

Conceptual Approach on Private Label Brands

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ABSTRACT

The Indian retail era is witnessing the migration of trade activities from the national brand to phantom brand in the past decade. In spite of economical and political fluctuations, the Indian retail has emerged with promising sign of growth in Private label branding. The current study tries to correlate the economic theory with private labeling as the customer preference of private label is the secret of level success in Indian retail. The initial chapter provides fundamental information about private labeling. Chapter two enlists the literature review. Chapter three endorses the application of revealed preference theory of consumer behavior for private labeling. Chapter four envisages the mechanism of private labeling and the last chapter concludes with the road map of private labeling in Indian retail.

Keywords: *Private Label, Revealed preference theory, retail sector, consumer behavior*

INTRODUCTION

The liberalization policy has been extended to multi-branding in Indian retail and the structural transformation of customer preference, are the twin forces which made a drastic changes in the private labeling.

The term private label brand refers to 'The retailer is expressing ownership for the products or services produced or rendered by another manufacturer or service provider by fixing his logo'.

The evolution of private label branding started from western side and extended to Europe. But it is new to Asian countries. As a matter of fact contribution of Europe is more than 40 percent in retail but 1 percent in China. However, India exceptionally reached 7 percent contribution in the retail sector. This paved way for many studies on private labels, to expose the evolution, activities, impacts and methods to adopt the private labeling. The crucial factor for the scope of any private labeled product is the customer preference on brand name rather than the quality of the product. For instance, an individual hesitate to make a purchase in platform shop or any local shop as his interest is more

on the ambience of retail shop. The modern retail outlets rightly identified the pulse of the ideal customer and furnishing the shelves with canned or packed items which are axioms of private labels. Today, the private label branding incarcerates the selective national brand products which may continue to other products. This is not a new logic or strategy for India. In the last century, in the medical field, sophisticated private labeling on human resources has happened. In olden days, he who Know both, how to diagnose the disease and how to prepare the medicine are doctors. Indian medical treatments are done by the doctors who are basically pharmacist. But today, the consultant of medical field are called doctor who does not know how to prepare a medicine but the manufacturer of medicine are not doctors and who is preparing the medicine are called paramedical persons and not doctors.

LITERATURE REVIEW

Paul Samuelsson (1938). There are number of theories are available with the consumer behavior. The effective theory of consumer behavior is the revealed preference theory. He explained the theory of behavior with preference factor of the consumer. For the study about the demand for the private label items, the logic of revealed preference theory can be applied as it exhibits that the purchasing habits of the individuals are the key factor to reveal the preference of them¹³.

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The book on Retail management – Principles and Practices, edited by R. Sudarshan.(2007). The author specified that the retail sector has reached a critical stage as stores in modern formats have emerged in even in II tier and III tier cities. However the major volume of sales are still under traditional retail ways.¹⁴

John Fernie and Leigh Sparks, (2007) he their book, expressed that the current status of retail sector envisages many challenges and these challenges are to be faced by the marketing strategy, supply chain management techniques. Secondly, private label branding is considered to be the right method to improve the modern retailing outlets.⁶

Nirmalya Kumar and Jan-Benedict E.M,(2007) in their book, they analyzed how to face the challenges of store branding, particularly the strategy of private¹⁰

Ralph Blessing (2009) in his article he explained the stages of developing the private label and Major key factors for private label branding.¹²

Anupam Narula (2010), in her research findings narrated as “Many of the buyers feel there is a difference in the quality of the products which comparing the national and private brands as the modern retail outlets are providing special attention for store brands and the actual manufacturers has given up the contact with ultimate consumer”.¹

Chandrachud .S, (2012)in his research article, the impact of FDI in the organized retailing in India is clearly pronounced, as the need for the hour to implement the private labeling in the modern retail outlets.³

Chandrachud . S, (2012) in his research article, has expressed the current status of Indian retail sector by answer the question, why India is facing problem in implementing the FDI in retail sector.⁴

Jubin Mehta, (2015)in his research article expressed the evolution of modern retail outlets and their initial funding with marketing strategy, Particularly, Big Basket, DogSpot, MyNutraMart etc⁸

Andres Cuneo et al.(2015) in their research article, expressed the measurement of growth in the private label. They also analysed the retail distribution structure, typology and methodology of private label brands.²

Naimi K. Shapiro, (2016), in his articles, he listed out both the advantages and disadvantages of private label branding.⁹

Osman M Zain and M.B.Saidu (2016) There are three factor in retailer’s brand influencing the customer, Product satisfaction, Product risks and Product quality¹¹

John Quelch and David Harding (1996) The twin reasons of retailer’s overreaction are firstly the power of the private label varies with economic conditions and National brand has been challenged through consumer packaged goods⁷

According to India Brand Equity Foundation report of January 2016, the total outlay of Indian retail sector is 600 billion US dollars. Due to private labeling it may reach 1300 billion (1.3 trillion)⁵

Theoretical Approach for private labeling: In the revealed preference theory, Professor Paul Samuelsson has explained the consumer preference, out of the purchasing habit of the customer. He figured out the theory with two bundles of goods. Instead of bundles of goods, if we apply the revealed preference theory for two brands, say private label brand and national brand.

Let **a** be the private label brand and **b** be the national brand. The two dimensional approach articulates as, With a budget constraint of B for two different brands; $X = X_1, X_2$ and their respective selling cost be (c_1, c_2) and income m , then let private brand **a** be $(x_1, x_2) \in B$ and national brand **b** be $(y_1, y_2) \in B$.

The present condition can be arithmetically expressed by inequality

$$c_1 X_1 + c_2 X_2 \leq m,$$

In graphical terms the budget line is positive real numbers.

Presuming that the preference for the brand, have to believe that graphically positioned on financial line, it may be concluded that both

$$c_1 X_1 + c_2 X_2 = m \quad \text{and} \quad c_1 Y_1 + c_2 Y_2 = m$$

are satisfied. Under this circumstances, it is to be noted that (x_1, x_2) is selected over (y_1, y_2) , which indicates the private brand (x_1, x_2) is directly revealed the preference to (y_1, y_2) .

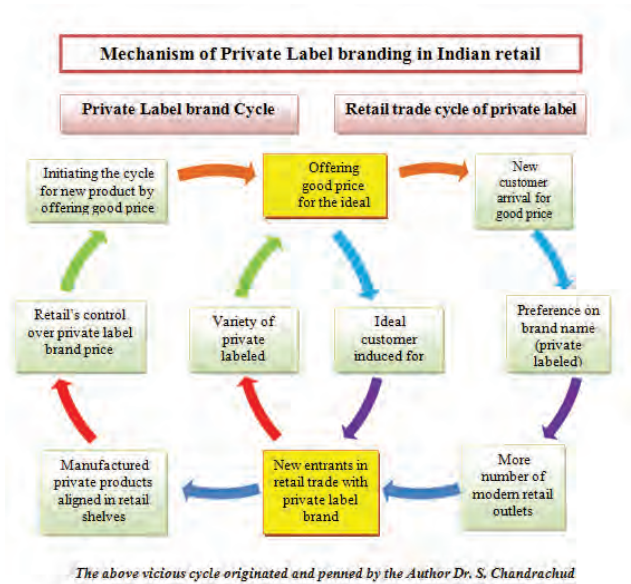
This can be expressed in binary equation $(x_1, x_2) \geq (y_1, y_2)$.

In other way,

$$a \geq b.$$

i.e., Private brand is chosen over the national brand with the given presumption of revealed preference and budget constraint.

Mechanism of private Labeling: The axiom of private label branding is divided into two categories, either allowing the third party to manufacture the product in the name of own branding or contract with the national brand manufacturer of the product to use the retailers brand. The mechanism of private label branding can be explained with process cycle of private label in retail trade.



Private label brand cycle: There are six stages in the private label brand cycle

- Stage 1: *Offering good price for the ideal customer*
- Stage 2: Ideal customer induced for private brand
- Stage 3 : **New entrants in retail trade with private label**
- Stage 4 : Manufactured private products aligned in retail shelves
- Stage 5 : Retail’s Control over private label brand price
- Stage 6 : Initiating the cycle for new product by offering good price

Retail trade cycle of private brand label

There are six stages in the retail trade cycle in private label.

- Stage 1: New customer arrival for good price offer
- Stage 2: Preference on brand name (private labeled)
- Stage 3: More number of modern retail outlets
- Stage 4: **New entrants in retail trade with private label**
- Stage 5: Variety of private labeled products
- Stage 6: *Offering good price for the ideal customer*

CONCLUSION

The business chain of private labeling is different from the national brand as the existing and new entrant of retail industries are approaching in technical way. The final stage of retail trade is the initial stage of private label stage and entry of new retailer are giving momentum for the retail trade velocity. The success of private label in Indian trade achieved through four phases. In the first phase they offered optimum price to customer. The second phase is continued with the concentration on the quality of the product. In the third stage, emergence of number of modern retail outlets not only in metropolitan cities but also in II tier and III tier cities and finally, they try to reach wide range of product right from pin to port. As on date, India is the best destination for retail trade at world level and day by day, the number of new entrant in retail sector are increasing. This result in, the share of retail sector for GDP is 40 percent and also 35 percent of total employment at national level. The new strategy for the private labeling is category management which may lead to price leadership as the Indian retail market may be converted into oligopoly market. There will be few retail giant going to dominate the entire Indian retail in the days to come.

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Ethical clearance: Completed

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