

# Own labels in the United Kingdom: A source of competitive advantage in retail business

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## Abstract

This paper shows evidence of the role of own labels within UK retail business, not only as a product that compete with national brands, but as a tool to achieve competitive advantage. In addition, as a key player in retail business, which its development has changed the level of relationship among the supply chain; from traditional trading to more integrative, constructive and co-operative based.

**Key words:** Own labels, Retail Concentration, Brand Equity, and Premium Private Labels.



## Resumen

Este artículo presenta evidencias del papel que juegan las marcas propias en el negocio al detal del Reino Unido no solamente como un producto que compite con las marcas nacionales, sino como un instrumento para alcanzar ventajas competitivas. Adicionalmente, como un jugador clave en el negocio al detal, cuyo desarrollo ha cambiado el nivel de relaciones en la cadena de aprovisionamiento, del comercio tradicional a uno más integral, constructivo y basado en la cooperación.

**Palabras claves:** Marcas propias, concentración detallista, valor de marca, marcas privadas premium.

## 1. INTRODUCTION

Academics and practitioners have recognized retail business not only as a distribution channel that allows manufacturers to transfer their products to customers, but also as a key contributor to the marketing area. The competitive environment among retailers has centred them not only on retail location, economies of scale and store traffic, but on building a differentiated position throughout high quality-private labels (Winningham 1999).

Own labels have an important role within UK retail business, not only contributing to build store loyalty, but as a way to differentiate in a high competitive market. This article aims to present the concept of own labels in the United Kingdom, as a source of competitive advantage in retail business.

The term “own label” has been, commonly, used to describe products sold under a retail organization’s house brand name (Rousell and White 1970; McNair 1999; Morris 1979; Koskinen 1999; McGoldrick 2001; Levy and Weitz 2001). Despite the fact that it is possible to find no less than seventeen alternative definitions when referring to “own labels”, (Schutte 1969; Martell 1986), this article will consider the one given by A.C. Nielsen (2005), as it includes the diversity of channels. Therefore, the definition of “own label” that will be used in this article is: “A brand name owned by the retailer or a wholesaler for a line or variety of items under exclusive or controlled distribution”

Furthermore, this article is divided into three sections. The first section presents an overview of UK retail business, in order to identify the most relevant aspects that have influenced its (UK retail business) development through time, and bring to light key elements that could be related to the role of own labels.

The second section reviews the concept of branding within a retail business context, in order to understand if traditional branding principles may be related to retail business, and may be applied to own labels. This could help to distinguish the role of brands within UK retail business and if there is a relationship with the concept of own labels.

The third section focuses on the analysis of the different types of own labels, in order to understand in depth this phenomenon. This will contribute to explore the concept of own labels as a source of competitive advantage in retail business.

## 2. RETAIL BUSINESS IN THE UNITED KINGDOM.

### 2.1 Evolution of retail business in the United Kingdom

The origins of UK retail business dates back in the sixteenth century, in which it was perceived negatively by British society (Thomas, 1572). Property land was widely seen as giving its owner independence and opportunities for public service, and trade was seen as less admirable, depending on profit and opportunism, with participants necessarily governed by self-interest (Benson and Ugolini, 2003).

In the late seventeenth century, this kind of prejudice about retail started to change. According to Davis (1966) the size and importance of market towns grew throughout the middle ages, after regular marketing had become commonplace for the whole population.

Other evidence that shows the importance of market towns as a beginning stage of retail business was presented by Stow (1631) and Davis (1966), based on the fact that some of the largest cities such as London, in the seventeenth century, were considered a market with a great variety of products that impressed people. This century also brought the birth of galleries as a retail phenomenon. (Benson and Uglioni, 2003).

In the eighteenth century Britain emerged as a fully industrial society (Industrial Revolution) and became dominant in and dependent upon the world market and extended her direct financial and economic interests to all parts of the globe (Jefferys 1954). These changes influenced the development of the distributive trends contributing, later in the nineteenth century, to the growth of large-scale distributive organizations such as the Co-operative Societies and the multiple shop retailers, which developed with the mass demand of the industrial working classes (Jefferys 1954).

Jefferys (1954) also mentions other factors that affected the structure of retail in the first half of nineteenth century, such as the growth of urbanization, the decline in many trades of the producer/retailer and the specialization of the retailing function, the pressure by manufacturers and consumers for more consistent and accessible retail outlets than those provided by fairs, and the shift away from home-grown foodstuffs purchased direct from farmers to the purchase of imported supplies which were sold by fixed-shop retailers.

A similar point of view about British Retailing in the nineteenth century is presented by Alexander (1970), highlighting the impact of population, transport and living standards as crucial factors that influenced retail.

The twentieth century presented some trends that influenced the structure of retail business. Bromley and Thomas (1993) underline the context of change in retail structure based, first, on the rise of car ownership, which increased people mobility originating a high level of congestion, but at the same time helping people to travel easily and contributing to the decentralization of shopping; second, changes in the spatial redistribution and composition of population; third, changes in the character of working population; and fourth, changes in the social and political attitudes.

Wrigley (1988) has a different point of view, identifying another trend that changed retail structure, as information technology. According to him, this trend transformed stock control, distribution management and financial control system. Johnson (1987) presents information technology as an important trend based on the development of EPOS (Electronic Point-of-Sale) data collection system, which could provide retailers, information for the quick and accurate auditing of sales and stock movements, saving staff time in stock control.

Johnson (1987); Ford (1991) and Foord (1992) illustrate retail concentration as an important factor that also influenced retail business in the twentieth century. Jefferys (1954) identifies two trends at the beginning of the twentieth century. One, related to convenience shopping, and the other, associated with attracting consumer to shop over longer distances instead of local shops.

Another trend that took place in the early years of the twentieth century was the permanent development of large-scale retailing, such as Department Stores, Multiple Shop Retailers and Co-operative Societies (Davis 1966; Matias 1967; Winstanley 1983; Jefferys 1954).

In the second half of the twentieth century one of the most important changes in the structure of retailing was the growth of multiple store groups (Akehurst 1983). Thomas (1991) support Akehurst's (1983) point of view, mentioning that the 1960s saw the growth of superstores and hypermarkets, pioneered by the large grocery retailers, and the eventual establishment of the out-of-town, one-stop-shopping operation. He also stated that the widespread adoption of these more cost-effective and competitive forms have led to a growing concentration of activity in the hands of giant firms and major changes in retail structure.

According to KPMG (2004) report, in the twentieth first century retailers are facing increasing pressure, as competition is getting tougher, customers are more discerning and demanding, traditional barriers between products and services are disappearing, and the phenomenal growth of e-commerce is increasing customer's expectations for more competitive prices and 24 hour service.

That report also underlines recent developments in loyalty schemes, influenced by several factors such as advances in technology (magnetic/chip cards, card scanners); decline in store numbers and the accompanying increase in store size, moves out of town by stores, leading to a decline in shopping frequency; increase in store size via out of town developments permitting an increase in the range of categories stocked; increased usage of private label, as both store loyalty builder and ready alternative to branded products, reducing the customer's resistance to switch brands; and inclusion of pharmacies, post office, dry cleaners and petrol stations crating the facility for "one stop" shopping and providing traffic store generators.

Considering the previous analysis, it could be possible to identify the growth of market town, the birth of galleries, the industrial revolution, changes in the UK population, developments in technology, and the permanent development of large-scale retailing as key aspects that have influenced the

structure of the UK retail business through time; becoming more and more sophisticated (McGoldrick 2002) and highly competitive (Gilbert 2003) in present days.

## **2.2 Retail environment**

The previous section reviewed the evolution of UK retailing, identifying its origins in the sixteenth century and the growth of market towns, the birth of galleries, the industrial revolution, changes in the UK population, developments in technology, and the permanent development of large-scale retailing, as key aspects that have influenced its structure through time.

This section, studies the UK retail business environment, with the intention of identifying the most important market variables that have influenced UK retail business operations. This could help to understand the performance of own labels.

Sullivan and Adcock (2002) have applied Kotler (2000) definition of marketing environment to retail business. They have suggested retail environment should consider firstly, macro environment factors such as: political and legal, economic, social and cultural, and technological. Secondly, microenvironment factors such as: external influences, competition, consumer organizations, stakeholders, suppliers, internal influences and buyer influences.

Gilbert (2003) describes retail environment as a business distinguished by constantly changes driven by some factors such as: the development of new store formats, typify by the increasing size of stores and a trend to move to other areas as financial services; retail focusing on the needs of sophisticated consumers; the internationalization of retail as a result of high concentrated domestic markets; and the impact of e-retailing.

Omar (1999) explains the retail environment in two main forces: macro environment, which incorporate factor such as technological, economic, political, sociological, competition and consumer needs. The other one is microenvironment, involving capitalization, management, marketing strategy, information and location.

McGoldrick (2002) suggests consumer trends, retail concentration, internationalization of retail and types of retailers, as the most salient factors that have influenced UK retail business environment

### 2.2.1 *Consumer trends*

Significant changes are occurring within the demographic structure of the marketplace, which include trends in population, age and household sizes (McGoldrick 2002). The population of the UK has reached 60 million and is projected to grow by around 3 per cent, over each of the next decades (see table 2.1). This is largely the result of increasing life expectancy, rather than a rising number of births (Mc Goldrick 2002).

**Table 2.1**  
Population projections in UK

Age brand	2001	2011	2021	2031
0-14	20,1	18,3	17,8	17,4
15-29	17,7	18,1	16,9	16,0
30-44	23,1	20,2	19,0	19,0
45-59	18,8	20,6	20,8	18,0
60-74	12,9	15,1	16,7	18,8
75+	7,4	7,7	8,7	10,7
TOTAL (MILLIONS)	59,9	61,7	63,6	64,8

Adapted from McGoldrick (2002)

According to McGoldrick (2002) retailers targeting the teens therefore face not only increasing competition, but also a market which, in demographic terms at least, is shrinking. In terms of identifying marketing segments it might be suggested that retailers should consider the fact by the year 2031, 46,78% of the population would be over 45, and 28,78% over 60.

If this trend is achieved it could have some important implications in retail business, as it would tend to focus on more expensive goods and services such as low-fat, healthy and easily digestible food, as well as luxury goods (European Round Table 2000)



Life expectancy is another aspect that supports this demographic trend. House of Common (1999) survey also has revealed British boys born in 2021 might expect to live until they are 78 years and girls to 83 years.

ACNielsen (2004) survey reveals that UK has the highest percentage of consumers (37%) compare to global average (27%) in Europe. The survey also divulges that customers in UK spend their spare cash on paying off credit cards debts and loans, and at the same time are least likely to invest in savings, deposits, mutual funds and superannuation pensions.

European Retail Round Table (2000) highlights some new changes in UK household structure that should be consider by retailers. The first is the growing female participation in work, which could change shopping patterns as preference for shopping by the internet, because a lack of time to go to stores. The second is larger stores bringing to customers benefits of less frequency of shopping and therefore more time for entertainment and time with the family. The third is consumers are increasingly looking for items of higher quality, value for money and longer durability. The forth is sales of electric and electronic appliances have increased, allowing workers to simplify their domestic duties. Moreover, the fifth is the industry has become more concentrated, with serious competition implications for small retailers.

Besides these trends mentioned previously, European Retail Round Table (2000) also indicates family patterns have changed in recent years, with a tendency towards smaller, more flexible units, where both parents are increasingly active in labour markets, and suggest retailers would need a flexible workforce to service the long opening hours.

Internet access is another trend that is influencing consumers in the UK. National Statistics (2004) explains that internet access has increased significantly in United Kingdom, encouraging retailers to implant on line shopping programs. Some examples are TESCO and ASDA constantly encouraging customers to visit their web pages and do on line shopping to be later delivery to customers' houses.

Property environment is another factor that might affect retail business environment in the UK. Guy and Lord (1991) states:

“In Britain, a planning system which in any case restricts land for new development has been further used by existing interests (commercial and financial) to limit the volume and location of new retail development. Retail development is thus high-cost, secure and organized a state of affairs regulated by market forces as much as by public interest”.

This fact had influenced retail stores, by increasing retail concentration and therefore a high density of consumers’ traffic inside the stores.

Ernest& Young (2001) describes six additional consumers’ trends that might affect retail business: Comfort, health, variety, individuality, enjoyment and security. In addition, it suggests retailers to consider the following aspects, in order to be successful in their markets:

1. A strong ability to focus in a single format and distinct targeting group.
2. Substantial buying power and dominant market share.
3. The ability to capture the imagination of consumer beyond simple functionality.
4. A clear defined character and unique differentiation.
5. The ability to create a buzz in the market.

### 2.2.2 Retail concentration

Tordjman (1994) describes UK retail business as a highly concentrated. Evidence of this is presented by ACNielsen (2005) (see table 2.2 and 2.3), in which UK market account a 65% of concentration. The concentration level can be also noticed in table 2.3, in which TESCO, ASDA, and SAINSBURY’S are accounting for nearly 64% of the market .

Table 2.2  
Retailer concentration First-Quarter -Year 2005

	Country	Region	Retailer concentration
1	Switzerlan	Europe	86%
2	Germany	Europe	65%
3	UK	Europe	65%
4	Spain	Europe	60%

5	Belgium	Europe	80%
6	France	Europe	81%
7	Netherlands	Europe	64%
8	Canada	North America	62%
9	Denmark	Europe	89%
10	United States	North America	36%

Source: AcNielsen (2005)

**Table 2.3**  
UK Retailers

Retailer	Market share
TESCO	30.6%
ASDA	16.6%
SAINSBURY	16.3%
MORRINSON'S	11.1%
SOMERFIELD	5.4%
WAITROSE	3.7%
ICELAND	1.8%

Source: TNS (2005)

Dobson (1999) describes UK retailing as highly technological, sophisticated and concentrated, with large multiple stores growing at high levels. Dobson (1999) also believes the structure of UK food retailing (high technological, sophisticated and concentrated) is based on some features such as:

- *Costs Advantages*: Based on floor space, as retailers can stock and sell many more products, economies of scale in logistic and distribution. Also technological progress as the adoption of EPOS (electronic point of sales), EFTPOS (electronic funds transfer systems) and electronic scanners improving the efficiency of distribution and stocking activities.
- *Legal an Institutional Advantages*: Referring to planning permissions to build-out- of town stores and restrictions to hours openings for convenience stores, affecting mostly independent retailers. Strategic Advantages: About loyalty programs founded on loyalty cards and private brands.
- *Changes regarding to one-stop-shopping pattern of British consumers*: Facilitating retail concentration and therefore the market dominance for large-scale retailers (supercentres and superstores).

Fernie (1997) points out that grocery superstore and retail park operators have moved from being proximity retailers with an emphasis on high street locations, to destinations retailers operating from non-central locations.

O' Connor (1997) believes concentration help retailers to have access to the best available real state, which in turn provide access to consumers who generally shop at the most convenience acceptable outlet. Additionally it facilitates retailers to gain more support from suppliers and leverage fixed costs on retail operation.

Retail Forward (1998) suggests that in 2010 retail business will be characterized by the following trends:

1. Massive retail consolidation, driven in part governmental restrictions on green field development.
2. A unique currency (euro) will encourage retailers to create a regional supply chain and centralize purchasing and distribution operations.
3. European retailers will dominate the global retailing industry, based on the experience of merchandising across cultural and language barriers within Europe, providing a competitive advantage in the business.
4. Retailers will focus on the core business, looking forward to be the market leaders in specific niche.
5. American retailers will mostly fail to become dominant in Europe, as they waited to long to enter European market.
6. Internet retailing will thrive and create pressure for a single price across Europe. Store retailers will place more emphasis on entertainment and interactivity in the shopping experience.
7. Eastern Europe will become a center of modern retailing, with a distribution system that is almost fully integrated with that of Western Europe.

### 2.2.3 *Internationalization of retail*

Retailers around the world are becoming more concerned about international operations mainly as a result of the concentration on their domestic markets and also of the opportunity on foreign markets (Alexander 1997). Alexander refers to these aspects as push and pull factors respectively.

However, McGoldrick and Fryer (1993) insinuated retailer's motivation for international operations change over time, becoming more frequently pull factors as retailers have more international experience and therefore align their business objectives to identify international opportunities and gain an important market share.

One significant issue in a retail internationalization process is to determine a method of entry to a new market. The method of foreign market entry adopted by a firm serves to reflect the internal competencies of the retailer as well as trading conditions they perceive to exist within the foreign market (Treadgold and Davies 1988).

Bruce, et al (2004) summarize five methods of market entry in international retailing:

1. *Non-Controlling interest*: Involves the firm acquiring a minority stake in a foreign retailer, which allows the firm to obtain a marketing intelligence at a minimum risk. The disadvantage is a passive position without the ability to influence in the business operation.
2. *Internal expansion*: The opening of individual stores in a foreign market using the same formats as that used within the same country. This method permits retailers to have total control of the operation, but with a lack of local management knowledge of the market.
3. *Merger or Takeover*: Acquisition of control over an existing retail business within a foreign country. Help retailers gain substantial market presence in very short periods and it is possible to transfer technology and know-how from the foreign to the home market and vice versa.
4. *Franchise-type agreements*: Retail formula and ideas from franchiser from the originating country are replicated, under contract, by the franchisee in the host country market. One of the most common disadvantages of this method, is that retailers sometimes are not able to find franchisees with the financial resources and relationships between both parts on occasions are unsatisfactory.

5. *Joint Venture*: Can take a variety of forms, including in-store concessions , involving the letting of a retail space by an established retailer in the host country to a foreign retailer; a joint development agreement between two entrants firms in a host country. The benefits of joint venture arrangements are that it often provides a link with a firm already in the market and this may provide a new market entrant with much needed information with respect to an alien trading environment.

According to Bianchi and Ostle (2004) retailers should consider cultural differences when initiating operations in foreign countries; giving attention to factors such as language, non-verbal communication religion, education, history, attitudes and values. McGoldrick (2002) has a similar point of view, stating that there is close relationship between retailing and culture.

### 3. BRANDING

The previous section presented an overview of UK retail business, bringing to light key aspects that have influenced its development through time and providing evidence of a highly concentrated and sophisticated business environment.

This section intends to present the concept of branding within a retail business context, in order to understand if traditional branding principles may be related to retail business, and if they may be applied to own labels. This could help to distinguish the role of brands within UK retail business and if there is a relationship with the concept of own labels.

This section is divided into two subsections. The first analyses the evolution of brands from its origins (Egyptian times) and through many centuries, in order to identify key aspects that have influenced its development.

The second studies the brand management process with the aim of distinguishing the role of brands within a retail business context, and possible implications on own labels.

### 3.1 The evolution of brands

The word **brand** is derived from the Old Norse word **brandr**, which means “to burn,” as brands were and still are means by which owners of livestock mark their animals to identify them (Interbrand Group 1999). Elling (1969) mentions that early races of modern man (*Homo sapiens*) began to inhabit the earth about 20,000 B.C. (Before Christ) in the upper Paleolithic period, being nomadic hunters and food gatherers.

He also states that probably the first human civilization developed in Mesopotamia about 4,000 B.C, where the artisans exchanged their handicraft for food, raw materials, and other items; originating trade, and later a commercial revolution across the Mediterranean and the Atlantic regions.

Dary (2001) illustrates the use of brands as marks of identification dates back of ancient Egyptian times, where tombs indicate that cattle were branded as early as 2,000 BC, as a highly effective way to mark ownership of living animals. Mollerup (2002) supports Dary's(2001) point of view, stating that people in those times burnt their cattle with an iron to show their ownership.



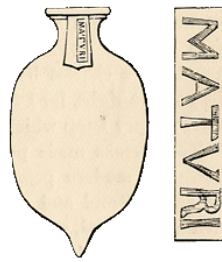
Source: Bergen (1997)

Figure 3.1: Egyptian Hieroglyphics

The use of picture-writing (Hieroglyphics and Papyrus) as a communication system, was a common practice among Egyptians (Wells 1920). Usually,

Egyptians used picture-writing to communicate ideas, actions, words and property ownership (Bergen 1997) (see figure 3.1) and in other cases to show health diagnostics and suggested medical treatments (Intercity Oz 1996).

The history of Greece, gives more evidence about the birth of branding in ancient times; as it illustrates the outstanding development of painting techniques in potters, as a way to identify ownership and names of either painters or potters (see figure 3.2). Folsom (1967) points out some of the chronological stages of Greek pottery painting techniques, initiated with Helladic stage (2800-1100 B.C), where pottery painting was characterized by flowing lines and stripes ; followed by compass-drawn circles and semi-circles in the Proto-Geometric stage (1050-900 B.C) and the birth of the first painter's signature in the Archaic stage (700-480 B.C). Then ended with the Hellenistic stage (323-146 B.C), where plastic decoration was used by potters.



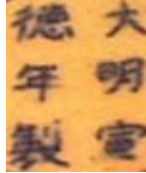
Source: KnowCorp (2002)

**Figure 3.2:** The Amphora Greek Pottery Illustrating the maker's name.

Another evidence about the birth of branding in ancient times, is illustrated by Boulay(1963), stating the development of Chinese porcelain by the Sungand Ming dynasties, around year 1368, mostly using a combination of white and blue colours to distinguish names of Emperors and dynasties (see figure 3.3). Another example given by Boulay (1963) is the evidence of dishes painted with figures, showing that were made only for use in Imperial kitchens.

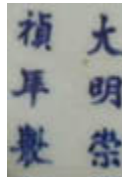


**Transcription: Da Ming Xuande nian zhis**  
**Translation: Made during the Xuande reign of the Great Ming dynasty**  
**(1426-1435)**



Source: Logi.com 2000

**Transcript: Da Ming Chongzhen nian zhi**  
**Translation: Made during the Chongzhen reign of the**  
**Great Ming dynasty**



Source: Logi.com 2000

**Figure 3.3: Marks on Chinese Porcelain**

Allinson (1996) suggests the use “watermarks on paper” by Greeks in the thirteenth century. He also believes “watermarks on papers” was a new technology imported from Italy, and used, by the paper factories, as “trademarks” to distinguish different grades or batches of paper. Later at the beginning of the sixteenth century, in addition to those watermarks, many papers also were given smaller, secondary marks called countermarks (small letters or numbers or shapes usually situated in a corner of the sheet of paper) (Allinson 1996).

In the sixteenth century, primarily as a reaction against the economy and spiritual chaos of the Middle Ages and aided by the Commercial Revolution (the shift of medieval trade centres from the Mediterranean to the Atlantic, the creation of national states, and revival of money economies), mercantilism appeared (Elli 1969).

Elli (1969) has considers mercantilism as the second evolutionary step of marketing, after trade activities in Mesopotamia (first marketing step), mentioning that it was practiced to the time of laissez-faire doctrine and the Industrial Revolution (1730's -1930's).

Keller (2003) indicates that around 1800s British began to settle in North America, leading the practice of branding, especially with tobacco manufacturers, whom recognized that brands help them to increase their sales. According to Keller (2003) by 1915, manufacturers brands became well established in the United States on both regional and national basis; and the marketing of brands became more specialized, between 1929 and 1946; and after World War II the demand for high-quality brands increased considerably around the world.

### 3.2 Brand management process

The previous section analyzed the evolution of brands from its origins (Egyptian times) through many centuries; underlining factors such as the use of picture writing, painting techniques , commercial revolution from the Mediterranean to the Atlantic, and the industrial revolution, as key aspects that have influenced the concept of branding through time.

This section studies the brand management process with the aim of distinguishing the role of brands within a retail business context, and possible implications on private labels.

#### 3.2.1 *Brands as relationship builders*

The purpose of branding is to facilitate the organization's task of getting and maintaining a loyal customer base in a cost-effective manner to achieve the highest possible return on investment (De Chernatony and McDonalds 1998).

The accelerating rate of turbulent change, the volatility of economies and markets, the relentless progress of technologies and innovations, and increasing market fragmentation have caused the destruction of many companies and their products that have failed to develop the lifeline of a strong brand (Temporal 2002).

Temporal (2002) indicates the changing role of brands, going from product focus, through the emergence of marketing orientation, the age of big brands and the realization of brand value (see table 3.1).

**Table 3.1**  
The changing roles of brand management

Marketing trends	Role of brand management
From Industrial Focus to Market focus	Brand Management were force to get closer to and listen to customers
From Tactical thinking to Strategic thinking	Brand Management took a more strategic view and became a more holistic activity, looking at how to project consistent identities and create consistent images in a variety of different situations
From local market focus to global market focus	Brand Management had to achieve the right balance between global identities and local adaptations.
From product management to category management	Brand Management focused at multi-product portfolio and a complex set of positioning alternatives
From product branding to corporate branding	Brand Management focused on added values of trust and the shared synergies of investments
From product responsibility to customer relationship responsibility	Brand Management took responsibility for specific groups of customers (Customer Relationship Management)
From managing the physical brand world to both physical and virtual brand worlds	Brand Management used the internet as an information and commercial tool.
From managing brand performance to managing brand value and equity	Brand Management had to take in account several measures of performance simultaneously.
From financial accountability to social responsibility	Brand Management had to balance between financial and social performance.

Adapted from: Temporal (2002).

Doyle (2001) analyzes the role of brands from two different approaches. The first, regarded to the role of brand as a resource generating value for a company shareholder (rising share prices or dividends); and the second, referred to role of brands as risk reducers, as strong brands should offer lower perceived risk because of higher consumer loyalty and reduced vulnerability to competition.

Jobber (2001) believes the strategic role of brands is based on augmenting a core product with distinctive values that distinguish it from the competition;

and that a brand should be able to offer functional (ease of use) and emotional (confidence) values to customers.

Other authors such as Brodie et al (2002), Anderson and Naurus (1999), and Wilkinson (2001), present a broaden perspective about the role of brands, referring not only to their strategic role as a customer relationship builders, but as relationship builders within the supply chain (manufacturers, retailers and costumers). Anderson and Naurus (1999) identified financial value, category management and end-customer benefits, as three key sources of brand asset value.

### 3.2.2 *Brand building process*

Keller (2003) mentions that a strategic brand management process should include four main steps: identifying and establishing brand positioning and values, planning and implementing brand marketing programs, measuring and interpreting brand performance, and growing and sustaining brand equity (see table 3.2).

Kapferer (2004) illustrates two ways to have a successful brand management process. The first refers to a brand process going from product advantage to intangible values, and the second going from values to products. Elwood (2000) mentions that a brand management process should focus on four contextual elements: competition (tracking the brand footprints of the competition to anticipate movements), internal vision (evaluation of market attractiveness and competitive position), marketing environment (to monitor changes in socio-cultural, technology and marketing trends), and customer needs (to ascertain whether the current brand proposition is still fulfilling the target customers' articulated and latent needs).

**Table 3.2**  
Strategic brand management process

Steps	Key concepts
Identify and Establish Brand Positioning and Values	<ul style="list-style-type: none"> <li>• Mental maps</li> <li>• Competitive frame of reference</li> <li>• Points of parity and points of differences</li> <li>• Core brand values</li> <li>• Brand Mantra</li> </ul>
Plan and Implement Brand Marketing Programs	<ul style="list-style-type: none"> <li>• Mixing and matching of brand elements</li> <li>• Integrating brand marketing activities</li> <li>• Leverage of secondary associations</li> </ul>
Measure and Interpret Brand Performance	<ul style="list-style-type: none"> <li>• Brand value chain</li> <li>• Brand audits</li> <li>• Brand tracking</li> <li>• Brand equity management system</li> </ul>
Grow and Sustain Brand Equity	<ul style="list-style-type: none"> <li>• Brand-product matrix</li> <li>• Brand portfolios and hierarchies</li> <li>• Brand expansion strategies</li> <li>• Brand reinforcement and revitalization</li> </ul>

Source: Keller (2003)

Vinjamury (2004) proposes branding management in an eight step process. Awareness of an issue (identifying brand problems), assessment of the issue and the brand (understanding how the issue is impacting your organization), positioning the brand (determining how a brand differentiate from others), building brand architecture (identifying functional and emotional factors), validating the positioning and architecture (making sure that your positioning and brand architecture will actually be effective with brand users), establishing visual identity(creating new logo or freshening and old logo), developing a key message( delivering the same message over time), and training the organization( employees should understand the importance of branding and act as ambassadors of brand portfolio).

Despite the fact that it is possible to identify different approaches to manage a brand building program, there are some concepts that perhaps are essential and play an important role within any approach, and especially in those companies commercializing their brand portfolio trough retail stores.

### 3.2.3 *Brand equity concept*

One of the most recognized concepts (by academics and practitioners), that help to distinguish factors influencing customer's decisions about brands, is Brand Equity. This brand concept is enormously helpful as it firstly, highlights the importance of brands in marketing activities, and secondly points out the complexity of understanding brands and develop a successful brand planning program (see Aaker 1991; Farquahar 1989; Srivastava and Schocker 1991; and Smith 1991).

There are several definitions of Brand Equity concept. For example Farquahar (1989) defined brand equity as the added value to the firm, the trade, or the consumer with which a given brand endows a product.

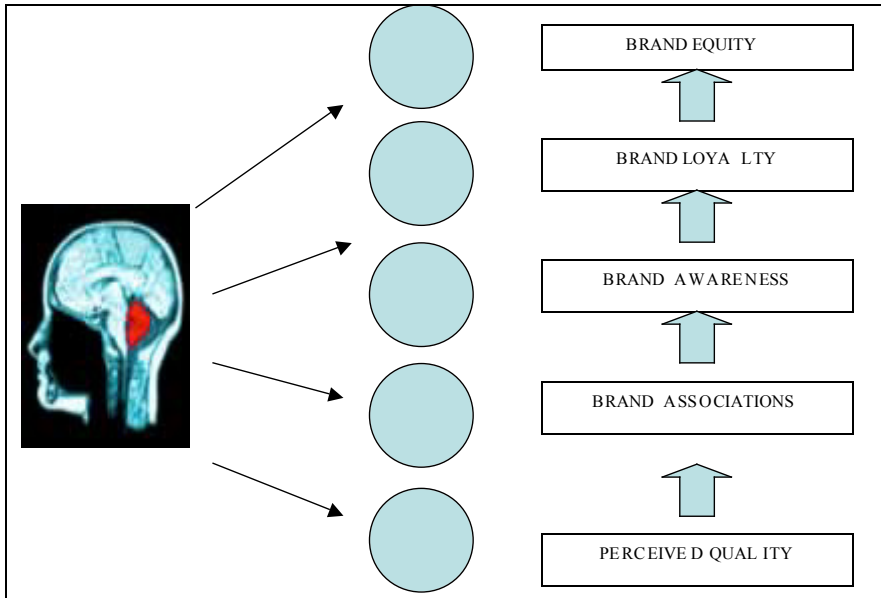
Brodsky (1991) believes brand equity is the sales and profit impact enjoyed as a result of prior years' marketing efforts versus a comparable new brand. Srinivasan et al (2004) have referred to it as the incremental contribution per year obtained by a brand in comparison to the underlying product with no brand-building efforts.

Chou (2002) groups brand equity concept definitions in two sorts: Customer and Financial base definitions. He believes the first group (Customer-based definitions) refers to either the differential effect that brand knowledge has on consumers' responses to the marketing campaign for that brand (see Keller 1993, Lassar, et al 1995) or the implied utility or value assigned to a brand by consumers (see a Kamakura and Rusell 1993). The second group (Financial-based definitions) is related to the value of the brand name as an intangible asset to the firm (see Stobart 1989, Baldinger 1990, Barwise 1993, and Simon and Sullivan 1993).

Aaker (1996) has defined brand equity as:

“A set of assets ( and liabilities) linked to a brand's name and symbol that adds to (or subtracts) the value provided by a product or service to a firm and / or that firm's customers”.

He also believed brand equity concept has four dimensions: brand associations, perceived quality, brand loyalty, and brand awareness (see figure 3.4).



Adapted from: Aaker (1996)

Figure 3.4: Brand equity concept

### Implications of brand image on brand equity

Gardner and Levy (1955) define brand image as the sets of ideas, feeling and attitudes that consumers have about brands. Reynolds and Gutman (1984) suggest brand image is the set of meaning and associations that serve to differentiate a product or service from its competition. Friedman and Lessig (1987) state that brand images should be defined as the consumer's understanding and evaluation of the product.

Faircloth et al (2001) highlight the concept of brand image and its effects on brand equity. They have referred to mental images as a "symbolic process" based on stored experiences in associative memory regarding objects and events. Also have suggested some aspects of brand image analysis:

- The creation of different brand images significantly affects the brand equity measures of purchase intentions and willingness to pay premium prices.
- Firms should create brand images that have been developed and demonstrated to have positive brand equity effects.
- The relevance of brand equity is further strengthened when marketers understand that brand associations can be manipulated to create a specific image.
- Overloading the consumer with brand associations, with the assumption that some of them might be effective, will likely create images that are not desired.

Biel (1992) supports Faircloth et al's (2001) point of view, referring to brand image as a cluster of attributes and associations that consumers connect to the brand name. Biel (1992) also summarizes brand image elements in three components: the image of the provider of the product/service, the image of the user, and the image of the product/service itself (specifying that those components vary by product category and by brand).

He also believes brand images have a strong nonverbal component, based on unique symbols associated with a brand, and automatically accessed from memory as soon as the brand is shown.

Biel (1992) identifies direct and indirect (word of mouth, media reports, etc) personal experience, media advertising, packaging, corporate identity, and public relations as sources of brand imagery; also suggested (based on creating a perceptual map of a brand image and then designing a new map with desired images) that changes in brand image attributes drive changes in brand share.

Paivio (1969) supports Faircloth et al's (2001) and Biel's (1992) point of view, stating that images provide a mental representative of meaning. Roth (1994) also illustrates that the consumer's brand image results from the cumulative effects of the firm's marketing activities.

### 3.2.4 *Brand identity*

Brand identity is how a company seeks to identify itself (Marguiles, 1977).



A company will often use branding strategy as a means of communicating its identity and value to consumers and other stakeholders (Gehani, 2001).

Burmann (2005) believes brand identity can be defined as those sustainable cross-spatiotemporal attributes that determine the essence and character of a brand from the internal perspective; also that brand management when seeking for customer loyalty, should not only rely on brand positioning or brand architecture, but also on brand identity as a way to deliver a company's promise.

Sametz (1998) points out two categories of components of a brand identity system. The first category (elements that company can own) includes a company's name, trademarks, tagline, and logo; the second (elements that a company can't own), includes, imagery, colour and consistent messages

Kapferer (2004) considers identity reflects the different facets of brand long –term singularity and attractiveness, differentiating it from the term brand image, mentioning that the first one (brand identity) is on the sender's side (company) aiming to specify a brand's meaning. The second one (brand image) is on the receiver's side (customer) focusing on the way in which certain groups perceive a brand. He also has mentioned that brand identity should be represented by a hexagonal prism (see figure 8) including several elements as:

- Physique (brand's backbone and its tangible added value)
- Personality (what kind of person a brand would be if it were human)
- Culture (set of values feeding the brand's inspiration),
- Relationship (what a brand symbolises)
- Reflection (an image of the buyer or user of a brand)
- Self-image (target's own internal mirror)

Vardis (1998) refers to brand identity as the core of a brand and the reason why consumers are willing to be loyal to that brand and become the advocates who will bring others to that brand's franchise. The author also suggested that the identity of a brand is structured through careful orchestration by the brand's marketing team including brand managers, advertising agencies, package design team, distribution channels and other and it resides in consumers' brains.

Aaker (1996) define brand identity as a unique set of brand associations that the brand strategist aspires to create or maintain. He has mentioned that these associations represent what the brand stands for and imply a promise to customers from the organizations members.

He has also explained four brand identity traps (see table 3.3) as a way to represent approaches that can lead companies to ineffective and often dysfunctional brand strategies; in the words of Aaker (1996) brand equity consist of twelve dimensions organized around four perspectives:

- Brand as a product: product scope, product attribute, quality/value, uses, users, country of origin.
- Brand as organization: organizational attributes, local versus global
- Brand as a person : brand personality, brand customer relationships
- Brand as symbol: visual imagery/metaphors and brand heritage.

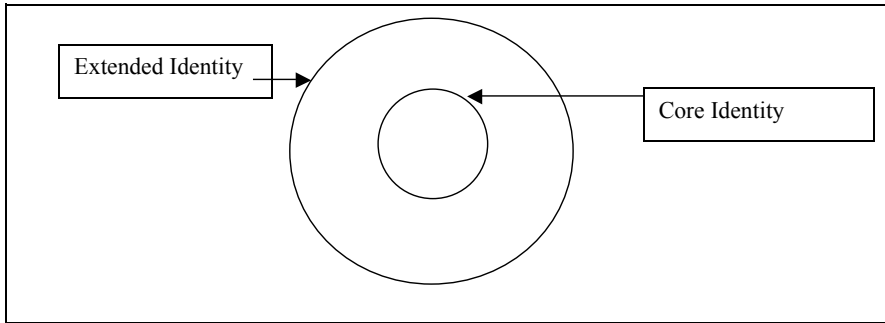
**Table 3.3**  
Brand identity traps

Brand Image Trap	Brand image becomes the brand identity rather than just one input
Brand Position Trap	The part of the brand identity and value proposition that is to be actively communicated to the target audience and that demonstrates an advantage over competing brands
External Perspective Trap	Firms fail to realize the role that a brand identity can play in helping an organization understand its basic values and purpose.
Product-Attribute Trap	The strategic and tactical management of the brand focused solely on product attributes.

Adapted from: Aaker (1996).

Aaker (1996) suggests a brand identity structure that consists of a core and an extended identity (see figure 3.5). In the words of the author, the core identity represents the timeless essence of the brand, containing the associations that are most likely to remain constant as the brand travels to new markets and products; and the extended identity includes elements that provide texture and completeness (product scope, brand personality, subbrands, logo, slogan). He has also recommended that the brand identity needs to provide a value proposition to customers (functional, emotional, and self-expressive benefits) (see table 3.4), also stating that an effective value

proposition should lead to a brand-customer relationship and drive purchase decisions (see table 3.4).



Adapted from Aaker (1996).

**Figure 3.5: The Brand Identity Structure**

**Table 3.4**  
Brand benefits

Brand Benefits	Characteristics
Functional	Benefits based on a product attribute that provides functional utility to a customer
Emotional	Benefits based on positive feelings.
Self- Expressive	Benefits based on providing a way for a person to communicate his or her self-image

Adapted from Aaker (1996).

### 3.2.5 Corporate branding

Argenti and Druckenmiller (2004) define corporate branding as the process in which a company markets itself as a brand, in terms not only of products, but on services and customers’ experience.

Inskip (2004) believes that from the last 15 years corporate branding has evolved from being seen simply as the consistent application of strong graphic design into a philosophy and a process of organizational change.

Hatch and Schultz (2003) states:

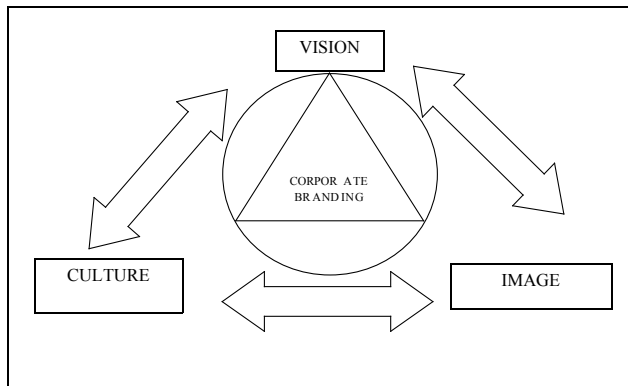
“Corporate branding contributes not only to customer-based images of the organization, but to the images formed and held by all its stakeholders, including: employees, investors, suppliers, partners, regulators, special interests, and local communities.”

Hatch and Schultz (2003) also analyze how corporate branding differs from product branding (see table 3.5), presenting a corporate branding model, which includes simultaneously the concepts of organizational culture, strategic vision and corporate images (see figure 3.6).

**Table 3.5**  
How corporate branding differs from product branding

Characteristics	Product brand	Corporate brand
Focus attention on	The product	The company
Managed by	Middle manager	CEO
Attract attention and gain support of	Customers	Multiple stakeholders
Delivered by	Marketing	Whole company
Communications mix	Marketing communications	Total corporate communication
Time horizon	Short (life of product)	Long (life of company)
Importance to company	Functional	Strategic

Adapted from: Hatch and Schultz (2003).



Adapted from: Hatch and Schultz (2003).

**Figure 3.6:** Corporate branding model

Knox and Bickerton (2003) states:

“Corporate branding draws on the traditions of product branding in that it shares the same objective of creating differentiation and preference; however, this activity is rendered more complex by managers conducting these practices at the level of the organization, rather than the individual product or service, and the requirement to manage interactions with multiple stakeholder audiences.”

They also have summarized the corporate branding models in two categories: macro models and micro models; the first group incorporated aspects as corporate personality, and identity and image (see Abatt 1989; Dowling 1993). The second group involved aspects as vision, culture and image. (Hatch and Schultz 2001; Rindova 1997; Balmer 2000)

According to Schultz and de Chernatony (2002) corporate branding is key concept to any organization, as it involves the whole organization, shapes the future direction of the company and is founded in internal –external stakeholders activities.

Van Riel and Berens (2003) believe the increased importance of corporate branding is related to development in the marketing field as a whole. The first development mentioned by them is the Internet, which has helped customers to gather information about what is available in the market. The second refers to the advances in information technology making possible for companies to track the preferences of individual customers.

Van Riel and Berens(2003) differentiates corporate associations from product associations, based on the content of associations. They believe product brand associations only relate to product quality, while corporate brand associations also relate to other types of social role that a company as a whole has.

Schultz and Kitchen (2004) suggest a physical metaphor “the corporate umbrella” to explain how corporate branding and communication programs are important for organizations. Schultz and Kitchen (2004) also believe companies should protect not only all the individual brands and customer relationships, but communicate to all stakeholders what the organization stands for.

They consider that views and behaviour of stakeholders impact overall corporate performance; and believed companies should reflect the values of its people, its products, its management, and its stakeholders.

Burt and Sparks (2002) indicate many retailers are cultivating an overall brand identity, which increasingly provides the degree of differentiation in the (domestic) market place. However, they have pointed out that corporate branding in international operations can be a risky activity, as retail macro environment differ among countries, therefore it is possible to find important differences in consumer characteristics, behaviours, legislative infrastructure and existing competition.

Schultz and de Chernatony (2002) support Burt's and Spark's (2002) point of view, stating:

“In global context, companies are confronted by the dilemma of creating coherent and centralized corporate brands, encouraging the likelihood of similar brand experiences across national boundaries, or adapting their brands to local cultures.”

#### **4. OWN LABELS: A SOURCE OF COMPETITIVE ADVANTAGE IN RETAIL BUSINESS**

The previous section focused on the concept of branding within a retail business context, suggesting the importance of implementing traditional branding principles to retail business and own labels.

This section focuses on the analysis of the different types of own labels, in order to understand in depth the phenomenon of own label. This will contribute to explore the nature of the different types of own labels in the UK retail business.

This chapter is divided into three sub-section: the first analyzes the history of own labels in the United Kingdom, focusing on their early stages in 1900s, and then examining their development through present day. This analysis will help to identify key aspects that have influence the birth of different types of own labels.

The second section studies the classification and different types of own labels, with the intention of understanding in depth the concept of own labels.

The third section evaluates the role of own labels in retail business, helping to understand their performance in retail business.

#### **4.1 History of own labels in United Kingdom**

This sub-section analyzes the history of private labels in United Kingdom, focusing on their early stages in 1900s, and then examining their evolution through present day. This analysis will help to identify key aspects that have influence the birth of the different types of own labels

The term “own label brands” which is also referred to as “private brands”, “store brands”, “retailer brands” or “house brands”, is defined as consumer products produced by, or on behalf of distributors and sold under the distributor’s own name or trademark through the distributor’s own outlet ( EIU 1968). Morris (1979) defines own labels as consumer products produced by or on behalf of, distributors and sold under the distributor’s own name or trademark through the distributor’s own outlet.

Own labels began around 1900, pioneered by retailers such as A&P, Safeway and Kroger (Hoch and Banerji 1993). Burt (2000) has a similar point of view, mentioning that the development of own labels started in the twentieth century, offering the consumer a lower quality product alternative for a lower price.

Omar (1999) believes own labels started to be widely noted around 1960s, especially in packaged grocery markets. He states that little attention was given to own labels growth until 1970s, when it was acknowledge that few product markets had escaped significant inroads from own labels.

As time passed (1980s) and the number of retail stores expanded, own labels replaced commodity products (generic brands) which were sold in basic packaging (Gilbert 2003). Gilbert (2003) states that this occurred at a time when there was little differentiation in the market, several similar products, economic conditions that made consumers more price conscious, while at the

same time own labels were improved in relation to their quality and packaging to such an extent that they became brands in their own right.

In the 1990s retailers recognized that the most successful own labels tended to offer more than a price reduction (Omar 1999). Dunne and Narasimhan (1999) support Omar's (1999) point of view, by mentioning that, in the same period, some retailers around the world (e.g. Safeway, Wal-mart and Mark& Spencer) realized that many consumers have the willingness to pay extra money for higher quality, and they wanted to capture a share of that spending by offering premium own labels.

Laaksonen and Reynolds (1994) believe own labels can be categorized into four generations, generic brands, own labels, own brands and extended own brands (see table 4.1). They also group and compare each of the types of own labels to different variables such as strategies, objectives, technology, quality/image, and pricing and suppliers; also identifying differences among each of the types of own labels.

It can be noticed from table 4.1, that the birth of different types of own labels have changed the aim of own labels, focusing not only on increasing category margins, but on retaining an enhancing the number of clients, and improving retail image to differentiate from competition.

**Table 4.1**  
A typology of retail brands

	1 <sup>st</sup> Generation	2 <sup>nd</sup> Generation	3 <sup>rd</sup> Generation	4 <sup>th</sup> Generation
Type of brand	<ul style="list-style-type: none"> <li>• Generis</li> <li>• No name</li> <li>• Brand Free</li> </ul>	<ul style="list-style-type: none"> <li>• "quasi-brand</li> <li>• own label</li> </ul>	<ul style="list-style-type: none"> <li>• own brand</li> </ul>	<ul style="list-style-type: none"> <li>• extended own brand, i.e. segmented own brands</li> </ul>
Strategy	<ul style="list-style-type: none"> <li>• generics</li> </ul>	<ul style="list-style-type: none"> <li>• cheapest</li> </ul>	<ul style="list-style-type: none"> <li>• me-too</li> </ul>	<ul style="list-style-type: none"> <li>• value-added</li> </ul>
Objective	<ul style="list-style-type: none"> <li>• increase margins</li> <li>• provide choice in pricing</li> </ul>	<ul style="list-style-type: none"> <li>• increase margins</li> <li>• reduce manufacturers' power by setting the entry price</li> <li>• provide better-value product (quality/price)</li> </ul>	<ul style="list-style-type: none"> <li>• enhance category margins</li> <li>• expand product assortment, i.e. customer choice</li> <li>• build retailer's image among consumers</li> </ul>	<ul style="list-style-type: none"> <li>• increase and retain the client base</li> <li>• enhance category margins</li> <li>• improve image further</li> <li>• differentiation</li> </ul>



Product	<ul style="list-style-type: none"> <li>• basic and functional products</li> </ul>	<ul style="list-style-type: none"> <li>• one-off staple lines with a large volume</li> </ul>	<ul style="list-style-type: none"> <li>• big category products</li> </ul>	<ul style="list-style-type: none"> <li>• image-forming product groups</li> <li>• large number of products with small volume (niche)</li> </ul>
Technology	<ul style="list-style-type: none"> <li>• simple production process and basic technology lagging behind</li> <li>• market leader</li> </ul>	<ul style="list-style-type: none"> <li>• technology still lagging behind market leaders</li> </ul>	<ul style="list-style-type: none"> <li>• close to the brand leader</li> </ul>	<ul style="list-style-type: none"> <li>• innovative technology</li> </ul>
Quality/Image	<ul style="list-style-type: none"> <li>• lower quality and inferior image compared to the manufacturers' brands</li> </ul>	<ul style="list-style-type: none"> <li>• medium quality but still perceived as lower than leading manufacturers' brands</li> <li>• secondary brand alongside the leading manufacturers' brand</li> </ul>	<ul style="list-style-type: none"> <li>• comparable to the brand leaders</li> </ul>	<ul style="list-style-type: none"> <li>• same or better than brand leader</li> <li>• innovative and different products from brand leaders</li> </ul>
Approximate pricing	<ul style="list-style-type: none"> <li>• 20% or more below the brand leader</li> </ul>	<ul style="list-style-type: none"> <li>• 10-20% below</li> </ul>	<ul style="list-style-type: none"> <li>• 5-10% below</li> </ul>	<ul style="list-style-type: none"> <li>• equal or higher than known brand</li> </ul>
Consumers' motivation to buy	<ul style="list-style-type: none"> <li>• price is the main criteria for buying</li> </ul>	<ul style="list-style-type: none"> <li>• price is still important</li> </ul>	<ul style="list-style-type: none"> <li>• both quality and price, i.e. value for money</li> </ul>	<ul style="list-style-type: none"> <li>• better and unique products</li> </ul>
Suppliré	<ul style="list-style-type: none"> <li>• national, not specialised</li> </ul>	<ul style="list-style-type: none"> <li>• national, partly specialising to own label manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>• national, mostly specialising for own brand manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>• international, manufacturing mostly own brands</li> </ul>

Source: Laaksonen and Reynolds (1994).

## 4.2 Classification of own labels in the United Kingdom

Section 4.1 reviewed the development of own labels, highlighting their level of sophistication as value-added products, in today's market. This section (4.2) studies the classification and different types of own labels, with the intention of understanding the concept of own labels.

A number of different types of own labels have been identified in retail business. For example, Levy and Weitz (1992) group own labels into four categories:

- *Bargain*: Known as a generic or house brands. Generally is perceived by the consumer as lower quality, and its trade dress identifies it as a brand of a retailer. Its value comes from neutralizing competitors who may gain and advantage from discount pricing and by serving a secondary market segment whose patronage potentially leads to collateral sales.
- *Copycat*: Imitates the manufacturers brand in appearance and trade dress, generally is perceived as lower quality, and is offered at a lower price.
- *Premium*: Offers the consumer a private label at a comparable manufacturer-brand quality, usually with modest price savings. The premium private label attempts to mach or exceed the product quality standard of the prototypical manufacturer brand in its category.
- *Parallel*: Represent private labels that closely imitate the trade dress and product attributes of leading manufacturer brands but with a clear articulated “invitation to compare” in its merchandising approach and on its product label.

Other classification is provided by Gilbert (2003):

- *Generic*: simple low-cost plain packaging with no branding but may have the retailer’s name. Typically unadvertised and offered as a lower grade alternative purchase.
- *Price-led retailer brand*: the name of the retailer is shown and the packaging is designed overtly to communicate the impression of value and of lower price. The strategy is based upon providing better value than the manufacturer brands and to reduce their power by setting a lower price.
- *Quality-led own-brand*: the packaging is designed to reflect product quality and to compete directly with established manufacturer brands.
- *Exclusive own brand*: this is manufacturer based and produced to be sold through one agreed retailer. This is a selective niche strategy often based upon differentiation in order to achieve higher margins.

Despite the fact that private labels are categorized differently, virtually all grocery retailers involved in retailer brands in UK have consistently upgrade their range from the starting point of the traditional lower-price /lower-quality retailer brand, to the offer of a high-quality/value-for-money retailer brand ( Burt and Davis 1999).

#### 4.2.1 *Generics*

Generics are commonly perceived by the consumer as lower quality products (see Gilbert 2003; Levy and Weitz 1992). The mayor attraction of generic products to the consumer is the significant price differential between generic products and their branded equivalent (Gerard and Norman 1997). Other authors (see McGoldrick 1981; Yucelt 1987) show more evidences stating that a low price as an important reason to buy generic products.

Wheatley (1980) suggests a positive correlation between price and the perceived difference in quality. He also believes that when the difference in quality was perceived to be great, there was a higher tendency for consumers to purchase the higher priced brand.

Despite the fact there is evidence of consumers' perception of low quality of generic products, it may not be appropriate to make any rash generalizations of generic products as a category, as some generics relative to other generic products, perform poorly and well on different circumstances and also with elements of the marketing mix (Gerard and Norman 1997). Other authors such as McEnally and Hawes (1984) have a similar point of view relating generic products to variables such as incomes; they found that generic buyers tended to come from middle rather than low income groups. They explained this behaviour of low income groups, as a way to avoid of being recognized as a lower status group.

Grazin (1981) for example found that generics buyers were more likely to come from the young to middle-aged group. Others (see Kono 1985; Faria 1979) argued this point of view mentioning that since generics were served in a wide range of product categories, people of all ages could consume and therefore age had become and insignificant factor in segmenting the generic market.

Omar (1999) indicates that generics allow retailers (especially large stores) to expand by broadening the range of customers who may be attracted to their stores, and helping them to keep in line with a strategy of one-stop shopping experience (mentioned previously in chapter 2-Retail Business). He also has summarized some of generics' strengths and weaknesses (see table 4.2).

**Table 4. 2**  
Generics- Own labels

Strenghts	Weaknesses
Accepted by retailers as an option for the consumer, and have enabled retailers to secure a significant increase in the share of the market held by private labels	The market for generics has matured. Therefore, retailers who have been followers have been unable to match the sales levels of those who were first in their market to introduce generics
Successfully expanded product lines, thus providing the consumer with a wide array of choices in terms of price and quality	Overall, generics have not contributed to a category growth and sales have basically been at the expenses of national brands and in some cases has had and adverse affect on the retailer's gross profit.
With tight inventory controls, annual inventory turns for generic items can be 50 per cent higher than those of non-generic products	Without tight inventory controls, generic can have and adverse impact on the retailer with regard to inventory carrying costs.

Source: OMAR (1999).

Despite the fact that some authors (Omar 1999) believe generics have had good performances in retail business, others as Fernie and Pierrel (1996) consider that in the UK generics were less successful than other countries ( e.g, France). They explain that situation as a result of generics' austere packaging, out of context with the better image of national brands, with which the British consumer was familiar. They also believe that generics made a minor impact in the market at this time of economic recession but were soon to disappear as the UK grocery retailers began to develop their own brands in the 1980s and 1990s.

#### 4.2.2 *Premium*

Own labels were traditionally considered as low quality products. However the desire of retailers to match consumers needs leded them to increased cooperation with manufacturers and introduced private labels with the same or

higher quality than national brands, named as premium private labels (Apelbaum, et al 2003). Winningham (1999) has a similar point of view adding that the competitive environment among retailers has made them centred not only on retail locations, economies of scale and store traffic, but on building a differentiated position throughout high quality-private labels.

According to Richardson et al (1994) own labels market share is largely dependent on the degree to which retailers are successful in communicating a quality rather than a low price image to consumer. Once positioned (own labels) on the basis of price or value for money, store brands are now marketed by many firms using a “quality” focus (Richardson 1999).

Dick et al (1996) recommend when making quality judgments consumers employ direct and indirect indicators of quality. They believe direct indicators include items such as product ingredients, taste, and texture all of which relate to physical properties of the product; and indirect indicators are those product-related cues which are not part of the physical product such as price or brand name.

They also leded a research about how consumers evaluate store brands, identifying that “brand name” and “price” play an important role in consumer’s perceptions of store brand quality; concluding the following:

- If a brand name is a primary cue, consumers utilize in quality assessment, therefore store brand managers might take advantage of this tendency by investing in advertising and promotion, in order to familiarize consumers with store brands, and probably improve consumers’ expectations regarding to private labels.
- Lower prices may affect negatively retailers, as some consumers may view store brand prices as a “signal” that store brands are of inferior quality.
- On the one hand national brands are difficult to use to build store loyalty, as they can be bought anywhere; On the other hand store brands are exclusive to a store or chain. Therefore store brands effectively marketed, may build greater store loyalty and traffic.

### 4.2.3 *Copycat*

Copycat commonly imitate the manufacturers brand in appearance and trade dress. Levy and Weitz (1992) believe that the closer two products are in form, logo, labelling, and packaging, the more they are perceived as substitutes.

Kapferer (2004) considers that “copycat” approach borders on trademark infringement, and some times gives rise to court cases brought by producers complaining of either an infringement of their brand copy-right or unfair competition. He also has mentioned that the aim of this approach (copycat) is to confuse inattentive consumers into choosing retailers’ brand instead of manufacturers’ brand, and then retain their loyalty.

Davies (1998) has a similar point of view when referring to copycat products, stating that they not only can generate confusion among customers, but can appropriate the “identity” of the leading brands with which they compete. He has conducted a survey among users of hair shampoo in the UK, comparing two well known brands, Timotei from Unilever and Vidal Sassoons’ Wash and Go were compared with Sainsbury’s “Frequent Use” and “Tesco’s “2 in 1”. (The presentation of “Frequent Use” and “Timotei” were similar, as well as “Wask and Go” and “2 in 1”)

In his survey fifty people were asked to relate products to cartoon characters, responding similar symbolic associations among compared products. In the words of Davies (1998), it appears that retailers could appropriate the “identity” of the leading brands with which they compete. He also highlights the fact that if true, a moral issue could arise, as the public becomes conscious of the concept of “theft of identity” and may wonder about the values of the retailers.

### 4.3 The role of own labels within retail business

In section (4.2) was possible to identify the different types of own labels highlighting the importance of each of the type of own labels, as a retail strategy to match different consumer needs.

This section evaluates the role of own labels in retail business, focusing not only on the performance of private labels, but on their effects on retailers' strategies. This will contribute to understand the performance of own labels in retail business.

According to McGoldrick (2002) the overall objective of own labels is to achieve competitive advantage. McGoldrick (2002) also believes the potential advantages to the retailers can be classified as relating to: store image-customer loyalty, competitive edge-turnover, and higher profits-better margins (see table 4.3).

Gilbert (2003) supports McGoldrick's (2002) point of view, stating that the commercialization of own labels may have certain advantages:

- Own-brands could improve store loyalty.
- Own-brands can be used as a co-ordinated range or positioned to fill gaps left by the competition.
- Own-brands could lead to higher profits through increased sales and the ability to achieve high margins.

Burt (2000) has a similar point of view, identifying key factors in own label development in UK, which in his opinion; makes it different from other countries. He considers retail business in UK (grocery sector) has evolved from traditional trading based relationships, characterized by conflict and negotiation (primary over price, promotional support, payment, and delivery terms) to the more integrative, constructive and co-operative relationship with manufacturers.

Berges et al (2003) points out that the phenomenon of own labels does not only change the relationships between producers and retailers, but also affects competition between retailers, because own labels are and additional way of differentiating between retailers. He believes published reports about own labels, mainly deal with cases of relationship between producers and retailers, but less frequently with cases between retailers.

**Table 4.3**  
Advantages of own labels for retailers

<p><b>Store image/ customer loyalty:</b></p> <ol style="list-style-type: none"><li>1. Good value enhances store image.</li><li>2. Build relationship of trust and credibility.</li><li>3. Control over relationship with customer.</li><li>4. Good value builds loyalty to the store and own brands.</li><li>5. Increase loyalty, even if temporary stockout.</li><li>6. Own brand may be perceived as equal to or better than manufacturers' brand.</li><li>7. It is widely assumed that own brands are made by leading manufacturers.</li><li>8. Own brands can give a distinctive corporate image.</li><li>9. Own brands carry the retailers' name into the consumer's home.</li><li>10. Retailer advertising can benefit both the stores and the own brand.</li><li>11. Better design co-ordination can be achieved between the stores and the products.</li></ol>
<p><b>Competitive edge/extra turnover:</b></p> <ol style="list-style-type: none"><li>1. Advantage over competition with no own brand.</li><li>2. Offer benefits distinct from competitors.</li><li>3. More control of product specification and quality.</li><li>4. Allows more retailer-led product innovation.</li><li>5. More control over composition of product range.</li><li>6. Can exploit gaps in the category.</li><li>7. Imitation styles can be introduced quickly.</li><li>8. Own-brand products cannot be obtained elsewhere.</li><li>9. Can be sold at lower prices.</li><li>10. More scope for differential pricing.</li><li>11. Offer more price variety to the consumer.</li><li>12. Inducement to use the store, leading to other purchases.</li></ol>
<p><b>Higher profits/better margins:</b></p> <ol style="list-style-type: none"><li>1. Margins tend to be 5-20 per cent better.</li><li>2. Manufacturers' promotional expenses are avoided.</li><li>3. Display space can be manipulated to better returns.</li><li>4. Sales can be promoted by placing own brands next to major brands.</li><li>5. Tighter stock control is usually possible.</li><li>6. There is more control over pricing.</li><li>7. Exporting can increase buying power/ economies of scale.</li><li>8. Favourable buying terms occur where excess supply capacity exists.</li><li>9. They can help to break down manufacturers' hold of certain markets.</li></ol>

Source: McGoldrick (2002).

Berges et al (2003) also have highlighted that the penetration of own labels vary from country to country, as it can be influenced by different factors related to the supply (structure of supply, ease of entry, innovation policy,



etc) and other to the characteristics of demand. Additionally they mention that the more concentrated the retail sector, the bigger the market share of own labels.

Evidence of the previous analysis is shown (see table 4.4) by ACNielsen (2005) report, in which it can be noticed that there is a direct relation between retail concentration and own shares.

**Table 4.4**  
Retailer concentration of the most developed private label markets  
First-Quarter -Year 2005

	Country	Region	Private label share	Retailer concentration
1	Switzerland	Europe	45%	86%
2	Germany	Europe	30%	65%
3	UK	Europe	28%	65%
4	Spain	Europe	26%	60%
5	Belgium	Europe	25%	80%
6	France	Europe	24%	81%
7	Netherlands	Europe	22%	64%
8	Canada	North America	19%	62%
9	Denmark	Europe	17%	89%
10	United States	North America	16%	36%

Source: AcNielsen (2005).

Consistent with the previous analysis, it should be important to consider the role of own labels not only as another brand, but as a strategic tool, for retailers, to differentiate from competition. Hoch and Banerji (2003) conducted a cross-sectional study of 180 categories in USA supermarkets, identifying the drivers of own labels performance from a consumer, retailer, and manufacturer perspective; finding that the expectations and actions of this three set of players interact to affect own labels success.

In the words of Hoch and Banerji (2003), the needs, expectations, and behaviour of consumers define the demand side; retailer allocation decisions affect the supply; and the number, competitiveness, and actions of manufacturers of national brands affect the environment within which own labels compete.

When analyzing consumer perspective about own labels, Hoch and Banerji (1993) propose two dimensions of quality: The main level of quality relative to that of national brands (depends on technological barriers in manufacturing), and the variability in quality (depends on the difficulty of implementing reliable, low-defect manufacturing).

Moreover, they have explained the determinants of own labels success in six variables: product quality, quality consistency, category retail sales, category gross margin, number of national manufacturers, and national advertising per manufacturer. Also have summarized the implications of these variables on retailers as:

- The strong relationship between own label quality and share confirms the trade press contention that the quality of own labels is a key element in success.
- Retailers should think twice before offering a own label in a category where current technology prevents them from getting close to the national brands.
- Retailers efforts to upgrade the overall quality of own label programs deserve careful attention, as in many categories consumers have sufficient familiarity with product benefits and attributes to make informed quality judgements.
- Retailers are less like to succeed with own labels in categories where manufactures have made substantial advertising commitments to bran equity and where there are many branded players. This affirms the view that advertising continues to play a vital competitive role for manufacturers in establishing brand preference among consumers and differentiating brands from lower prices threats.
- The presence of many manufacturers in a category also intensifies competition in a variety of ways, the net result being a lower probability of own label success.

## 5. SUMMARY AND CONCLUSIONS

In this article was also possible to identify own labels, not only as brands that compete with national brands, but as tools to achieve competitive advantage. In addition, as a key player in retail business, which its development has changed the level of relationship among the supply chain; from traditional trading to more integrative, constructive and co-operative based. It seems evident that own labels have an important role within UK retail business, not only contributing to build store loyalty, but as a way to differentiate in a high competitive market.

In particular, attention was drawn to the different types of own labels and their implications on retail operations; bringing to light evidence of a range of own labels, initially perceived by the consumer, as lower-quality/low-price products, and then viewed as high-quality/ value-for money retailer brands.

It was also possible to notice that the different types of own labels not only involve changes on consumers perceptions, but as a retail strategy to match consumer needs and differentiate in a highly competitive environment, in which variables such as strategies, technology, quality and image influence retail decisions.

This paper has provided a theoretical background literature of retail business, branding, and own labels, in order to highlight the role of own labels as a source of competitive advantage in retail business.

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