grow as neither the consumer, nor the retailer, appear willing to abandon these brands. Rabobank (2011) states that retailers appear reluctant to compete head-on with A Brands using price as a weapon as this is likely to erode the legitimacy of premium PLBs and ultimately lead to reduced profits.

In a multiple NB world, PLB positioning decisions take account of the existing national brand competition. (Chan Choi & Coughlan, 2006)

Geyskens et al. (2010) theorise that there could be three possible effects on the launch of economy and premium PLBs on the existing PLBs in the market: the compromise effect, the similarity effect and the attraction effect.

According to Simonson (1989) in Geyskens et al. (2010), the compromise effect predicts that a product obtains a relatively larger use and choice probability when it becomes a compromise or intermediary option in the assortment after the addition of a new product.

The similarity effect, also known as the substitution effect, predicts that by adding a new product decreases the use of the products similar to it. Thus the choice will decrease disproportionally more for products similar to the newly introduced product than for dissimilar products -Tversky (1972) in Geyskens et al. (2010).

And lastly, the attraction effect predicts that adding a new products enhances the use and choice probability of the relatively superior option to which it is similar (Huber and Payne 1983 in (Geyskens et al., 2010).

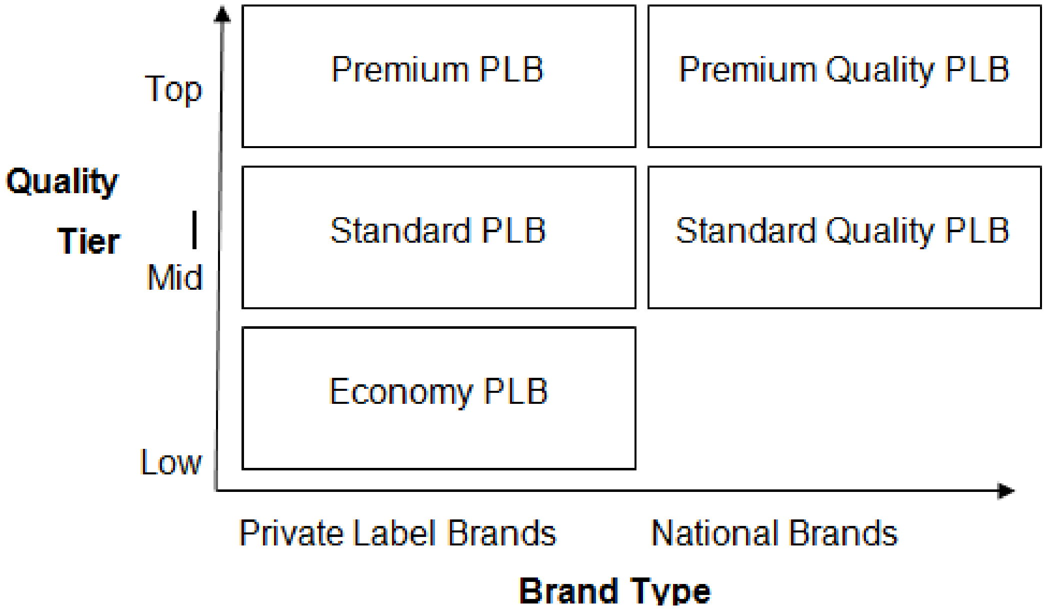

Figure 6 - Positioning Along Quality Tier and Brand Type - Geyskens et all 2010

2.3.4 *Consumer Perceptions*

It is clear, according to the Citi Research (2014) below, that the consumer is more sensitive to pricing and is looking to switch to cheaper grocery brands as an action to save on household expenditure.

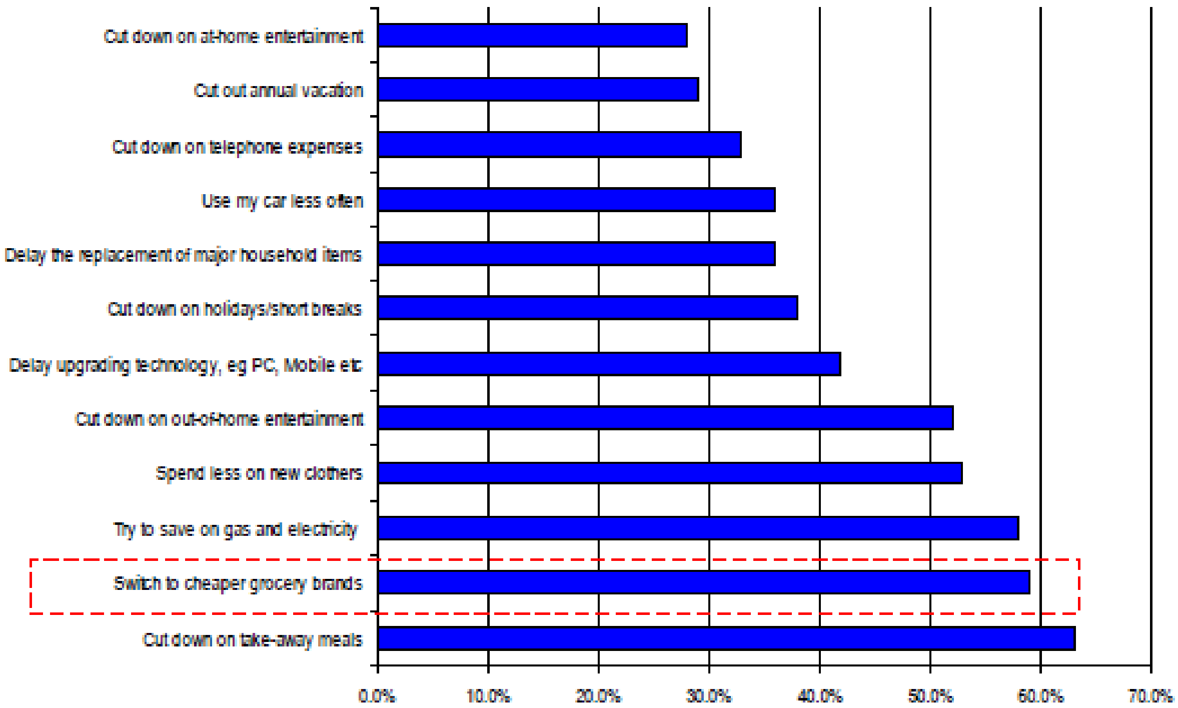

Figure 7 - Survey: Actions Taken to Save on Household Expenditure - Citi Research 2014

When consumers were asked which PLB they had purchased in the past 4 weeks Shoprite's Rite brand and Pick n Pay's No Name brand came out as the most popular.

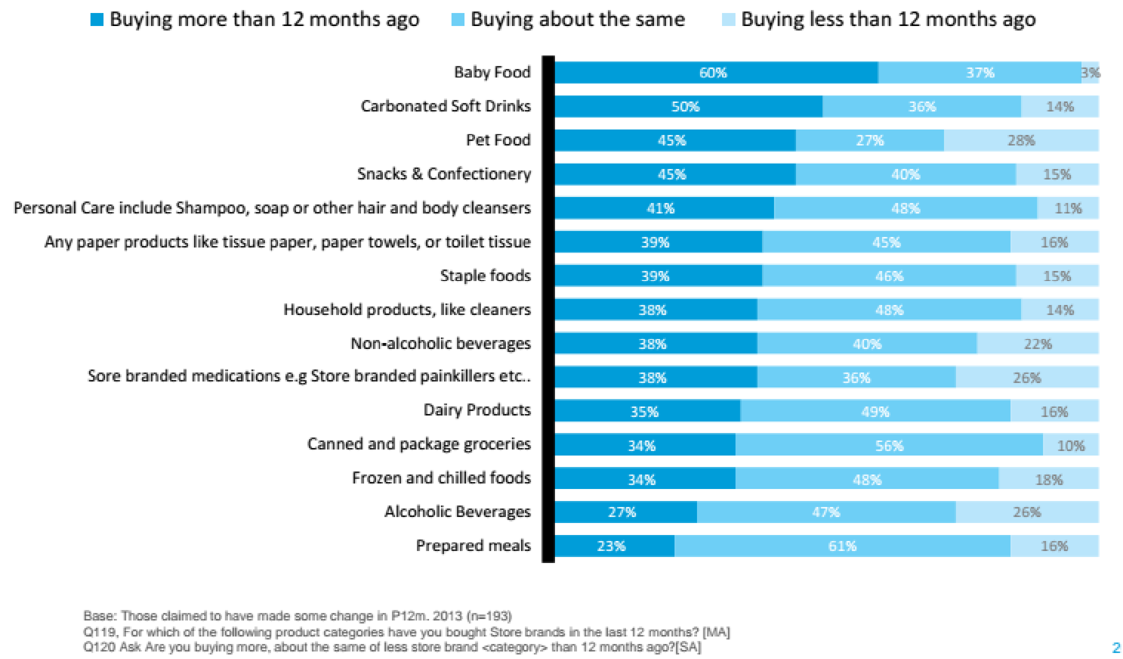

Table 4 - Private Label Purchases per Category – Nielsen 2014

In Table 4 above, we can notice that certain categories have higher PLB purchase intentions than other categories. For example, Baby Food has grown by 60% in the consumers purchase intent in 2014.

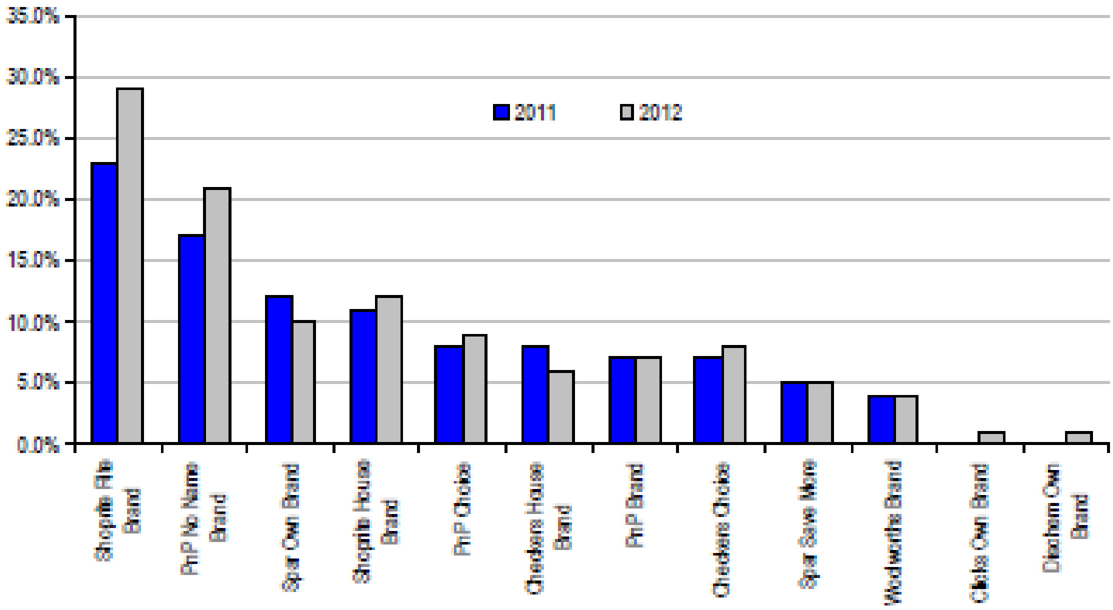

Figure 8 - Survey: Which Private Label Brands Have You Purchased in the Past Four Weeks? Citi Research 2014

The reason for South Africans buying PLBs is by far price, followed by quality as shown below.

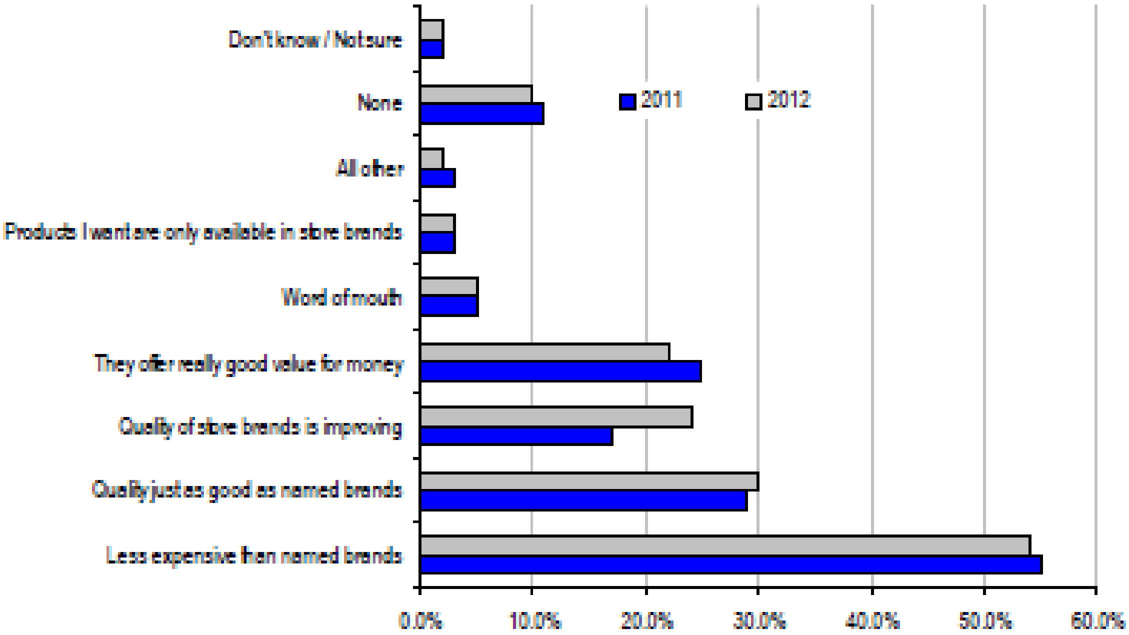

Figure 9 - Survey: Reasons for Buying Private Label Brands - Citi Research 2014

PLBs are increasing in contribution in mid to lower LSM groups, however they are still mainly driven by higher LSM groups at 34% (Nielsen, 2014).

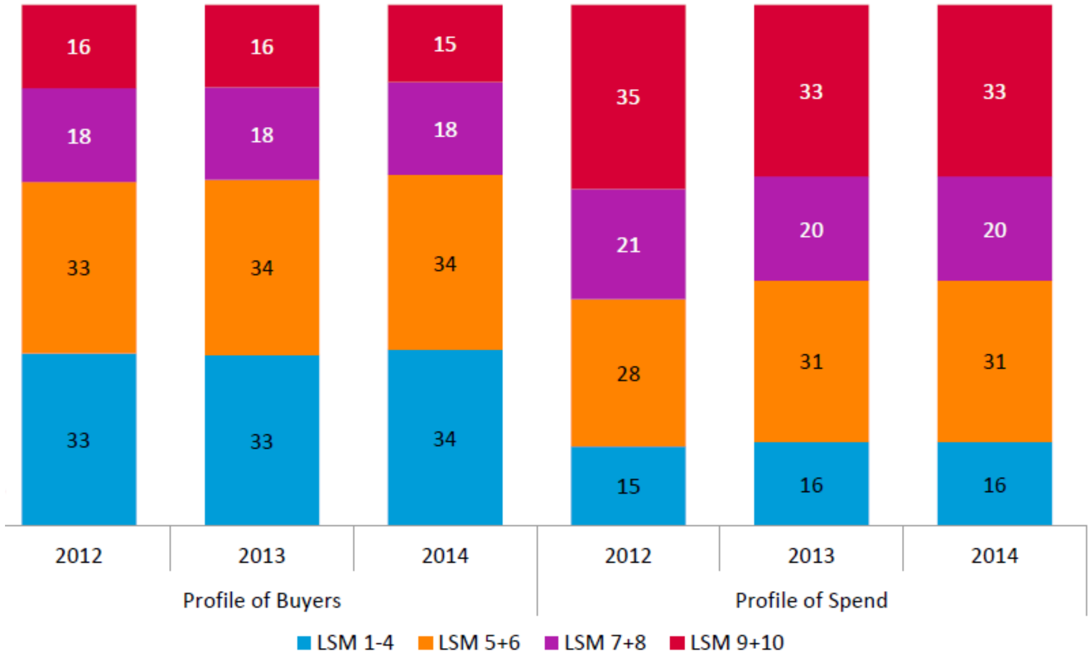

Figure 10 – Demographic Profile of Spend in PLB - Nielsen 2014

PLB's are growing in every province except the Eastern Cape, which is somewhat surprising as the Eastern Cape is one of the poorer provinces and it would be expected for PLB to be popular in that province.

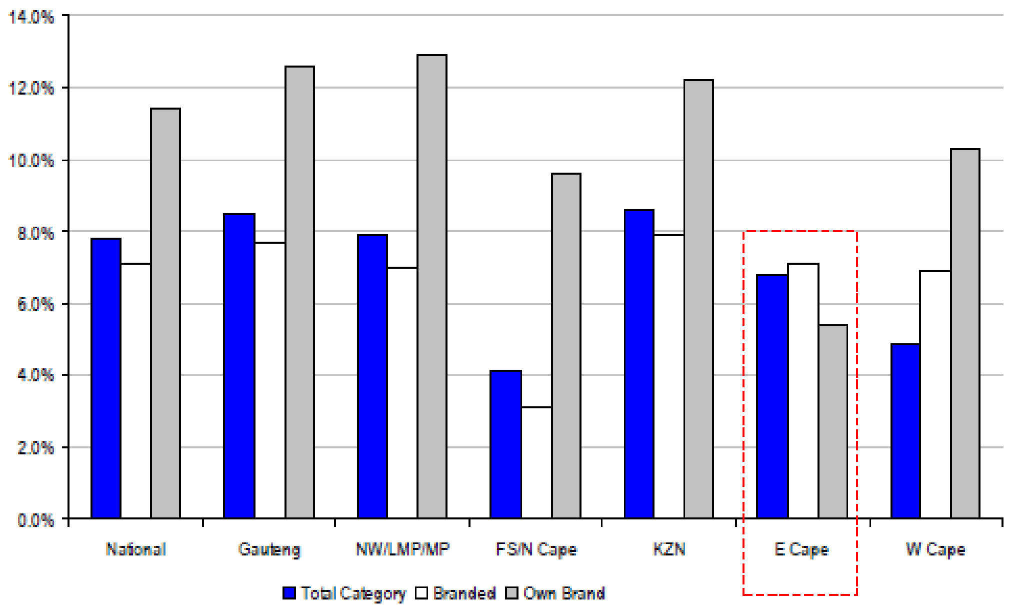

Figure 11 - Provincial Value Growth 12MM - Citi Research

2.3.5 *Pricing and Promotion*

Pricing represents an external cue and provides one of the most important forms of information available to consumers when making a purchasing decision (Jin & Sternquist, 2003). According to studies, price can constitute up to 40% of the average consumer's information exploration. Price is particularly applicable with PLBs as they are under full control of the retailer, and are free from the contract manufacturer's pricing policies and strategies (Uusitalo, 2001).

Beneke (2010) states that NB and PLB prices tend to vary among different retailers and certain product category types. Davies and Brito (2004) suggest that although price elasticities have a large effect on pricing decisions, generally the price advantages of PLBs can provide approximately 20%-40% higher gross profit margins.

There are several reasons why PLBs are more cost effective. Beneke (2010) states:

- That many PLB are “copy-cat” products and thus have limited associated research and development costs.
- Test marketing can take place in a selection of their own retail stores – thus leading to lower R&D costs
- He continues to state that marketing and sales associated costs are diminished – this having the single biggest impact overall variable cost
- Packaging costs are usually of a lesser quality for PLB. Although this point can be argued with the advent of premium PLBs.

Kumar and Steenkamp (2007) note that the excessive use of promotions by manufacturers can condition consumers to become more price sensitive and this may, eventually, result in buy-downs to PLBs. Contrastingly, Putsis Jr and Dhar (2001) note that promotions of NBs based on price are more likely to attract sales away from lower quality (generic) PLBs whilst the price promotion of PLBs does not seem to have an equal level of success.

2.3.6 *Advertising*

Beneke (2010) suggests that retailers are aware that PLBs need to be self-promoted to some degree and that excessive advertising is almost certainly unwarranted.

Uusitalo (2001), states that for supermarket retailers communications are becoming an increasingly important tool for product differentiation. Beneke (2010) follows-on by saying that retailers generally operate in a slow-growth markets and products are becoming increasingly homogenous, thus the importance of branding and communication as a means of distinguishing one PLB from the next is vital .

Due to how PLB advertising costs are internalised within the retailing organisation, Kim and Parker (1999), conclude that it is very difficult to measure the success of PLB advertising. Another factor complicating the analysis of PLB advertising is that PLBs fall under the retailer’s umbrella brand and are promoted in conjunction with all company promotions, Berry (2000).

2.3.7 *Packaging*

Packaging plays a lead role in building a PLB (Fielding (2006). Ampuero and Vila (2006) consider packaging to be the most important communications means because:

- It is present at the crucial moment at the coal-face when the decision to purchase is made
- Almost all the buyers in the category are reached by packaging
- Buyers have an instant relationship with branding and packaging as they examine it to obtain all the information they need.

Over the past few years the quality improvements and decreases in price differentials between PLBs and NBs have led to an increase in the importance placed on packaging with the differences between PLB and NB packaging quality having been reduced over time (Meyers & Gerstman, 2004). Retailers are more and more placing emphasis on adding designs and colours or modifying packaging to appear more like competing NBs and other retailer PLBs (Beneke, 2010).

Copycat PLB products often use similar colours to the category leader – e.g. Pick n Pay's Choice Cola uses red and swirls in its labelling similar to Coke.

2.3.8 *Shelf Space*

Shelf space had been described as one of a retailers most important assets Amrouche and Zaccour (2007). It is a finite resource and thus its allocation can play a key strategic role, often held as a "trump card" by retailers during negotiations (Beneke, 2010).

Suárez (2005) notes that retailers allocate PLBs to superior positions on the shelf strategically, such as to the right of the leading NB. This is because up to 90% of the population are right-handed, and are therefore more likely to reach for the PLB just to the right of the leading NB.

It has also been known for retailers to allocate PLBs shelf-space twice the size of NB – (Fernandez Nogales and Gomez Suarez (2005).

2.3.9 *Managing PLB Portfolios*

As retailers move from single PLBs to managing multi-brand portfolios, they are faced with additional challenges (Kumar & Steenkamp, 2007). The four types of PLBs coupled with the three segmentation classifications and the four types of branding types can lead to extremely complex brand portfolios. If the retailers PLB brands are not correctly segmented, positioned and managed, it can lead to consumer confusion and cannibalisation.

Retailers must be wary of the significant negative consequences poorly managed private labels can have. Kumar and Steenkamp (2007) state that a single PLB product failure in the range can have a backlash on the retailers' overall brand equity and image. The consumer may start believing that if the retailer's biscuits are not good, then an extrapolation could be that its yoghurt and other PLB products are not good either.

A growing PLB portfolio also means that each product line needs adequate shelf-space. According to (Kumar & Steenkamp, 2007), the temptation for the retailer can be to assign the scarce shelf space to its brands at the expense of manufacturer brands. This may lead to 'dropping' the manufacturer brand to the frustration of consumers.

The challenge to retailers as they build their PLB portfolios is to somehow develop a relationship with their customers above and beyond simply price considerations (Kumar & Steenkamp, 2007). The authors further state that essentially, the question is, if the price were the same, would any customers purchase the PLB in preference to the manufacturer brand?

The reality is that the majority of PLBs are sold at a discount to NBs with a few “premium priced” labels (Kumar & Steenkamp, 2007).

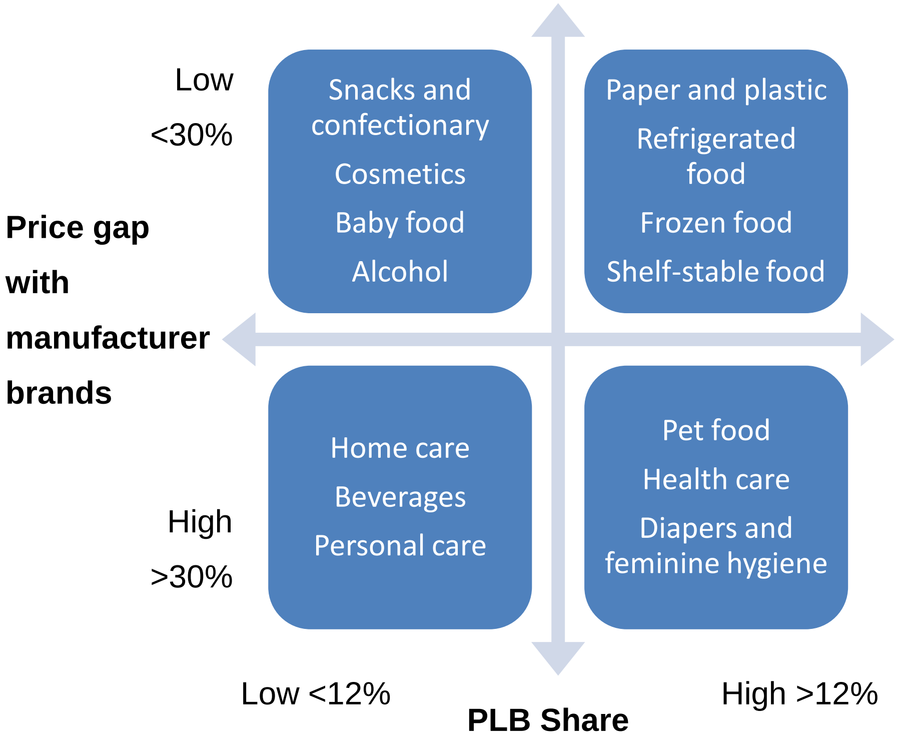

Figure 12 - Global PLB Market Share and Pricing Gap - Kumar and Steenkamp 2007

The figure above shows the global PLB share and price gap between PLBs and NBs for fourteen FMCG categories (AC Nielsen 6.2 page 237). What can be noticed is that in certain categories where the PLB price-gap is big (home care, non-alcoholic beverages and personal care) the PLB market share is low, whilst PLBs demand large market shares for categories where the price differential is low (refrigerated, frozen, shelf-stable foods and paper, plastic and wraps. Therefore the reality is more complex than simply stating that PLBs sell solely on price. Kumar and Steenkamp (2007) state that perceived quality and not price drives PLB success.

Manufacturer brands still offer something that most PLB's cannot offer in that they allow customers to identify with the values imbedded in the brand, and help consumers express who they are and how these PLBs fit into their lifestyle and self-concept (Kumar & Steenkamp, 2007). The personal social and emotional bond a consumer has is referred to as brand imagery, and they assign personality characteristics to the brand thinking of brands as if they are animated, humanised and personalised (Kumar & Steenkamp, 2007).

It is this brand imagery that can be extremely important to consumers, regardless of the functional quality – and consumers are willing to pay premium prices for image utility (Kumar & Steenkamp, 2007). This is why retailers are spending more resources in developing multi-brand strategies.

The importance placed on brand imagery in any given category differs among consumers (Kumar & Steenkamp, 2007). Sethuraman (2001) states that although the importance of brand imagery varies across consumers, some generalisations occur:

- Young consumers attach more importance to brand imagery because of their great desire for social acceptance and being more image conscious in general
- Singles and couples attach more importance to image utility than large families
- Poorer consumers give more importance to brand imagery. This seems "paradoxical", but it allows them to signal to society that they are also "sophisticated" smart consumers.

Kumar and Steenkamp (2007) state that consumers will consider purchasing a PLB if the price premium for the NB exceeds the use the consumer gets from the excess in perceived quality and imagery generated by the NB. If the price premium is less that the gap in quality and brand image, the consumer will select the NB.

Thus, PLBs do not have to compete on price alone. Although price-gap management is a key element of any PLB strategy, it should not be the only element (Kumar & Steenkamp, 2007).

One strategy of competing with NBs is by decreasing the perceived quality gap (Kumar & Steenkamp, 2007). This can be done by either increasing the objective (actual) quality or by adopting a copycat strategy. Another way to avoid competing on price is to instil the PLB with brand imagery (Kumar & Steenkamp, 2007). By doing so, retailers increase the attractiveness of its PLB. Retailers can also play the “classic price game” by increasing the NB price so that it exceeds the gap in perceived quality and image utility versus the PLB (Kumar & Steenkamp, 2007).

However retailers need to concede that even in quality-equivalent markets, manufacturer brands command a price premium of 37% and that this price premium is due to the superior brand imagery of NB (Kumar & Steenkamp, 2007).

Kumar and Steenkamp (2007) state that the retailer gross margin on PLBs are 25%-30% higher versus that of NBs. The authors state that higher margins originate from four sources:

- Improved profit margins because the retailer earns a higher profit margin and unit price on its own PLB range
- Greater leverage in manufacturer negotiations because the presence of PLBs in a category allow the retailer to negotiate a better margin on NBs
- Build retail store loyalty because PLBs help distinguish the retailer and make customers more loyal to the store
- Improved customer profitability because the shopper who purchases PLBs is considered more profitable than one who only buys NBs

However on the negative side (Kumar & Steenkamp, 2007):

- When compared to NBs, PLBs do not generate higher dollar profitability per square metre shelf space
- Heavy PLB buyers may not be more profitable

Ultimately PLBs are merely tools for the retailers to increase market share and fundamentally profit.

2.4 Conclusion of Literature Review

In the past, private labels used to be products that were lower priced. Retailers used them to entice price focused consumers and they represented growth due to their higher net returns in terms of turnover and profit margins on a relatively small investment by the retailer.

The proliferation of PLBs is evident on the shelves of every retailer, with consumers faced with a plethora of PLBs. As a result, the question has moved away from whether retailers make use of multi-level PLBs to how effective they are.

There has been a movement in the mindset about the role and the requirements for PLBs in today's retail environment. Retailers are moving towards a new definition and greater focus for PLB offerings in order to elevate their stature and influence on the current and future retail strategy.

With PLBs growing every year, it can be argued that they are enormously successful.

2.5 Research Questions

In order to answer the question of why Private Label Brands are effective in the South African FMCG market, the following questions will be asked of retailers in personal interviews:

- Why did your retail chain introduce private labels?
- How many private label brands do you have, and in how many categories?

- How does each of these brands differentiate themselves?
- Why do you have various PLB brands?
- What are the profit levels of private labels vs. national brands?
- What are your comments around private label packaging?
- Do you think your PLBs are superior, compared to other competitors?
- How does the introduction of private labels affect customer loyalty?
- What do you think the similarities and differences between your PLBs and those of other competitors are?
- Which one do you think is more important - price or quality, and why?
- What are the customer attitudes towards the private label?
- What role does packaging play in PLBs?

CHAPTER 3. RESEARCH METHODOLOGY

To address the questions posed in the problem and sub-problems, a series of interviews with top South African retailers will be undertaken. Primary data will be collected through face-to-face interviews with PLB managers.

First, the chosen method of research and its implications will be investigated. Second, the research population and sample is described followed by the research instrument to be used, the methods of data collection and the analysis thereof. In closing the limitations of the study and its validity will be outlined.

3.1 Research methodology / paradigm

Denzin and Lincoln (2011) remarked that there are two types of research approaches to collecting data, namely quantitative and qualitative. Both methods have their own strength and weakness. The best method for a study depends upon the research purpose, data availability and other factors.

Qualitative methodology was selected as it provided the best mechanism to examine the constructs in relation to the research question posed (Du Plooy, 2009). Furthermore, Huberman and Miles (2002) list several core features of qualitative research that fit the objectives and research questions:

- It is conducted through an intense and/or prolonged contact with a field or life situation
- The researcher's role is predominantly to gain an holistic overview of the context under research
- The main objective is to explain ways people in a particular setting come to understand, account for, and take action
- Most of the analysis is done with words and not numbers, which enable the researcher to contrast, compare, analyse and observe patterns amongst the meanings which the words denote

Qualitative research is used where the information is supposed to investigate, interpret, and understand the phenomenon through the perspectives of other persons (Yin, 1994). Qualitative research relies on reasons behind various aspects of behaviour.

3.2 Research Design

There are five different ways to conduct an interview, being personal interview, telephone, mail, computer or a combination of these (Blumberg, Cooper, & Schindler, 2008). Personal interviews were selected for this thesis. It further helps to validate the data in respect of the research objectives. It is beneficial for us to collect data from someone who is knowledgeable and fully aware of private label brands.

A semi-structured interview is considered the most appropriate qualitative methodology as a rich understanding of complex casual tendencies is sought. The purpose of the interview is to meet the research objectives through building a relationship with the respondent in order to collect data and probe for further understanding where necessary McBurney and White (2009) and Du Plooy (2009).

Huberman and Miles (2002) mention that the key advantage to qualitative research is that the data is a source of well-grounded, rich descriptions and explanations of processes in identifiable local contents. Thus, qualitative data is the best for discovery and exploring new areas of research or developing hypotheses.

The biggest difficulty with qualitative research is that the methods of data collection are not well formulated, which can place the validity and reliability of qualitatively derived findings in doubt. Another limitation is the number of respondents that can be interviewed (McBurney and White (2009) and Du Plooy (2009).

3.3 Population and Sample

3.3.1 *Population*

The population for this research report is all the FMCG retail private label brand managers. With this selected sample, the findings of the report could be generalised back to the entire FMCG retail population.

3.3.2 *Sample and Sampling Method*

There is no sample for the study as the entire retail FMCG population is included. This research was limited by the size of the FMCG retail population. Only eight individuals form part of that description in SA and this is all the FMCG retailer stores:

- Clicks
- DisChem
- Game
- Makro
- Pick n Pay
- Spar
- Shoprite/Checkers
- Woolworths

3.4 The Research Instrument

The questionnaire can be found in Appendix B.

The research instrument selected is a semi-structured questionnaire (Rubin and Rubin 1995, du Plooy 2002). The questionnaire allows the interviewer to adapt his questions and probe deeper into any particular area. The respondent will be given a letter describing the purpose of the research and will be guaranteed confidentiality during the research process.

3.5 Procedure for data collection

Interviews will be pre-arranged with the respondents. Respondents in Gauteng will be interviewed in person, with other regional interviews conducted via Skype. Interviews will be recorded which will then be transcribed professionally for analysis.

3.6 Data analysis and interpretation

Data analysis and interpretation are key steps in the research process as the results of the study will be based on these findings.

Content analysis, as described by McBurney and White (2009) and Du Plooy (2009), will be used to analyse the interviews undertaken. The authors describe two distinct approaches:

- Coding the manifest content
- Coding latent content

The manifest content coding will be done by the coding of specific words found in the questionnaire responses. The number of times specific words are mentioned is counted and the data analysed McBurney and White (2009) and Du Plooy (2009).

Latent coding allows for the interpretation of a particular theme in the responses received.

3.7 Limitations of the study

- One of the key limitations of this study is the limited sample – however despite the low volume of interviews, the author is confident that the national knowledge base for private label brands will be covered as all main FMCG retail store chains are being covered
- Also some of the richness of the information gathered during the interview process may be lost when conducting the content analysis.
- The interviews will be dependent on the interviewee's willingness and availability – thus possibly delaying the study.
- The researcher's very own perceptions may have come into play – this could reduce the reliability of the research results

3.8 Validity and reliability

The validity of the research can be broken down into external and internal validity aspects. The validity of the instrument refers to the "extent to which the instrument measures what it is supposed to measure" (Leedy & Ormrod, 2005) and (McBurney & White, 2009).

3.8.1 *External validity*

External validity is the degree to which conclusions can be generalised to the remainder of the population McBurney and White (2009) and Du Plooy (2009). No sampling method methodology was used as all FMCB retailer companies who have PLBs will be targeted. As a result the researcher will be able to generalise the findings across the entire population, as the entire population is being targeted for questioning.

3.8.2 *Internal validity*

Internal validity refers to the extent to which a research study design accounts for the findings received. The open-ended nature of the semi-structured questionnaire would, to a large extent, ensure that there was internal validity to the findings.

3.8.3 *Reliability*

The reliability of the research method refers largely to the use of the instrument and its ability to produce consistent results when repeated (Leedy & Ormrod, 2005). Since the findings will be based on a small, non-probability sample, repeating the research with a different sample, observer or different version of the instrument might not yield the same results. To reduce this, the researcher has selected a respondent sample of knowledgeable and experienced multi-brand PLB marketers.

CHAPTER 4. PRESENTATION OF RESULTS

The objective of this chapter is to present, analyse and expand on the results of the research conducted into PLB effectiveness in the South African FMCG market. The research questions are each dealt with in separate sections. Refer to Appendix A for the Interview Schedule that contains the detailed questions that were used to address each research candidate.

Although the questions for the open ended interviews are clearly laid out, the interviews became unstructured discussions about PLBs in general. Although each question was asked, many questions enlisted a long in-depth discussion whereas others questions were answered with short answers. Also, there was a cross-over in answers where items previously discussed were brought-up in following questions. Therefore, in compiling the results care was taken to extract as much meaningful information related to each question, although this might have been answered in another question.

Of the original respondent list proposed in Section 3.2 above, an additional FMCG retailer was added, namely Fruit and Veg City. However, when Game and Makro were approached separately they decided that because they are part of the same holding group (Massmart) to allow only a single interview to be conducted for the entire group.

Pick n Pay declined to be interviewed, citing the sensitive nature of the interview as their motivation. From industry experts, it has been understood that Pick n Pay, under its new CEO Richard Brasher, formerly of Tesco's in the UK, has implemented a strong PLB strategy as a key pillar to the retailer's turn-around. It is believed that this new PLB strategy is close to being launched into the market, and under these circumstances their reluctance to conduct an interview is understandable. As part of the strategy, it is rumoured that their three-tier strategy of Good (No Name), Better (PnP) and Best (Finest) will be retained but undergo significant improvements, including product category and SKU refinement and introduction of new lines, as well as new branding strategies and packaging look and feels. Also, the expansion of non-Pick n Pay branded PLBs will be undertaken with new brands introduced in grocery and non-grocery lines, for example the expansion and enhancement of their Aim electronics line to compete more effectively with Click's recently augmented Safeway range.

Table 5 - Interview Time Table

Company	Contact Person Name	Date
Clicks	Karien Boolsen	03 December 2014
Game and Makro (Daymon Worldwide)	Allan Joseph	19 December 2014
DisChem	Larry Krug	09 December 2014
Fruit and Veg City including	Simon Wilson	03 February 2015
Pick n Pay	Gerhard Ackermann	Declined 10 December 2014
Shoprite/Checkers	Leigh-Anne Orford	06 February 2015
Spar	Judith Gale	22 January 2015
Woolworths	Jackie Fourie	28 January 2015

4.1 Results Pertaining to Question 1

Research Question1: Why did your retail chain introduce private label brands?

This is a vital question as it ascertains the motive(s) of the retail organisation for establishing PLBs.

The expansion of the modern retailer has driven many changes in consumer buying habits, one of them been the strong PLB proliferation and growth in South Africa and around the world.

From a stakeholder perspective, there are three sets of stakeholders that are affected by PLB entry and work together to create its net impact: the retailers, the manufacturers and the consumers.

The responses varied for this introspective question. The retailer's positioning of PLBs is a key element of their strategy - having different objectives for their PLBs and thus use different types of PLB ranges for different reasons and different categories.

	Number of Mentions	% of Mentions	% of Respondents
Bargaining Power	4	16.7%	57.1%
Profitability	6	25.0%	85.7%
Category Expansion	5	20.8%	71.4%
IncreasedTtraffic and Loyalty	5	20.8%	71.4%
Other	4	16.7%	57.1%

Table 6 - Answers to Question 1

Bargaining Power

The introduction of PLBs can benefit the retailer in several ways, all of which stand for reasons to becoming a PLB player in a category. PLB entry can facilitate retailers to strengthen their bargaining situation in relation to NB manufacturers. In general, a retailer's channel power is thought to increase as a result of PLB entry, which changes the NB retailer vs. manufacturer relationship. Specifically, PLBs may enable the retailer to negotiate lower prices for NBs, or improved payment terms. Also, retailers can position their PLBs in the same space as NBs strategically, in order to strengthen their negotiating power when negotiating with NB manufacturers.

These negotiations can be very sensitive with NB manufacturers not being accepting of any new entrant into a category, let alone the retail partner. However, it is usually the 2nd and 3rd tier brands that have the most to lose in PLB introduction with the leading NB able to maintain volume and growth.

Profitability

Another reason for introducing PLBs is that their introduction improves the retailer's profitability. PLB prices are generally cheaper than NB prices, with many South African retailers adopting the motto of: "same as the best for less" for their PLB ranges. Even though PLBs are usually priced lower than NBs, they normally carry larger profit margins, although gross profits could end-up being similar due to the lower PLB selling price. Profit margins for PLBs can vary significantly across different retailers and product categories, thus the introduction of a PLB needs to be strongly analysed before development can commence.

PLBs are generally cheaper to produce than NBs. This is mainly due to the lower research and development costs; advertising and marketing expenses - amongst others. Therefore retailers are able to acquire PLBs for much less than comparable NBs. The price differential is significant enough for retailers to offer their customers lower prices whilst enjoying larger profit margins. In today's tough economic times, lower prices can be very attractive to customers and can: attract new customers, increase PLB trial and, from there, enforce brand swaps from NBs.

The past few years has seen a trend towards retailers increasingly establishing themselves as brands themselves and thus marketing their own branded PLBs as alternatives to NBs. The result is an emergent shift in the balance of power between retailers and NB manufacturers. It has left retailers becoming less dependent on manufacturers for NB product offerings but in certain instances it is actually making manufacturers dependent on retailers for sales volumes – an industry paradigm shift first experienced by Woolworths when it introduced NBs in the 1990's.

Also, the introduction of PLBs by a retailer allows them to compete effectively on price versus other retailers whilst delivering better value versus NBs. Value for money has become an increasingly important factor over the past few years with consumers trying to squeeze the most out of their limited budgets.

Category Expansion

Another motivation for PLB introduction by a retailer is the potential for category expansion.

If the PLB is more appealing to consumers than the leading incumbent NB, PLB entry may increase the category sales and potentially the category value. PLB entry may also re-invigorate a 'dormant' product category. Competitive reactions of incumbent NBs to PLB introduction include: price promotions and increased promotional activity, which could, in turn, encourage primary consumer demand – thus increasing category value and retail turnover.

The PLB can also generate higher profits due to its higher per unit margin and potentially high sales volumes - as PLBs normally carry higher retail profit margins than NBs do, even after accounting for direct product costs. The retailer may also introduce a PLB to take advantage of unexploited segments or to steal value-conscious consumers away from incumbent NBs.

Increased Traffic and Loyalty

Finally, retailer benefits for introducing PLBs include increased consumer foot traffic and improved loyalty by the shopper. PLBs make shopping easier for consumers by virtue of increased value and wider choice. They can also help increase PLB image and customer loyalty by improving store segmentation versus that of other retailers.

PLBs generate store loyalty, because they force consumers to visit a particular retail chain in order to get the PLB with which they have developed a relationship.

Others reasons that encourage the introduction of PLBs include:

- Improved supply chain and product quality control
- Supports in the building of the wider retailer brand
- Broadens suppliers choice for retailers
- Increases consumer’s choice
- Builds tangible differentiation from other retailers
- Meeting a consumer need that a NB does not currently fulfil

The introduction of PLBs by a retailer represents an opportunity and a responsibility, but at the same time they are also a threat for the producers of NBs and, potentially, other manufacturers as well.

Retailers understand that in today’s environment they cannot only rely on NBs to draw consumers into their stores to sustain profit margins and loyalty. In today’s modern economy it is vital for retailers to create a convincing consumer connection and develop a relationship with them. To achieve this, retailers have had to promote and differentiate themselves above other competitive retail outlets by offering a meaningful value proposition and corresponding range of products, services and brands. Therefore, retailers continually develop their PLB portfolios and provide exclusive services in categories where NB offerings do not meet consumer requirements, or where they feel they can add and extract value from a category. One example of PLB services being offered is Woolworths Financial Services.

4.2 Results Pertaining to Question 2

Research Question 2: How many private label brands do you have, and in how many categories?

Most retailers were reluctant to divulge the exact numbers of PLBs and Stock Keeping Units (SKUs) that they had on their books. Also, this is a “living” number as SKUs are removed and added as various PLBs go through their life-cycles that are mostly dictated by sales volumes and profit levels.

However, it was clearly stated that PLBs span across most categories in the FMCG retail business, and that new categories and product lines were being researched continually. There was also a clear intention to grow the number and share of sales of PLBs in 2015 and beyond, moving South Africa towards Europe who is the leading proponent of PLBs with high incidents of PLB market share.

In order to get a better understanding of what categories PLBs are in, the (Nielsen, 2014) study was referenced as analysing 155 categories from the following 8 product areas:

- Dry Grocery
- Perishables
- Non Alcoholic Beverages
- Personal Care
- Household
- Confectionery
- Baby
- Health Care

In South Africa, (Nielsen, 2014) estimates that PLBs account for around 18% of total retail sales value – with a growth in sales turnover of 11.3% per annum. This varies from category to category with the figures for private-label tuna, for example, is up to 76,9% of total category – a tough category to be in if you are one of the tuna NBs.

The largest PLB categories by percentage of PLB contribution to the total category are according to (Nielsen, 2014): Perishables (32.15) and Dry Grocery (22.5%) while categories such as personal care remain heavily manufacture brand-biased. Baby care had the highest PLB growth of 62.6%. Generally, South Africa's PLB market share is below that of Europe, the US and below the global average.

In the past, PLBs were only offered in categories that had little differentiation between incumbent products, were commoditised, had no clear category champion and where there was little to no innovation or research and development taking place. These categories are "safe havens" for NBs and easy for PLBs to enter. Such categories included Long-Life Milk, Cooking Oil, Salt, Paper Goods etc., in other words, commodity-driven, high-purchase categories where consumers perceive little differentiation.

Today, retailers enter categories for various reasons: meet a consumer demand that is not currently satisfied by NBs, potential profit growth, potential volume growth, category re-alignment and even category leadership. The PLB of today is involved in almost every category, in some categories more than one PLB is offered via tiering of: Good, Better and Best, and includes lines that boast superior research and development; and quality of raw materials whilst still offering superior value to NBs. Also, today's PLBs can either be retail store branded, use the retail store brand as an endorser or be a unique brand on their own with little or no reference to the retail store brand.

Each category needs to be managed separately as they differ widely in PLB penetration, the price-quality gap between PLBs and NBs, and their profitability. Strategies that work for one category will not necessarily work for another category.

The growth and success of PLBs in South Africa is fuelling their growth with all retailers stating that more focus and resources will be ploughed into PLBs to increase their growth and footprint within their stores over the short and medium term.

It is clear why shoppers like PLBs: they are, by and large, cheaper than NBs, and in categories where the PLB and NB are virtually identical, buying a PLB is a way to save money without making too much of a compromise, and, during these recessionary times, saving money is a key objective for many consumers.

Thus over and above the reasons mentioned in Section 4.1 above, retailers introduce and grow their PLB portfolios due to increasing demand and the needs of consumers. The fact that retailers are providing PLBs that copy NBs in terms of quality and price and at the same time are delivering improved margins has fuelled the expansion of PLB portfolios and their importance to retailers, consumers and manufacturers.

PLBs were traditionally generic product offerings that competed with their NB equivalents through a strong price proposition. PLBs, the lower priced substitute to the “real deal” carried the perception of inferior quality and therefore inspired less trust and assurance by consumers. In spite of this, PLBs grew by providing consumers with value-based alternatives for what was often a low-involvement purchase decision. Retailers continued to grow PLBs into different product and market categories mainly because the high margins and the promise of profitability with little to no investment and marketing effort.

PLBs have now become a key strategic priority for retailers. They have expanded their offering, are competing more effectively within existing categories and are venturing into new product categories that have been dominated by NB players traditionally.

4.3 Results Pertaining to Question 3

Research Question 3: How does each of these brands differentiate themselves?

Retailers used a number of methods in order to differentiate their PLBs which can be seen in the table below.

	Number of Mentions	% of Mentions	% of Respondents
Price/Quality/Value	5	33.3%	71.4%
Packaging	4	26.7%	57.1%
Branding/Brand Architecture	6	40.0%	85.7%

Table 7 - Answers to Question 3

Retailers stated that each of their PLB brands is treated individually and has been assigned a brand positioning based on the consumer’s need for that specific product in that category. As part of the positioning, the brand stretch and the categories that it will be present in are clearly defined.

The retailers all utilised a 3-tier brand strategy:

- Good = Value. These are the traditional PLBs that are mostly price focused.
- Better = NB equivalent. These PLBs offer as good if not better quality versus NBs.
- Best = Premium. PLBs have evolved to offer best-in-class quality whilst delivering a strong value proposition.

What was strongly brought forward by the retailers was that price and affordability are key to their PLB strategies.

Also, a number of different brand architectures were found within retailer's PLB:

- Corporate or family brand – In this example the retailer's brand is used as the primary brand across PLB category range, for example Pick n Pay No Name brand. This creates immediate familiarity and trust for the PLB whilst supporting and growing the retailer's brand.
- Endorsed or sub-brands – This included examples where the retailer's brand was used as an endorsement to a product brand. The endorsement adds credibility to the endorsed sub-brand in the eyes of consumers. An example of this is Spar's Freshline PLB.
- Individual product brand – These are stand-alone brands where the retailer's brand is not linked in any which way to the PLB. This is often used for "Best" product categorisation in order to create a premium image. An example of this is Woolworth's Flavour Burst range of fresh fruit.

4.4 Results Pertaining to Question 4

Research Question 4: Why do you have various PLBs?

	Number of Mentions	% of Mentions	% of Respondents
Meet consumer needs	6	28.6%	85.7%
Offer consumer choice	5	23.8%	71.4%
Retailer differentiation	6	28.6%	85.7%
Replacing declining NB	4	19.0%	57.1%

Table 8 - Answers to Question 4

There are various PLB products and value propositions to meet various consumer and business needs as well as offering consumers substantial choice.

The brand-positioning can be cost/quality tiering-based i.e. Good, Better or Best, category based or needs based.

Each brand is identified to play a role in the overall brand architecture as well as the category and the retail brand at large.

PLB growth is mainly driven by what is accessible on retailers' shelves; it is an offer-driven market. However, it is not a foregone conclusion that increasing the width of PLBs will automatically drive sales. It is vital that retailers pursue the correct selection, not just a greater selection of PLBs. Therefore, new listings and necessary delisting decisions should only be undertaken once in-depth analysis has been undertaken.

When replacing NBs that are declining in market-share with PLBs that deliver better margins, it usually comes at the expense of 2nd and 3rd tier NBs. Usually, category leading NBs are not affected by PLB cannibalisation. Therefore it is imperative that retailers strategically manage their shelf space. So what the optimal number of PLBs is – depends on the retail chain, the region, the category, the product, and the brand.

4.5 Results Pertaining to Question 5

Research Question 5: What are the profit levels/margins of PLBs?

None of the retailers were willing to submit any specific details on profit margins achieved by PLBs. One retailer remarked that profit levels/margins for their PLB line was "double or more" when compared to NBs. This is a powerful incentive for retailers to continue growing their PLB offering, especially in a retail environment where gross-profit levels are "thin" and shareholders are continually demanding growth and improved GP levels.

All the retailers however, agreed that part of the reason for PLBs existing was to enhance profitability.

These profits are borne from “cutting out the middle-man”, thus resulting in higher margins. However, it must be noted that the enhanced margin is almost always linked to a better retail selling price compared to NBs to ensure that the customer is the ultimate winner.

Another source of increased profitability for the retailer is the greater leverage that they have over the NB manufacturers and thus they are able to negotiate better margins on the manufacturer’s NBs.

However, it must be noted that higher gross profit margins do not necessarily translate into increased Rand profits – as PLBs usually sell at a discount to NBs, thus in some instances they could providing less Rand profit. Thus, many retailers seek at expanding the PLB category with increased sales volumes in order to compensate for the lower per unit profit of PLBs.

Also, retailers need to be cognisant that specific shoppers, especially in certain categories, do not choose PLBs over NBs. Thus, the retailer needs to plan each product category very carefully to ensure the correct balance between PLBs and NBs and thus maintaining and increasing profit levels for the category. The anomaly to this is Woolworths that although carrying NBs in their store – the majority of items are PLBs. Thus, highlighting the power of the PLB built on a foundation of a strong retail brand and consumer insight.

Finally, based on their history, PLBs often attract price seekers. Although PLBs have evolved, many of them are still “Good” tiered and focused more on price than outright value which includes quality. The mix of “Good, Better and Best” PLBs needs to be analysed and managed in order not to create a price focused shopper following alone.

It must be noted though, that as PLBs have gained in popularity, range and complexity – so has the retailers costs increased. Retailers now have dedicated resources analysing, developing, marketing and responsible for the distribution of PLBs, that did not exist in the past. PLB management is as sophisticated as any NB management. So part of the challenge is to remain true to the PLB success and that is partly due to its value proposition – there are not many PLBs that can command a better than NB price point.

4.6 Results Pertaining to Question 6

Research Question 6: Do you think your PLBs are superior/offer better value, compared to other competitors i.e. other private label offerings?

	Number of Mentions	% of Mentions	% of Respondents
Value Focused	6	37.5%	85.7%
Quality on Par	5	31.3%	71.4%
Location based	2	12.5%	28.6%
Exclusive brands	3	18.8%	42.9%

Table 9 - Answers to Question 6

This question was met with some difficulty by the various retailers, and they struggled to give direct answers.

However they did agree that every PLB is positioned differently, in a different tier and vs. other PLBs and NBs (e.g. Good, Better and Best tiering). The retailers were unanimous in mentioning that one of their PLB strategy objectives was to offer consumers exceptional value.

In most instances, retailers mentioned that part of their objective was to offer quality that was on a par, if not better than NB, at a better price. For example in the "Best" tier, retailers sought to offer innovation and differentiation as well as value for money.

Some of the reasons that consumers purchase PLBs include: PLBs being less expensive than a NB, the quality of a PLB is just as good as a NB, PLBs offer a good value for money proposition, the quality of PLB has improved over time and that others have recommended it.

It is clear that a retailer's PLB does not only compete with manufacturer NBs but also with other retailer's PLBs. Thus, constant analysis was done by retailers on both of these competing products to ensure that the complete brand offering of a PLB was in-line with, or better than, competitors.

A large determinant of PLB purchase was the location of the retail store in relation to its catchment target market. Thus, part of the value a PLB offered was intrinsic in its location and availability to the consumer. It is very difficult to build loyalty to a retail store or its PLBs when it is not convenient to shop there.

PLB's are also evolving in offering exclusive brands to consumers via partnerships. One example is Click's partnering with the hugely popular Sorbet Beauty Salons in offering an exclusive Sorbet Skin and Cosmetics range available only through Click's retail stores. This offers a number of advantages for both the retailer and the 3rd party brand: the retailer has access to the 3rd party brand equity and existing and potential clientele whilst uplifting the retail brand through the "halo effect". The 3rd party gets immediate access and distribution to all the retailer stores and huge potential brand equity reinforcement and brand building. Consumers immediately build a bond and trust with the exclusive brand available in the retailer as it is already known to them.

4.7 Results Pertaining to Question 7

Research Question 7: How does the introduction of PLB affect customer/shopper loyalty?

	Number of Mentions	% of Mentions	% of Respondents
Proprietary nature of PLBs	5	25.0%	71.4%
Increased foot-traffic	6	30.0%	85.7%
Relationship building	5	25.0%	71.4%
Builds retail brand	4	20.0%	57.1%

Table 10 - Answers to Question 7

As part of retailers PLB strategy, PLBs are used to build relationships with consumers. Given that they can only purchase PLBs at a specific retailer exclusively, they build a relationship and even a "need" with that retail store – and thus build loyalty.

Although retailers are building loyalty with PLB brands, they were keenly aware that SA consumers buy PLBs due to price primarily, secondly due to the shopping and PLB experience and thirdly on the PLB product delivering results.

Retailers use PLBs to increase turnover as well as to win over the sustained loyalty of their customers. PLBs give retailers the ability to differentiate themselves from other retailers, whether a PLB carries the retailer's own name or is part of a wholesaler's PLB programme. An example of this is that retailers offer “double loyalty card points” on the purchase of PLBs – further entrenching the exclusive PLB offering.

PLBs support a retailer’s brand and improve its relationships with consumers. Retailers are aware that consumers can acquire NBs in a myriad of locations, but they can only buy their PLBs exclusively at their retail outlets. Thus by supporting the retail mother brand, PLB’s enhance the consumers shopping experience and relationship with the retail brand.

The main objectives of a brand’s marketing activities are often: the development, the maintenance, or the enhancement of a customers' loyalty towards its products and/or services. PLBs dovetail into these objectives and work together and enhance existing brand building activities.

Retailers used to base their PLB strategy solely on price without sufficient attention to quality. Recently however, retailers have started to concentrate more on PLB quality. It has been accepted that quality PLBs can be a tool for retailers to entice brand differentiation and support the development of store loyalty.

One of the most significant elements for a PLB in developing consumer loyalty is the brand's ability to fulfil its promises – this can be achieved through quality. This understanding and realisation of promises results in a long-term sustainable and profitable relationship between the consumer and retailer.

For a retailer, customer loyalty needs to translate into purchase behaviour - thus, it is important for a firm to build behavioural loyalty. Attitudinal loyalty of a customer without the commensurate behavioural loyalty may provide only limited or no returns to the retailer. Consumer trust in PLBs has an influence on store visits, because it positively affects customer trust in the retail store, perceived value and store loyalty intentions.

Building strong relationships with customers is a way to gain a sustainable competitive advantage. PLBs allow the retailer to embark on “relationship retailing” - which is particularly important in today's marketplace as it simultaneously increases sales to existing customers while reducing the possibility of losing those customers to other retail competitors. Customers establish relationships with the retail stores themselves, with the brands that stores carry and with the entire retail experience.

Increasing customer loyalty has two major effects for retailers:

- It leads to an increase in the retailer's customer base which is highly important in a time of low sales growth for retailers
- The longer a consumer remains loyal to the retailer, the more profit it earns from each individual customer.

With improved customer loyalty, the practice of offering expensive promotions to generate store traffic may become less necessary.

There needs to be a significant benefit for increased customer loyalty. If customer loyalty is not managed correctly, it could hurt the company's bottom-line by compromising profitability for loyalty. If, however, customer loyalty is managed wisely and together with profitability, it can be an effective weapon against competition.

4.8 Results Pertaining to Question 8

Research Question 8: What do you think the similarities and differences between your PLB and those of other competitor's PLB are?

Each product, whether it is a NB or a PLB, attempts to differentiate itself. Some examples of how retailers believe that their PLBs are differentiated from that of other NBs and PLBs include: global sourcing, retail expertise and customer insights.

Quality of ingredients and know-how was also stated as a differentiator for PLBs.

Differences between retailers' PLBs would depend largely on their tiering along the Good, Better and Best continuum. Generally, PLBs in the Good tier would not have strong lines of differentiation with other PLBs and even NBs. In this category, promotion intensity is focused on price and is aimed at enticing shoppers to switch. In these categories there is strong fragmentation, with a perception that all products are similar.

Also, there is little of no innovation in the category with low barriers of entry making any product homogenous in the eyes of the consumer.

This however, changes as we move up the Better and Best branding continuum, with consumers purchasing on features and benefits as well as perceived quality and value. It is in these categories that many of the retailer’s recent and future PLB focus lies. Many of these new products do not even carry the retailer’s logo prominently or even at all. For example DisChem’s NutriWoman is a premium beauty range that is a premium product (although still well priced vs. international brands) that does not have cues on the packaging and branding that it is a PLB for DisChem.

As PLBs evolve, they are becoming brands and stronger brand advocates for the retail chain. The lines between NBs and PLBs are blurring, especially for the consumer, and it will be vital that both NBs and PLBs differentiate themselves in the mind of the target market to ensure sustainability and growth.

As PLBs evolve, retailer marketers are looking for unique differentiators in their PLB offerings in order to entrench the retail brand values in the consumer’s heart and mind. By doing so, the objective is to build customer lifetime loyalty via an exclusive offering – the PLB.

4.9 Results Pertaining to Question 9

Research Question 9: Which one do you think is more important – price or quality and why?

The responses from retailers shows us that the two (Price or Quality) cannot be separated or isolated.

In the past, PLBs were known for their lower price points, but also, often for inferior quality. This however, has changed over the years, and especially more recently where quality has become a focal-point of retailers. For example, Pick n Pay now offers a no-frills money-back policy on even its lowest tiered PLB the Pick n Pay No Name brand, backed by a personal note and signature of its famed founder: Raymond Ackerman. In many instances, retailers currently claim superior quality to that of even the leading NB.

In fact, the retailers agreed that price and quality need to dovetail into each other in order to provide PLBs of Good, Better and Best tiered quality at affordable prices, which means prices that are better than the leading NB. One retailer remarked that the function of Quality and Price was Value, and that Value is a key variable in consumer decision making, especially for PLBs.

The current economic climate, which has left the consumer cash-strapped, has given retailers the opportunity to provide consumers with high-quality products at better prices that compete effectively versus incumbent NBs.

It is vital that retailers deliver on both Quality and Price in order to gain repeat purchases and build loyalty and a long-standing relationship with the consumer.

Consumers are “value-conscious shopping” every time they step into a retail store, and search for quality products at an affordable price. If consumers believe they have found quality at an affordable price, the perceived high-value is enough to persuade them to swop their favourite NB to trial the PLB.

In South Africa, and around the world, PLBs are primarily based on offering superior value. Spar South Africa has recently commenced a marketing campaign that promises “As good as the best, for less” underpinning the price, quality and value foundation of PLBs.

In order to compete effectively with existing NBs as well as meeting customer demands and in search of category growth, many retailers have introduced Good, Better and Best brand tiering. Each offers different price and quality propositions but with each retaining a strong value element.

Price differences between PLBs and NBs also depend on the product category. Where the category has little or no perceived differentiation, e.g. chicken, then the price differential is small. But where there is perceived latent value and differentiation (like nappies) then the price differential needs to be higher to warrant the consumer trialling the PLB.

There are also differences between consumer's price sensitivity. Four different buyers can be identified:

- Random Buyers: not price sensitive or quality focused – take what they can get.
- Brand Buyers: not price sensitive, but very quality aware, usually stick to NBs.
- Private Label Buyers: are price focused, and see little quality differences with NBs – will quickly adopt PLBs.
- Toss-ups: highly price sensitive and quality focused – will buy on perceived value.

As PLBs continue to grow and evolve it will be important that retailers maintain strong price, quality and value propositions for the consumers to ensure that they are motivated to trial, swop and develop loyalty for PLBs.

4.10 Results Pertaining to Question 10

Research Question 10: What are the customer/shoppers attitudes towards private labels?

	Number of Mentions	% of Mentions	% of Respondents
Positive perceptions	7	43.8%	100.0%
Lower Price	6	37.5%	85.7%
Compromised Quality	3	18.8%	42.9%

Table 11 - Answers to Question 10

Shoppers are focused on spending less on the same shopping-bag of groceries – so price and more importantly value is of primary concern to them. This is a function of the current economic climate, the increase in grocery prices, increases in petrol (which have now recently fallen), travel costs and the sharp electricity price increases.

Retailers point out that customers believe that PLBs should be of acceptable quality, be able to do "the job" and should be durable enough to suit their pockets. Consumers know that PLBs are less expensive than NBs, and have noticed that their quality has improved over the years.

Categories that consumers were purchasing more PLBs in 2014 included: baby food, soft drinks, pet food, snacks and personal care items amongst others.

The profile of shoppers that purchased PLBs is mainly driven by the location of the retail stores and their target market. As most retail stores are found in urban and peri-urban areas, the majority of PLB shoppers are in the higher LSM categories, and skewed to provinces like Gauteng and the Western Cape.

(Nielsen, 2014) quotes that PLBs between 2013 and 2014 grew at 11.3% per annum versus branded categories which grew at 6.2% - this is almost double the amount of growth. The same study recorded growth for PLBs in 8 out of 9 of the product categories. The only category that did not record growth was Household Goods. Furthermore, Dry Grocery and Perishable PLBs account for 74% of total PLBs sold in South Africa.

(Nielsen, 2014) also elaborates that Chickens are the most valuable product category at R4,197m for 2013-2014, followed by Long-Life Milk at R1,829m and Cooking Oil at R1,402. However, when comparing on Value Of Category: Canned Tuna was first at 76,9%, followed by Biltong at 69.4% and Kitchen Roller Paper at 56.6%.

One retailer stated that 1 in 4 products sold was a PLB, and that PLBs contributed 24% of turnover to the business with a target of 30% set for the short-medium future.

4.11 Results Pertaining to Question 11

Research Question 11: What are your comments around PLB packaging?

Retailers were unanimous that nowadays, PLB packaging is as good, and often better, than NBs.

They were very aware that packaging plays a vital role at the point of sale as “customers purchase with their eyes”. The packaging needs to strike a balance between being appealing and at the same time, not add too much cost onto the product, for the retailer to deliver a final product that offers the right mix of quality vs. price.

Packaging is critical to the success of any product including a PLB. Clear communication cues around the tiering (Good, Better and Best) and what the product does is crucial. Innovation in packaging is also critical to building a PLB as it signals that you are a leader and innovator in that category.

PLBs historic roots in no-frills packaging meant only for those on a slim budget are a thing of the past. PLBs are no longer perceived simply as low-cost substitutes to NBs; they are more and more being perceived as high-quality products that fulfil consumer needs across a variety of categories and price points. The door that was once opened by economic necessity has been widened to include a variety of PLB products that remain sustainable and trusted for many consumers worldwide.

Growth in PLBs has been supported by the change in packaging strategy. When initially introduced, PLBs used monochrome print on a plain background - packaging that shouted “generic.” From there, PLB packaging has been driven by a “copycat” style (copying the leading NB), in an effort to give the potential consumer with quality cues - or even to lead them to pick up the PLB by mistake. Today, PLBs are increasingly moving away from “copycat” and “generic” designs - and are instead identifying themselves through packaging that equates to the quality appearance of NB packaging. This has “been a game changer” and shifted the challenge for NBs: they need to work harder than ever to justify a price premium.

CHAPTER 5. CONCLUSION

It is clear that PLBs have evolved considerably, both globally and in South Africa, since their introduction. Historically, “private label” was the name given to consumer products that were of a reduced price and often of a lower quality. Retailers looked after them them as they represented a source of income growth because of their high gross margins and profitability based on a relatively minimal investment.

As this study shows, there is no “one answer” to the way in which PLBs are effective in the South African FMCG market. PLBs have, and continue to evolve over time as the needs of the consumers, retailers and even the manufacturers have changed. PLBs, just like their NB counterparts, will adapt in the future in order to meet the various parties’ evolving needs. In South Africa however, despite massive strides made by PLBs over the last few years, we still lag behind our European and North American counterparts – however we are fast gaining ground with a 11.4% of total market share versus a global average of approximately 20% (Nielsen, 2014).

As PLBs continue to advance, there is increased acknowledgement that a pure price/profit approach to PLB management may permit short-term gains, but can have a harmful impact on a retailers’ long-term success, both financially and to the overall retailer brand image.

There is a school of thought that suggests that the name “private label” is incorrect or “old fashioned”. The term “private label” acknowledges the birth, history and continuation of generic and other PLBs. Yet, the term does not sufficiently describe the extent to which PLBs have developed over the past few years. Today's retailers are overseeing their proprietary PLBs with the same level of care and innovation as manufacturers of their NBs.

When PLBs brands are strategically managed, they have the ability to reach their maximum potential. This is achieved by creating a convincing connection with consumers, attracting them into a retail store, but more importantly, becoming a necessary, experiential and vital lifestyle choice that they engage with in a relationship with over the long-term.

Today's PLBs need to transform themselves by adopting the new paradigm of a "dealer own" brand. "Dealer own" brands appeal to all audiences involved in PLBs in several ways:

- The retailer manages their "own" brand as a vital part of their brand value proposition, as part of the overall retailer brand experience that supports and maintains a greater degree of loyalty from the consumer and contract manufacturer.
- The consumer is loyal to a "dealer's own" brands and specifically looks out for them as an integral part of their routine. Consumers thus have a two-way relationship with "dealer own" brands.
- The contract manufacturers feel have positive affinity towards "dealer own" brand and together with the retailer strategically plans to make them a success. Therefore the contract manufacturer becomes an integral partner in the retailer's success and strategy as a whole as opposed to merely a 3rd party supplier. This moves the retailer/manufacturer relationship to become based more on joint cooperation and less about price.

Over the past several years, retailers have broken away from the traditional PLB model and have managed to enter the paradigm of "dealer own" brands. However, these new opportunities come with commensurate responsibilities in the form of new operational, marketing and branding activities to support the new "dealer own" brand portfolio, the retailers brand and the overall marketing objectives. Retailers have begun to understand that PLBs are proprietary, exclusive offerings that have strong potential for the retail store presently and even more importantly for the future, in developing loyalty and increasing sustainable competitive advantages versus other retailers.

Today, retailers understand the large (and growing) contribution that "dealer own" brands make to the long-term success of the business. They also have an understanding that there are three parties involved: the retailer, the manufacturer (as well as the manufacturer of NBs) and the consumer. This requires effective category and brand management, in order to maximise these relationships. The ultimate goal is to develop a product (as part of a range) that not only meets consumer demands of quality, price, etc., but that it initiates and builds a two-way relationship with the consumer in order to get them to connect with the retail store brand in a continual and regular basis - fostering loyalty.

“Dealer own” brands are researched, developed, tested, marketed, analysed and serviced just like any leading NB. Retailers have entire departments dedicated to “dealer own” brands that have the potential to provide the consumer with key drivers that augment the overall retail brand proposition – further entrenching the retailer brand in the consumer’s lifestyle.

PLBs of the future will also be successful because they will demonstrate a promise to offering consumers several options and varieties with distinctive features, benefits and price points. A successful “dealer own” brand must have the ability to own the consumer connection across a multiple number of brands across numerous product categories and price points.

“Dealer own” brands have an intrinsic benefit that NBs do not have: because they are born from retailers, they have closer relationships with consumers and thus are consumer focused rather than product focused like manufacturers NBs. Being consumer orientated allows retailers to develop marketing strategies (Product, Price, Distribution and Promotion) based around consumer insights and their relationships with consumers. NB manufacturers are one-step removed from the client (with the retailer in the middle) and are fundamentally manufacturing organisations making products that are sold through retailers.

Therefore, “own” brands not only reinforce loyalty and positive associations for the retail brand, they often facilitate the retailer to capture a more noteworthy share of the consumers’ wallet, heart, mind and lifestyle than a NB.

South African retailers have over the past few years been playing catch-up in order to acquire or sharpen product design and development acumen. This has been supported by the influx of international CEO’s, especially from the UK taking the reign locally: David Kneale, Chief Executive Officer of Click’s was previously Chief Commercial Officer of health and beauty retailer, Boots Group plc, in the United Kingdom which has a very strong PLB offering. Another example is Richard Brasher, the Chief Executive Officer of Pick 'n Pay Stores Limited. He was previously the Chief Executive Officer of Tesco PLC's UK which is widely considered the forerunner in PLBs in the UK and globally.

Why are NBs finding it tougher to compete with PLBs? There are several distinct category features that favour PLBs:

- **Minimal differentiation and low brand equities**
  This is when perceived differences among category products are low e.g. tuna. There are many suppliers, and it is easier for PLBs to create “me too” products (at lower cost) in this category.
- **High price sensitivity and high purchase frequencies**
  Consumers are highly sensitive to price, especially in product categories that are low-involvement, low-risk purchases. Consumers are less brand-loyal and look for the best price. Switching costs are low. In addition, these categories could have fast purchase cycles, making price more noticeable to consumers. Long-life milk is an example of this category.
- **Low innovation rates**
  These are categories where NBs have done very little to innovate the category. In general, innovation is less common in commodity categories. Cooking oil (sunflower and canola) is an example of a category with low innovation.
- **Category that the value chain and product can be reengineered**
  In this category, retailers are able to create a dramatically lower-priced PLB. This expands the category by providing good quality at low prices for the masses. The Mr Price offering (not in this study’s scope) is an example of value-chain engineering in the fashion/apparel industry.

One of the most important outcomes in the PLB revolution is the impact on the consumer’s welfare. Consumers have gained from reduced PLB prices as well as reduced NB prices – driven down by PLBs and retailer’s negotiations with NB manufacturers. Also, it can be argued that due to PLBs, NBs have improved their quality, guarantee and post purchase service offerings.

5.1 Recommendations

PLB success in today's modern FMCG retailing environment depends, on a retailers' ability to convince consumers that their PLBs are of comparable if not better quality and value to leading NBs. It is also important to recognise that while PLBs hold very high market shares in traditional commodity-driven product categories, sales growth in these categories are lagging as consumer demand has become saturated.

Additional opportunities exist for retailers that look beyond commodity categories and move into either higher-growth categories or those categories where PLB share is relatively low today. For example baby goods (nappies, baby toiletries, etc.) have seen tremendous growth (62.6%) over the past 12 months in South Africa – a category that was previously poorly represented by PLBs.

PLB expansion is deeply dependent on the spreading footprint of modern retail trade, which has a low penetration in emerging markets and is primarily available in urban and peri-urban areas only. In South Africa - the biggest PLB market in the Africa - 30% of sales still come from traditional trade i.e. spaza shops (Nielsen, 2014). This channel has no PLB penetration with retailers all seeking solutions to service the low-end informal market. As these new ventures take root, so will the proliferation of PLBs in the lower-end of the community commence.

Retailers must also overcome strong brand loyalty for NBs and uncertainty about PLB quality. NBs have a long legacy in South Africa, while PLBs have traditionally struggled with low awareness and trust. Purchasing an unfamiliar product is inherently risky, and many consumers do not have the disposable income necessary to take a chance on a product that might not deliver – this can be seen by the lower PLB penetration in poorer provinces such as the Eastern Cape, Northern Cape and the Northern Province (Nielsen, 2014). Low involvement categories for the high-end of the market are sometimes high-involvement categories for the lower-end of the socio-economic sector – retailers must be aware of the changing attitude between the various socio-economic clusters, and market their PLBs accordingly.

NBs are recognisable to consumers and they provide a promise of quality; as a result, they generate significant loyalty. Strong brand loyalty can create significant barriers to PLB growth. Therefore, retailers will need to invest in campaigns to increase comfort with PLB offerings. Spar has recently embarked on a strong national TV and Print campaign promoting their PLB offering. PLB promotion will be significantly increased in the future and will spread beyond the retailer broadsheet or the four-walls of the retail store. PLBs will be promoted on an individual as well as an overall brand level. Also, websites and social media will increasingly be used to develop relationships between PLBs and consumers. The advent of partnership PLBs with existing third party brands (e.g. Click's Sorbet) will further enhance the level of advertising and promotion PLBs experience.

Future growth will be mainly defined by how retailers monitor the performance of existing ranges and launches and use that data to develop the appropriate products in the correct categories at the right price. A more scientific approach beyond an old accepted "build it and they will come" strategy is needed to win the PLB/NB war in the future.

Winning strategies for PLBs in South African FMCG include:

- Improving quality concerns with reputation-building and branding strategies as well as strong R&D and high manufacturing standards.
- Moving beyond value offerings into premium, standard and fighter pricing tiers. Also use various branding strategies (category, benefit as well as individual vs. retail mother brand or endorser brand)
- Innovate to meet consumer needs and reach new segments. This involves entering new categories, or categories where PLB are not currently strong. It also includes innovating the value proposition in existing categories.
- Improve packaging quality and leverage the strength of the retailer brand in packaging. A great deal of a consumer's information search and decision is made at the coal face – inside the retail store at the moment of purchase. Packaging can leverage the products value proposition and drive sales.

5.2 Further Research

It is clear that PLBs of the future will need to excel in the entire marketing mix of Product, Pricing, Distribution and Promotion in order to win against NBs as well as other retail competitor PLBs. Thus, we can argue that PLBs have now matured and success is measured with the same yard-stick as NBs.

There are a number of academic and corporate research documents that focus on PLBs in South Africa. However, they do not effectively penetrate into the lower-end of the socio-economic pyramid to understand as to why there is such a reluctance to invest and trial PLBs. Thus, more research is needed for this category of shopper.

PLBs will continue to grow and evolve into the future, gaining market share from NBs as well as expanding categories. However, the next giant leap forward in South Africa will be to gain the trial, trust and loyalty of the lower socio-economic demographic for PLBs. Even though retailers are currently growing into these markets, PLB growth will not be immediate.

In order to overcome the strong NB loyalty faced with, especially in the lower-end of the market, retailers will need to invest in the promotion and building the brand equity of PLBs. This will not only be an exercise in PLB development and marketing, but also one of brand building for the retail brand itself.

In order to achieve this, deeper and more specific research needs to be conducted on the emotional, financial, locational and other factors that currently inhibit PLB purchase by these individuals.

Also, the relationship between consumers, retailers and manufacturers is an interesting one that needs further research. The consumer and retailer have a direct relationship, whereas the consumer and manufacturer have less of a direct relationship. With retailers being consumer focused and manufacturers product focused, the impacts of these relationships on both PLBs and NBs should be further investigated.

Another suggestion for future research is how exactly PLBs are affecting second and third-tier brands in South Africa. Research and data from overseas highlight the demise of weak manufacturer brands with the proliferation of PLBs. Category champion NBs are shown not to be negatively affected by PLBs and despite the current and future predicted growth of PLBs, there is still a large market share capacity for NBs. This complex relationship between PLBs, second and third tier NBs in the South African context needs to be analysed more in-depth.

PLBs are starting to carry the same level of brand equity as NBs, with some PLBs not being restricted to the four walls of the retail store anymore. NBs are not dead – they are definitely alive and kicking. However, retailers have been closing the gap over the past few years. As a result, the NBs have become less important and lost some of their “lustre” over the years. And, will continue to do so until manufacturers aggressively respond to the PLB threat.

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APPENDIX A - Actual Research Instrument

Below are a set of questions that were used during the personal interviews:

- Why did your retail chain introduce private labels?
- How many private label brands do you have, and in how many categories?
- How does each of these brands differentiate themselves?
- Why do you have various PLB brands?
- What are the profit levels of private labels vs. national brands?
- What are your comments around private label packaging?
- Do you think your PLBs are superior, compared to other competitors?
- How does the introduction of private labels affect customer loyalty?
- What do you think the similarities and differences between your PLBs and those of other competitors are?
- Which one do you think is more important - price or quality, and why?
- What are the customer attitudes towards the private label?
- What role does packaging play in PLBs?

APPENDIX B – Letter to Respondents

Dear ______________

I am currently completing my Master In Business Administration (MBA) degree through Wits Business School in Parktown, Johannesburg. An important and final criterion for the accreditation of this degree is to complete a report on a research topic of interest and benefit to a selected population.

My thesis topic aims to explore the effectiveness of multi-brand Private Label Brand strategies in South African FMCG.

In order for me to fulfil the research for this thesis, I should appreciate if I could arrange a one-on-one interview at a time convenient to you, to gain an in-depth understanding of the role of multi-brand private label brands within your organisation.

The contents of the discussion will be observed for academic research purposes only and your confidentiality will be protected through the interview process and the publishing of the findings.

In anticipation, I thank you for your time and willingness to assist me.

Yours sincerely

Dimitri Balidis