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Research article

STUDY ON THE GROWTH PROSPECTS OF PRIVATE LABELS TO THAT OF NATIONAL BRANDS IN THE FMCG RETAIL SECTOR IN COIMBATORE

J.Joshua Selvakumar*

P. Varadharajan**

*Asst. Professor, PSG Institute of Management (PSG College of Technology), Peelamedu, Coimbatore, Tamil Nadu, India. The author can be reached at joshua@psgim.ac.in

** Asst. Professor, PSG Institute of Management (PSG College of Technology), Peelamedu, Coimbatore, Tamil Nadu, India. The author can be reached at pvaradharajan@psgim.ac.in

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Abstract

With many international, national and regional players trying to tap the market, retail is one of the most dynamic, fast paced upcoming sectors in India. Growth of organized retail chains in India has also led to a growth of Private Labels. Private Labels also offer retailers greater control over the supply chain, negotiating margins with National Brands manufacturers or companies; Opportunity to launch customized and innovative products. Hence, they build a platform for store loyalty and increase footfalls. This research sets out to study the factors affecting the sales growth of private labels in India and also determining & comparing customer's attitude towards National brand and Private Label with respective different attributes. Furthermore it also discusses the preference pattern with respect to demographic profile of respondents for Private Label brand and national brand. The methodology proposed to achieve this objective consisted of examining the data of three categories of private labels, namely food and non food FMCG, Apparel and consumer durables. Data for study was collected from customers of top 5 retail outlets in Coimbatore. As the study explores the factors which affect the sales growth of private labels, it will ultimately assist retailers in developing and implementing effective marketing programs in respect of Private Labels.

Key Words: Private Labels, National Brands, Store Image

Introduction

There has been a significant increase in Private Label brands in recent years worldwide. Private Labels are growing faster than manufacturer's brands. They are more popular today than at any time before. Private Labels have gained an increased market penetration and are growing at a rapid rate. A Private Label is defined as 'the products retailers sell under their own names". According to the Private Label Manufacturers' Association (PLMA), "Private Label products encompass all merchandise sold under a retailer's brand. That brand can be the retailer's own name or a name created exclusively by that retailer". The term retailer's own-brand is often used interchangeably with private label, own-label, retailer brand or store brand. Private labels have come a long way over the past three decades. In the past, Private labels were a cheap, low-price alternative to manufacturer brands but today, private labels have taken on a premium brands image. They are no longer seen as just cheap and poor quality products bought by less affluent customers but rather they Endeavour to be an alternative option of value or quality to manufacturer's brands. Retailer's brands are to be found next to national brands in every category.

Market review of Private Labels in India

Private label is still an emerging concept in the Indian Environment and there is an increasing acceptance of private labels in India. According to a Global Private Label consumer study by AC Nielsen, 56% of their survey respondents in India considered private labels to be good alternatives to manufactures brands. A study done by the AC Nielson (2006) named "Asia pacific Retail and shopper trend", stated that, although private labels are a fairly recent phenomenon in India, it is a trend that is catching up very fast. According to this report, out of a total number of shoppers who shop in supermarkets or hypermarkets in India, 69% are aware of private labels. The AC Nielson study forecasts the launch of a good number of private labels in India; it revealed that an Indian spends $50 on food, groceries and personal care items every month of which, 42% is entirely spent on fresh foods. Management consultancy, A.T. Kearney has placed India third on its global Retails Development Index in 2010. The retail market is about $410 billion, but 5% of sales are through organized retailing. Thus, with the growth of organized retail in India, private label are also growing. Retailers have launched a wide range of private labels and are gaining acceptance in categories beyond the staple.

According to Image Retail Report 2009, as quoted in the "Indian Retail: Time to Change Lanes" by KPMG, Private label brands constitute 10-12% of organized retail in India. Of this, the highest penetration of private label brands is by Trent at 90%, following by Reliance at 80% and Pantaloons at 75%. Big retailers such as Shoppers stop and Spencer's have a penetration of 20% and 10% respectively. Private label are spreading its focus from wheat flour, masalas and papads to high technology electronic gadgets like mobiles, apparels, furniture etc. With the growth of private label brands, national brands are grabbing the share from the national brands. Private labels are not only low priced but are also high on quality and for the retailers its high margin. Private labels are growing faster than the manufacturer's brands. They have studies the taste and preference of customers and improved on quality & offer a value proposition to the customers. As compare to National brands, Private labels give higher margin and greater bargaining power to retailers and hence retailers promote more private labels. Even some private labels have positioned themselves as premium brands; they have started their own outlets.

LITERATURE

Private labels of retail stores in India are on the growth path. With the emerging private players, national brand manufacturers will have to compete with the competition within the sales promotion and distribution channel, which needed to change in marketing strategy, locally, the threat of the private label in a store. The phenomenon also offers national brand manufacturers the opportunity to efficiently service the production needs of the private labels. The paper will start with review of studies in demographic variables as the initial work focused on this area. The main objectives of all such studies had been to specify variables so that market segment could be identified. Interest had centered on uncovering stable person and product characteristics related to private label brands and consumer demographic and psychographic were considered in purchase decisions (Szymanski & Busch, 1987). The growing importance of private labels has led to studies on factors that facilitate their success (Hotch and Banerji, 1993; Raju et al., 1995; Hoch, 1996; Dhar and Hoch, 1997; Chintagunta et al., 2002, Cotterill et al., 2000; Sethuraman 2000).

Perceived risk is important for understanding many consumer behaviors, such as their willingness to buy private label products (Batra and sinha, 2000; Richardson et al., 1994; Sinha and Batra, 1999). Perceived risk has been described as consisting of a set of possibly interrelated components, financial, Performance, Physical, Psychological, social and time convenience risks, yielding a separate measure of overall perceived risk (Jacoby and Kaplan, 1972). Various studies have shown that the risk associated with buying a private label is significantly higher than buying a national brand alternative. Dunn et al.(1986) found that consumers regard private label brands as most risky on performance measures compare to national brands. He also found that private label brands are least risky on financial measures; however, social risk is less important for supermarket products generally.

Richardson, Jain, and Dick (1996) present what is probably the most extensive such framework offered to date. They argue that consumers' propensity to purchase PLs depends on (a) certain demographic factors, such as income, family size, age and education, (b) certain individual difference variables, such as the degree of reliance by the consumer on extrinsic cues (those more reliant on such cues preferring national brands) and the consumers' tolerance of ambiguity (intolerants preferring safer national buys), and (c) certain consumer perceptions of the particular category (degree of perceived quality variation, level of perceived risk, and perceived value for money), as well as the degree of consumer knowledge about the category (greater knowledge increasing PLs choice). Note that though several of these perceptual factors ought to vary across categories (such as the degree of perceived quality variation, level of perceived risk, perceived value for money, and degree of consumer knowledge), Richardson, Jain and Dick did not study category-level variations in these factors.
Sethuraman and Cole (1997) did model category level variations in many factors. They examined the effect on "willingness to pay a price premium for a national brand" of (a) several category level variables, including the quality perception of PLs, average price, purchase frequency, and the degree to which the category gives "consumption pleasure," (b) individual demographics such as income, age, family size, gender and education, and (c) individual difference perceptual variables such as the belief of a price-quality relationship, perceived deal frequency, and familiarity with PLs . However, as noted above, their list of category-level variables did not include crucial perceptions of the degree of category perceived risk. Price Consciousness, defined as the "degree to which the consumer focuses exclusively on paying low prices" (Lichtenstein, Ridgway, and Netemeyer, 1993, p. 235), has been found to be a predictor of PLs purchase (Burger and Schott, 1972; Rothe and Lamont, 1973). Previous research has shown that a consumer's level of price-consciousness rises with lower incomes (Gabor and Granger, 1979; Lumpkin, Hawes, and Darden, 1986), and is higher among deal-prone consumers (Babakus, Tat, and Cunningham, 1988) who believe less in price-quality associations (Lichtenstein, Bloch, and Black, 1988).

Consumers rated national brands higher than PLBs and generics on prestige, reliability, quality, attractive packaging, taste, aroma, color, texture, appealing, tempting, purity, freshness, uniformity, familiarity, confidence in use, among others, Bellizi et al. (1981). Burton et al. (1998) point out that increases in the store brand market share have generally been linked to the price. Consumers with a positive attitude towards private labels are extremely price –conscious and tend to focus on paying low prices, thereby minimizing other brand evaluation factors. Several studies demonstrate that the higher the price differential between manufacturer and store brands, the greater is a store brand’s market share (Connor and Peterson, 1992; Dhar and Hoch (1997) and Raju et al. (1995) observed that the price differential between manufacturer and store brands varies as a function of the market share of the latter. They found that the price differential is smaller in categories where the private label has a higher share of the market.

NEED FOR THE STUDY

The need for the study is that the sales growth of private labels are affected, Consumers perception and attitudes towards private label products differs, consumers preference are towards branded products, various factors which influenced the buying behavior of the private label brands. Since the priorities of private-label products have been increasing during the last 10 years, the retailers have often experienced how difficult it is to balance the overall benefits between manufacturer brands and private-labels products in their stores. It is general thesis that private-labels and manufacturer brands have both advantages and disadvantages. This paper concentrates around this area by doing research among various customers of retail outlets to identify overall effectiveness for retailers.

SCOPE OF THE RESEARCH

The research work was conducted in Coimbatore district in Tamil Nadu state considering top 5 FMCG retail outlets which was based on the floor size of the outlets. There are number of retail outlets located in Coimbatore

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district, based on the footsteps and floor size of the shop the retail outlets where selected to do the research work. The study was done with the customers of those retail outlets to find out their spending pattern towards private label and national brands. The study mainly aims to identify the growth prospects of Private Labels to that of National brands in the FMCG retail sector. This report provides a comprehensive analysis of the private label market and national brand market within the consumer packaged goods industry in India. It helps the retailers to identify the benefits between manufacturer brands and private-labels products in their stores.

OBJECTIVES

- To find out the factors affecting sales growth of private labels in Coimbatore
- To understand the consumers perception and attitudes towards private label products.
- To find out customers overall preference of private versus national brands while purchasing.
- To find out the influence of demographic variables on the purchase of private labels.
- To offer suggestion based on findings.

METHODOLOGY

A descriptive study was undertaken to determine and describe the characteristics of the variables of interest in a situation. Customer's from Coimbatore district. Customers from various retail chains like Spar, Reliance Trend, Spencer's, Big Bazaar, Kannan Departmental store participated in the survey. A sampling framing comprises of the customers of the 100 retail outlets taken for the study. And a sample size of 500 was deemed to be appropriate to the represented population. Roscoe (1975) proposes a thumb rule that sample size larger than 30 and less than 500 are appropriate for most research. A questionnaire was administered to the customers of these apparel retail outlets and information was gathered on a random basis. Customers within the age group of 20-50 were involved in the study. The sampling technique used for the study was non-probability convenient sampling. Primary data collection a questionnaire was administered to the customers of the retail outlets and information was gathered on a random basis. The statistical software used was Statistical Package for Social Studies (SPSS v 17.0) and Microsoft Excel 2007.

ANALYSIS

Table 1: Purchase frequency of private label by the respondents

Frequency if purchase	Frequency	Percent
Always	25	25.0
Often	42	42.0
Not often	29	29.0
Never	4	4.0
Total	100	100.0

The above table shows the frequency and percent of purchase frequency of private label product by the respondents. It helps to find out how many times the private label products have been purchased by the customers. It is found that 25% of the respondents always purchase only private label products, 42% of the respondents often purchase private label products, 29% of the respondents are not often purchase private label products and 4% of the respondents never purchase private label products. It shows that majority of the respondents are often purchase private label products.

Table 2: Brand Conscious of the respondents

Brand conscious of the respondents	Frequency	Percent
Yes	29	29.0
No	32	32.0
At times	39	39.0
Total	100	100.0

The above table shows the frequency and percent of number of the respondents who are brand conscious. It helps to find out the importance of brand among customers. It is found that 29% of the respondents are brand conscious, 32% of the respondents are not conscious about their brands, 39% of the respondents conscious about brand at times. It shows that majority of the respondents are conscious about brands at times.

Table 3: Factors inducing trial for Private Label

Factors induce trial for private label	Frequency	Percent
Price Discount	44	44.0
Free products at the same price	33	33.0
Promotions	17	17.0
Others	6	6.0
Total	100	100.0

The above table shows the frequency and percentage analysis of factors that help induce trial for an In house brand. It helps for retailers to find out the factors which help to induce the trial for In house brand by customers. It is found that 44% of the respondents prefer price discount to induce trial for Private Label, 33% of the respondents prefer free products along with private label products at the same price, 17% of the respondents prefer promotions and 6% of the respondents prefer other factors to induce trial for In-house brand. It shows that majority of the respondents prefer price discount.

Factors which contribute sales growth of private labels

H0 – Rank given by the respondents regarding the factors affecting the sales growth of private labels are similar
H1 - Rank given by the respondents regarding the factors affecting the sales growth of private labels or similar

Table 4: Friedman Test of Factors which contribute sales growth of private labels

N	100
Chi-Square	215.820

Df	7
Asymp. Sig.	.000

Interpretation

From the above table 4, it can be observed that P=0.000 which is less than the significance value 0.05 at 5% level of significance. I.e., we reject the null hypothesis. So it is understood that ranks given by the respondents regarding the factors affecting the sales growth of private labels are similar

Table 5: Mean Rank of Factors which contribute sales growth of private labels

Factors which contribute sales growth of private labels	Mean Rank
Brand Image	5.53
Prestigious	6.42
Healthy	3.23
Packaging	5.95
Fresh	2.96
Risk free	4.62
Value for money	4.21
Quality	3.08

From the above table 5, it is inferred that 2.96 is the least mean rank according to the Friedman non parametric test. So it can be understood that freshness is the most important factor that contribute the sales growth of private labels.

Table 6: Ranking of the respondent’s preference towards National brands

Preference	SD	D	N	A	SA	TS	MS	R
Excellent Quality	7	2	42	96	270	417	4.17	**6**
Value for money	1	10	24	144	250	429	4.29	**2**
Not risky to buy	3	14	39	136	215	407	4.07	**8**
Are fresh	4	6	36	136	235	417	4.17	**5**
Excellent packaging	2	4	36	120	270	432	4.32	**1**

Are healthy	4	12	42	112	240	410	4.10	**7**
Are prestigious	4	10	24	108	280	426	4.26	**3**
An excellent image	6	6	36	88	285	421	4.21	**4**

From the table 6, it is inferred that the mean score of 4.32 is for excellent packaging which is opted 1st rank, followed by the mean score of 4.29 is for value for money opted 2nd rank, mean score of 4.26 for prestigious is 3rd rank, mean of 4.21 for an excellent quality is 4rth rank, 4.17 for fresh is at 5th rank, mean of 4.17 for excellent quality is at 6th rank, mean of 4.10 for healthy is at 7th rank and mean of 4.07 for not risky to buy is at 8th rank . It says that respondents prefer excellent packaging towards brand.

Paired T test for Quality of National brand and Private label

Hypothesis

H0 – There is no significant difference between quality of national brand and quality of private label brands
H1- There is a significant difference between quality of national brand and quality of private label brands

Table 7: Paired T test for Quality of National brand and Private label

	National Brand		**Private label**	
	Mean value	**Significance (P value)**	**Mean value**	**Significance (P value)**
Consumer durables	5.87	0.000	3.97	0.000
Personal care products	6.04	0.000	4.32	0.000

From the above table 7, it can observed that P=0.000 which is Less than the significance value 0.05 at 5% level of significance. I.e., we reject the null hypothesis. So it is understood that there is a significant difference between quality of national brand and quality of private label brands. Mean value of National brand consumer durables is 5.87 and personal care products is 6.04 which is greater than Private label consumer durables 3.97 and personal care products 4.32. So it is inferred that quality of national brand products are high when compare to private label products.

Table 8: Regression for quality, price, packaging towards brand Image of Private label consumer durables

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.679[a]	.461	.444	.893

Table 8: Regression for quality, price, packaging towards brand Image of Private label consumer durables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.679[a]	.461	.444	.893

a. Predictors: (Constant), Private label consumer durables, Private label consumer durables, Private label consumer durables

The above table 8, shows that r square = 0.679, which means quality, Price, Packaging of the private label consumer durable products influence the brand image of the private labels to about 68% so that remaining 32 % could be due to other factors .

FINDINGS

- It is found that 37% of the respondents belongs to the age group (20-25yrs), 27% of the respondents are belong to the age group (25-35), 30% of the respondents are belong to the age group (35-50), 6% of the respondents belong to the age group (above50). Majority of the respondents are belongs to the age group of 20-25 years.
- From the analysis 59% of the respondents are married and 41% of the respondents are single. It shows that majority of the respondents are married.
- It is found that 29% of the respondents are come under school level, 41% of the respondents are come under graduate level, and 30% of the respondents are come under post graduate. It shows that majority of the respondents are come under graduate level.
- The majority of the respondents go for shopping bimonthly, majority of the respondents are conscious about brands at times and 67% the respondents are willing to purchase private label products in future.
- 45% respondents are neutral whether the private label is equal to brand in quality and the majority of the respondents prefer price discount that help induce trial for an In house brand.
- It is found that freshness is the most important factor that contributes the sales growth of private labels.
- Majority of the Female and Graduate level respondents often buy the private label products.
- Respondents prefer excellent packaging towards brand and value for money towards Private Labels.
- It is inferred that quality and price of national brand products are high when compare to private label products, Packaging of national brand products are attractive when compare to the private label products, Risk of buying national brand products are less risk when compare to the private label products and Brand image of buying national brand products are high when compare to the private label products.
- Quality, Price, Packaging of the private label consumer durable products influence the brand image of the private labels to about 68% so that remaining 32 % could be due to other factors.
- Quality, Price, Packaging of the private label personal care products influence the brand image of the private labels to about 33% so that remaining 67 % could be due to other factors.
- Perception of quality is an important element relating to private-label brand use; if all brands in a category are seen as sharing a similar quality, then private-label brand use is often observed to increase (Richardson *et al*.1994). But as proven in this study and other global studies, one constant finding of private-label research had been that quality is more important than price to shoppers (Hoch and Banerji 1993; Sethuraman 1992).

CONCLUSION

This study examined how customers in Coimbatore city perceive private label brands in comparison to national brands with respect to 5 attribute. The findings of the study can be useful to retailers in formulating strategies to make products other than the national branded ones acceptable in the market, which will help retailers in developing stronger store/private label brands and in increasing their presence and acceptance amongst customers. Private labels are a quite attractive proposition because they create a win-win situation for both the customer and retailer. They offer Lower prices and higher margins and at the same time, Quality is comparable to that of national brands. However, retailers should be cautious about not overdoing this, especially in areas where public is still new to the idea of private brands and still share much stronger bonds with the age old marketed products. The retailers must keep in mind that private labels are not just about price. Customer today wants the product of good quality at lower price. For developing a Successful private label product, retailers have to follow a 'lower price- higher quality' strategy. Customers are now ready to accept the private label brands besides the manufacturing brands; customers are now quality and service oriented.

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