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Future of Private Labels in India - Challenges Ahead

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ABSTRACT
Emergence of private labels in India is due to immense growth of organized retail. Lower prices and consequentially higher profit margins are the major benefits of private labels. The competition and challenges faced by private labels in changing retail scenario are discussed in the paper below. Private labels should be treated at par with national brands. And the efforts to be taken by retailers in terms of branding, packaging and promotion are crucial and vital. The share of private labels in the success of retail sector should be structured.

Introduction

Private labels are flooding not only the Indian markets but also the world market. Private label products and services are those manufactured or provided by one company for offer under another company's brand. Their positioning is often aimed at as lower cost alternatives to regional, national or international brands. They are available in a wide range of industries from food to cosmetics, from consumables to durables and even to web industry. Private labels became well known with the emergence of organized retail in India. Retailers have extended the concept of private labels to identify a brand with a store which evolved as 'store brand'.

Private labels may be behind the decision of some companies to enter the market with products those are quite different but somewhere associable to those that have made them famous. Private labels may be an extremely profitable business for companies commanding an important share of the market with certain products that enjoy high customer recognition.

The brand 'STOP' from the departmental store Shopper's stop and also 'FRESH AND PURE' from Food Bazaar have become fairly strong labels. Tata's have 'WESTSIDE' brand in West side and Future Group's Food Bazaar has grocery items marked with Food Bazaar stamp.

The BMI India Retail Report for the third quarter of 2021 forecast the total retail sale to grow from US $573 billion in 2018 to US $ 893.2 billion in 2021. The MRG (Mass Grocery Retail) outlets will increase by 154 percent. This is all because of the transformation of small retailers into big and modern outlets.

Objectives of the study

The first phase of organized retail was severely disrupted due to two main reasons. One is the optimistic experimental decisions by retailers and second is the global economic recession. Retailers face problems of lower profit margins, few product offerings, and unfavorable vendor contracts and according to some big retail chains, private labels can be the solution to the common problems faced by them.

The study focuses on understanding the functioning of private labels in retail sector and the objectives of the study are-

1. To understand the position of private labels in retail sector in India.
2. To analyze the strategies adopted by retailers to compete with the national brands.
3. To analyze the prospects of and challenges for private labels in India with respect to change in retail industry.

Position of private labels in retail sector in India

Some of the retail players having store brands in India are as follows:

FOOD AND GROCERY	FASHION	OTHERS
Spencer's Daily	Shoppers' Stop	Vivek's
Adani- Rajiv's	Westside	Planet M
Subhiksha	Lifestyle	Music World
Nilgiris	Pyramid	Crossword
Nirma-Radhey	Ebony	Gautier
Food Bazaar	Globus	Life spring

Each of these retail stars has identified and settled into a feasible and sustainable business model of its own. Rather surprisingly, each has developed a unique model. **Westside** has very successfully emulated a Marks & Spencer model (of 100 per cent private label, very good value for money merchandise for the entire family). **Spencer's Daily** and **Nilgris** have successfully shown the viability of the `supermarket' format in India and its ability to co-exist with the ubiquitous **Kirana** store. **Pantaloon** has both demonstrated the potential of "specialty" retailing in India.

Private labels often referred to as in-house brands owned by the retailers themselves. Shopper’s stop has several in house brands such as stop, Kashish, life, Vettorio Fratini and Acropolis. Reliance Fresh sells grocery, noodles, rice under Reliance fresh food brand.

In ASSOCHAM-KPMG joint study the size of the retail industry was $853 billion in 2018 and expected to grow to $910 billion by 2020 of which organized retail would value approx. $51 billion. Even, private label brands constitute 10 to 12 percent of organized retail in India. Out of this, the highest penetration of private label brands is Trent at 90 percent followed by Reliance at 80 percent, Pantaloons At 75 percent. Shopper’s stop and Spencers have a penetration of 20 percent and 10 percent respectively. Retail houses do not differentiate private labels from other national or international brands.

The paper tries to put forth the reasons as to why these private labels are so important for retailers.

1. Private brands give variety so it is an opportunity to differentiate from the national brand users.
2. It creates a new profile of the company by providing a range of secondary products.
3. Small suppliers can reap the benefits of margins that do not get their share in bigger markets.

4. As prices are low for private labels, it gives better bargaining position in depression in economy.
5. A trusted retailers name creates a faith in the product and there positive image building for the retailers is facilitated.

An increased penetration of private label products, consumer familiarity with them and an improved quality of product, has significantly reduced the past perceived risk when buying private labels. A new phenomenon called 'Smart Shopping' in which finding value is a symbol of intelligence gives consumers permission to reconsider the private labels choice in broad categories.

Though the world biggest retailers such as Wal-Mart and Tesco derive half of their revenues from private labels, most Indian retailers are trying to have a share of 30-40 percent in the next five years from 5 percent to 25 percent at present.

Challenges faced by private labels

1. Competition from national brands

National brands adopt new innovation strategies and deliver new value of a brand to consumers. The national brand companies emphasize on innovation and advertizing strategies to provide a superior value to the consumers as compared to private label brands. It helps the national brand to sustain the competitive advantage and a basis for a sustainable price premium over store brands. Introduction of new products by national brands has a positive impact on their brand equity which makes them less vulnerable to the entry of private labels.

Private labels are attractive in terms of higher business margins but they cannot stand in competition with national and multinational brands in terms of investments, research and development and advertizing.

2. Lack of standardization of private labels

Even though private labels get the same shelf space still they are not equally standardized in different product categories. As consumers once develop the mindset to find a product at one specific standard, he cannot stand the lower standards anymore. Even the consumer's perceptions and attitude play a very important role. There is always a risk of equating a lower priced product to lower quality and the consumers may withdraw their interest from those labels.

3. Failure of a brand due to lack of financial support, proper interest in promotions

and constant efforts to maintain the image of a brand in the market many a times, suppliers may not provide adequate financial assistance to store brands considering them as sub-brands. Even, marginal amount is spent on the advertizing and promotion of private label brands. Even private labels involve comparatively higher cost of inventory because of the uncertainty and unpredictable demand.

4. Under penetration of private labels

Despite low prices, higher profit margins and benefits of established brand names, still private labels constitute only 10-12% approx of the organized retail product mix which is a very small share for Indian Market.

Strategies adopted by retailers for sustaining private labels

1. Pricing strategy

Price plays an important role in the creation of store brand. Most of the store brands are purchased because they are priced 10 percent to 40 percent below national brand. There are two pricing strategies. The first strategy is to identify the gap in the market in accordance launch a premium store brand. The second strategy is to exploit the gap in such a way that the prices become secondary. Half of the future's private labels sell at 15-20 percent less than national brands and the remaining half is sold at 5 to 6 percent less.

2. Quality strategy

The foremost important thing which makes the consumer buy the product is the quality of the brand. If a retailer wants to sell its store brand, more importance should be attached to the quality of the product. The quality of the brand should be consistent over a period.

According to Praveen Kulkarni, general manager, Parle Products, "In the next two-three years, the proliferation of private labels will be there." Categories that are not strong on branding are targets for private labels. For manufacturers the need is to focus more on brand building, build a string price-value equation, focus on quality etc. this is what will help them contain the onslaught of private labels.

3. Promotion strategy

Promotion is the key aspect of marketing communication that keeps the products in the minds of consumers and helps to stimulate trial and repeat purchase. Many times, store brands get the benefit of promotion and advertizing of national brands. Still separate and exclusive attention should be provided towards promotion of store brands Star Bazaar, the Tata Group's hypermarket has several racks reserved for its private labels in noodles, breakfast cereals next to those of FMCG products. But while the racks of big brands carry just price labels, Star Bazaar's own products have big placards saying these are 21 percent to 37 percent cheaper than national brands.

Future Group has begun marketing of it select private brands such as clean mate in floor-cleaners, sachet in toothbrush and Tasty Treat in processed foods to hotels and small retain chains. It advertises that buyers would get a margin of up to 55 percent on the maximum retail price.

Suggestions and conclusion

1. Independent consumer category model

In order to have store brands sold, it is sensible to know the consumer buying system and their behavior. The management must know about buying behavior of Individual Product Segment and accordingly develop and unique and independent model for increasing sale of store brands or private labels.

2. Consideration of Private labels at par with national brands

Private labels should not be given secondary status and less attention which generally results into lower sales. Private labels should be assumed at par with national brands and all promotional, quality efforts should be done equally for those brands.

3. Positioning Strategy

When positioning of the store brand is perfect, then pricing the brand above premium is possible. When introducing store brands, retailers can use either differentiation strategy or imitation strategy.

Differentiation Strategy – Retailer introduces high quality differentiated brands to high quality oriented customers and vice versa.
Imitation Strategy – Retailers introduces a store brand as a me-too product relative to popular national brand. Generally, this strategy accounts for more than 50% of the store brand introductions in the grocery industry. The long term losses can happen due to imitation strategy as the national brand manufactures may withdraw promotional and advertizing support.

4. Packaging of private labels

The packaging plays the most important role in attracting the middle and upper class customers. The store brands must have separate or special unit for packing and designing the products. Green packaging will even help in reduction of costs.

5. Training to the store employees

Training can act as a substitute for advertizing. As private labels are not much exposed to advertizing by media, explaining the features, benefits and specifications by store employees to customers will definitely help improving the image of store brands.

6. Sensory Branding

Sensory branding attempts to foster a lasting emotional connect between the brand and the consumer, using a deliberate design and deployment of interaction with senses. Branding strategies of private labels should appeal to the senses of consumers which will definitely make a different appeal of the product. Sensory branding helps to break through the competitive clutter and preempts brand communication.

7. 'Just noticeable difference' technique

The private brands labeling can be done with the use of JND technique. This technique labels the brands in terms of appearances, packaging, logo etc. It gives the benefit of reputation of established brands to private labels. It is called as Just Noticeable Difference. The packaging of private labels can be done alike with just noticeable difference so that the brand image and goodwill created by the national established brands can be taken advantage of by private labels.
Private labels are slowly becoming the protagonist in the big Indian retail growth story. Taking cue from the West, Indian retailers are also churning out newer ways to increase their profit margins—one such initiative is the introduction of in-house brands. With Indian customers increasingly accepting these private label brands, they would soon be major contributors to the profits of Indian retailers.

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