

Private brands in retailing

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University of Zagreb
Faculty of Economics & Business
Master Degree in Business: Trade and International Business

PRIVATE BRANDS IN RETAILING

Master's Thesis

Ivo Antonich Krsul

Zagreb, September, 2022

University of Zagreb
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Master's Thesis

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Zagreb, September, 2022

APPENDIX 2. Statement of academic integrity

I hereby declare and confirm with my signature that in writing my master's thesis I will adhere fully to the Ethical Code of the Faculty of Economics & Business, University of Zagreb.

Student's signature Još Jutarić

PRIVATE BRANDS IN RETAILING

Abstract:

Throughout the years, private labels have been growing all around the globe, and lately all of the market's stakeholders (retailers, customers, manufacturers, etc.) are becoming more interested in this phenomenon which can provide great opportunities to them. Even though there is much literature and investigations about private labels in mature and developed markets, such as United States or Europe, research in the context of private brands in Uruguay is rare. The aim of this research is to further explore the use of private brands by retailers, as well as gaining an insight on how to benefit from these brands and creating a competitive advantage over the competitors. Moreover, the objective of this thesis is to investigate on Tienda Inglesa's private labels, how they operate, the benefits provided to customers and the retailer, and how it can create a competitive advantage. Through an interview with a manager from Tienda Inglesa, this study provides evidence that their strategy regarding these brands is to attract customers and generate loyalty in them, because the profits might be even lower than with the sales of its premium private label. The findings also reveal that given the small Uruguayan market, it is usually not profitable to develop them given the manufacturers' requirements.

Key words:

Private label – brand – retailing - Tienda Inglesa - retail chain

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Introduction

1.1. Subject and objectives of the thesis

This master thesis will address private brands (brands which are owned by a company and are offered by them alongside and competing with brands from other businesses) in the world of retailing. They have been growing in popularity all around the world and a greater number of retailers is offering these brands to their target public in order to increase their revenue and achieve better market participation.

The goal of the thesis is to further explore the use of private brands by retailers, as well as gaining insight on how to benefit from these brands and creating a competitive advantage over the competitors. Moreover, the objective of this thesis is to investigate on Tienda Inglesa's private labels, how they operate, the benefits provided to customers and the retailer, and how it can create a competitive advantage.

This contribution of this thesis will be reached by investigating on a topic that is not very popular in the country since private labels are still under development and its use is not as mainstream as in other markets.

1.2. Research methods

The methodology used for this master thesis is an interview with Hernán Giuria, a member of the management of Tienda Inglesa (retail chain which will be under study), who will provide valuable information in order to have further knowledge about how their brands function and the behavior of the Uruguayan market. His more than 20 years of experience in the supermarket's industry, as well as having worked in the food industry enables him to provide an excellent insight on private labels in Uruguay since he had participation on them from both sides of the operation: manufacturer and retailer.

A list of questions was previously made, and were then asked to Mr. Giuria, and he was also given time to provide examples from his own professional experience. Once finished and recorded, the interview was transcribed into the main part of this thesis.

1.3. Content and structure of the thesis

In the first two chapters of this thesis, a more general approach to private labels will be presented, while the last chapter is devoted to the research of a particular retailer that has been selling its own brand products and has been serving the Uruguayan market since 1866.

Firstly, we will observe the definition of these brands, their historical development, the advantages and disadvantages for the retailers using them, the different existent categories of private brands and their major characteristics, as well as the main differences with other brands also commercialized by the same retailer. Other key points that will be mentioned are the relationship between retailers and manufacturers, the new trends in private label management and the different strategies used when assessing the best way of doing business by using these brands.

The consumers' behavior will be also analyzed: why do they buy private brands products, what are the most important characteristics considered at the moment of the purchase, is price the principal factor when deciding whether to buy private labels, do this behavior varies according to the country people and retailers are located, etc. Moreover, the role and impact of private labels in e-commerce and online retailers will be addressed since it is a growing trend in this age where more customers are deciding to choose online shopping instead of the brick-and-mortar stores.

Finally, I will introduce the case study of "Tienda Inglesa", a Uruguay chain hypermarket with over 150 years of experience and 15 stores located within the country. This chain has been using its private brand for many years, with high levels of success. This research will investigate the strategy of these hypermarkets regarding its private brand, the competitive advantage they possess over its competitors, the main manufacturers which are in charge of providing these goods, the reason why they started using the brand "Tienda Inglesa", among others.

Private brands in retailing

2.1. Definition of private brands

According to the American Marketing Association (AMA), a brand is a name, term, design, symbol or any other feature that identifies one seller's goods or service as distinct from those of other sellers (American Marketing Association, 2022). A brand is what lies in the hearts and minds of consumers (Forchheh, Maswabi & Taolo, 2018). This is to say, brands are made by customers. Their perceptions hold true of brands and hence need to be influenced by brand managers. If we take a deeper look at this concept, we will see that there are different types of brands which might quite differ from one another. One of these types is private brands (also called store brands, house brands or own brands), which are products developed by retailers and wholesalers (Keller & Kotler, 2012). They are owned and managed by organizations whose primary economic focus is distribution, not production (Schutte, 1969).

Highly intense competition, strong concentration tendencies, and a low return on sales in growing sales areas characterized the grocery retailing for a long time. To deal with these issues as well as to differentiate themselves from competitors, many retailers have introduced private labeled products in their assortment (Fonferek, Schramm-Klein & Steinmann, 2018).

2.1.1. Historical development

Historically, brands as we know them today did not even exist, and they started appearing when manufacturers realized that by having a brand, they could supply many retailers at once while controlling the image themselves (Lincoln & Thomassen, 2008). The media, mass communication, and mainly the TV had a huge effect on brands and became the force that drove markets, and the age of brand power emerged. Brands could be more imaginative and far more emotional than a mere retailer could ever be. The emotion and the mass media took over as promoting products moved further away from the shelves they started on.

Regarding private brands, we can trace their origin back to the 19th century. Great Atlantic and Pacific Tea Company (former American chain of grocery stores that operated until 2015, and even became the world's largest retailer) introduced Eight O'Clock coffee between 1882 and 1885 and might be considered as the first private label. Whereas in Europe, in the late 19th century and early 20th century, first private brands were introduced by retailers such as Groupe Casino in France, Delhaize in Belgium and Albert Heijn in the Netherlands.

The real rise of these brands started in the 1920s when retailers noticed a shrinking profit margin for branded goods. Later, during the 1950s, there was an intensive development of manufacturer's brands. Then, in the decade of 1970, generic private labels (those which lack a widely recognized name or logo because it is not advertised, or simply a bland packaging and branding) emerged and developed. Competition got more intense among retailers during the 1980s, so private brands kept developing in order to differentiate themselves and build the retailer's image. Over the years, the importance of these brands kept growing as well as their marketing position.

All in all, sales of private brands in the past were limited. National brands had the resources to develop customer loyalty toward their brands through aggressive marketing. It was difficult

for smaller local and regional retailers to gain the economies of scale in design, production, and promotion that were needed to develop well-known brands. In recent years, though, as the size of retail firms has increased, more retailers have obtained sufficient scale economies to develop store brands and use this merchandise to establish a distinctive identity. Now, retailers offer a broad spectrum of store brands ranging from lower price/lower quality products, to those with superior quality and performance to national brands (Grewal, Levy & Weitz, 2014).

Nowadays, brands to achieve success in computer mediated environments need to stop conducting monologues like they used to do in the past using traditional media, and recognize the importance of listening to consumers, finding out what they talk about, understanding them, getting into that conversation, enabling interactivity, building relationships, etc. A brand cannot be treated as a monolith anymore (D'Arco & Marino, 2018). Moreover, empowered by social networking sites, blogs and wikis, consumers can share, co-create, discuss and modify their own perspective on companies and brands, a view that is often in conflict with the image a brand wishes to convey. With these changes happening, brand managers are losing control over their brands, therefore, cannot be considered the custodian of brand knowledge and brand image anymore.

2.1.2. Advantages and disadvantages of private labels

Private labels, such as any other thing on Earth, have their own advantages and disadvantages. Any retailer intending to introduce these brands, has the obligation to do the analysis beforehand, in order to achieve the best possible results. There are no doubts that both these pros and cons may (and will) vary according to the market, context and moment that the company is operating in, but they will, however, be quite accurate for most of the cases.

First of all, for the advantages, I would like to separate them into three categories: benefits for retailers, manufacturers and consumers. Within the first category, some of the existing advantages for retailers are:

- Improving their image against the competitors: these brands provide means of differentiation, image creation and consumer loyalty.
- Enabling the retailer to better satisfy the needs of small consumer segments: many retailers have decided to have private labels devoted to healthy or organic food for example, as a way to meet the demand for this small target audience.
- Working as a negotiating instrument: retailers have more power when doing business with manufacturers due to the fact that it is now known that there is not as much dependence as they used to be.
- Improving profitability: a higher margin is obtained when commercializing this kind of brands.

Moving onto benefits for manufactures, we may find:

- Achieving greater financial efficiency: these companies obtain economies of scale, they are able to utilize excess production capacity and therefore reduce the costs of producing these goods.

- Bigger possibilities of market entry: especially for small producers, that tend to use private labels in order to increase their market share and also maintain their position in the distribution channel.
- Strengthening the relationships with retailers: manufacturers are not exclusively seen in that role anymore, making them both partners and competitors with retailers, which leads to a deeper understanding between these two parties.

Finally, consumers obtain an advantage when using these products for these three main reasons:

- Economic benefits: products tend to have lower prices, allowing customers to save money.
- Functional benefits: goods usually present a great value for money choice.
- Psychological benefits: these brands are easier to purchase because of the broad market presence in different products' categories.

On the other hand, in spite of all the recently mentioned advantages private labels provide to retailers, consumers and manufacturers, there are some disadvantages we must take into account as well:

- Being the sole image of the product: in case products do not have the quality level the retailer expected or show any defects, the company selling these products will be held accountable for these issues and will face unrest from the customers who are not happy with their purchase, even though the retailer is not 100% responsible.
- Lack of innovation: most private labels do not make big efforts in introducing cutting-edge products, which might make them to be behind in terms of customer preferences. They make up for this offering lower prices for similar quality products.
- Difficulty to "steal" top places from strong and consolidated brands: it might take decades (or maybe never happening) for a private label to reach the market share of a well-known and national brand. They will rarely be seen as the top choice when making a purchase and they must offer quite substantial advantages to customers to start competing with consolidated brands. Besides all these issues, competitors usually have more funds to invest in research & development, which makes the situation even harder.
- Less potential for non-sales income: even though these products have higher margins, retailers are deprived of the possibility of earning money for promotional subsidies or fees for shelf space.

2.2. Categories of private brands

Whenever we think about private labels, we are able to remember many of them from our daily use. However, not all of them share the same characteristics and there might be even greater differences between different categories of private brands than when we compare them to regular brands (Grewal, Levy & Weitz, 2014). It is quite fascinating to observe and analyze how retailers decide to position themselves according on various features of the

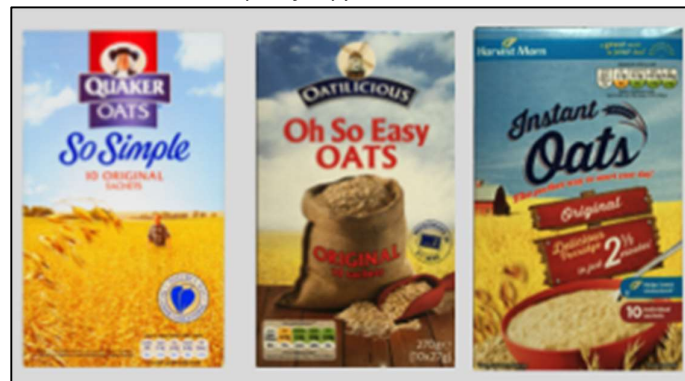
products they offer. Below, I will develop four different types of private labels (needless to say that this is not a non-exhaustive list).

2.2.1. Copycat private labels

First of all, we might commence with copycat private labels. These products (or at least their packaging) try to “copy” the brand leader, therefore, at first sight we may think we are looking at the brand leader product. Apart from the very similar look, these items tend to be placed next to the brand leader on the shelf and their price is a little lower (discounts range from 5% to 25%) than the brand they are intending to emulate. These copycat brands abound in drugstores and grocery stores. But how do customers think about these products? They are usually seen as goods with a quality that can be compared to market leaders at a more convenient price.

This strategy is not recommended to all kinds of products, anyway. It tends to be quite useful for those categories where there is a strong brand leader, and for products that customers can easily recognize and where these goods have achieved a certain level of reputation. These products are developed by manufacturers with similar technologies, using reverse engineering. This is the process to disassemble and examine or analyze in detail (a product or device) to discover the concepts involved in manufacture usually in order to produce something similar (Merriam-Webster, 2022). What can be achieved by the retailer is an increased negotiating power against the manufacturer and an expansion in the share of the category profits.

Picture 1. Example of copycat brands in cereal boxes



Cases of copycat brands can be seen in boxes of cereals, for example. Kellogg’s is the brand leader but when we look at Harvest Morn cereals (private label from Aldi) we can appreciate big similarities between these two packaging (Baron, 2019). It also happens with Quaker Oats and some private labels offered by supermarkets’ chains (Picture 1). Another example from the food industry is soda (Picture 2), more specifically Dr. Pepper which can be easily confused with Dr. Publix (private brand offered by American supermarket Publix).

Picture 2. Example of copycat brands in soda



2.2.2. Generic private labels

Moving on to the second category, we find generic private brands. This concept is totally different than the one seen before, since their intention is to offer the cheapest product. Their quality is quite poor, and the price presents a substantial discount compared to the brand leader (usually goes from 20% to 50%). There is also a visible “lack of effort” when it comes to packaging, because these brands feature a cheap and minimalistic design, that can be easily recognized and not confused with more popular brands.

The arrangement between retailer and manufacturer does not involve much product development, just a contract for the production of goods with lagging technology. The target audience for generic private labels is customers with a low price option and these brands try to expand their customer base. They tend to be placed in less visible shelves or in a position where people have to make an effort to find them. Besides, the brand name is not normally included (for example, Spar generic products are labelled as S-Budget (Picture 3) and Konzum products are named K-Plus).

Picture 3. Example of generic private label from supermarket SPAR



As I mentioned earlier, since these private labels intend to attract lower-income consumers, their category coverage is limited to basic functional products, such as bread, flour, butter, rice, pasta, milk, etc. These shoppers (unless they are highly brand loyal, which does not happen often) plan a basic category purchase for this kind of goods and then they make a brand choice that is restricted to the choice set on offer at the store, that is why it is so important the availability of the products on the shelves, as well as maintaining consistent lower prices than those from competitors (Cadeaux & Shen, 2018). Finally, regarding their promotion, they do not receive much advertising from the retailer, but when they do, they only highlight their main and most attractive feature: the low price.

2.2.3. Premium private labels

This type of private labels differs from the latter in every possible way. The objective of the retailer is to offer the best product in the market with a price that it is usually close or even higher than the brand leader. When talking about the quality of these goods, this characteristic also applies, since it is similar or better than the brand leader, even though it is always advertised and promoted as better.

It is quite interesting to note the advertising these products receive, because it does not focus or emphasize on the price (as most brands usually do), but on the great quality and value. Their packaging is unique, as well as fancy in many cases, the goods are placed on a top-eye catching position within the store, and intend to differentiate the products from the rest of the brands. The retailer spends considerable resources in order to develop the best possible products with similar or better technology than those from the competitors, with the objective of providing value-added products, differentiate themselves and enhance their sales margin.

Walmart, the world's largest company by revenue, among all the private labels it owns, offers "Sam's Choice" products, their premium tier brand. Another example is Tesco's Tesco Finest, that specializes in the finest wines, meats, fresh produce, desserts, etc. Such as I mentioned before, regarding advertising, the pricing of the product is never mentioned, but a great focus on the quality is made. When we take a look at Tesco Finest's wines (Picture 4), they are promoted in the following way on their website: "Explore the world's most renowned vineyards, distilleries and breweries with our exceptional Tesco Finest range, which includes several award-winning wines" (Tesco, 2022).

Picture 4. Example of premium private label by Tesco



However, whenever a retailer decides to introduce a premium private label, they must be very careful and consider the effect it may have on existing private labels from them. From a retail perspective it is of relevance to position the introduced premium private label in a way that it will dominate the premium brand in a specific product category and not the traditional private label of the retailer (Fonferek, Schramm-Klein & Steinmann, 2018). With regard to the positioning and the consumers' perception of the introduced premium private labeled brand, pricing is of crucial importance because an inappropriate pricing could have a negative impact on the consumers' perceptions of the quality of the products.

2.2.4. Value innovators

Finally, within this last category we find the value innovators, private labels that intend to achieve the best performance-price ratio (one example of them is the products of the German discount retailer chain LIDL). How can they achieve this ratio? By offering "the highest value" product, which means that its price is at the same level of generic products but its quality is comparable to market leaders. However, it is not always easy to be able to sell high-quality products at competitive prices, without making a considerable effort or innovating in terms of cost-benefit analysis.

The most frequent objectives of this category of goods are to provide the best value for money, to build customer loyalty and to generate word-of-mouth advertising among potential and actual clients. Value innovators products tend to be cheaper than market leaders (discounts range from 20% to 50%) and they cover all categories, from health products to fish, eggs, and wines. The packaging of these goods is usually unique, despite the fact that retailers try to save money and make it cost-efficient.

The branding strategy is to offer quite meaningless private labels within this category, and it happens for a reason: to demonstrate that there is a store variety. Returning to the example of LIDL I mentioned before, we have several brands for different products such as Freshona for frozen food (Picture 5), Woodcote for eggs, Coshida for cat food and W5 for cleaning products.

Picture 5. Example of value innovator product



2.3. Differences with other brands

Whenever a retailer makes the decision to embark on a project with private labels, they must always take into consideration the existing differences between them and manufacturer brands. As mentioned before, both kind of brands will present certain advantages and disadvantages they may define the performance of the retailer.

Firstly, I would like to mention the categories where private brands tend to be better to the retailer than manufacturer brands. The product margin (difference between the selling price and the purchasing price) is higher for private labels. One of the reasons why retailers choose to sell their own products is that the overall costs for purchasing them are lower. Moreover, by having a broader control on these products (and not having to comply with manufacturers' requirements), there is more freedom when it comes the time of setting sales prices. These two factors converge and allow the possibility of obtaining higher margins, even though this does not always happen due to the retailers deciding to set more economic prices to customers to differentiate themselves from the competition in this aspect.

Also, the sales value is usually lower for private brand products. This might not be applicable for all the cases, since as I have already mentioned, there are many different categories of brands and some of them decide to offer high-end products with above average prices. However, in most cases, what drives the vast majority of customers to purchase private labels from a retailer is low prices. If a company is able to offer cheaper products than its direct competitors, it will provide a substantial competitive advantage and may be key to both retaining and attracting new customers.

On the other hand, by introducing private labels there is an opportunity cost regarding some fees or subsidies that might be earned by the retailer. Whenever there is an agreement between the retailer and the manufacturer to sell manufacturer brands' products, exists the possibility that the manufacturer ends up paying for promotions or shelf space. These two concepts are not a main part of the retailer's operating revenue but they do contribute to its income statement without requiring much attention to the store. The shelving fee or slotting fee is a cost that manufacturers pay to place their products on retail shelves. Given that 80% to 90% of new products fail, it is worth paying for this fee to mitigate part of the risk of failure. Besides, the promotional subsidies offer manufacturers a way to get their products promoted within the store.

Product returns from retailer to manufacturer are also a key point to take into account since when a contract is celebrated between these two parties, it might exist a clause when the retailer is enabled to return those items that did not sell as planned or expired. This is a good opportunity to retailers since this may prevent some losses from happening since they are entitled to "less" responsibility for selling these products. If instead of manufacturer brands, private brands are offered, these returns are not possible because the company that produces these goods will not be able to sell them to another retailer.

2.4. Relationship between retailers and manufacturers

2.4.1. Choosing a manufacturer

There are many decisions that retailer must consider before starting to commercialize private label products. The first one, of course, is what products it is going to sell, assessing the demand, supply, niche opportunities, people interests, similar products, gaps in the market, etc. Once the retailers gather all the necessary information about the goods to be offered, the next step is finding a supplier or manufacturer to be in charge of the production of these products (Maess, 2016). In private label sourcing, who produces the products for this brand plays an important role for the retailer's margin and ultimately profit.

Retailers can procure private labels from several sources including national brand manufacturers, dedicated private label manufacturers, and own manufacturing facilities. In the first case, the retailer utilizes its expertise and excess capacity to supply private labels, which is known as contract manufacturing or dual branding from the manufacturer's perspective. In the other two cases, the suppliers are dedicated to manufacturing private label products for single or multiple retailers (Chan Choi, 2018). It is natural to assume that the intrinsic quality of a private brand supplied by a national brand manufacturer is closer to that of the corresponding national brand compared with the quality of an imitation private label supplied by a third-party dedicated private brand manufacturer.

What do retailers desire in most, if not all the cases? To obtain a high-quality product with a low manufacturing cost. Quality is not an utterly objective measure, since it varies according to the customers' perspective, but overall, a high-quality good is one that meets all the industry standards. On the other hand, when examining how low or high manufacturing costs are, all direct and indirect costs must be considered and ought to be compared to the total cost / unit.

In order to get the desired quality and costs, one decision that has a big importance in this step is ordering from a domestic or international manufacturer. Generally, for edible products it is preferred to opt for a national one due to the possible harm they may cause to customers. However, for the rest of the categories the retailer will end up selecting where to supply from since, such as every decision made by companies, presents its own advantages and disadvantages. Besides, usually retailers prefer using a manufacturer from abroad when their main priority is to keep low costs, or a domestic manufacturer when they wish to focus on quality and safety of the product.

In the case of international manufacturers, the most common advantages are the low manufacturing costs, wider supplier choice, and an easy establishment of business relationships. On the other hand, the disadvantages are the slow and expensive shipping, the issues related to importing the goods, and the low security provided by the supplier in terms of payments. Whenever a retailer chooses a domestic manufacturer, some of the present advantages are the high quality and labor standards, the fast verification of the manufacturers, the ease in communication and non-existence of cultural barriers, and the quick and cheap shipping. Meanwhile, the most notorious disadvantages are the high manufacturing costs, as well as the smaller range of supplier choice.

2.4.2. Product launch and next steps

The product launch phase begins when the seller has made the decision on a manufacturer and all product and packaging preparation have been completed. In the previous step, an agreement is reached between retailer and manufacturer, where there is an arrangement on the price levels, packaging, means of supplying, payment terms, goods quality, among others. Therefore, a clear understanding of what was agreed earlier is key if the retailer wants to maximize this business opportunity.

Commonly, the retailer places the order and transfers a partial payment, and from that moment, the supplier starts manufacturing the products as instructed before. During this stage, it is of utmost importance that sellers keep an eye on the order status to maintain a better control of the units produced and that nothing unplanned is happening. Once the first ordered products are ready, the manufacturer proceeds sending them to the retailer, so the process can move forward. As mentioned before, there are substantial differences in the time elapsed between the dispatch of the order and the reception according to the location of the manufacturing plant, as well as the means of transport used. The shipping method may vary between different shipments according to the needs of the retailer, for example, even though air shipment usually takes less than 5 days, it is quite more expensive than sea shipment.

Once the products are received by the retailer, a quality inspection should be made to make sure that there are no goods that must be discarded due to their low likelihood to satisfy the customers' needs, and to assess the overall performance of the supplier and its behavior. The latter is key, since there must be a smooth relationship between these two parties in order to keep improving the quality of the goods based on a trustworthy feedback.

Quality management is an essential part of the business as long as the retailer desires to provide high-quality products and keep consumers satisfied. Goods must be assessed constantly since any defects found may prevent the retailer from having substantial losses or a loyalty loss from customers. Any problem or error found should be addressed immediately with the manufacturer so these mistakes can be corrected, and production halted in more extreme cases.

Finally, even in the cases that products received by the retailers match exactly what they want (both in time and quality), communication is key to having proper stock levels, on the shelves and in the warehouse, and to determining the reorder point (ROP), the specific level at which stock needs to be replenished.

2.5. New trends in private label management

Although we have seen that private labels have been present in the market for quite a long time, there are some new trends that must be addressed. All of these trends intend to provide satisfaction to their target audience and "comply" with the current requirements from the customer base. If retailers do not keep up with changes within customers' minds or behavior, they will lag behind the rest of the competition. The following are some of the new trends in private label management:

- Focus on the development of innovative products: owning one (or why not a few) innovative product or brand can make the difference between a successful and unsuccessful retailer when it comes to private brands. Some people are still reluctant to shop private labels and prefer national brands because many of them have been present in the market for a longer period of time. Many goods' categories are atomized and only by offering a unique or distinct product, the customer will select it in preference of another brand. For example, one of the many Walmart brands is Equate, which has personal care and health products (Walmart, 2022). Instead of the traditional shampoo, conditioner and body wash, they offer one product that can be utilized as all of them.
- Focus on health and wellness: lately customers are paying more attention to their health and all of their purchases are influenced (in a smaller or bigger extent) by this topic. Besides, retailers, even though they do not always do it, see this as a way to charge more expensive prices to the customer base since they are willing to pay more to get a better and more wellness-centered product. Many retailers are now selling products with health claims, "free from" products, functional foods, child-oriented products, frozen healthy meals, etc. The Croatian supermarket chain Konzum has several private labels that focus on the customers' health (Konzum, 2022). For example, one of these brands is Active Zone, which offers dairy products, bread and pastry enriched with protein. It is aimed for people who have an active life and are aware of the importance of a balanced diet. Moreover, Konzum sells Bio Zone products that comply with strict rules of ecological and organic production, and are offered at an affordable price for all consumers, given that most of the times these are not quite accessible.
- Focus on ethical consumption: not only do retailers focus on health but also on ethics and how they can contribute to the people and the environment. Many private labels have developed organic products, fairtrade products and others that reflect consumer concerns. People, and more especially the youth, are more aware of ethics and actually consider the retailer's view on it before making any purchase. Some retailers are taking an advantage in this situation and, for example, Target in 2018 launched the brand "Auden" to empower women of any age and embrace the beauty of their own bodies (Target, 2022). Another Target private label that contributes to the environment is Kindfull. This cat and dog food brand, apart from offering affordable goods, uses recyclable packaging in order to eliminate waste, as well sustainable practices when catching the fish used in their products. Moreover, ethical labeling of private label products can increase brand and store perception more effectively than offering ethical label national brands products (Steppuhn, 2018). Not only do ethical labels offer the opportunity to differentiate from other retailers and their private labels, but also to have a better baseline in the competition with national brands. This demonstrates that the consideration of providing private brands products with ethical labels is of high relevance for companies commercializing them.
- Cooperation with local producers: retailers have been investing in the support of local producers throughout the years with the intention of achieving two goals: offering a wider and better choice to customers, and encouraging sustainable and local

production. This cooperation can be key for both parties, and if it is well-executed it might end up being a win-win situation. The local producers have easy access to the market and gain popularity within the customers, and retailers obtain good-quality products for a great value for money relation. The discount supermarket chain Aldi invested over £ 1.5 billion during the COVID-19 pandemic in British suppliers to help these small local producers in such a hard time (Hughes, 2022). Since more than 75% of their sales within the UK come from British products, they did their best to support them and also keep offering good quality goods to clients.

- Collaboration with well-known chefs in product development: retailers, and especially supermarkets, are facing great competition in the food sector and they have realized that by providing better, healthier, good value-for-money and more exclusive products to their customers they can differentiate and obtain a greater advantage compared to others. The British supermarket chain Tesco has developed a partnership with the English chef Jamie Oliver to help customers make better food choices and providing healthier meals (Lyons, 2018). Oliver endorsed Sainsbury's (British supermarket chain) for 11 years and it is estimated that 29% of the company's earnings in 2001 came from the chef's advertisements. Therefore, we can appreciate the magnitude and importance of a good decision regarding worldwide known chefs.
- Use of celebrities to promote the products: nowadays that private brands are not exclusively seen as a cheap product of average or even below-average quality, retailers have begun using celebrities to endorse their products. There are no doubts that the vast majority of people is easily attracted to any advertisement from a retailer, and if it includes some famous person, the effect will be even better. Lidl, for example, launched a high-end fashion collection with the German model and television host Heidi Klum (Frost, 2017). The same retailer also opted to work alongside Paris Hilton (American model and media personality) to offer a range of hair-styling products (Pope, 2016).

2.6. Strategies used by retailers

When it comes to the strategies used and implemented by retailers regarding private labels, we might separate them into two categories: strategies at the retail chain level and strategies for portfolio management. The first of these categories is highly correlated to the different types of private labels I mentioned before.

2.6.1. Private label management strategies at the retail chain level

At the retail chain level, the company may select one of the following four strategies:

- High quality strategy: emphasize on copycat private labels. The quality of these products is similar to the brand leader whilst its price is 5% to 25% lower. The Uruguay retail chain supermarket Disco and its private label "Precio Líder" (Leader Price in English), are famous for having high quality products (their quality can be barely distinguished from national brands) with a slightly lower price in some product categories.

- Low price strategy: focus on generic private labels in order to attract low purchasing power customers or those who seek the lowest prices. Despite the fact that this strategy is the cheapest for the retailer, it might provide great revenue due to the high number of purchases instead of the margin of each operation. The Uruguay retailer Ta-Ta (the only supermarket chain that is present in all the country) tends to be located in middle-low or low income places, so the implementation of this strategy makes perfect sense, since almost anyone can purchase their private brands for prices much lower than the market average.
- Mixed strategy of high quality and low price: mixture of the two previously mentioned strategies, depending on the location and types of the stores. There are many companies that own diverse retailers and each of them aim at a different target audience, in order to cover the whole market and get the maximum possible coverage. This is the case of the already mentioned Tienda Inglesa and the company that owns this chain. Even though this supermarket's main feature is to offer high quality products, there are some smaller supermarkets working under a different name that sell very similar products with a different brand on them and a lower price. These are located in other neighborhoods where people want to obtain the best value for money and do not care as much for the label on the goods.
- Differentiation strategy: development of premium private labels. Retailers do not only focus on premium private brands, but in the case they own many different brands, one of them tends to be for premium products. Walmart has plenty of premium private labels, which are intended to satisfy the needs of the customer whose main interest is the quality and value of the product instead of the price. For example, Mash-Up Coffee focuses on luxury coffee beans, Allswell on luxury bedding and mattresses, and World Table on upscale food items.

2.6.2. Private label portfolio management

Within this category, retailers have two ways to behave regarding the number of private brands they offer.

The house of brands strategy consists of developing a different brand for each product category. For example, Walmart has over 50 private brands and none of them contains the retailer's name. Moreover, there is more than one brand within one category, so for customers shopping for apparel and clothing, they will find 10 private labels. However, if we consider the case of a smaller retailer, such as Konzum (which owns around 20 private brands) in Croatia, each brand serves for a particular category, for instance Gelatissimo for ice cream, Hrusty for snacks, Buddy for dog food, etc.

On the other hand, the branded house strategy means that the same brand is used for many different product categories. Considering the same two retailers I mentioned for the previous strategy, they both also have one bigger label that contains products from many different segments. K Plus, Konzum's most famous brand, that offers good value for money articles, has different goods such as eggs, vinegar, bread, rice and puddings. Whereas Walmart's Great Value (the retailer's second tier of branding strategy) includes cookies, eggs, yogurt, cereal, detergent, etc.

Therefore, if we take a look at different retailers all around the world, we will appreciate that is not a binary decision. Most retailers prefer to combine these two strategies, hence there is a wider supply to consumers. What tends to happen is that retailers have several different brands for specific segments and some other brands for many different categories but within the same quality/price ratio.

Consumers' behavior regarding private brands

3.1. Making the purchase decision

The most frequently analyzed topic regarding private brands is the purchase decision process and its different stages. Either identifying in which phase of the private label purchase the consumer finds themselves, its attitude, the propensity of the purchase, its choice and its purchase intention, all of these factors are usually under scrutiny and are earning its well-deserved reputation (Gomez-Suarez, Quiñones & Yague, 2017).

A customer will only continue to buy from a supplier if its product continues to be more satisfying to consumers than its competitors', even though their service as a supplier may be excellent. In order to actively resist private labels from being successful, manufacturers must keep innovating and adding new value to customers (Fabra, Labajo & Rubio, 2018). In mature markets such as FMCG (fast-moving consumer goods) the value of innovation is increasing, and national brands are under a constant threat from store brands.

In the case where the national brands' customers are no longer feeling satisfaction, there is a big possibility of them turning to private labels (Chountalas & Kasotakis, 2014). However, before actually doing so, there is an inner process of decision. Every person makes a decision when purchasing any product. Even in the cases where it is thought that it is not a premeditated decision, somehow there are some thoughts involved. There is a number of factors that influence the consumers' attitude towards private labels and how they perceive them. The following are the most commonly studied factors:

- Quality
- Price
- Packaging
- Status
- Innovation

The first two seem to be the most popular ones and what people care the most about, however, although the vast majority of consumers are not aware of the importance given to the rest, they may end up being as important as quality and price.

The first issue that arises when anyone thinks about private labels and quality is that these products suffer from low-quality image and high perceived risk. As time goes by, these myths are slowly fading, and people are learning that this is not always true, and there are cases where private brands have a greater quality than national brands. On the other hand, in reference to the goods' price, they tend to be cheaper, and therefore, affordable for the majority of the population, since they usually cost between 25% and 50% less than branded products. Price-conscious consumers pay much attention to low prices, and they are aware of the benefits provided by shopping these products.

When it comes to packaging, it is not generally a factor that distinguishes private labels, because retailers opt not to make great investments in that area (if not, reaching lower prices would not be possible). As I mentioned regarding the products' quality and how people are

perceiving them, there have also been improvements in packaging. Nowadays, it is quite important the first time that customers take a gander in these products because in packed shelves with many different products, a bold package can make the difference between success or failure. Finally, regarding status and innovation, these are two factors that do not usually stand out in private labels. They cannot reach high levels of prestige because of its low price, and there is a portion of society (mostly with a medium/high socio-economic level) that may be reluctant to purchasing these products. Innovation is not the main worry of retailers when they are developing private brands, since they mostly act as followers due to lack of investment and expertise. However, if these companies decide to give more attention to this factor, it will undoubtedly cultivate a favorable perception amongst their target audience.

When making the decision, regarding to brands, consumers must select between a national or a store brand. Since private labels draw consumers away from national brands, they must innovate and introduce new products in order to maintain competitiveness. Therefore, when certain national brands introduce certain types of products, they can end up affecting the private label market shares. At the consumer perspective, consumers are less likely to switch to private labels when national brands introduce new products (Clark Sinapuelas, 2018). Is this true for all those who shop private brands? Previous users of the parent brand, for example, are more susceptible to try the new product (introduced by the national brand), though those that have low private label shares are more likely to do so than those with high private label shares. Low private label share users may not find value in private labels as much as high users and may be more susceptible to new products. Private labels must be very careful and take this as a warning because while these consumers may purchase private labels, they can easily switch back to national brands.

3.1.1. Price and value consciousness

As I mentioned before, the two main factors that customers assess when buying private labels are quality and price. Two interesting concept that has been described before, and refer to both price and quality, are “price consciousness” and “value consciousness” (Weiss, 2015). The former can be defined as “the degree to which the consumer focuses exclusively on paying a low price”, while the latter as “a reflecting concern for price relative to quality received”. All in all, price consciousness can be explained as the consumer’s wish to pay the lowest price for a given quality, and value consciousness can be explained as the consumer’s desire to obtain the highest quality for a certain price. It has been proved that people with higher value consciousness tend to have a more positive attitude toward private brands, and that those with higher price consciousness also show a bigger correlation with the acceptance of private labels.

However, despite the fact that people with greater price awareness show more willingness to purchase private brands’ products, there is not a direct correlation between income and proneness to private labels. Higher income groups tend to be more receptive of these brands, whereas households on a smaller income tend to prefer national brands. One of the explanations for this finding is that the wealthier the people, the more rational and confident decision they make due to their advanced educational level. On the other hand, consumers

with lower income, in an attempt to display status or gain reputation, usually end up purchasing well-known national brands.

During periods of economic downturn, consumers adjust their actions to lessen economic resources, and this way they influence their consumer behavior. Under these circumstances, consumers become more price sensitive and the human dimension of the “rational man” gains dominance (Galan-Ladero, Marques & Sarmiento, 2018). In general, as a result of the increased price consciousness, consumers are more willing to spare some money, opting for cheaper solutions, such as private labels and national brands promotions. Besides, the consumer’s perception of price unfairness of national brands has an impact on consumer’s attitude towards private labels. In this pursuit for economic rationality, consumers assume new behaviors that allow them to accommodate the reduced income, which also translates in increased social responsibility. Finally, in these recessions people tend to turn into new habits such as: more organization and planned behavior, going shopping more frequently, reducing stocking behavior, and avoiding wasting. Crises are also seen as a learning opportunity, instigating structural changes in people’s lives, that is, behaviors adopted during these periods are assimilated and become part of consumers’ everyday life.

3.1.2. Extrinsic and intrinsic cues

Making a decision regarding price when choosing a product might not be a very difficult one. Anytime any of us is shopping at a retailer’s location, we cannot help to look at the prices of the articles we are willing to purchase. People tend to compare these prices between each other, and based on how affordable the product is to them and how they perceive the quality will be, they finally make the purchase. However, this decision may only take a dozen of seconds, and consumers seldom spend much of their time evaluating different factors in order to buy the goods that will satisfy their needs in a better way. Therefore, since the actual analysis is not deep and the purchase happens due to impulses, people assess the products based on extrinsic and intrinsic cues.

These cues help the shoppers make a better assessment on the goods they are about to buy, especially regarding their quality or nature. They can be classified into two categories: intrinsic and extrinsic. While the former refers to physical characteristics of a product that, in case they are modified, would alter the product itself (such as taste, texture, ingredients), the latter are those that even if they were modified, the product would remain the same (examples of these are packaging, advertising, color, brand name, etc). Moreover, we can separate the products that private brands commercialize into two groups: experience type (product requires its trial before making an assessment) and search type (product can be evaluated from information provided around the product). In general, private labels have more success in products that the consumer is able to make an impression of the product without having to try it first, this is search type ones. Consumers who are more aware of intrinsic cues of product quality, tend to be more likely to purchase private label brands, while those who focus on extrinsic cues have a bigger trend to reject these brands and end up purchasing national ones.

3.1.3. Shopper's self-perception

Emotions play a big role in any purchase decision as well, and the pride and self-esteem of the consumers is at stake. Anyone who claims to be a "smart-shopper" can be proud of their status reached by making clever purchase decisions. It is worth appreciating that private labels usually present a different self-image to those who buy them than national brands, because even though the customer might end up feeling proud or "more intelligent" by choosing these better value-for-money products, they may sense a lower status or prestige due to selecting cheaper and a supposed lower quality goods.

Moreover, some people also buy products in accordance with the person they want to be. It is quite common the case of consumers who decide to purchase premium private brands to have a feeling of social elevation, even if their actual status differs from that. On the other hand, those who wish to perceive themselves as prudent, critical and wise at the decision-making progress are more prone to use private labels instead of national brands. Related to this "feeling of being the person they want to be" is the people who are reluctant to shop private brands, even if they know that the quality is exactly the same and the price is substantially lower than national brands.

One interesting psychographic trait that has been studied is "status consumption tendency" (SCT), sometimes referred as social value consumption, or self-concept consumption. Research has proven that the influence of SCT on private labels' proneness is positive and small, which demonstrates that the perception that the quality of these brands is inferior compared to that of national brands is slowly disappearing (Gendel-Guterman & Levy, 2018). Connected to what I said earlier that some people are still reluctant about the consumption of private brands, it is interesting to notice that some of them (people with high status consumption tendency) hold positive attitudes about store brands' value for money. This positive reaction is subjected to the realization that most private brands products are not consumed in public, thus, the status issue is irrelevant to them. Besides, even though the consumption of these brands may "attempt against their status", in some cases the attitude that private labels have good value for money, could arise from its contribution to self-image, through their decision to be smart shoppers with intellectual independence.

3.1.4. Risk perceptions

Perceived risk can be defined as "the expected negative utility associated with the purchase of a particular product or brand". Risk is perceived in thousands of different ways by consumers and all of us pay more or less attention to diverse dimensions of it, such as performance risk, social risk, psychological risk, etc.

When a customer is at the store picking what products to purchase and senses that there are big differences in the quality of these goods within the same category, there is an increase in the performance risk (the possibility that the product might not live up to the consumer's expectations, therefore, not satisfying their needs). What happens with national brands is that due to their huge popularity, all people expect a constantly high and predictable level of quality. Therefore, in the cases that great quality differences are perceived, there is more likelihood that national brands will take the lead and be more purchased. One of the reasons

that explains this behavior by consumers is that there is more risk of making a “wrong” decision or purchase, and because of that, people decide to shop the most popular brands. However, when the risk is lower (this means that all the products within the same category are perceived in a very similar way), there is an increase in the market share of private labels. All in all, consumers still think of private brands as riskier choices, and those who are not willing to make “risky” decisions will stick to the same brands they have used for their whole life.

It has been showed that, within premium private labels, in the European Union, the PDO (Protected Designation of Origin) and PGI (Protected Geographic Indication) influence shoppers positively and reinforce these brands improving the perceived quality of products and consumers’ attitude towards EU quality label products, reducing the perceived risk by customers (De Canio & Martinelli, 2018). Moreover, premium private labels shoppers buy these products because of the products’ origin and their production rules offer a high guarantee about their overall quality. Retailers should stress their quality control efforts to enhance premium private labels’ quality and communicate them in the most effective manner (for example increasing the role of the PDO/PGI label). This situation might be seen as a win-win both for retailers and manufacturers: since while the former has greater sales because of an overall better quality, the latter increase their negotiating power towards retailers, help the local community by employing more personnel, and pursue the use of co-marketing tools to jointly activate with grocery retailers

3.2. Differences between various markets

Private labels keep rising and becoming more popular worldwide, although different markets tend to behave differently. The following two subchapters will develop the market share of private brands around the world and in Europe, as well as a comparison between two mature markets such as European and North American one. Not only do people from these two regions behave and shop in a variety of ways, but they tend to have an array of different perceptions on private label products and self-perceptions of how they feel when they actually purchase these kinds of goods.

Before developing further those two topics, it is interesting to take a look at the example of Spanish and American markets. They are both mature markets, located in highly developed countries, where people have access to information and to a wide array of products. However, in spite of all the similarities we might find, the private labels’ market share is almost three times bigger in Spain than it is in the USA and this, of course, ends up affecting how consumers behave and is also a consequence of their behavior. In the case of Spain, even though there are high value private labels (with long-lasting tradition and appreciated by customers), this does not affect the loyalty of stores with assortments of a single brand, and this may be explained because of the people, that have greater awareness of value and sensitivity to price, and they are more faithful to the commercial format itself and to a specific purchasing behavior (chasing low prices, for example) than to a certain brand (Espanol-Millat et al., 2018). USA, in contrast, shows that the value of a private label has no correlation with the store loyalty since the customer base is used to their hard discount format and consumers are accustomed to varying their purchases among several retailers. Therefore, we can see that

there are substantial differences among regions, and countries with not-so-different economies might vary much one from another.

3.2.1. Private labels globally

The share of private brands throughout the globe varies substantially across regions and most developed ones tend to have a bigger market share than less developed ones. According to results presented by Nielsen Retail Measurement Services, in 2016 the average value share of private labels in the world was 16.7% (The Nielsen Company, 2018). Taking a closer look and focusing on different regions, EU leads the way with a 31.4% share, followed by North America (17.7%), Latin America (8.3%) and Asia-Pacific (4.2%). The largest shares for private brands are found in the most mature European retail markets, and it is quite interesting to observe the big existing difference between these countries and North America, where private labels have not grown yet and market penetration is still low. On the other hand, Latin American market despite being small in terms of value, due to the challenging economic situation it is a place that has much place for growth. In Asia, people are more brand loyal and that explains the low success these brands have in that region.

Moving on, and considering the perceptions that people have in North America, Latin America, Middle East and Africa, Europe and Asia-Pacific, we can also appreciate how different these are, in accordance with Nielsen. In this study made six years ago, the following claims were presented to customers, and we are now able to compare the responses from them based on the region they inhabit:

- I am a smart shopper when I buy a private label: 71% of North Americans have this self-perception when making the purchases, while 63% of people in Europe do. Asia-Pacific is the region where customers do not feel this way as much when using private brands but, however, these differences are not substantial among places.
- Private labels are usually extremely good value for money: European people lead this ranking when it comes to considering these brands as good value for money (76%), while North American market is still a bit reluctant to buying them, since they are not considered of good quality.
- I purchase private label to save money: the results from this claim are also consistent to those presented in the previous one, due to the fact that 81% of European people agree with it, while only 71% of Americans aims to save money when purchasing private labels.
- Private labels are good alternative of name brand: only 58% of people in North America consider these labels as a good alternative of national brands, while Asia-Pacific and Europe are on the top of these answers with a 75%.
- It is important to get the best price on a product: in contrast with previously presented results, 78% of North Americans agree with this proposition while only 70% of people in Europe do.
- Perceptions about private label quality has improved over time: with the exception of Asia-Pacific, these perceptions actually got better throughout the globe, ranging from 71% to 79%. People are getting used to these brands and adopting them for their everyday use.

Assessing the overall results of these perceptions, we can appreciate that even though North Americans pay much attention to the price of products, they are still quite enthusiastic only about national brands. Over the time, this has been changing and will keep doing so, and eventually they will end up thinking that private labels offer the best quality-price relation. However, those who do purchase this kind of brands, feel very self-confident and have a good perception of themselves when every purchase is made. On the other hand, and comparing this market to the European one (a mature market as well) we might see the difference between the results. They do not share the same feeling when purchasing these labels but they do have a better consideration on private brands. It is also quite interesting to notice that even though European people are not as aware of the price product when making the decision, they do rely more on private brands based on the quality of them and knowing that they are a great alternative to national brands.

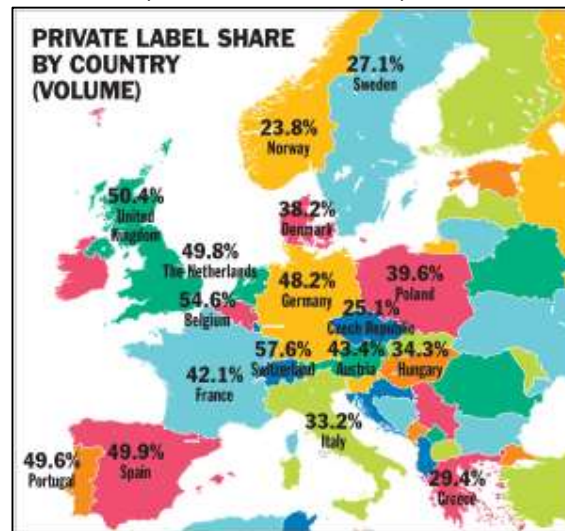
It is interesting to take a look and consider the private labels market share in Thailand (Chaiyakarn Zheng & Shannon, 2018). After a wave of foreign food retailer expansion, the number of private brands offered increased exponentially, to the point that Thailand was in the top five fastest growing markets for private labels. However, this growth was mainly a sharp increase from less than 1% to roughly 1.5%, which has been stable over the past 15 years. This growth is believed to be caused by the push from retailers rather than actual consumer acceptance. Street vendors, for example, are a booming segment of their economy, with around 22,000 of them in Bangkok, with a market value of approximately \$ 2.5 million. The vast majority of these vendors sell food or beverages, hence, they make quite frequent purchases for their raw material. Since these ingredients are typically not seen by the end consumers, there is a high potential for street vendors to be drawn to use private labels and enjoy cost savings. However, these people even though they are aware of the existence of private brands, they prefer shopping in fresh markets where these brands are not present. Besides, they tend to buy products in the morning and pay in cash at the end of the day. Due to their low income and no fixed salary, they are not applicable for credit cards and they must end up shopping in these informal markets. Therefore, as long as this country's culture does not change, although the economy is a good fit for private labels and the retailers keep pushing, people such as street vendors will not be able to afford these products even if their prices are low, due to poor credit access and preference of traditional trade outlets. Retailers must adapt to these conditions and come up with ideas to provide their products and to gain trust and loyalty from the population.

3.2.2. Private labels in Europe

Europe is one of the biggest private labels markets globally, and even though that the private brands share decreased in 2021, it is expected to grow in 2022 and is on track to keep raising its share in the coming years (Private Label Manufacturers Association, 2022). If we observe a European map and analyze the private label share by country, we will see that there are certain trends followed by different regions (Picture 6). During the COVID-19 pandemic, the inhabitants of Europe's wealthiest countries were able to maintain their spending power, but had less possibilities to spend, and this led to an increase in the private labels share. However, in southern European countries this was not the case, and the only two places where these

brands became more popular was in Portugal and Spain. 2022 growth is partly explained by the difficult geo-political situation the continent is immersed in, and the very high inflation, which results in a higher usage of private labels by consumers.

Picture 6. European countries and their private label share



In general, Western countries tend to have a bigger market share for these products, while Eastern ones keep struggling and rely more on national brands. According to the latest information published by the Private Label Manufacturers Association, the European country with the greatest share of private brands was Switzerland with 57.6%, while the lowest was Norway with 23.8%.

Despite of the earlier mentioned preferences for private labels in different parts of the continent, it is possible to make a more exhaustive analysis considering different regions within Europe. Scandinavia, for example, presents quite low levels of people shopping private brands, with Norway having the lowest share, and these brands representing a 27.1% of Swedish share. On the other hand, easternmost countries (with the exception of Poland) are not very popular markets for private shares. We can illustrate this by using the example of Czech Republic (25.1%), Greece (29.4%) and Hungary (34.3%). In reference to Northern European countries, these are where private labels market share is very strong, ranging from a 38.2% of Danish market to Belgium's 54.6%. Other countries where there is a big presence of private brands products are Germany (48.2%), the Netherlands (49.8%) and United Kingdom (50.4%). Finally, regarding Iberian Peninsula and France, both Spain and Portugal show almost similar numbers of market share percentage with 49.9% and 49.6% respectively. Market share of these brands in France represent a 42.1% of the market share.

3.3. Role and impact in e-commerce and online retailers

The last decades have seen a huge modernization on how people shop, and online shopping and e-commerce are set to influence (if they have not already done it) business forever. For example, if we choose a sector which is heavily influenced by private labels such as grocery shopping, its share is expected to account for 20% of the market by 2025, which is around \$

100 billion in annual consumer sales (The Nielsen Company, 2018). All major retailers are conducting all of their operations online and they peaked during the COVID-19 pandemic, when epidemiological situation as well as government measures did not allow people to go shopping as they used to. Moreover, some issues that occurred within supply chains caused shortages or delays in products, hence customers had to choose between the brands that were available in that moment and that is when private labels gained in detriment of the brands that people were loyal to. This e-commerce disruption is a big opportunity for many private labels to soar and gain notoriety by competing with other retailers on these online platforms.

Additionally, nowadays we are observing a transition towards an omni-channel paradigm, defined as the synergistic management of all the channels and touch points available with the stakeholders. Touch points are “short, unidirectional or bidirectional interactions, between consumers and companies, and the exchange may be more superficial or more intensive” (Mato-Santiso, Regueiro Otero & Rey-Garcia, 2018). Omni-channel strategies intend to optimize consumer experience across channels and touch points taking into account that they interact with each other and are used interchangeably by consumers to take any action. These strategies imply the full integration of the offline and online shopping experience, and entail a huge opportunity for companies and brands to re-invent the physical store so that it actively contributes to driving growth. Brands need to build a strategy that supports and leverages the physical channel as part of an integrated “omni-channel ecosystem”.

This cross-channel integration offers customers the possibility to combine offline and online channels during a shopping journey, giving rise to patterns such as webrooming (search online and purchase offline), showrooming (search offline and purchase online), or click-and-collect (purchase online and collect in store) (Frasquet-Deltoro, Miquel-Romero & Molla-Descals, 2018). For those retailers that decide to implement these omni-channel strategies, logistics get more complex as they have to manage the traditional shipping to stores, with direct shipping to customers’ homes that shop online. Besides, by implementing click-and-collect purchases, retailers can take advantage of the experiential component of the store visit. Hedonic aspect of consumers (pleasure experienced or anticipated from the behavior) explains why they mainly choose click-and-collect as their preferred delivery method (The Association for Consumer Research, 2022). On the other side, convenience-oriented shoppers, acting with their utilitarian aspect (usefulness, value, and wisdom of the behavior) are more likely to choose home delivery.

3.3.1. Competition among private labels and national brands

During the last years, and mostly since 2010, there has been a major increase in publications about private and national brands. These are two key factors within retailing and they arise at the center of the relationship with the customer and assume a great role within the economic system in terms of investment, employment and support for companies (Colamatteo, Sansone & Pagnanelli, 2018). People are gaining interest as well and topics such as “private label”, “price”, “perceptions”, “loyalty”, among others, are being constantly investigated.

The two sides “competing” in this battle have benefited and taken advantage of different factors in order to attract the attention of consumers. On one side, retailers benefited from economies of scale in distribution and preferent promotion at the store to offer good-quality low priced private labels. On the other side, manufactures responded by decreasing costs, cutting prices, increasing the investment in research and development, and investing in marketing campaigns with the aim to increase the perceived quality of national brands (Arce-Urriza & Cebollada, 2012).

One thing that must be taken into account is that online channels have a positive influence on loyalty both for private labels and for national brands. These channels can influence in a greater extent than offline channels, and this is something that must be seized by retailers since it presents a great opportunity to grow and gain market share. Companies that decide to commercialize their private label products on an e-commerce platform will see an increase in their ability to capture purchases from consumers who were users of offline platforms (switchers), but those that sell private brands’ products will also keep the ability to capture these customers. How can this be achieved? Some retailers offer the option to its online users to replace the products that were placed on the online shopping cart by others from their own brand. In other cases, private label products have more visibility on the retailers’ websites than in the brick-and-mortar stores due to a strategic design plan of their products. Moreover, a bigger emphasis is made when advertising private labels goods, giving them quite attracting visual signs that national brands do not have. These different strategies have in common that they cannot be achieved in offline channels and they all help to reinforce the retailer’s position of its private brand in the online market in order to conquer and attract more customers.

Another advantage for private labels in this fierce competition with national brands is the variety of roles they can play and that they can obtain a huge benefit by using the correct (and unique) strategy. These private labels, according to the context and the situation, can adopt either the most attractive role, an intermediate one or the least attractive role in a concrete category. In both online and offline situation these brands play all of these roles, but in the case of the online channel there are just a few categories where they adopt the least attractive role (miser). It is worth mentioning that these roles are not the same for these two channels, and when retailers shift from one to another, it is possible that the roles do the same thing. The strategy designed and used will vary according to the role adopted but if properly developed it will undoubtedly provide a bigger advantage to the retailer selling the private brand.

Regarding consumers, loyalty and their relationship towards private brands, we can observe that private label prone consumers are more aware of the availability of the store brands, to the extent that they consider it a separate factor when considering their loyalty to the store, as well as part of the economic value proposition offered by the retailer; and are less aware of the levels of customer attention provided by the distributor. In an industry such as the supermarket’s one, for example, store brands’ equity (differential value provided by private labels to consumers based on a comparison between brand alternatives) could be one of the main drivers of customer loyalty (Rubio, Villaseñor & Yagüe, 2018). On the other hand,

national brand prone consumers exhibit less awareness of the availability of the store brands, which represents a mere variety attribute.

3.3.2. Benefits from going online

Starting in 2000, and in the mass consumption sector, distributors such as large supermarket chains with the presence of private labels (such as Carrefour, Tesco, Costco, etc) began to open online sales channels through increasingly appealing and operational websites for consumers (Alegret Cotas, Esteban-Millat & Morales-Solana, 2018). Later, approximately 10 years later, new purely digital competitors entered the food sector, even though there are still consumers who do not perceive online shopping as the best alternative due to reasons such as reliability, website loading speed, cost of the service provided by digital retailers such as transportation, and for being unable to evaluate the quality of some products. However, studies indicate that the consumer purchasing process in this area has changed even for the purchase of fresh products and that, with the expansion and improvement of delivery services, together with the quality guarantee, the appeal of buying this type of products will increase.

In reference to marketing and companies doing business both in their own country and abroad, within the last years, retailers have had the possibility to become e-retailers, targeting consumers in different countries and selling their own products through online stores. Despite the possible success of this strategy, on-line retailers must decide whether to standardize or adapt their marketing strategy to the foreign consumer markets, when considering going global, as the adaptation/standardization dilemma plays a central role, and may define the survival or failure of a company (Alaoui & Vianelli, 2018). In general, they should not duplicate abroad their home marketing strategy, as most of the needs e-shoppers wish to fulfill could diverge between markets. The fundamental factors differentiating online consumers worldwide must be identified and taken into account when setting e-strategies for a foreign market.

The fastest growing distribution channel nowadays is e-commerce, and those retailers that are ready for change and willing to embark on this adventure with private labels might be hugely benefitted. There are endless possibilities for retailers to grow online by using the correct tools and consumers are more prone than ever to embrace private brands and be loyal to them (Dawes, Nenycz-Thiel & Romaniuk, 2016). The following two topics will address two very current issues, such as the changes on the retailing environment post COVID-19 pandemic, as well, as dropshipping and how it impacts both companies and consumers.

3.3.2.1. Changes since COVID-19 pandemic

COVID-19 pandemic has definitely disrupted the way consumers behave and the main change is the preference for online shopping over going to brick-and-mortar stores. Marketing has also changed in these last years, going from brand marketing to feature marketing (Ghelber, 2021). Consumers are no longer focused on brand names but they want to make sure that the products they need with desired features will be readily available. Therefore, they put in the background the brand of the product and instead focus on quality products with the right features.

Moreover, this “abandonment” of brick-and-mortar stores turns customers’ loyalty from national brands to private labels. Even in the case that they do not switch among brands, consumers will end up losing some of the loyalty they had to brands that they were familiar with since these brands cannot keep up with the latest changes and therefore cannot answer their request for new features. Private labels have the capability to innovate more than national brands because there is “less distance” between retailer and customer. It is known that in either case, there is a going to be a manufacturer that sells to the retailer and then a second sale from the retailer to the end user. However, when a retailer senses, perceives, or receives feedback from their target audience that a product needs to be improved or does not fulfill their needs anymore, it is much easier to respond in a quicker and more accurate manner.

Finally, another benefit that can be highlighted from the development of private labels during the COVID-19 pandemic is the transference of knowledge from customer to retailer, and vice versa. When the retailer sells a private label, it is aware of much more information about the products they are commercializing and their background, hence, they can provide more to customers and improve the quality of customer support. Moreover, as mentioned earlier, when consumers provide their comments about the performance of a product they have purchased, it is thought as a way to make this relationship better, and customers are much more satisfied. As a result of this, people are more likely to continue buying these private brands, develop loyalty towards the retailers and prefer them over the competitors. For example, we can see that the giant e-commerce website Amazon has a 93% retention rate for its private label products (Ghelber, 2020). Besides, every time that someone wishes to purchase on an e-commerce webpage, they must create their own account and add personal information to it. By doing this, the retailer gathers valuable pieces of data that will be used to provide the most accurate offerings to customers, emphasizing on private labels. The companies are also able to correlate different customers who share similarities in their demographic information (age, city where they live, average spending, types of products they purchase, etc.), in order to predict future operations and provide the best value for money to their audience.

3.3.2.2. Dropshipping

A relatively new concept of e-commerce is dropshipping, a fulfillment model that enables a retailer to purchase products from a manufacturer and ship them directly to the final customer (Hawk, 2016). This marks a disruption from the traditional way of doing business (and even how we were used to see online shopping) since there is much less risk as no stock must be held. For customers, this can be also beneficial due to the shorter waiting period from the product order to the product delivery. By having less middle-men and the goods skipping the retailer’s warehouse, the satisfaction might be much higher for consumers and cost lower for retailers.

The retailers which make the decision to commercialize private labels using dropshipping must, in the first place, build up a brand that can be easily recognized and it is respected. In the manufacturer selection process, both parties need to come to an agreement regarding the goods’ shipping. The manufacturer or supplier will dispatch the products straight to the

customer who is buying to the retailer, but the return name and address will be those of the retailer. The reason behind “hiding” the name of the actual shipper is that the customer believes that the product has come directly from the retailer, and in case they have any issues or questions they will contact them.

Such as any other way of doing business, it presents its own pros and cons. The greatest advantage, as I already mentioned, is the risk reduction of cost cutting by the retailer. Besides, manufacturers tend to be willing to do business with private labels because it means they do not have to be involved in any customer issues. A higher profit margin can be also achieved, due to a better position to negotiate with the supplier because they are not handling customer service and are not responsible for that. However, selecting the correct and most appropriate manufacturer might be more difficult because not all of them will accept this deal and the complications that come along shipping to hundreds or thousands of end users.

Retail chain case study: Tienda Inglesa

This thesis investigates private labels, and more precisely the ones from retail chain Tienda Inglesa, therefore, in order to collect further information on this business and Tienda Inglesa's private labels, I had an interview with Hernán Giuria (Picture 7), manager at Tienda Inglesa since 2018, and who has been in the supermarket's industry for over 20 years and has also experience in the food industry.

Picture 7. Hernán Giuria, manager at Tienda Inglesa



4.1. Development of its private brand

4.1.1. Insight on the retailer

Tienda Inglesa (English store translated to English) is a Uruguayan chain of supermarkets and hypermarkets with a strong presence in Montevideo (Uruguay's capital), Canelones and Maldonado (two departments located close to Montevideo with a high flow of tourists every year). It was founded in 1866 by English immigrant John Pelvis Henderson as a department store and quickly evolved into a supermarket. Firstly, it was located in Montevideo's old town in a five-story building and during the 20th century they introduced products imported from Paris and London, the main cities where fashion was developed. Throughout the years, Tienda Inglesa began to commercialize food products and ended up transforming from a department store into a supermarket.

Later, in 1962 they surprisingly moved from the city's top commercial spot to Carrasco (Montevideo's wealthiest neighborhood) and established themselves as an auto-service business, which was a big innovation at that time. In 1985, Uruguay's first shopping center was opened and Tienda Inglesa was set as an anchor store, being the first Uruguayan hypermarket ever to be present in such a location. This chain continued to have great success and open more hypermarkets in different neighborhoods of the city, and in 2001 it was the pioneer in this market to open a "virtual store", that allowed to deliver the customer's purchases to the place they wished.

In February 2016, Robin Henderson (great grandson of Tienda Inglesa's founder) stepped down from the hypermarket's board, and 3 months later 90% of the company was sold to the American company Klaff Reality LP, while 10% remained in the Henderson family. This company has over 10 years of experience in this field, and it owns over 2,000 stores in the United States. The amount of this operation was approximately USD 140 million and it was

partly seen as a salvation since it is said that the company's last 3 or 4 years had been financially bad (El Observador, 2016).

4.1.2. First steps of the private label and current situation

Why did Tienda Inglesa develop its own private label?

Generally, with private labels there are two things that are wanted by any retailer in the market: to generate an identification between the customer and the private label of the retailer, and (from a commercial point of view) to manage the structure of the sale price and the profitability without having the obligation to "being tied" to a supplier, that is the one that sets the tone regarding how to behave with these products. These are the two basic reasons for developing a private label and we have all started because of them.

Regarding private labels, these are a variant to generate attraction to your store and a difference with your "neighbor". Normally, you want to generate in your customers this attraction of something than can be found only in your premises. After that, you must assess where you position yourself: whether your product is premium, regular or low quality. That depends on every brand and the market around it. What you must generate is a product that is only found in your home, your store.

In our case we developed the brand "Tienda Inglesa" in 2001 and it is still present as of today.

At this moment, how many private labels does Tienda Inglesa own?

Tienda Inglesa owns two private brands: Valle del Sol (to compete in price) and Tienda Inglesa (to compete in quality). However, we also own the brand Buffet, but it only sells frozen food, baked products and ready meals.

In our case, we have had Tienda Inglesa brand for many years. It is a premium private label and it is positioned based on the content of the products under that brand: they are all of the highest quality. On the other hand, Tienda Inglesa has its second private label, which is called "Valle del Sol" (Sun Valley), and it is positioned for the customer looking for value for money. They are correct products, of course, they are sold in all Tienda Inglesa branches, as well as in all other supermarkets we own, and they are more identified with commodities. In this particular category of products, the quality of them is very similar, such as oil, peaches, peas, corn, etc. Even though some brands of corn may be "meatier" than others, they all look alike and their taste is similar. Therefore, it is very hard to differentiate: premium quality and low quality are the same. In those categories is where Valle del Sol competes and does the job against our competitors.

How important are private labels in Uruguay? And Tienda Inglesa brand?

In Uruguay, actually, private labels do not have an important share of the market. Tienda Inglesa brand did achieve to sell a reasonable volume, but it is mainly because of its very powerful brand, having many stores in different parts of the city, being a long-lasting brand and having very loyal customers. It is not easy for the rest of the retail chains to develop a private label (in fact, Tienda Inglesa's is by far the strongest in the market).

As a matter of fact, since the company always wanted to keep the quality of its premium private label, the second private label was born in order to fight with its prices. Clearly, Tienda Inglesa brand cannot compete with its price, and sometimes it is even more expensive than what the manufacturer sells under a national brand. The product itself, normally, is very similar to the first two or three brands (in terms of quality) from the segment.

4.2. Insight on its products

4.2.1. Manufacturing process of the private labels' products

Who are the manufacturers of Tienda Inglesa's private brands?

They are exactly the same that the ones that sell their own brands. Actually, to illustrate this case, I can tell you something about my experience in the food industry since I worked many years in the bread maker company Los Sorchantes (Uruguayan leading bread company that was later sold to Grupo Bimbo in 2006). There, we used to elaborate many private labels, and one of our buyers was Tienda Inglesa. The product was the same, the only thing that we changed was its packaging. After the manufacturing phase, big batches were formed and the products were packaged. Los Sorchantes had two brands of their bread and they also sold their products to Tienda Inglesa. Therefore, the only thing that changed was the bag, nothing else actually happened.

Are these products actually the same as national brands then?

Yes and no. What happens on many occasions is that there is a change in the ingredients of the product, but the quality remains the same, mostly in the food business (which is the most common segment where private labels are developed). But what happens with private labels, and actually with every brand? You can use ingredients with better or worse quality, or use less or more quantity of them. For example, in a very specific case, for breads loaves, we could use buttermilk or milk powder. One product will not be worse than the other, it will only be cheaper to produce and have less properties for the customer. But only a bread expert would know this and would notice the difference, for the rest of the people it would be the exact same product. The experience for the users will remain the same.

Moreover, this happens in other categories, such as cleaning products. What may vary in that case is the chemical products used: more or less of a certain product or more or less degreaser, and this ends up affecting how the product behaves and its characteristics. This happens with perfumes as well, what is really important is the perfume fixative. The aroma will be great anyway, but only the good ones last for hours.

Are any of these products especially manufactured for Tienda Inglesa?

No, and I do not believe that any other Uruguayan supermarket can do this. Nowadays, no one has a volume big enough to have its own recipe. What does happen, is that the industry normally has several qualities, and then when it comes to packaging it varies according to the buyer of this product. In the case of Tienda Inglesa, that product is the best one produced by this manufacturer.

Are manufacturers always willing to produce private labels products to Tienda Inglesa?

Actually, when a private label is developed, it is not very much liked by the industry. However, in every negotiation, the retailer asking for private brands products is someone with a big purchase volume and that is the reason why they start to think of having their own brands. Since it is a big customer for that industry and it might generate big profits to the manufacturer, they end up accepting the conditions and providing the products to the retailer.

Are commercial conditions with manufacturers the same when it comes to national brands or private labels?

Payments terms are the same, agreements are the same, there are no differences at all. In fact, sometimes it is even more expensive to the owner of the private label having it, since they must invest in packaging, raw materials, manage the exclusivity of the brand and taking care of all the input. In our case, sometimes it would be cheaper not to have Tienda Inglesa brand and instead selling the manufacturer's premium brand. It is the opposite of what people tend to think.

Do supply chain and stock management work the same as with national brands?

It is worse because we must be in charge of bigger batches and bigger volumes. We cannot purchase small quantities from the manufacturer, hence, we always end up with overstock since we are not offered bulk breaking. The benefits of a private label are mostly managed in the commercial part of the company, and what is most important is that it is only yours. But the manufacturer has the advantage that retailers have more expenses and more costs for that product. The handling is very expensive as well and you must be very careful regarding expiration dates since you can only sell it in your own stores and product rotation is always a thing that must be taken care of.

How involved is Tienda Inglesa in the manufacturing process?

Products are constantly under revision with several quality control processes going on. These controls are more demanding than for national brands. There are chemical engineers and food engineers that severely control the private label because our company is the one that is responsible. In the case of national brand, when there is some problem, the manufacturer is the one in charge. However, for private labels, even though we have the manufacturers as backup, we care about the traceability and the quality of everything we sell under our own name.

Does the same manufacturer produce Valle del Sol and Tienda Inglesa products?

Only in some cases, such as in charcuterie, where both brands share a same manufacturer, since as I mentioned before, all manufacturers have at least two lines of products. But, in general, it does not make a big difference whether brands share the same supplier or not.

What is the country of origin of the goods?

All of them are from domestic industry, with the exception of canned food that is bought abroad and imported. Most of the products we sell under our own brands have a close expiration date and, additionally, it ends up being cheaper to buy these goods locally.

4.2.2. Assortment, target audience, quality and price

What are the currently offered products?

They are food products (flour, milk, sugar, eggs, oil, rice, coffee, etc), cleaning products (toilet paper, bleach, fabric softener, etc) and bathroom products (soap and shampoo).

Why are these product categories chosen?

In fact, they must be high-rotation products so that the volume purchases are worth. Let's not forget that we are in a small country regarding volumes and machinery. I would like to mention an example so we appreciate how small Uruguay is. Once, while I was working at Los Sorchantes we were involved in the construction of a new plant with cutting-edge technology of American origin (the specialists when it comes to loaf bread). The company that produces the ovens (Baker Perkins), had 10 different models in different sizes we could select from. The smallest oven of them all, in 8 hours of production was able to produce the quantity we sold in the whole country in 24 hours. Just 8 hours! The volume in this country is very small. Uruguay has 3 million inhabitants, and it might be a province of any of our neighbors (Argentina and Brazil). Even Paraguay has 3 times more population than us. Therefore, we do have the structure of a country, the controls of a country, you must comply with Uruguay's regulations, but when you commercialize high-rotation merchandise, the industry or machinery that produces those goods is also according to that. It is not easy at all, you must select fast moving goods, because if not, there is no way of making profits with a private label.

Are these products priced different according to where they are sold?

Sometimes for some products it happens. In fact, some of the national brands already select different sales prices according to the place these articles are displayed. In our case, the difference is not big, and we aim at losing a little profit margin so that people with lower resources can have access to our brand. We do not intend to charge more to the customer with a better socio-economic level, but to charge less to those that cannot afford some products. We are willing to lose some profit, if that means we are gaining loyalty and selling a bigger volume.

Are you thinking of adding more private label products?

Yes, we are, but always within the same categories we currently have. There is a dynamic within the market that is shared by all participants: there is innovation in some articles and others are no longer sold. What we do is quite basic, there is not much innovation, although in some cases we do invest in it. In some cases, we only improve the products we are selling at the time. There are no big changes that can cause that we stop selling a product and we replace it by another. At the end of the day, though, the reality is that private labels are a part of the business, but a small part, not the core of it.

Was any product not successful and had to be removed from the shelves?

Generally, they sell in a very good amount because there is a lot of previous research, and it is quite expensive to develop and implement the brand. Therefore, I can say that none of our products failed. Sometimes the relationship with the manufacturer is deteriorated and that generates that the product must be discontinued. Moreover, sometimes the sales are great but the volume is not big enough to cover the manufacturer's batch size and then the product cannot be sold anymore. It has happened with products that had 15% of the market share but their rotation was not high enough. Once more time, we can appreciate the big volume problem we have here.

What is your target audience?

With our premium brand (Tienda Inglesa) we compete with our quality, and with our second brand (Valle del Sol) we compete with our prices. Actually, Tienda Inglesa nowadays owns a network of small supermarkets under other names, not under Tienda Inglesa's. There are over 60 stores handled by our company and the vast majority is located in Montevideo. In this other sales channel, the brand Valle del Sol is very successful. Tienda Inglesa brand is only sold in Tienda Inglesa supermarkets, while Valle del Sol is present in all of them. Besides, the brand Buffet is also present in all stores owned by Tienda Inglesa. The reason why we do not sell the Tienda Inglesa brand in the stores that have a different name is that this brand is very identified with the concept of a premium brand and would not be successful. Therefore, if a customer walks into a Nativo, Ariel or Express supermarket (all of these are examples of this smaller sized ones) and finds Tienda Inglesa products, they will be confused.

In reference to how we compete with our brands, if you take a further look and compare Tienda Inglesa, Valle del Sol and the brand leader within that segment, you will easily notice what I have just mentioned (Table 1).

Table 1. Comparison of products' prices

Product	Tienda Inglesa	Valle del Sol	Brand leader	Price unit (in UYU)
Sunflower oil	151	134	159	Liter
Canned peas	150	117	130	Kilogram

However, it is interesting to notice that Buffet is also a premium private label, and it is commercialized in all of our stores. Historically, all that is sold under Tienda Inglesa brand is the best produced product in the whole industry, and that has been maintained throughout the years. The goal we have is to cover all customers' segments by using different types of supermarkets and private labels.

Does offering Valle del Sol products affect customers who purchase premium products?

No, because the vast majority of customers does not know that we own that brand, they do not have a clue, they believe it is a brand like any other. Anyway, we are positioning Valle del Sol at the cheapest price in the market, but the product itself is good. Therefore, the shopping experience for the purchase of these products will be completely satisfactory for all clients. The purchasing power within all social classes is broad, so if a retailer wants to aim at all kinds

of customers, mostly in stores located in the outskirts of Montevideo, you must have these types of products.

Clearly, the assortment of a supermarket is not the same whether it is located South or North of Italia Avenue (street in Montevideo that in some parts separates wealthy parts from working class parts), and it is not the same for our branch in Punta del Este (city located in the coast where well-off people come for holidays). This happens with any brand, even with independent supermarkets. Every retailer decides its assortment according to its customer base. Some brands offered by retailers are leader brands (consumed by most of the people) and others are aspirational brands (those consumed by some people but the rest wishes to try them). But, all in all, it does not matter where the store is located or who owns it, you must have all kinds of products.

4.2.3. Promotion and packaging

How is the promotion of these products?

Compared to national brands, you can be quite more aggressive with your actions and promotions because they are yours, therefore, they generate no distortion in the supplier and the rest of the market. You can promote these products via products association, and you have much more freedom when it comes to advertising.

For example, with national brands you cannot dump. The private label, since it is sold by you, can be priced in any way. There is no way to demonstrate that your company is dumping since your competitors do not have this brand. They can claim that the product is too cheap, that you are “giving it away”, or whatever, but they cannot prove that you are dumping. Therefore, you can be much more aggressive. However, let’s take into account that no one works to lose money, so no company is willing to offer their products with a price below their costs. The only thing that can happen is that you end up selling really close to the cost and that is very cheap compared to the products offered by your competitors.

Another issue to take into account is expiration date, that sometimes may turn you more or less aggressive when advertising, but this is common to all participants in the market with the vast majority of the products. 30 or 40 years ago, nothing expired. Nowadays, everything has an expiration date on it, with the exception of alcohol...

What strategy does Tienda Inglesa implement regarding private labels?

For private labels we usually place the products in the best places of the shelves, and in the gondola ends. You can handle the position in your store more aggressively in order to achieve that the customer sees the product and tries it. Whether they become loyal and purchase it again is more difficult, and will depend on the quality and price. However, you are the owner of the space and the location, so you can exhibit your private labels in a greater extent to get bigger sales. Sometimes, you end up stealing good places from national brands and using a better space than the one you should, which causes a lower product rotation and a lower turnover.

How is the packaging of these products? Do you imitate the brand leader?

It does not look like the brand leader. We try to identify the goods with our logo, with our colors (red, white and blue). The main objective is to differentiate from our competitors by using our colors and brands (Picture 8).

Picture 8. Tienda Inglesa's logo and the packaging of its private label



4.3. Competitive advantage over competitors

4.3.1. Private labels' profitability

How big are private labels' sales?

They represent a small percentage of all sales, in no case they are greater than 5% of the whole business. Fresh products take up 60% of our sales, and we must consider that they are unbranded products: chicken is chicken, bread is bread, and fruit is fruit. Of course, some of these products do have brands, but when you place chicken on a shelf, unless those that are packaged with a brand name, the customer will not know where it comes from. The goods that are branded are identified with a supplier, but this only happens with the bigger ones, not the rest. If we take a closer look at the segments, the sales percentage is more considerable, but we cannot say it is high.

How are the sales compared to national brands?

They do not sell badly. However, in no segment private labels outsell national brands. Tienda Inglesa milk will never sell more litres than Conaprole milk (leading dairy products brand in Uruguay).

Anyway, if the retailer's private label ends up outselling the brand leader, it is because the company is not handling the rest of the brands in an appropriate way. It would happen because you are "eliminating" the competition deliberately. If you place in one shelf all national brands present in the market and your private label, it will never ever have greater sales than them, unless you take their space or make it really small, or position these products at a much higher price. But, all in all, this should not happen.

How is the profit margin compared to national brands?

At the end of the day, it ends up being smaller. Even though you may find a better deal with your manufacturer, you have to add up all the different costs you must incur in, and

sometimes the margin is not bigger than with national brands. However, it is a tool that generate different things, and without it you would not be able to achieve those things. Without the private label you would be deprived of performing certain actions, so, overall, it is still profitable.

How big is the price difference compared to national brands?

For Tienda Inglesa brand, our principle is to stand in the same way as the most expensive product of its segment. In fact, the product itself is the same, therefore, we cannot make much difference between these products. Profit margins are not big in the supermarket industry, they are quite small and, at the end of the day, you have to sell at the price that matches the quality of the product. You do not have much room to wiggle and place a premium product with a cheap price or vice versa.

What you are aiming is that the customer tries the product for the first time (which is not that difficult though), because you can promote your articles in many different ways to lead someone to purchase it. However, the big challenge we all have, is that the customer becomes loyal and keeps purchasing the product. Therefore, whenever the content of a product does not match its price, it does not work and the customer will not choose it again. In the case of Valle del Sol, the product is of good quality, and usually we position it as the cheapest in the segment. This is a brand that is having a high rotation, but sometimes we must sacrifice some profit margin in order to have bigger sales. We are positioned in that way to attract customers to the point of sale because this brand cannot be found anywhere else.

Commonly, the client identifies that is shopping a cheap product but the product itself is good (regarding its price), so we continue using this strategy and sacrificing profit margin.

Is the lost income from shelf space and promotions considerable?

No, not so much, it is not considerable. Although some brands do pay for shelf space, they are not constantly paying for it. Most of the time, there is unsold shelf space where you use the opportunity and place your private label products. National brands pay for shelf space, gondola ends and promotions, but you always find a place to sell your products.

Are online sales profitable?

Online sales have always been great and we are still working a lot on that. Private labels are highly promoted, but the end result is the same as when people shop at the brick-and-mortar stores. Tienda Inglesa's online part is strong, and their sales are similar to any supermarket. It is not "explosive" though, because it aims at a specific market niche. Once again, the market is small in Uruguay.

Were there any financial changes lately regarding the private labels products?

Sales remain the same, and they fluctuate alongside with the market. The quality of the products did not get worse, on the contrary, we work a lot to make it better. The reality is that the company Tienda Inglesa in its last years did not have any profits, it was in fact losing money. Obviously, we had to adjust costs in relation to sales. This costs adjustment, though, came from the side of fixed costs and the amount of services we used to offer. There are

certain services that are no longer offered to customers (such as employees weighing fruits and vegetables) and that the customer is able to see and perceive them, but none of these adjustments had nothing to do with the quality of the products. It has to do with the experience, the attention being a little faster or slower, or more auto-services than before due to less employees working, but this can be only perceived during rush hour.

You must have a balance, and this is what we have today. Due to these savings we made, we can say that the company is viable nowadays. Fortunately, in reference to the quality of the products we did not save money but we constantly evolved and we are truly worried to maintain our brand as a leader in our customers' minds.

4.3.2. Differentiation with competitors and future plans

What is the competitive advantage that Tienda Inglesa has in comparison to other supermarkets?

Every supermarket has its own customer base, and historically Tienda Inglesa's competitors were the Devoto family with their hypermarkets' chain Devoto. Disco supermarket was price aggressive, while Tienda Inglesa and Devoto competed with their quality. Later, Devoto was sold to Disco Group, and the Henderson family was the only participant of this niche of quality competition. During many years, the strategy used was highly successful, but lately the operative costs soared higher than sales and the chain ended up in a place where it was no longer profitable. I believe that the Henderson family did not make the switch in their mindset when they had to (mainly because of their advanced age), and the company that bought Tienda Inglesa performed changes that must have been made 5 years ago.

Private label Tienda Inglesa during many years positioned itself as a premium brand and those from the competition could never achieve this level (although the products they offer are not bad). They are not identified as premium retailers and, at the end of the day, the niche is not that big either. Sometimes, the investment needed to position a brand ends up being higher than its return so it is not worth having it. Tienda Inglesa label has been in the market for many years and the only thing the new owners had to take care of, was maintaining the quality of the product, and they effectively managed to do so. Therefore, the success was there, it was not assured, but no one expected big problems.

What strategies will be implemented in the future?

We will keep searching new articles and new businesses. The company is developing and wants to keep developing. We aim to be a national company (we still are not) since we currently are a regional company. Our objective is to be present in all of Uruguay's departments, regardless the name of the supermarket, we will assess what is the most accurate for each case. We are currently under an expansion plan that will take many years.

Any closing words?

There is not much more, this is not rocket science, there is not much mystery in this industry.

Conclusion

These findings contribute to the studies of private labels by retailers in Uruguay, and more specifically the competitive advantage, economic benefits and day-to-day operations of the hypermarket chain Tienda Inglesa in reference to their private labels' products. It is shown that the products labeled after Tienda Inglesa's brands do not have a considerable profit margin for retailers and, sometimes, the revenue per unit ends up being even lower than for national brands. Despite this fact, these private labels do attract customers and they generate loyalty on them, which ultimately generate sales from other lines of products.

Moreover, given that the market where Tienda Inglesa operates is small, retailers cannot maintain their own factory for manufacturing their private brands' products, and in many cases, they are not able to afford the purchases of the big batches they are offered, and even when they do, retailers are challenged by the goods' expiration dates, which tend to be close given the nature of these articles.

The fact that Tienda Inglesa's main private label is a premium one (excellent quality product with an above average price) is a big advantage compared to their competitors, that could never position themselves as premium retailers although they sell good-quality products as well. There is a constant investment on research and development of new products in order to strengthen their position in the market.

Besides, Tienda Inglesa, apart from owning more than 15 hypermarkets under its name, during the last years purchased over 60 smaller supermarkets which are still operating under their original name. For all of these stores, regardless their name, Valle del Sol brand is sold with the intention to compete with its price, offering the best value-for-money articles, mostly for food products. Tienda Inglesa's premium private label competes due to its excellent quality and can be only found in these hypermarkets. By implement this strategy, this retailer's private labels aim to satisfy the needs of every customer, regardless their preference for an affordable product or for a good quality one. Many market segments are covered and the penetration is bigger.

However, not all findings of this study can be extrapolated to other markets or industries. The presented was a specific case for a hypermarket chain within the small (and not so keen to private labels) Uruguayan market. Other retailers might have a different view on this topic and behave differently regarding their strategy.

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