Striking a balance with private branding

How does a major manufacturer do private branding without ruining its relationship with distributors? Ram Herstein and Eyal Gamliel say there’s a better way to look at the problem.

One of the central issues of brand management is the process in which brand managers have to make decisions concerning the management of private brands - or own label brands as they are known in the UK. Research into the manufacturer’s aspect of the private branding process has intensified, due to the increased power of distribution chains in both developed and developing countries, as a result of retailers’ aims for higher profits, and because retailers are becoming more proficient at managing store brands as part of their retail format.

Due to distributors’ increasing strength, national manufacturers can no longer deny the status of private brands or their penetration into many product categories considered impenetrable until recently, such as personal hygiene products. They must, therefore, carefully examine the appropriate possibilities open to them for dealing with the loss of significant market shares of their brands to private brands.

Two main options
National brand manufacturers are actually faced with two main options: one is to refrain from producing private brands, and the second is to produce...
private brands. Nevertheless, whatever the decision, national brand manufacturers must align properly to apply that decision in order to maintain their market position and ensure brand stability over years. Figure 1 presents a framework which offers brand managers a tool to cope with the dilemma of producing private brands or not, and alternative approaches for implementing the decision.

React – or take the initiative?

Distributors’ significant marketing efforts to sell private brands of reasonable and even good quality during the 1970s and 1980s caused leading national brand manufacturers to adopt a strategy of refraining from producing private brands. The manufacturers who chose not to make private brands used either a reactive strategy or an initiative strategy.

Reactive strategies. The most popular strategy among national brand manufacturers who wish to avoid making private brands is to wait for the distributors’ reaction and only then respond. This strategy is mainly suitable for strong national-brand manufacturers, who can afford to refuse distributors’ requests to make private brands for them. They might consider the option of making private brands during an economic crisis that requires a revised strategy, or when identifying a radical change in their market’s behaviour. The strategy of “wait for the distributors’ reaction and only then respond” enables national manufacturers to follow structural changes in the economy over a period of time and then decide – contingent on industry development trends – whether to produce a private brand or to continue refraining from this step.

Initiative strategies. With this type of strategy, the manufacturer does not await the distributor’s reaction but responds with preventive steps. There are several marketing steps manufacturers can take to prepare for the distributor’s reaction to their refusal to make private brands:

The first strategy is to improve brand quality without raising prices. This strategy is common among national brand manufacturers who believe in their brands, have established them in the market for many years, and have succeeded in imbuing them with added unique values. Their attitude is to invest in improving the brand’s quality without raising its price, intending to promote it at any price and to position it as a leading national brand in the market. For this purpose, the following marketing tactics can be used:

- Adding essential qualities. This marketing tactic provides the brand with an operational advantage that improves the brand’s functional qualities, for example, adding a number of keys on a TV remote control in order to assist the user.
- Enhancing the brand’s support system. The manufacturer should manage the service department professionally, by providing a more comprehensive service package and ensuring the service-givers’ quality (professionalism and politeness).
- Improving brand packaging. This has become one of the most commonly used tactics among food-brand manufacturers. The main reason for its popularity is its low cost compared to other marketing tactics combined with the media impact it creates. Consumers usually have an ambivalent attitude towards new or innovative packaging, however, which is why brand managers must take additional steps (such as massive advertising and sales promotion efforts) to ensure the success of this marketing step.
- Innovative design. New or innovative brand-design causes the brand manufacturer to be perceived as progressive, energetic, and vital. Moreover, a unique design can make the product more convenient to use and can position it as a more prestigious brand in the market.

The next alternative is to improve brand quality and raise the price. As in the previous strategy, the manufacturer is required to invest in improving brand quality, but in this case demands a price for these changes. This strategy may antagonise some consumers, but it can also gain the support of others due to the brand’s improved ability to answer their functional, psychological and social needs. Unlike the previous strategy, the idea of raising the price is meant to improve the brand’s market position, due to consumers’ belief that when they pay more the quality is better. Here, too, it is very important to advertise the improved brand in order to justify the raised price.

In the short term, reducing the price gap is another way to improve the quality/price balance. Studies indicate that a significant reduction in the
price of a national brand compared to a private brand enhances sales of the national brand. On the other hand, a small reduction in the price of the national brand increases sales of the private brand.

Most marketers of the strongest worldwide national brands tend to adopt the first three strategies: improving brand quality without raising the price, improving brand quality and raising the price, and reducing the brand price. In contrast, the fourth strategy, increasing publicity for manufacturer brands, encounters contrary reactions by the same manufacturers. However, findings clearly indicate that advertising does indeed influence the success of a national brand. Thus, leading national brand manufacturers should invest in advertising that excels in high levels of recall and empathy in order to maintain their market shares in the struggle with private brands.

In comparison to the other initiative strategies, a sales promotion strategy is perceived as more limited due to its low effectiveness. Manufacturers should only apply this strategy for especially short terms in sales areas where private brands are more preferable, as a result of a higher concentration of price-sensitive consumers and due to vigorous activity by local distributors to promote their private brands. This strategy should not be applied in all sales areas, for fear that the step could be construed as a new pricing policy.

Unlike the previous strategies, in which marketers are required to position the brand differently from the private brand, the idea behind the value flanker (“me too”) strategy is to allow the national brand to become more similar to the private brand and to approach its position. The manufacturer offers a cheaper, lower quality brand, thus making it difficult for the private brand to appear attractive to the consumer. The main risk of this strategy is the fear of sales’ cannibalisation of the national brand.

Do you really have a choice?

Most leading national brand manufacturers however, have no choice but to make private brands. They realise that, despite their reluctance to make private brands for distributors, that kind of co-operation with their lead distributors has become a key condition in the rules of the twenty-first century business world. Manufacturers have two main options for fighting distributors’ labels:

Active approach. Manufacturers who wish to ensure the status of their brands in the market at any cost and to stabilise them as leading national brands can adopt the active approach that espouses the same initiative strategies (marketing mix and “me too” strategies) discussed previously. These manufacturers believe that there is a chance that their label will eventually recapture its previous
market share, and they may be able to avoid making private brands for distributors.

Passive approach. Some manufacturers see the step of making private brands as a first-class business opportunity. These manufacturers believe that long-term relationships with retailers can be more profitable and lead to a sustainable competitive advantage by creating a win-win situation. To this end, the three following strategies are available to them:

- **Co-operation strategy:** National brand manufacturers who choose to make private brands for certain distributors and who use this strategy are required to work with these distributors in full co-operation. They must convince distributors that, without proper shelf allocation for national brands, the distributor’s overall profit could be damaged.

- **Premium private brand strategy:** An additional attempt by a national brand manufacturer to co-operate with a distributor, while attempting to passively safeguard its brands, is by making a premium private brand. From the manufacturer’s point of view, the idea underlying this strategy is to make it more difficult to market, promote and support those brands (which are more demanding than regular private brands). The manufacturer guarantees itself a competitive advantage because the distributor will be expected to set aside more time into promoting its premium labels.

- **Product categories management strategy:** An intermediate method of co-operation between manufacturer and distributor is the product categories management strategy, in which the manufacturer shows willingness to make private brands for a certain distributor, but its compliance is conditional on certain product categories only. Manufacturers who use the product category management strategy, and consent to make private brands for distributors in their own product categories, do so in the following situations:

  - **If the product category is a commodity** – Leading national brand manufacturers who specialise in brands in categories defined as commodities (such as oil, salt, sugar, water, tuna fish and eggs) tend to make private brands in their own category due to the low chances that distributors can differentiate and create value for their brands.

  - **If the product category requires a lengthy production process based on technology** – Many manufacturers would like to utilise their production capacity and make the most of the economic potential involved in the advanced production processes of their products, by manufacturing private brands.

A central dilemma

Whether to produce private brands or not is certainly one of the central dilemmas that preoccupy national brand manufacturers and business managers – a dilemma that impacts directly on their brands. Making the wrong decision could undermine the status of a national brand manufacturer or could even cannibalise the national brand itself. The model proposed in this paper provides a structured decision-making process for all aspects and implications of this crucial issue.

The model demonstrates how manufacturers of well-established national brands, who are not strongly dependent on distributors, will adamantly avoid producing private brands. These manufacturers will adopt a reactive strategy, and will act only if they feel threatened by the distributors.

Other large manufacturers of brands that have lost their exclusivity over the years but still enjoy larger market shares and high control of retailers’ shelf space, will avoid producing private brands and instead adopt an initiative strategy. The stronger their status, the more conservative their preventive actions will be, such as employing one (or more) of the following five marketing tactics: improving product quality, improving product quality while raising its price, reducing brand price, increasing brand advertising, or using various sales promotion techniques. On the other hand, if the national brand manufacturer fears a distributors’ future steps, they might consider adapting a “me too” strategy, utilising the value flanker tactic, which ensures the penetration of a new cheaper brand that directly competes with the distributors’ private brands.

Unlike leading national manufacturers who have the privilege of refusing the distributors’ demand to produce private brands, national manufacturers that do not have the benefit of large market shares or high levels of recognition and esteem must produce private brands. Such national manufacturers whose chances of stabilising their market status are low,
or who have lost their position, perceive private brands as a first-rate business opportunity. Manufacturers with an unstable market status, small market shares, and an absolute reliance on distributors, might find themselves required to reply affirmatively to distributors’ demands, but in order to avoid limiting future success in the national brand market, they should adopt an active approach that enables them to maintain their brand names and other unique added values. In some cases, leading national brand manufacturers will adopt this strategic step to ensure their retailing shelf space, in order to improve their status versus their competitors.

As opposed to the cases mentioned, if the manufacturer is small- or medium-sized and lacks the ability to establish a strong brand in the national brands market, it might agree to produce private brands without coercion. Such a manufacturer will have to take the passive approach, utilising one of the following three tactics: full co-operation, concurrence to produce premium private brands, or concurrence to produce private brands that do not damage its own brands.

As long as a manufacturer is aware of its status versus its distributors and of the various implications of strategic steps regarding the question whether to produce private brands or not, it can make a wise decision to safeguard its future in the brands market.

Many national brand manufacturers are today producing private brands at various degrees of quality, among them the world’s leading national-brand manufacturers. At the same time, retailers view the private brand as a crucial measure to differentiate retail chains from each other and as a means to maintain their status versus the manufacturers. Therefore, any national brand manufacturer might in future find itself in a situation where it has to take an essential decision regarding the issue of producing private brands.

The Private Brand Management Strategic Framework gives brand managers the opportunity to examine the business reality that is part of the decision-making process, in a way that reflects all possible options, guaranteeing a good relationship with retailers without harming manufacturers’ market status or the position of their national brands.

Resources

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