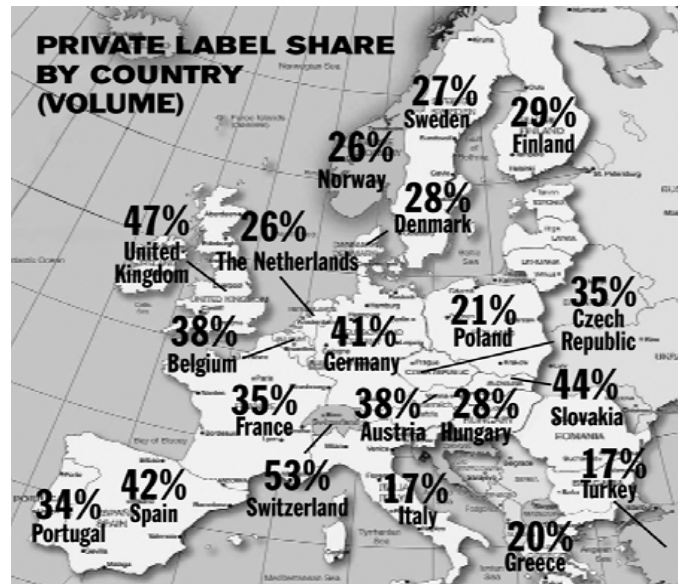# Competitive Effect
# of Private Labels:
The Role of Positioning

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VNiVERSiDAD
Ð SALAMANCA

Why do we focus on private labels?

PLMA, 2010

▶ Fast growth of store brands in recent years

▶ Europe leads the international scene in terms of market share

▶ Spain is among the top five

▶ Future: expected growth as a consequence of the economic downturn

Framework: Research project

Key questions: Implications of **store brands on...**

▶ the retail store's ability to attract and retain customers

▶ the competitive structure within product categories

▶ leadership within product categories (i.e., brand equity)

▶ consumer attitudes, shopping habits, and market segmentation

Cross-sectional questions:

▶ dynamic and evolving nature of the store brand phenomenon

▶ integration of attitudinal and behavioural perspectives

▶ store brand diversity in terms of value propositions

▶ product category diversity within retail stores

▶ diversity of retailers' competitive positions

▶ the development of alternative retail channels

▶ Vertical vs. horizontal competitive effects

▶ Store brand loyalty and store loyalty

▶ Role of store's positioning

González-Benito & Martos-Partal (2011): "Role of Retailer Positioning and Product Category on the Relationship between Store Brand Comsumption and Store Loyalty", accepted for publication in Journal of Retailing

▶ Role of store brand's positioning

Martos-Partal & González-Benito (2011): "Store brand and Store Loyalty: The Moderating Role of Store Brand Positioning", accepted for publication in Marketing Letters

▶ Vertical vs. horizontal competitive effects

▶ Vertical competitive effects: within the distribution channel;
improving retailer performance at the manufacturer's expense

   ▶ Higher profit margins

   ▶ Negotiation leverage with national brands; bargaining power of retailers

▶ Horizontal competitive effects: among retailers;
improving retailer performance at the expense of other retailers

   ▶ Attraction of customers

   ▶ Retention of customers – STORE LOYALTY
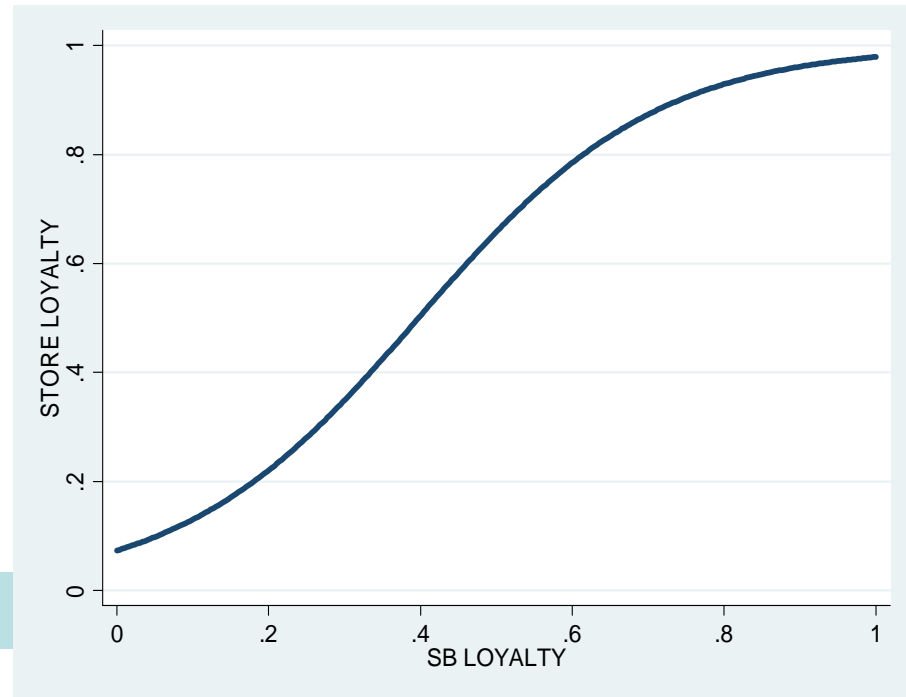
▶ Store brand loyalty and store loyalty

STORE BRAND LOYALTY ⟷ STORE LOYALTY
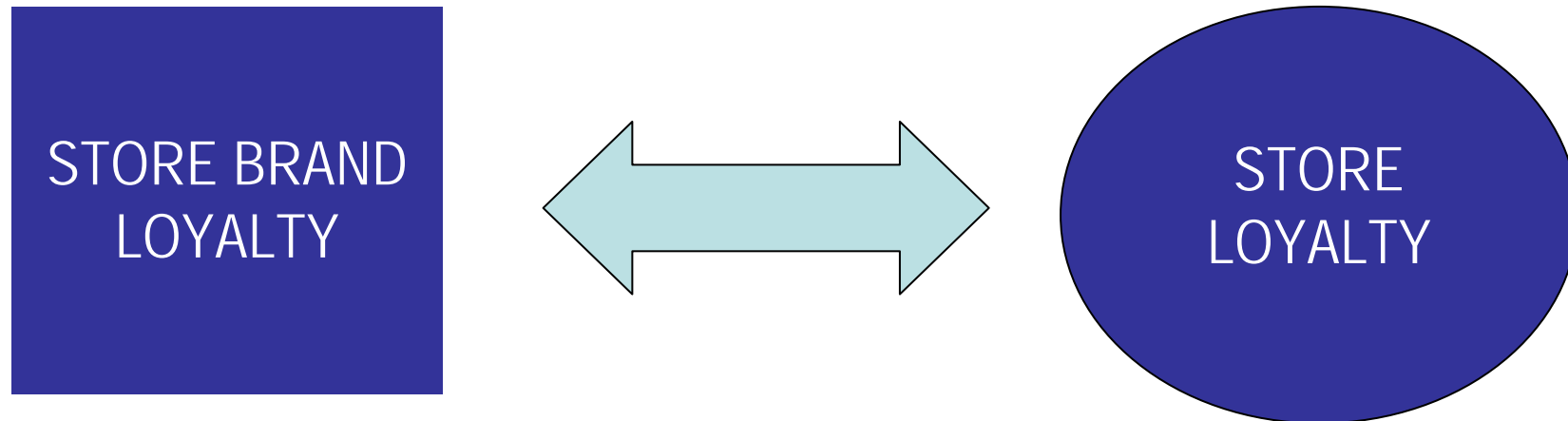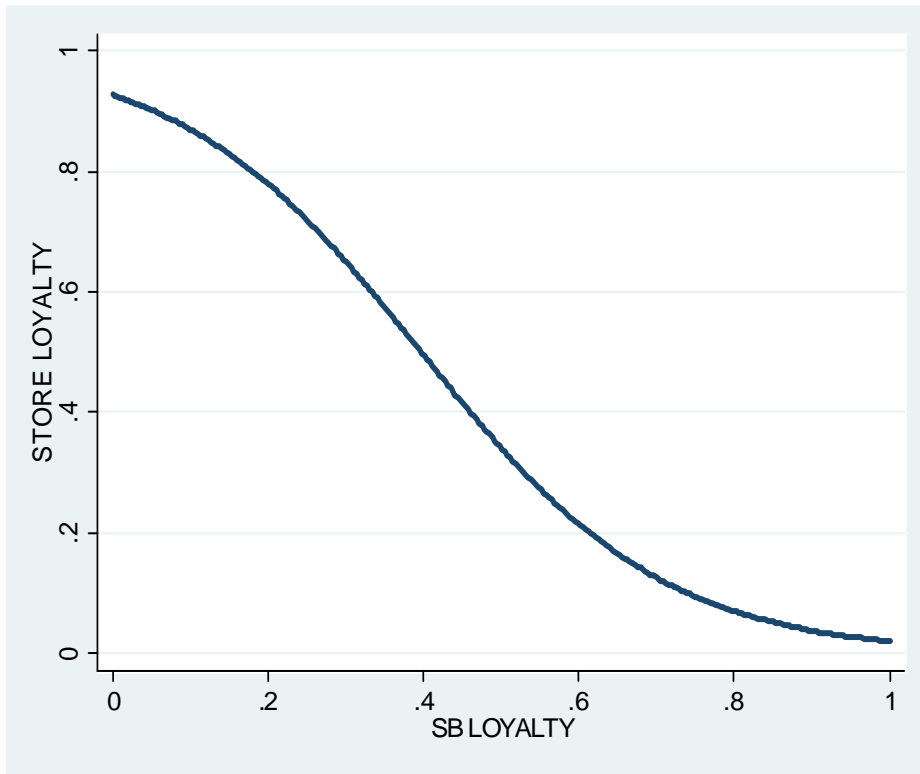
POSITIVE RELATIONSHIP

STORE BRAND LOYALTY AND STORE LOYALTY

DIFFERENTIATION FOR THE RETAILER

SB policy oriented to quality

Collins-Dodd & Lindley, 2003; Dhar, et al., (2001); Richardson et al. (1996); Ailawadi et al. (2001); Sudhir & Talukdar (2004); Kumar & Steenkamp (2007); Cortjens & Lal (2000); Steemkamp & Dekimpe, (1997); Sethuraman (2006); Hansen, et al., (2006)

NEGATIVE RELATIONSHIP

STORE BRAND LOYALTY AND STORE LOYALTY

ATTRACT TO PRICE-SENSITIVE CONSUMERS

SB policy oriented to low price

Ailawadi & Harlam (2004); Richardson, 1997; Sudhir & Talukdar (2004); Dick, et al. (1995); Hansen, et al., (2006); Sethuraman, (2006); Hoch (1996); Burton et al., (1998); Ailawadi, et al., (2001); Hansen & Singh, 2008; Cortjens & Lal (2000)
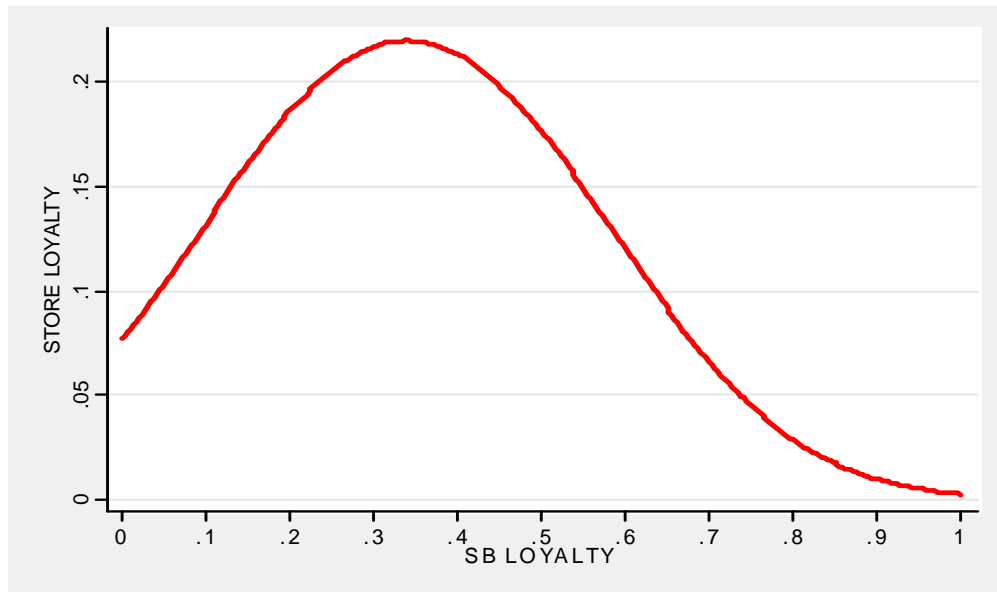
INVERTED U (NON-MONOTONIC)

STORE BRAND LOYALTY AND STORE LOYALTY

DISTINGUISH LOW, MEDIUM AND HIGH LEVELS OF SB LOYALTY

Ailawadi, Pauwels, & Steenkamp (2008)

Ailawadi, Pauwels, & Steenkamp (2008)
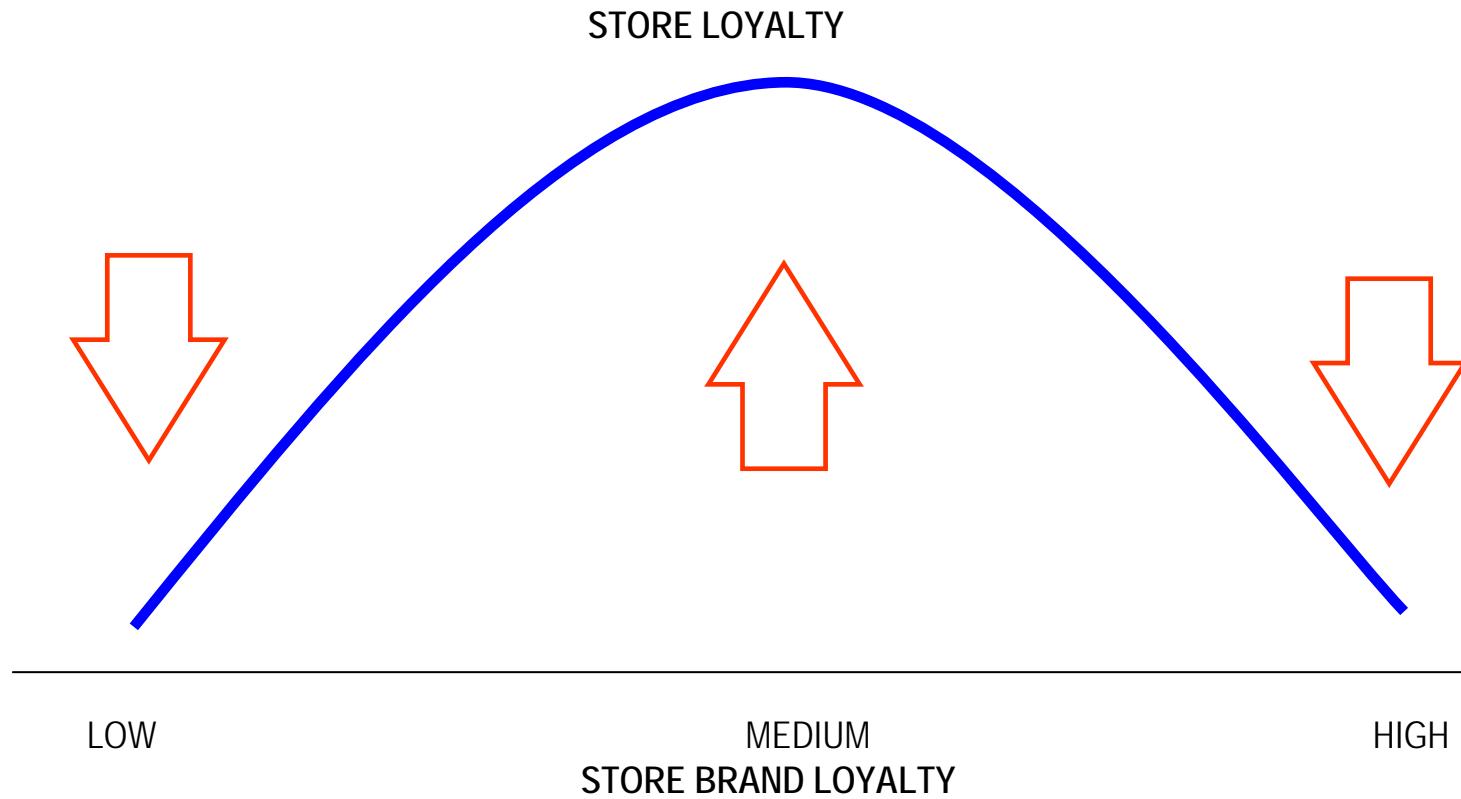
STORE LOYALTY

LOW   MEDIUM   HIGH

STORE BRAND LOYALTY

▶ Role of store's positioning

González-Benito & Martos-Partal (2011): "Role of Retailer Positioning and Product Category
on the Relationship between Store Brand Comsumption and Store Loyalty",
accepted for publication in Journal of Retailing

Objective 1

Test the relationship between store brand purchases and store loyalty for top retailers operating in the Spanish grocery market, which employ different formats and competitive positioning tactics

Hypothesis 1

We generalize Ailawadi's et al. 2008 findings on the relationship between PL purchase and store loyalty

H1: *The relationship between in-store private-label share and store loyalty is nonmonotonic; specifically, it is positive up to a certain store brand share level, after which it becomes negative (inverted U shape)*

Objective 2

Provide a theoretical argument and empirical evidence about the moderating effect of retailers' competitive price positioning on the relationship between in-store private-label share and store loyalty

Focus on price positioning

Burt and Sparks (1995)

Tordjman (1994)

Extended Choice

Limited Choice

Low Price

High Price

Hypermarket

Superstore

Discount supermarket

Classic supermarket

Qualitative supermarket

Extended range discount store

Hard discount

Traditional neighborhood grocery

Convenience store

Limited line discount store

Quality specialist
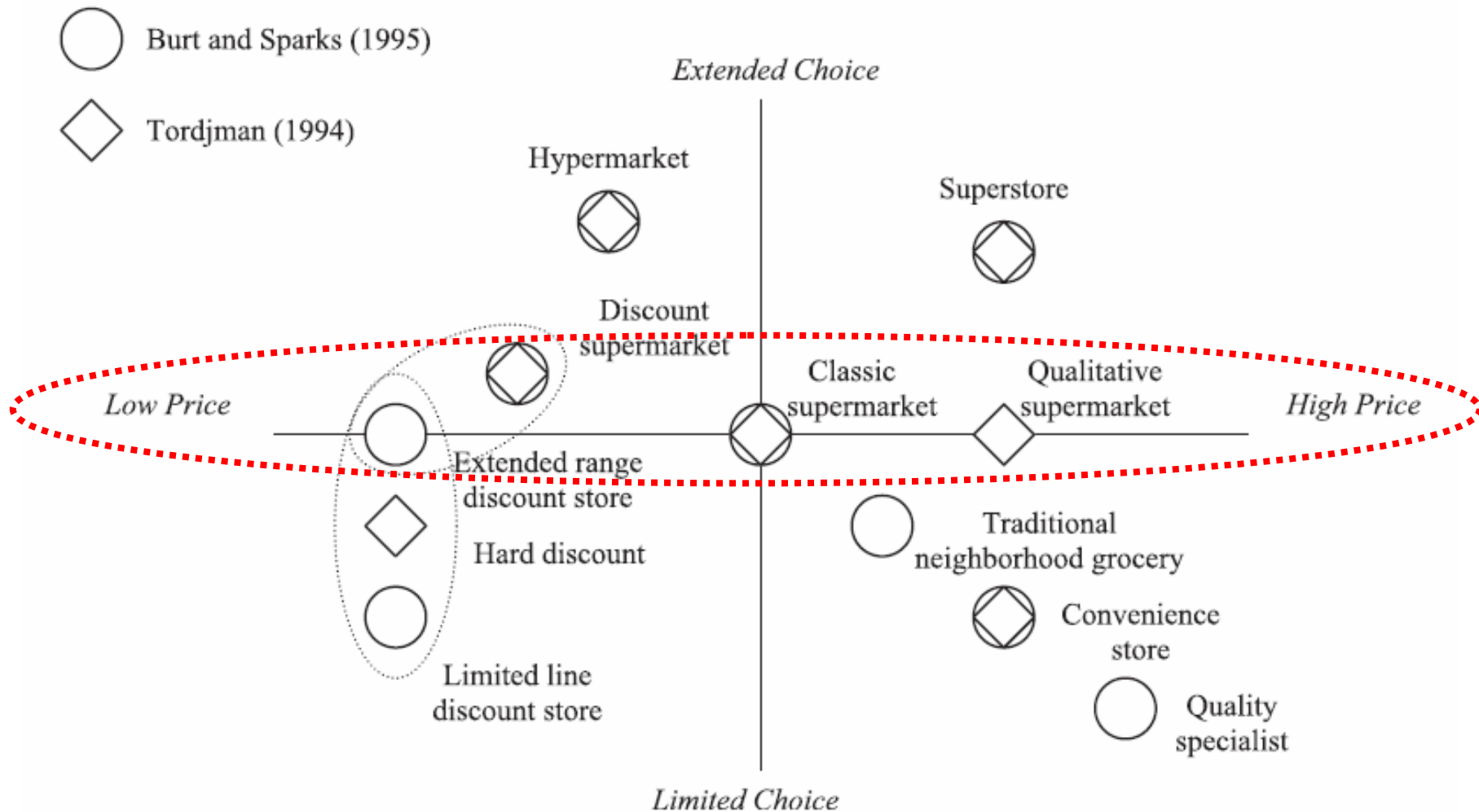
Premises

✓ Customers of retailers that focus on price should tend to be more price sensitive (Moore and Carpenter 2006; Deleersnyder et al. 2007).

✓ A store brand strategy often aligns with a retailer's price–quality positioning (Kumar and Steenkamp 2007; Dhar and Hoch 1997)

STORE LOYALTY

Retailer oriented to quality

Retailer oriented to price

LOW   MEDIUM   HIGH

STORE BRAND LOYALTY
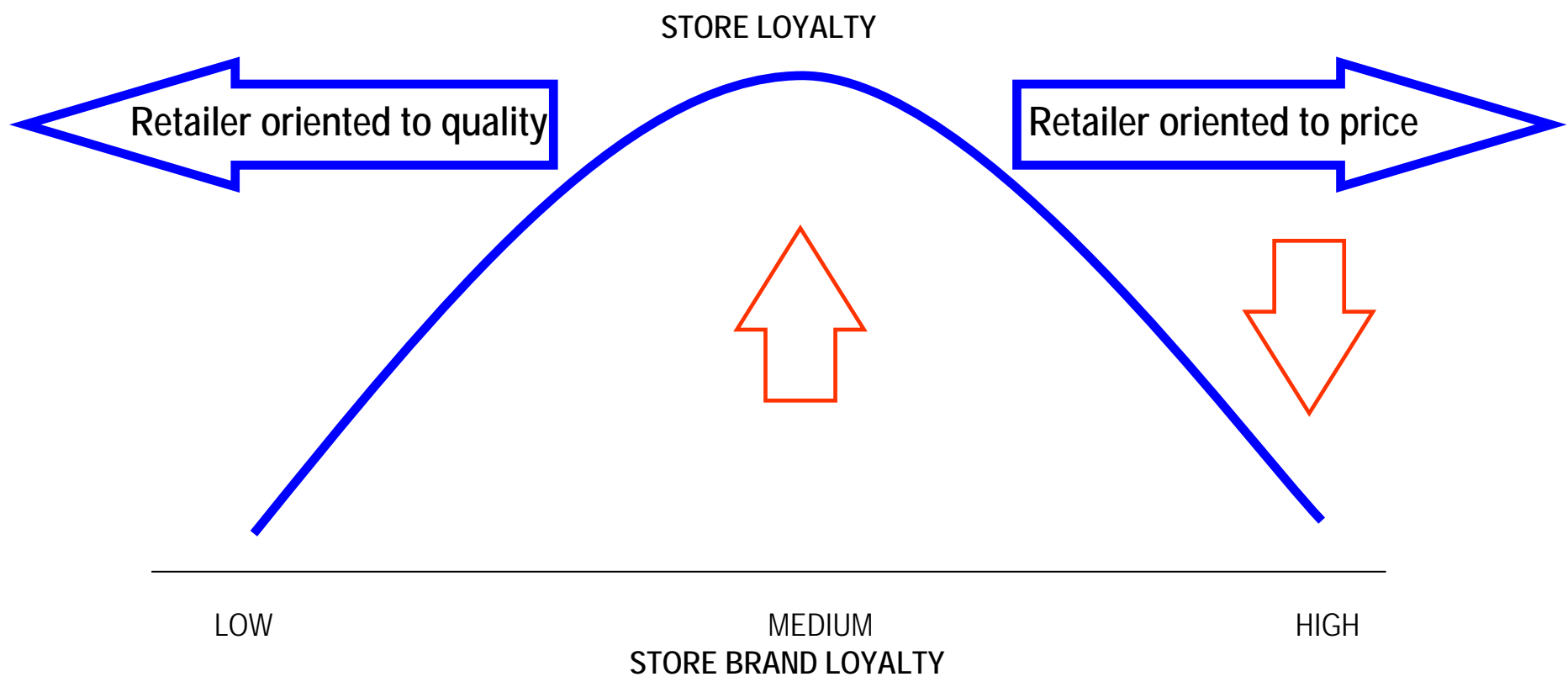
Hypothesis 2

H2: *The relationship between store brand share and store loyalty is more favorable when the retailer's positioning focuses more on price. In the nonmonotonic relationship (inverted U) framework, the level of store brand share that induces a negative relationship with store loyalty occurs later, and the relationship is less prominent when the retailer's positioning focuses on price instead of quality*

Data

- Household scanner panel
  - TNS Spain, more than 2000 households
- Categories
  - Food, household and personal care products
- Time period:
  - Second half of 2007 to the first half of 2008
- Ten retails chains:

Price levels

Retail Chains	Normal Basket	Cheap Basket
MERCADONA	110	118
CARREFOUR	110	104
EROSKI	111	106
ALCAMPO	107	106
DIA	109	105
HIPERCOR	120	147
CAPRABO	115	113
LIDL	Not available	102
DINOSOL	113	125
CONSUM	115	117

Description of Retailers' Private-Label Strategies in Spain	
MERCADONA	Has a developed a different quality-oriented private label for each broad category: Hacendado in the food category, Bosque Verde in the household category and Deliplus in the personal care category. These three labels capture most of the purchases of store brand, although it also offers other private labels in specific categories (e.g. beers or deodorants).
CARREFOUR	Has a developed a two-tier private label strategy focused on food and household products: Number 1 as generic and Carrefour as copy-cat. Recently, it has launched several premium labels that focus on food products and differ across categories (Carrefour Selection, Carrefour Eco-Bio and Carrefour Non-Gluten). Carrefour and Les Cosmetiques are the private labels in the personal care category. They also offer other minor private labels in specific categories.
EROSKI	Eroski is his private label across most of the categories. It is a quality-oriented store brand that could be classified as copy-cat. It also offers other minor private labels. These include some premium type private labels focused on specific food categories.
ALCAMPO	Has a copy-cat private label called Auchan for most product categories. It also offers other minor private labels. These include some premium type private labels focused on specific food categories.
DIA	Dia is its main private label and has a positioning with a strong focus on price. Other private labels focus on specific categories and, in many cases, include the name of the store.
HIPERCOR	Hipercor is its private label and has a positioning with a strong focus on quality.
CAPRABO	Use a three-tier private label strategy in the food category: Alcosto (generic), Caprabo (copy-cat) and Caprabo Big Selection (premium). In the household and personal care categories only use the label Caprabo.
LIDL	Use a multi-private labels strategy with different labels for each specific category. Their private labels have a positioning with a strong focus on price.
DINOSOL	Has a low developed private label strategy. Supersol is his main private label, which is offered across most of the categories.
CONSUM	Has a scarcely developed private label strategy. Consum is his private label across most of the product categories. It has a copy-cat positioning.

Descriptives

	MERCADONA (CUSTOMERS: 1808)		CARREFOUR (CUSTOMERS: 1542)		EROSKI (CUSTOMERS: 1285)		ALCAMPO (CUSTOMERS: 944)		DIA (CUSTOMERS: 1724)		HIPERCOR (CUSTOMERS: 424)		CAPRABO (CUSTOMERS: 472)		LIDL (CUSTOMERS: 1218)		DINOSOL (CUSTOMERS: 193)		CONSUM (CUSTOMERS: 305)	
	Mean	S.D	Mean	S.D	Mean	S.D	Mean	S.D	Mean	S.D	Mean	S.D	Mean	S.D	Mean	S.D	Mean	S.D	Mean	S.D
PURCHASE BEHAVIOR																				
Number of patronized stores (only top ten retailers)	4.21	1.52	4.49	1.42	4.34	1.56	4.70	1.44	4.29	1.47	5.16	1.49	4.66	1.56	4.68	1.35	5.17	1.51	4.64	1.54
Store loyalty	0.19	0.21	0.12	0.16	0.13	0.20	0.10	0.14	0.11	0.12	0.03	0.06	0.08	0.14	0.05	0.07	0.04	0.08	0.08	0.14
SB share (across competing stores)-SB propensity	0.15	0.11	0.17	0.11	0.14	0.11	0.14	0.11	0.14	0.09	0.12	0.11	0.13	0.12	0.17	0.09	0.15	0.12	0.14	0.12
SB share (in-store)	0.37	0.20	0.26	0.23	0.32	0.28	0.19	0.23	0.52	0.25	0.26	0.33	0.15	0.22	0.72	0.24	0.26	0.35	0.15	0.20
SB share on food (in-store)	0.34	0.20	0.25	0.23	0.32	0.28	0.18	0.23	0.51	0.25	0.26	0.33	0.14	0.22	0.71	0.25	0.25	0.35	0.14	0.19
SB share on household products (in-store)	0.76	0.24	0.40	0.35	0.44	0.37	0.36	0.37	0.67	0.31	0.12	0.27	0.21	0.28	0.88	0.24	0.43	0.40	0.30	0.34
SB share on personal care (in-store)	0.80	0.30	0.37	0.40	0.55	0.42	0.29	0.38	0.72	0.38	0.12	0.29	0.22	0.36	0.89	0.27	0.40	0.42	0.45	0.43
SOCIODEMOGRAPHICS																				
Social Class 1 (low)	0.18	0.38	0.14	0.35	0.18	0.38	0.16	0.37	0.21	0.41	0.12	0.33	0.18	0.38	0.17	0.37	0.16	0.36	0.18	0.38
Social Class 2 (medium-low)	0.25	0.43	0.25	0.43	0.26	0.43	0.23	0.42	0.27	0.44	0.19	0.39	0.22	0.41	0.26	0.43	0.27	0.45	0.30	0.46
Social Class 3 (medium)	0.35	0.47	0.37	0.48	0.37	0.48	0.39	0.48	0.33	0.47	0.37	0.48	0.33	0.47	0.35	0.47	0.35	0.48	0.34	0.47
Social Class 4 (high-medium/high)	0.20	0.40	0.22	0.41	0.18	0.38	0.20	0.40	0.17	0.37	0.29	0.45	0.26	0.44	0.20	0.40	0.20	0.40	0.16	0.37
Household's size	3.06	1.17	3.12	1.16	3.05	1.17	3.05	1.17	3.08	1.19	3.08	1.21	2.93	1.14	3.06	1.21	3.27	1.33	3.02	1.22
Children in the household	0.38	0.48	0.41	0.49	0.39	0.48	0.40	0.49	0.38	0.48	0.37	0.48	0.37	0.48	0.38	0.48	0.40	0.49	0.36	0.48

Model

- Integrative model for all top ten retailers considered in our data

$$\pi_{ij} = \frac{e^{U_{ij}} \cdot \delta_{ij}}{\sum_{j' \in J} e^{U_{ij'}} \cdot \delta_{ij'}}$$

- For each retailer j, we assume its utility is determined by the explanatory variables of interest.

$$U_{ij} = \alpha_j + \lambda_j Z_i + \psi_j SBP_{ij} + \beta_j LSB_{ij} + \gamma_j LSB_{ij}^2$$

- Model estimation: adaptation of the maximum likelihood procedure for the qualitative dependent variables

$$L = \prod_i \prod_{\substack{j \in J \\ \eta_{ij} \neq 0}} \pi_{ij}^{\eta_{ij} \cdot n_i}$$

Test

- To test for nonmonotonicity:
  - we also estimated a restricted monotonic version in which the parameters for the quadratic term of store brand loyalty are fixed to 0

- To test differences across retailers:
  - we estimated a restricted version in which the parameters for store brand loyalty are equal across retailers

Estimation results

Relationship Between Store Loyalty and Store Brand Share

|	MERCADONA	CARREFOUR	EROSKI	ALCAMPO	DIA	HIPERCOR	CAPRABO	LIDL	DINOSOL	CONSUM
Constant	-2.20***	-1.81****	-2.03***	-1.59***	-2.76***	-2.39***	-2.12***	-3.51***	-3.90***	-2.30***
Social Class 1	-0.25***	-0.59***	-0.07	-0.24	-0.02	-0.83**	-0.67***	-0.23	0.62	0.41
Social Class 2	-0.19**	-0.45***	0.01	-0.14	0.02	-0.56	-0.02	-0.21	0.85*	-0.12
Social Class 3	0.01	-0.21***	-0.04	-0.12	0.06	-0.34	-0.09	-0.11	1.02**	-0.41
Household's size	-0.05*	-0.08**	-0.17***	-0.11***	-0.05*	-0.19*	-0.23***	-0.15***	-0.01	-0.05
Children in the household	0.30***	0.25***	0.27***	0.14	0.31***	0.09	0.16	0.21	-0.26	0.10
SB propensity	0.35	0.73**	0.82**	0.25	-0.006	1.81*	1.71***	1.72***	3.04***	0.13
SB share	9.10***	8.06***	8.99***	7.83***	6.25***	8.06***	13.29***	7.19***	18.38***	19.65***
SB share ^{2}	-12.80***	-12.99***	-12.52***	-17.00***	-6.02***	-16.44***	-31.96***	-6.31***	-73.45*	-51.72***
Goodness of fit (Likelihood ratio test)***										
Comparison with monotonic restricted version (Likelihood ratio test)***										
Comparison with the undifferentiated-across-retailers restricted version (Likelihood ratio test)***										

Support H1

In line with H2

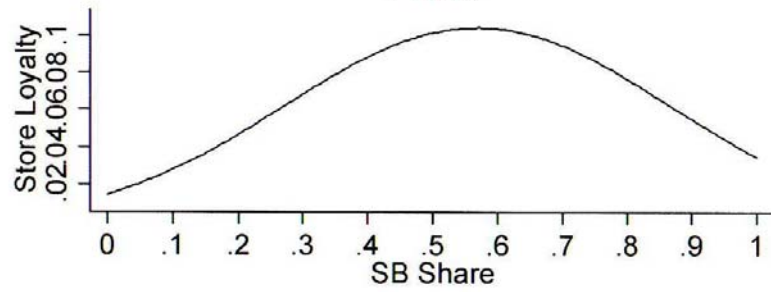Notes: SB = store brand. * $p < .10$. ** $p < .05$. *** $p < .01$.
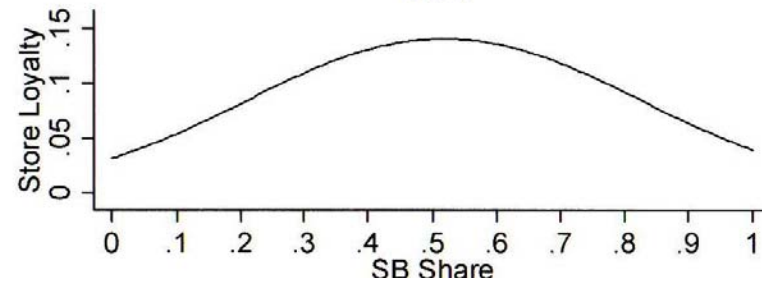
Estimated curves
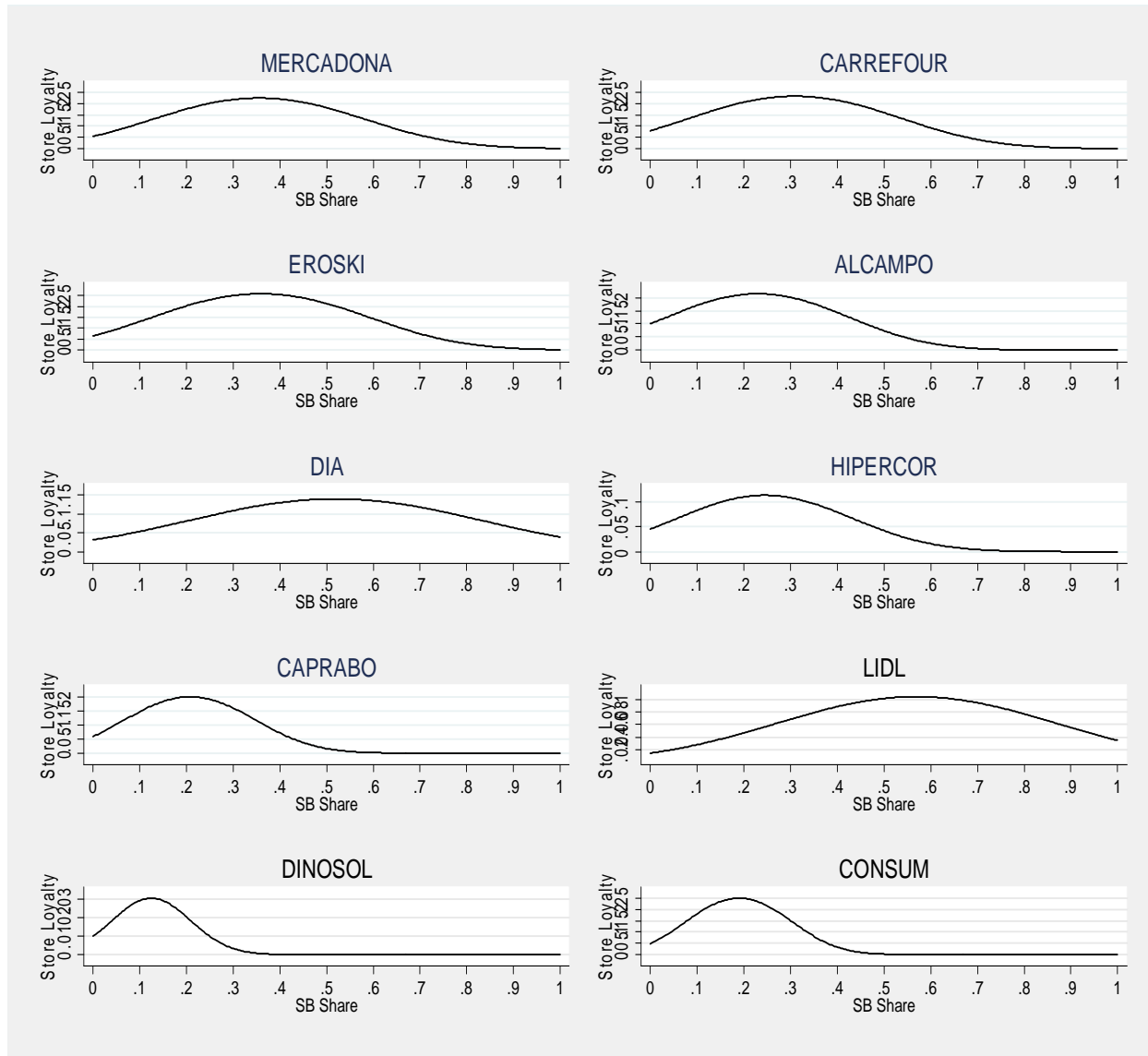
HIPERCOR
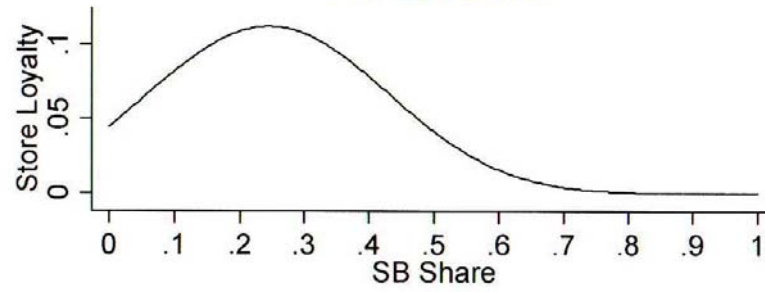
LIDL

DIA

Formal test for H2

We compare estimated curves with the price positioning of the retailers

1. We correlate the **price levels** with the **maximum of the function**
   - The Pearson's correlation, Kendal's Tau, and Spearman's rho for the normal basket are –.45, –.29, and –.48, respectively. For the cheap basket, these values are –.51, –.54, and –.64.

   The negative correlation signs indicate that higher price levels involve lower maxima. In other words, the store brand consumption level that initiates the negative effect on store level comes later when the chain's price level is lower, **in support of H2**

2. We correlate the **price levels** with the **curvature of the function**
   - The Pearson's correlation, Kendal's Tau, and Spearman's rho are –.33, –.29, and –.48 for the normal basket and –.35, –.49, and –.61 for the cheap basket, respectively.

   In this case, the negative signs suggest that higher price levels involve a more shapely curvature, such that the inverse relation between store brand consumption and store loyalty has a lesser effect when the store's price level is lower, **again in support of H2.**

Conclusions

▶ Our investigation supports the nonmonotonic relationship between store brand share and store loyalty in ten store chains in Spain

▶ We corroborate the framework with regard to the role of the retailer's price positioning on the relationship between private-label consumption on store loyalty

  ✓ When this positioning focuses on price rather than quality, the relationship is more favorable - the store brand share level at which the relationship begins to be negative occurs later, and the relationship is less negative

Implications

▶ Store brands can contribute effectively to a retailer's performance, at least in terms of loyalty. However, retailers cannot rely unconditionally on their store brands; rather, they need to determine an appropriate **balance between private and national brands**.

▶ The positive relationship between store brand consumption and store loyalty seems more difficult to maintain when the retailer's positioning focuses on quality; the negative relationship begins at a lower level of store brand share. This result may reflect the difficulty associated with developing store brands that satisfy customers' quality expectations across multiple product categories. By **enhancing the quality of store brands and ensuring they are coherent with their existing quality positioning**, stores might minimize this negative relationship.

▶ Third, the nonmonotonic relationship between private-label share and store loyalty seems to reflect the balance of **price-conscious versus quality-driven customers** of a store. Therefore, when developing store brand portfolios, retail managers should try to target both kind of customers to optimize store brand performance

Limitations

▶ Attitudinal perspective?

▶ Other determinants of store loyalty?

▶ Directions of causality?

▶ Segmentation?

▶ Role of store brand's positioning

Martos-Partal & González-Benito (2011): "Store brand and Store Loyalty:
The Moderating Role of Store Brand Positioning",
accepted for publication in Marketing Letters

Store brand strategy

- Retailer today manage a multibrand portfolio of PL rather than simply having a single store brand

- Three-tiered PL portfolio:

    - **Generic** PL – low-quality, enconomic PLs

    - **Copycat - Standard** PL – mid-quality PLs

    - **Premium** PL - top-quality PLs

Objective

To provide empirical support for the moderating effect of store brand's position on the price-quality continuum on the relationship between in-store private-label share and store loyalty

STORE LOYALTY

Store brand oriented to price

Store brand oriented to quality

LOW

MEDIUM

HIGH

STORE BRAND LOYALTY
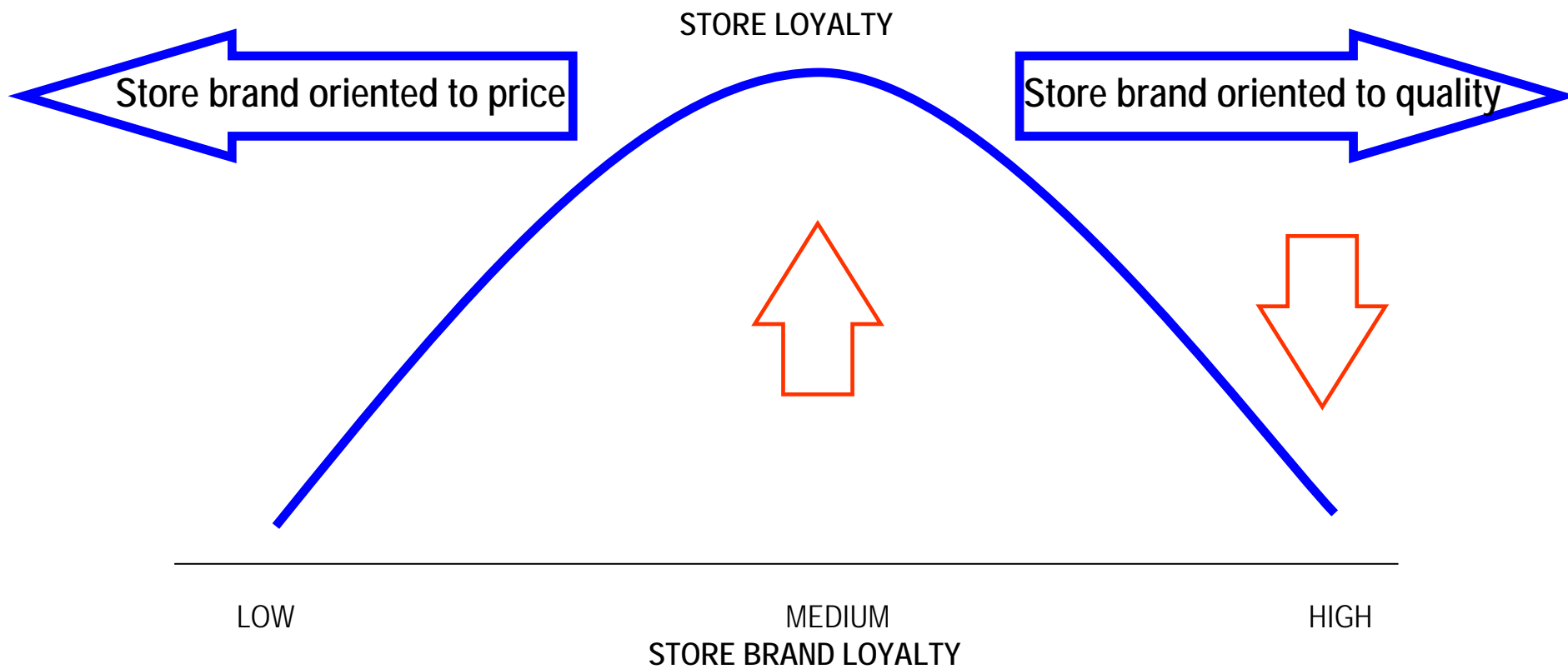
Hypothesis

H: *The relationship between store brand share and store loyalty is more favorable when the store brand positioning is oriented more toward quality rather than toward price. In the nonmonotonic relationship (inverted U) framework, the level of store brand share that induces a negative relationship with store loyalty occurs later*

Estimated curves

CARREFOUR

Estimated curves

CAPRABO
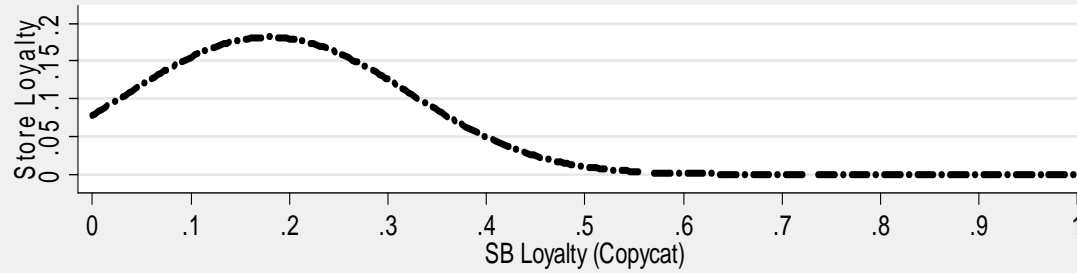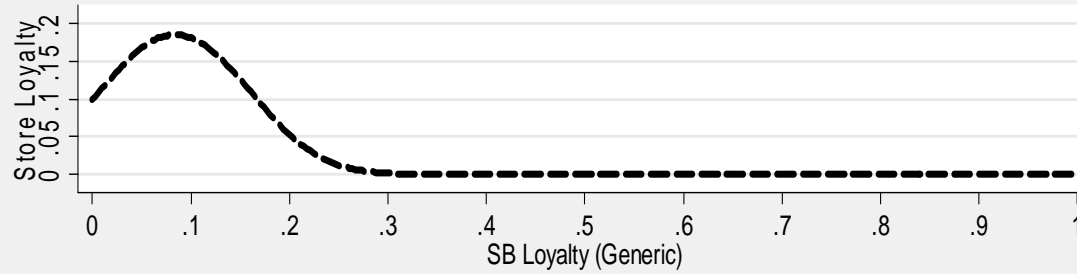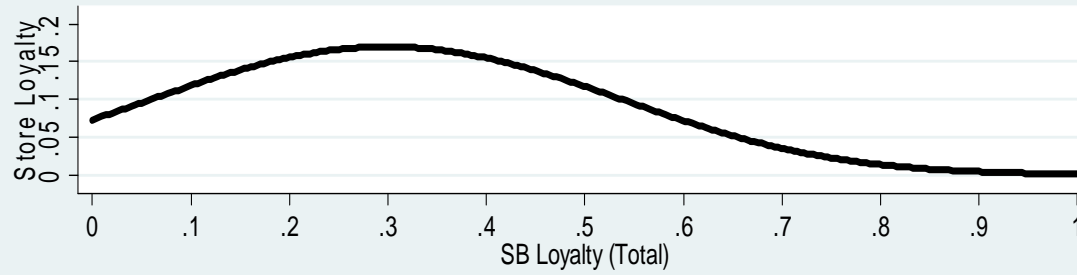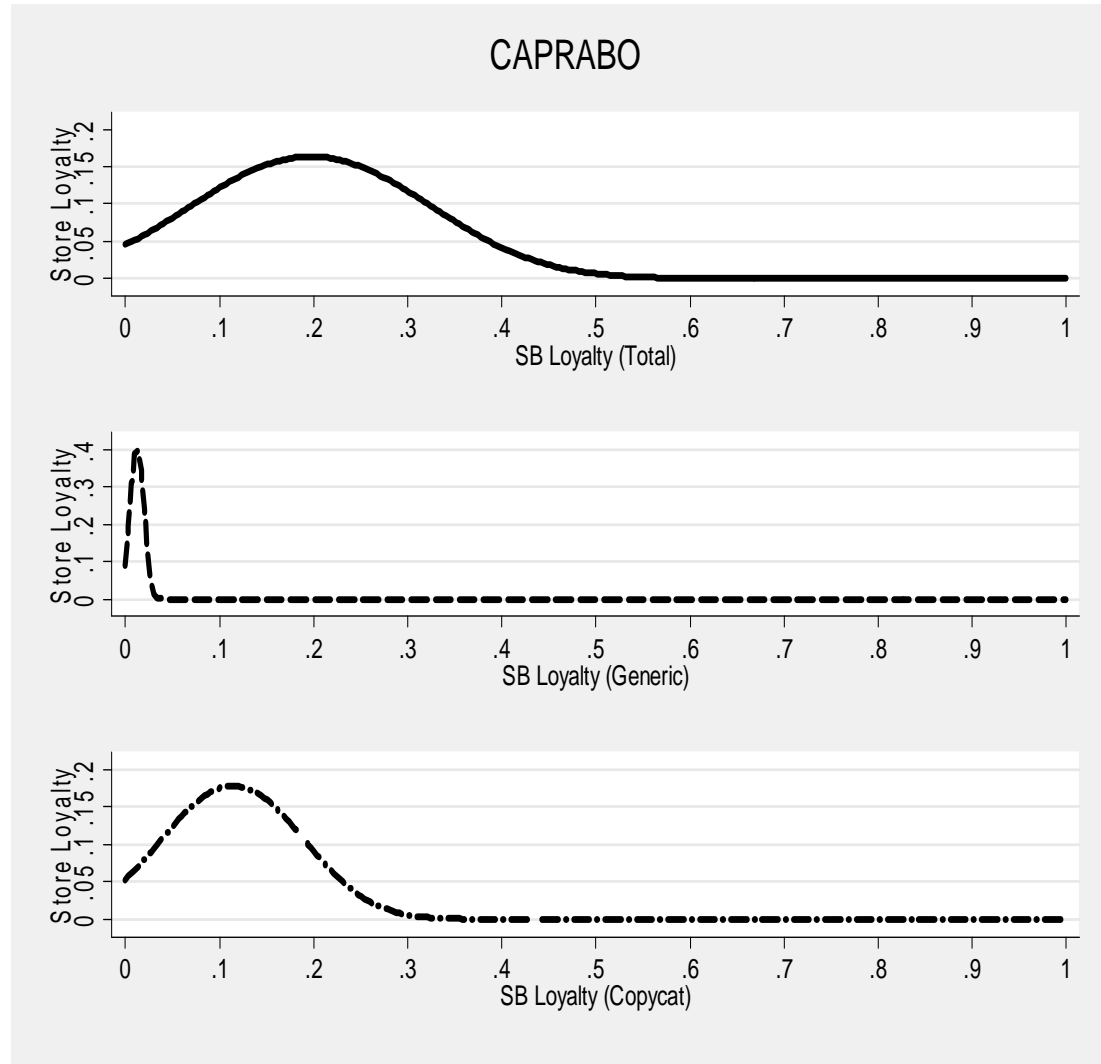
Conclusions

▶We corroborate the framework with regard to the role of the store brnad's positioning on the relationship between private-label consumption on store loyalty

✓When this positioning focuses on quality rather than price, the relationship is more favorable - the store brand share level at which the relationship begins to be negative occurs later

Implications

▶ Retailers should combine the role of quality oriented store brands to differentiate the store and the role of price-oriented store brands to attract price-conscious consumers.

Standard store brand – retention of customers

Generic store brand – attraction of price-conscious consumers

Limitations

▶ Attitudinal perspective?

▶ Other determinants of store loyalty?

▶ Directions of causality?

▶ Segmentation?

▶ PREMIUM store brands?

Questions?

Thank for your attention!