PRIVATE LABELS IMPLICATIONS FOR MANUFACTURERS AND RETAILERS – A EUROPEAN AND A BRAZILIAN PERSPECTIVE

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Abstract:
Nowadays in the retail sector there is much speculation about the future of private labels – Will they continue the high growth rate in the next several years? In this report it is presented a clear and delicate picture of private labels: definition, situations (especially in Europe and in Brazil), strategies of both retailers and manufacturers, and trends concerning this hot topic. The paper starts with an explanation of the motivation to work with private labels, from the point of view of both retailers and manufacturers. The difficulties faced by them when dealing with private labels are also approached in this report. Then, the current situation in Europe and in Brazil is pointed out and a set of interviews makes clearer how a real private label manufacturer works. Finally, illustrations on the trend and an optimistic prediction of the future of private labels will close this paper.

Key-words: private label, retailing, store brand
Private labels implications for manufacturers and retailers –
a European and a Brazilian perspective

Introduction
Before any further explanation on private labels from the point of views of retailers as well as manufacturers, it is important to know what a private label is really about. A private label can be defined as a brand name owned by a retailer or wholesaler for a line or a variety of items under controlled or exclusive distribution [1]. For Coughlan et alii [2], distributor’s brand, house brands, private labels – these are all terms for products sold under a brand name that is proprietary to a distributor or to a retailer. A prominent characteristic of private labels lies in that a certain kind of private label is, most of the time, only sold by a certain retail chain, the owner of that private label. It is not uncommon that private labels, in a lot of cases, carry the same names as the retailers, though it is a third party – manufacturers, not the retailers – that really produce the private label products.

An important reason why private labels have caught so much attention these days is that they have shown a high growth rate in Europe and also in Brazil in the last few years. Several factors are found to be able to explain the remarkable increase, from both the retailers’ and the consumers’ points of view. The first reason is that more and more retailers are seeking competitive advantages in the brands they offer and are trying to use private labels to increase their margins [3]. Another major factor, probably the most important one, is the price: private-label products are usually priced from 15 percent to 40 percent lower than branded products [4]. A last cause is the economic conditions. During the period of economic recession, consumers have become so price conscious that their preferences are changing from national brands to private labels [1].

Objectives and Methodology
This paper has as main objective to depict the situation of private labels in Europe and in Brazil, regarding aspects such as: growth figures, strategies pursued by retailers and manufacturers, and trends and differences perceived between these two regions. In this sense, the motivation to work with private labels and the difficulties faced by both manufacturers and retailers are addressed in this report. The methodology employed is the exploratory research, using secondary data analysis and qualitative research. The secondary data research comprehends a bibliographic survey, including previous done research on the topic under study. The qualitative research method employed is the case study research, in order to make clearer how a real private label
manufacturer works and to better understand the differences between the European and the Brazilian markets.

**Advantages and Disadvantages of Private Labels for Retailers**

Aside from increasing acceptance levels, advances in private labels in Europe can be attributed to the growing strength of the hypermarket and supermarket concepts. Besides, the ability to purchase products built to retail specifications in large quantities has also supported the private label trend. The expansion of the retailer chains has not only made private label products more freely available to customers, but also helped to reinforce supermarket branding and build trust. It is beyond dispute that private labels are largely under the control of retailers as opposed to manufacturers.

From the report of Euromonitor [1], it is seen that retailers can enjoy some benefits in launching private labels. One benefit is the increased profit margin. By developing private labels and increasing the share of private label products within their ranges, retailers are able to retain successfully more of the gross margin generated from selling the products. Private labels do not need large expenses of advertising as national brands do and take a free ride on manufacturers’ product development efforts at the same time.

Another benefit is related to the retailer image. Retailers can choose the position of the brand and decide on the packaging and contents of the private label to build its image. It allows a retailer to differentiate itself from close competitors and to drive store traffic. Private labels can be the retailer’s most important tool in terms of positioning and differentiation. Through strategic private label positioning, retailer can strengthen its bargaining position when negotiating supply terms with manufacturers of national brands.

The rationalization of supply chain is another benefit derived from selling private label products. As private labels take place of secondary or tertiary brands in ranges, they are often rationalized down to one or two pack sizes, reducing stock keeping units in the retailer stores yet increasing direct product profitability. To many retailers, private labels play a key part in helping rationalize ranges by cutting down or completely excluding branded lines.

Finally, the increased control on suppliers is one last benefit for manufacturers. By supply chain rationalization and more buying commitment to the suppliers, retailers gain greater bargaining power. Once the control on suppliers is at hand, retailers are able and more willing to build long-term and more intimate relationships with their chosen supply chains. This, in turn, also allows
the retailers to be more specific about the types of products that they are sourcing from the suppliers, the way they are packaged, the way they are distributed and the way information is passed between suppliers and retailers themselves.

However, private label products also carry risks. A retailer can easily ruin its reputation if it provides poor quality products in only one category. Besides, a retailer has to carry the costs of markdown and disposal, if the product fails. The retailers who want to create and open new market niches for private labels have to shoulder the cost of developing the new lines and the risks associated with the marketing of new products. As a retailer begins to put more investment on new product development and innovation of a private label product, it must be get prepared to take risks at the same time if that product turns out to be a failure [1].

**Strategic Issues for Retailers**

Fitzell [5] explains in his book that the brand elements, such as the brand name, positioning (reason for being), trademark/trade dress (symbols, colors, typestyle, package configuration) and brand communications, when successfully developed and managed, create a strong identity for a company or a retail store. Over time, this can create brand authority.

There are four major routes to establish that brand authority in the private label world. The first one is the generic brand, which carries no store or brand identity, makes minimal use of color, utilizes cheaper packaging materials, and works best in the product categories of household cleaners, paper products and condiments. The second one is the rubber stamp brand, which is the most cost-effective strategy, using the identical corporate name, symbol, typestyle and color on all products. The retail brand endorsement is the third route to brand authority, highlighting the retailer’s name and identity but with the packaging design, color and graphics varied depending on product categories. Finally, the last one is the proprietary brand, where products take on their own identity with little or no indication of their true ownership in order to project a national brand image to a retailer’s product. This branding strategy, in fact, appears to gaining the most momentum in the marketplace today.

As for the positioning strategies, the three basic platform-positioning strategies for private labels are budget, copycat and fantasy [1]. When private label goods were firstly introduced by retailers, they represented low-price basics and were an alternative to premium brands. They usually did not challenge the market leading brands in terms of value for money or quality. Over time, retailers have seen the importance of moving their private label programs more upmarket to
challenge the market leading brands for sales. In order to achieve a higher price and a higher market share for their private label lines, retailers have begun to create added value. The prevailing trend in platform development within Europe is to evolve the copycat branding first, bolting on an edited assortment of budget lines and then beginning to build a higher platform at the fantasy level. Each of these positioning strategies will be explained in the following paragraphs.

The budget positioning strategy is strongly developed in the discount chains, like the German chain Aldi. As discounters still have high growth potential in Europe, they influence competitive responses from large mid-market multiples. What might explain the difference between low and high private label brands’ quality categories? According to Sayman, Hoch and Raju [6], one possibility is that retailers pursue different positioning strategies depending on the quality of the store brand that they can obtain. When they can buy a store brand that is comparable to national brand quality, they position it against the leading national brand. When store brand quality cannot match that offered by the national brands, the retailer treats the store brands as inferior products and positions them against the weaker national brands. Another possibility is when the consumer simply does not accept the position that the retailer stakes out for their store brand. In this case consumers may readily perceive the retailer’s intent to position the store brand against a strong national brand based on extrinsic characteristics but still do not accept that the store brand offers a similar level of intrinsic product quality.

The copycat positioning strategy is hugely successful when integrated into the marketing/image strategy of the retailer. Minor European retailers are now introducing the same kinds of private label programs as major European retailers. Retailer imitation of successful store brand programs is more threatening to national manufacturers because within-store loss of share to the retailer’s store brand (or for that matter another national brand) is not likely to be made up with a sale at a different retailer [7]. Moreover, Sayman, Hoch and Raju [6] noted that store brands often imitate the category leader, presumably to signal comparable quality at a lower price. Although the demand for the store brand may increase, the potential downside of this strategy is that the demand for the targeted leading national brand may also decrease.

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1 Multiple retailing can be defined as retailing in a number of branches.
Finally, the fantasy positioning strategy is becoming much more important for the retailers. This strategy is all about creating innovation, adding value to the private label lines, which motivates consumers to move upmarket, generates greater sales values and higher profit levels, but carries higher risks. In part this added value comes about through improvements made to packaging. Premium store brands offer the retailer an avenue for responding to the national brand's ability to cater to heterogeneous preferences [7]. This appears more likely in categories where store brands already offer high quality comparable to the national brands.

Manufacturers: Power Struggle

Though the growth of private labels as well as the power of retailers has turned out to be a great challenge to manufacturers, opportunities also exist, especially to those who produce weak or even unknown brands. Therefore one of the most fundamental dilemmas that most manufacturers face is whether to supply private labels or not. There are arguments for and against manufacturers deciding to produce private labels. The arguments for include [3]: private label is a large and growing segment which is replacing lost volumes of the brands; it produces transferable economies of scale, making the manufacturer more profitable; it holds the potential for closer trade relations and it allows manufacturers to begin to compete with other power brands in areas where they may already be weak.

On the other hand there are also disadvantages for manufacturers to produce private labels and these include [3]: the potential for price wars in their own core markets; a loss of power which threatens their original branded business; it introduces fragmentation into product areas where manufacturers have led and it raises logistical and organizational problems of how to manage the cooperation with a new manufacturing split.

In response to the growth of private label products in the market, manufacturers react in different ways. There are certain manufacturers of power brands that refuse to supply private label goods. Examples include Kellogg’s, Mars and Coca-Cola. The businesses of these companies are founded on specific product categories and to retain their brand strength they must not introduce anything that could dilute their position in the marketplace [8].

The majority of brand manufacturers, however, has more diverse product ranges and does supply private labels outside their core markets while still refusing to supply private label goods in their core markets. Examples of such manufacturers are Unilever and Nestlé, which both supply private label goods on a selective basis. Other manufacturers have decided that it can be a better
option to produce branded budget goods that will fight specifically against private label and budget products. In this way they can introduce new brands (low-priced) to attack the growth of private label cut-price brands in its core markets.

Retailers will face difficulties in launching a successful private label strategy if manufacturers use the following approaches to limit the impact of quality store brands [9]: offer more deals (more promotional support for the trade could increase effectively the margin for national brands and would consequently lead to a reduction in the profitability of store brands), lower price to the trade (the lower the price umbrella for quality store brands the lower the profitability of store brands), increase brand advertising (increasing the proportion of consumers loyal to national brands), and develop innovative products.

Euromonitor [1] reports that the major threat to private label programs is the refusal by skilled suppliers to supply store brands. In certain markets, where the major suppliers have been dominant, these suppliers refuse to furnish private label ranges to the retailers as they see private labels as a key threat to their own future development. Consequently, retailers have to seek out new supply sources and there is a potential danger that the new, less skilled suppliers would deliver inferior products compared with those from the major suppliers.

In addition to competing with private labels, manufacturers can choose to cooperate with retailers. Committed parties trust each other, and trust today enhance performance tomorrow. Trusting parties will do more for each other, going so far out of their way to help each other that their actions resemble altruism rather than economic profit maximization [2]. A way of building relationship with them as suppliers is to develop supply and distribution networks. For private label suppliers and particularly smaller suppliers there are advantages in supplying to a retailer which has central warehousing and distributions systems in that its organizational and logistical requirements are less. One of the key advantages of operating centrally controlled warehousing is the ability to fulfill orders more efficiently. Besides, there is a more open exchange of information and fine line sales data are made transparent to suppliers.

From the report of EUROMONITOR [1] it is shown in Table 1 how different scales of manufacturers would be in the growing private label trends.

Table 1: The changing role of manufacturers in private label

<table>
<thead>
<tr>
<th>Manufacturers</th>
<th>Changing Trends</th>
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REAd – Edição 39 Vol. 10 No. 3, mai-jun 2004
| Power brands                                      | Brands losing share to private label |
|                                                | Reluctance to fragment their leading markets |
|                                                | Prepared to supply private label in areas where they do not have a power brand |
|                                                | Launching price-based brands to compete with private labels |

| Medium-sized manufacturers                      | Developing stronger relationships with retailers |
|                                                | Aiming to develop equivalent brands to market leaders |
|                                                | Developing more innovative private label products to retailers’ own specifications |
|                                                | Exchanging data |

| Small manufacturers                             | Retrenching advertising spend for own brands losing market share to private label |
|                                                | Unable to meet supply demands of retailers |


**The Situation in Europe and in Brazil**

There are some differences in the growth rates between regions in Europe. Western Europe is the most important region for the sales of private label products (83.6% of all private label sales within Europe in 1998 according to Euromonitor [1]) because of the dominance of multiple retailing. On the other hand the annual growth rate of private labels in this region is the lowest. The second most important region is the Southern Europe, followed by Scandinavia. In Eastern Europe the total amount of sales is the lowest, but it should be noticed that private labels are expanding very fast in this region – the growth rate is the highest. It was not until 1990 that private labels became well known as more and more Western retailers entered the Eastern European market during the 1990’s.

Looking at the several regions in Europe, several distinctions should be noticed between food and non-food private label shares. In Eastern Europe non-food private label sales are higher than those of the food private labels. This can be explained by the new concept of private label food just introduced in the area. The opposite can be found in Scandinavia and Western Europe, where the sales of private labeled food is much more significant than the non-food private label sales.
Several years ago, in Scandinavia, the private label market in the non-food sector was underdeveloped, but now its share is increasing fast.

In Western Europe, the huge difference can be explained by the well-developed programs retailers use on private label food in their marketing mix. Simultaneously the growth in the sales of the non-food private label products slowed down due to an overall reduced growth in the market during the mid-1990s. Also within Southern Europe the sales in the food private label sector exceed the sales of the non-food sector, but the difference in shares is smaller than that in Scandinavia. This is because the retailers of private label food are not very popular in the South. At the same time sales increase steadily of non-food private labeled products thanks to better market conditions.

While growth in private-label products is not as dramatic in Brazil as it is in North America and Europe, this may be attributed to Brazil being a less mature market. Market penetration for private labels was under 1% in 1999 [10]. Launched in Brazil in the 70’s by the large retail chains (such as Grupo Pão de Açúcar, Carrefour and Makro), the private label products sales are expanding more fastly in recent years [11].

The retail food sector in Brazil is extremely competitive. In recent years, several mergers and acquisitions have been carried out by the major supermarket chains that have bought out their competition in order to obtain a larger percentage of the retail market. Although recent consolidation among supermarkets has reduced the number of players, this trend has not stopped the expansion of product lines and the introduction of new foods to the Brazilian consumer. Products that were not readily accepted in Brazilian households only a few years ago are quickly becoming regular purchases at the grocery store. Frozen, dehydrated vegetables and low fat or health-oriented products are growing in popularity in Brazil.

Private-label foods typically have the highest penetration in the less glamorous food categories, such as: frozen French fried potatoes; bottled and canned vegetables; jams, jellies and marmalades; and packaged rice. Confections, such as chocolate bars and chewing gum, still rest firmly in the domain of manufacturer brands. Cost remains a significant factor in Brazilian food purchasing decisions. Private-label products are often 20-40% less expensive than the manufacturers’ brands, thereby increasing their appeal to price-conscious Brazilian shoppers. Unlike many other markets, however, Brazilian retailers often position their private-label
products in the middle of the price spectrum, between the product leaders and the discount brands.

**Case Study: How a Multinational Manufacturer Works with Private Labels**

According to Yin [12], for a case study research, the research design components that are specially important are the study questions, the propositions and the unit of analysis. In relation to the study questions, the case study strategy is most likely to be appropriate for “how” and “why” questions. With regard to this component, the following questions will be investigated in the multinational manufacturer: (1) How different are the company’s trading policies concerning private labels in Europe and in Brazil? (2) How does the company decide whether to produce private label products for retailers? (3) What is the impact of private labels on their own brand? (4) How is the Brazilian market different from the European one?

The propositions direct attention to something that should be examined within the scope of study. From the moment the propositions are state, the study starts to move in some direction [12]. The following propositions are considered in response to the questions posed before: (1) Since Brazil is a less mature market for private labels, it is expected that the policies concerning the trade of private labels will be different compared to the ones related to Europe. (2) The company will decide to produce private label product if they will not compete with their own products. (3) The eventual negative impact on their brand’s share will be compensated by the profitability derived from producing and selling private labels. (4) The European market for private labels is more developed than the Brazilian one, with positioning strategies more defined and more upscale products.

The unit of analysis is related to the fundamental problem of defining what the case is. The propositions are necessary to help identify the relevant information about the individual or individuals under study. The more a study contains specific propositions, the more it will stay within feasible limits [12]. For this case study, the unit of analysis is a multinational company that produces mainly frozen food products. This company, henceforth called Company X, proves to be an appropriate representative of medium-sized (or relatively large) manufacturers of private labels, and it is not a surprise that the information match pretty well our analysis in the above text.

Company X is a multinational company specialized in frozen food. It employs more than 18,000 people and has more than 55 production facilities in 13 countries. In Belgium, Company X has
two factories, in Grobbendonk and Ostend, employing 400 people. As for the Brazilian market, the products sold in Brazil are imported from Argentina, where Company X started its activities in 1994. Balcarce City in Argentina has received investments of US$ 38 million to build a frozen potatoes factory. The factory produces for foreign markets such as Brazil, Uruguay, Paraguay and Chile – a market of around 230 million people in total.

In the following part, each proposition will be investigated in the company. The first proposition suggests that the policies concerning the trade of private labels will be different compared to the ones related to Europe. In fact, Company X Belgium produces frozen food products as private label, mainly for Belgian clients like Aldi. Recently it has started an export department to search private label opportunities in foreign countries. The company has a clear positioning strategy for private labels: “We will focus on private label products in not competitive markets where Company X is market leader”. However, it also develops some private labels with an added value for the retailer, for example bio-products, as bio-products are not part of the Company X brand.

In Brazil, Company X does not have as a policy the trade of private labels. According to the Brazilian manager, the company’s objective in this market is to develop Company X’s brand name. The entry in the Brazilian private label brands market is not interesting for the company at the moment, since this market is still small (comparing to the European market). For him, the Brazilian market for private labels is too price-orientated, going against Company X’s high quality product policy.

The second proposition states that the company will decide to produce private label product if they will not compete with their own products. It was also verified that producing private labels is profitable, according to the Belgian manager. When some disposable capacity is available, it is often used to produce private labels. The production of extra units helps to cover the overhead costs. In terms of economies of scale, this lower cost per product has a positive effect on the global profitability of the company. One major issue that Company X always keeps in mind is that in any circumstances, Company X’s brand should have a priority. Then comes the production of private labels. Therefore, in case of under-capacity, Company X will refuse (and has refused) to produce private labels for retailers. What is more, another important part of their strategy is that Company X would never get involved in competitive markets, like the market pizza-products where the company has a leading position.
From time to time, Company X also proposes innovative products as well as new products to retailers. Of course, mostly these products are not strategically important for Company X and do not require a high R&D investment. They turn out to help the company to develop private labels with interesting gross margins. As for the criteria Company X obeys upon the demand to produce private labels from a retailer, the decision makers would check if they have the technical capability, necessary production capacity, as well as the skills to develop the product. Furthermore, they would check whether the product would have any negative effect on Company X’s brand and turn out to be a cannibalization. Last but most important, Company X should be able to offer the private label product at a competitive price.

The third proposition considers that the eventual negative impact on their brand’s share will be compensated by the profitability derived from producing and selling private labels. According to the managers, so far, the development and production of private labels did not have an unfavorable impact on the Company X’s brand. The relationship with the retailers did not change, but sometimes it happens that a retailer, who accepts their private labels, refuses to introduce the branded product in the same category. Company X realizes that it often has to fight against other private labels and so it always tries to be innovative and creative. They believe that, as a brand it is, Company X’s job to defend its own position. Due to confidentiality, more information and figures on profitability or market share are not available.

Finally, the fourth proposition presumes that the European market for private labels is more developed than the Brazilian one, with positioning strategies more defined and more upscale products. It was verified that, for Company X’s Belgian manager, the frozen food is one of the most developed markets in the private label world. The most important choice to manufacturers in Belgium today is whether it is necessary for them to produce private labels in order to survive in the market. According to the manager, it depends on the type of manufacturers. First of all there are some large manufacturers like Unilever. They are not producing all of their own products, but rather they are marketing their brands. They sell their products as a retailer. The added value is their marketing experience to "sell" and to "promote" the products. On the other hand there are brand companies with their own manufacturing facilities. As per the manager, producing private labels will never guarantee the presence as brand. A company has always to invest in its brand products to resist the competition of private labels.
As for the Brazilian market, the Brazilian manager believes that there is a high proportion of small and medium companies that produces private label brands with the objective to introduce their products in the large supermarket chains. The manager also asserts that, in Brazil, product categories with low differentiation and low risk of functional performance have more probability to succeed in the price-oriented private label market (e.g. cleaning products). Besides, the private label brands that are oriented to the differentiation/exclusivity dimension, like the Good Light line from the Pão de Açúcar chain, have also high probability of success.

Concerning the future trends in Europe and in Brazil, the Belgian manager believes that private labels will win importance, because nowadays retailers have interesting margins in private label products. As consumers always compare the prices of brands, the retailers will always try to be the cheapest or not the most expensive. As a consequence, the retailers are decreasing their consumer prices. This trend causes less interesting margins for the retailer and more pressure from the retailer on the manufacturer to have extra commercial conditions. The manager thinks that this will result in products with low margins and insufficient sales. In the past it was possible for manufacturers to keep products with insufficient sales because the margins were very high, but he predicts that it would not be possible any longer in the future.

For the Brazilian manager, the large supermarket chains in Brazil (e.g. Grupo Pão de Açúcar), are improving their product development areas, demonstrating a lot of concern not only with the development phase of the process, but also with the promotion and positioning of their products. This new retail orientation will contribute to the increase of private label brands share in the Brazilian market. However, the manager showed some skepticism with regard to the ability of the Brazilian private labels market to reach the European share levels.

**The Future of Private Labels**

After the description of the current situation of private labels, this paper now will have a look of the future concerning the sales of private label products. In general, the expectations are that private labeling will continue to grow and that they will become more international. The increasing sales can be explained from two aspects: from shoppers as well as from retailers. On the one hand this positive future is a consequence of the fact that shoppers become more aware of retailer brands and they also plan to increase their purchases. Especially the young consumers (aged up to 25) are heavy supporters of private label products [1].
In the future the quality of private label products is going to be as equal important as the price in the selection of the product. Retail shoppers have expressed their wish to be able to choose from a wider variety of private label products. This argument gains interest when one considers the fact that, in Europe, a fourth of all the products shoppers buy, are already private label products. As retailers are probably going to meet that demand of customers, the wider variety will attract a larger market segment. On the other hand retailers pay a lot of attention to the retail strategies and the concept of private labels is a major instrument in such strategies.

All above is supported by the forecast for growing retail sales in Europe. The strongest retail sales growth is expected in Eastern Europe, but first retailers have to win the trust of the people. Also the expectations for retailers are very positive in Scandinavia because of a good economy. In Southern Europe the forecast is that the growth of retail sales will be negligible in the coming years, due to depressed economies in the south. Within Western Europe, differences between countries are predicted. The forecasts for retail sales predict a slow growth in Germany, France and the UK. On the other side, Ireland, the Netherlands and Luxembourg are expecting a high growth rate [1].

Until 1998 the private label products were responsible for 12.2% of the sales in Europe as a whole. In Western Europe, the portion was the biggest and the smallest in Eastern Europe. The expectations are that it is going to stay this way. Western Europe will stay the region with the highest percentage of private label sales. The share of private labels are continue to rise until a quarter of all sales, although the growth is not going to be very strong because the private label is already well developed in this region. The share of sales of private labels is going to grow the fastest in Eastern Europe after the Western retailers will have entered the market and will start to compete with the local retailers [1]. The percentage of growth for the coming years is indicated in Figure 1. The fact that Scandinavia is going to see the second largest grow rate can be explained by the smaller base of private label they are having now [1].

Figure 1: Forecast private label sales % of growth in Europe
As for the Brazilian market, according to the ACNielsen’s 8th Annual Study on Private Labels [10], from 2001 to 2002 there was a significant increase in the number of brands and retail chains that have broadened the number of categories worked. The table below presents the change in the private label basket content for the Brazilian market in 2002.

Table 2: Private label basket overview (Brazil)

<table>
<thead>
<tr>
<th>Basket</th>
<th>Number of categories</th>
<th>Number of Brands</th>
<th>Number of Chains</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>107</td>
<td>104</td>
<td>237</td>
</tr>
<tr>
<td>House Cleaning</td>
<td>29</td>
<td>29</td>
<td>53</td>
</tr>
<tr>
<td>Hygiene &amp; Health</td>
<td>50</td>
<td>49</td>
<td>50</td>
</tr>
<tr>
<td>Bazaar</td>
<td>43</td>
<td>43</td>
<td>74</td>
</tr>
<tr>
<td>Textile</td>
<td>5</td>
<td>5</td>
<td>19</td>
</tr>
<tr>
<td>Electronic</td>
<td>21</td>
<td>24</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: ACNielsen Brazil, 2002.

The ACNielsen’s 8th Annual Study on Private Labels [10] also presents the total number of private label items per year, showing a 33% increase on the number of private brands carried by the Brazilian retailers from 2001 (15,493 items) to 2002 (20,681 items).

However, some analysts indicate that the private label brands will hardly have in Brazil the same projection they have reached in the UK [13], where they have 40% of the food retail sales. In
Brazil, according to AC Nielsen, private label sales will reach at best 14% of the total revenues in the food retail sector. This is because, differently from the situation in the UK, where the local retail sector is highly concentrated, in Brazil the consumer market is very large and the retail concentration is much lower. This fact makes it difficult for the Brazilian retailers to generate a high volume level of private brands production in order to compete with national suppliers. Therefore, the private brands’ market share can grow in Brazil, but it will always be limited by the Brazilian market size and characteristics.

There is another reason that prevents private labels to prevail in Brazil: the Brazilian consumer behavior. The majority of them have a strong preference for national leading brands. While in Europe the consumer has faced wars, has become more conscious of his rights, and more rational in his purchases, in Brazil he has faced many failing economic plans that have generated distrust in what is presented as a good product. Thus, the national leading brands have been proved to be safe alternatives [13]. Besides, due to the uneven income distribution, the leading brands are a way to reach social prestige. Because private labels are a cheaper alternative, they denunciate the consumer economic condition, which is called a “poor syndrome”.

The Brazilian retail sector has, therefore, to improve its strategies in order to overcome the consumer resistance to private labels. Positioning, for example, is a problem. Nowadays, the focus is on price, but executives and specialists are beginning to understand that this should not be the only appeal, perhaps even not the main one, since price is not a good way to get consumers’ loyalty.

**Conclusion**

Accept it or not, private label products have already become part of our life, especially in Europe. The development of private labels involves a lot of economic factors such as profit, retailer-manufacturer relationship and social-economic environment. Generally speaking, retailers are more interested in private labels since in this way, they could have more power and control over their suppliers. Moreover, private labels could bring them interesting profits and help to build store image. Therefore, quite a number of retailers nowadays are pursuing a clear strategy on private labels from production, positioning to store assortment.

The questions investigated in this study were: (1) How different are the company’s trading policies concerning private labels in Europe and in Brazil? (2) How does the company decide...
whether to produce private label products for retailers? (3) What is the impact of private labels on their own brand? (4) How is the Brazilian market different from the European one?

With regard to the first question, it can be verified that the proposition suggested to answer it is correct, since the Brazilian market is still small (comparing to the European market). This fact makes Company X develop different private labels’ trading policies for these two regions.

Concerning the second question, the proposed answer is in part correct. It was seen that the company bases its decision not only on the fact that these products will not compete with their own, but also on the following: if some disposable capacity is available and if it is able to offer the private label product at a competitive price.

The proposition related to the third question is not correct, due to the fact that the manager indicated that the trading of private labels has not yet have an unfavorable impact on the Company X’s brand. However, due to confidentiality, more information and figures on profitability or market share were not available.

Finally, the proposition suggested to answer the fourth question is correct, since it was seen that the European market for private labels is more developed than the Brazilian one, with positioning strategies more defined and more upscale products. In Europe, the fantasy positioning strategy is more developed. This situation, however, is changing, because of the large supermarket chains in Brazil that are improving their product development areas, demonstrating a lot of concern not only with the development phase of the process, but also with the promotion and positioning of their products.

The appearance of private labels might first turn out to be a great challenge to manufacturer as their branded products started to ground to private label products. However, just as a coin has two sides, more and more manufacturers have found opportunities existing under the surface and hence started to take advantage to generate profits from producing private labels. On the other hand, to some renowned producers who have strong brands, they still choose to fight back against private labels. Private labels have already shown important and profound influences on society and economy.

References


