

Store brand and marketing strategies in the development of retailers and in the relations among industries

Abstract

This work is part of a large research on the role of the store brand as a driver for the development of mass retailers in food and non-food sectors. In particular, this paper proposes an analysis of the actual reality of the store brand, considering the difficulties in national and international markets and the fast development of different formats and concepts of retailers and store brand concepts in competitive environments. This work analyzes the principal core competencies of marketing which improve the possibilities of differentiation and new possible relationships between retail companies and industrial firms.

Keywords: Store brand, private label, relations between industry and retailer

Introduction

Since they appeared on the market, store brands have seen a strong development and spread, obtaining more and more space both in the space allocation of market operators and in the faith of customers. Nevertheless, private brands still show great potentialities for the operators, and this requires a deeper reflection on the strategic size of the phenomenon and the evolution of purchase and consumption. This re-defines relations with the productive system – vertical dimension – and the competent differentiation among retailers – horizontal dimension. This frame requires a stronger awareness about the store brand as a coordinate action with high strategic value, and not as a mere tactical tool.

With the strong internationalization of distribution and the increasing of marketing culture for retailers, the potential value generated by the strong identity connotation shows its effects on categories, format of retailers, through a capacity/competence of structure, creation system. Above all, it re-positions the surplus value achieved by improving contractual relations and the confidence of final customers.

These issues determine the necessity for retailers of investing systematically in a set of internal competencies that – after a long period of competition driven aimed at improving prices and increasing sales proceeds of industrial firms – could define an autonomous path for the increasing and distribution of surplus value (inter-dependent phenomena). This path is based on retailers' marketing competencies and on a clear shared strategy of horizontal differentiation, according to the issue that development and increasing of retailers – in a moment of stagnation of consumption, deflation of prices and compression of economic boundaries – will work out thanks to the confidence of final customers, to the detriment of other retailers existing on the market.

1. Research on the issue of store brand

Studies on the store brand [1] can be classified in five main groups, whose themes and perspectives changed following the evolution of store brands and branding systems actuated by retailers in the time.

The first area of studies focused on the analysis of customers towards the store brand. The first contributions concerning purchasing behaviors about store brands are those of Myers in 1967,

focusing on the relation between income availability and purchase of store brands – opening an area of studies in 70's and 80's which started to analyze the customers' socio-economic conditions as decisive purchasing factor [2]. Bettmann (1974) moved the attention on the characteristics of the offer and their perception from the customer's point of view, according to factors as quality, risk and familiarity of the product as fundamental features for the purchase.

Another fundamental contribution, which synthesized organically the previous researches, comes from Richardson (1996), who identifies three classes of variables [3], able to explain the tendency of the customer in the purchase of store brands.

Later on, other features have been gradually highlighted in this study, such as the perception of promotional offers (Burton et al., 1998) and the role of categories of products (Sinha and Batra, 1999). Lately, even features of personality and different reactions to marketing incentives have been taken into consideration (Dalli and Romani 2003) – beyond the hedonistic and recreational features connected to purchase (Ailawadi et al, 2001). In general, studies on purchasing behavior of customers related on store brands is very wide and different approaches offer a complete sight on the variables taking part in it – among which convenient price and wide/good offer play the best roles.

A second group of studies, strictly connected to the first one, tried to identify the situations for the introduction of a store brand and the factors for the different market shares reached in different categories (Dhar Hoch 1997; Hoch Banerji 1993). Specifically, talking about the first feature, Raju, Sethurman and Dhar (1995) underline the necessity of re-analyzing the traditional idea according to which store brands have more success in price sensitive markets. These researchers distinguish two types of price competition: one existing only between industrial brands, the other concerning store brands in the place of private brands. According to this perspective, a high level of price competence among industrial brands makes the introduction of a market brand less convenient, since it will not reach enough attraction and market share. On the contrary, a high price competence between industrial and market brands represents a good condition for the introduction of store brands and for their high performances. Other important factor taken into consideration is the product line: the wider is the range of industrial brands offered within the same line, the wider is the opportunity of success of a well allocated store brand, with positive effects on the whole category. Hoch and Banerji (1993) empathize quality (more than convenience) as main factor of success, underlining that store brands are more successful in markets with less industrial competitors, (investing less in advertising).

Dhar and Hoch (1997) also highlight the importance of the label to guarantee acceptable and competitive levels for the quality of the market brand product, a sufficient width of the offer of private labels, the presence – among them – of brands allocated as premium and the introduction of sensible differentiation of price compared to the offer of industrial brand.

Rubio and Yague (2009), basing on the previous studies, propose an effective synthesis model about the determinant factors of the market share of the store brands, identifying variables in four macro-classes: competitive strategy, market structure, characteristics of the demand and economic-financial goals.

The research highlighted as the introduction of market brands in the last years is becoming more a choice with strategic – and not mere tactic – features, since their success requires conditions much more complex than a good price. The success of store brands, in fact, is more and more connected with the growth of their quality and, above all, on refining marketing strategies for their support.

The last issue introduces to the third group of research, which tried to identify the optimum level of quality for products with market brand (Dunne Narasimhan 1999; Winningham 1999; Apelbaum et al 2003) and the factors able to convince the customer to buy them (De Wulf et al. 2005; Sprott Shimp 2004), so that retailers can fully take the potential benefits. In this perspective, Apelbaum, Gerstner and Naik (2003) confirm the necessity of proposing a high quality level together with a good price, so to get the better of the industrial competitors. Other authors, even confirming the importance of the relation price-convenience, also consider other tools able to support the market brand. Among them, Ceccacci (2009) underlines the importance of packaging in communicative perspective, since it favors the relation with the customer, guarantees the visibility of the product within the distribution system and expresses the positioning chosen (Cristini 1994), with following effects in differentiation. Others (Sprott and Shimp, 2004) underline the importance of sampling and of in-store promotions, to affirm market brands against the effect of the advertising supporting industrial products. Finally, even the development of retailers in recreational, emotional and social terms, is identified as a potential useful tool to rise interest and motivation in the customer (De Wulf et al., 2005).

Obviously, a stronger awareness on principles and tools for the development of store brand strategies is necessary for those operators focused on using their own potentialities in a wise and strategic way. Therefore, these studies appear extremely useful even from a management point of view, and they need to be updated in order to adequately follow the evolution of this phenomenon for the retailers.

Another line of research, on the other hand, considered the relation between market and industrial brands, especially in a competitive perspective, at least in a first moment. According to Quelch and Harding (1996), private labels represent a serious threat for the manufacturing industry, due to a series of concomitant factors, such as: the growing quality level, the development of premium private labels, the development of innovative channels – mass merchandisers and warehouse clubs – able to launch their own new threatening brands at a national scale, and the development of new product categories potentially “conquerable” by retailers. Even looking at the big success reached by store brands on the market, the necessity of strategies to contain this strong competition (between store and industrial brands) becomes very strong. In this perspective, a first “battlefield” is the sale price. In this case retailers have a benefit position, since co-packers (Lugli, 1993) aiming at eliminating the excess of productive capacity, the absence of advertising costs and the inferior influence of logistic costs give a relevant advantage in more competitive prices (Kotler, 1994).

Even talking about quality - that usually rewarded industry - the tendency has been lately that of reinforcing retailers, more and more focused on increasing the value of their offer to fill this gap with respect to the producers. Another field characterized by a strong competition is then that of promotions: they are the main communication tool used by retailers to support their private labels; consequently, industry tends to develop this kind of initiative to compete in a direct way and get closer to the customer (Manzur et al., 2009). A competitive tool which favors industry is then advertising, through which brand image and brand loyalty are reinforced to the detriment of the store competition.

Yet, advertising opens to a second possible variable in the relationship between store and industrial brands, characterized by collusion-collaboration, as alternative to competition and with good benefits for both the parts. In fact, advertising can work in order to discourage the introduction of new industrial competitors, to facilitate communication in the channel and to “mask” eventual explicit agreements between producer and retailer (Parker and Kim, 1997). Moreover, advertising is a tool which produces the effect of differentiating the product with respect to competitors – with benefit for the industrial brand – but also calling the customer’s

attention on a precise category, with indirect benefits on the store and other brands and generating bigger entries for both the parts of the channel. A further factor which can contribute to increase the collaboration between store and industrial brand is the process of co-packing itself. The private label, however, is a product coming from the plant of an industry - even if with a store brand – with mutual benefits for the industry and the retailer (Dunne and Narasimhan, 1999) and with the possibility of developing a collaboration even in a wider perspective, towards forms of real co-marketing (Dioletta and Sansone, 2000).

The last group of studies, finally, focused on the benefits that the adoption of store brand strategies can give to retailers. From this field of research have been taken the crucial points to develop the current analysis. In this area, some studies analyzed the contribution to the profitability of retailers and the effect on the distribution between retailers and producers (Ailawadi 2001; Ailawadi, Harlam 2004; Meza, Sudhir 2005). Others considered the contribution of the store brand to the differentiation of retailers (es. Sudhir, Talukdar 2004) and to the store loyalty (es. Corstjens Lal 2000; Ailawadi, Pauwels and Steenkamp, 2008).

2. Store brand and strategic tools to develop distribution

Carmignano (1993) figured out an interesting classification about the uses of store brand as strategic tool for marketing in the distribution development. The current work is based on this classification, reflecting also upon some features of the current market. There are four main fields in which strategic marketing tools are defined: management of assortments, improvement of profit, reorganization of vertical relations in the channel and competitive differentiation and customers fidelization.

2.1 Widening and rationalization of the assortment

For distribution firms, the launch of store brands and their introduction in the offer means proposing more alternatives to the customer. In fact, with respect to the industrial brands usually kept in the assortment, store brands represent an alternative both as product and as price, satisfying more different segments in the area of customers [4] (Pauwels and Srinivasan, 2004). It is clear that store brand strategy – adequately studied with a focus on the target customers and their segmentation – can slightly influence the Product of Retailing mix, increasing the general value of the offer. Offering a higher value to the customer - through the proposal of a wide range of alternatives taking into account needs and purchase habits – represents a significant step for the client's satisfaction. In the perspective of marketing, this represents a fundamental condition for the future development of the label. Among the different tools to be used for managing the relation of brand products and product categories, we can identify several types of product lines, according to the quality and quantity level of the brand products analyzed (premium products, best prices, etc...).

Types of brand product segmentation do not focus only on the binomial price-quality, even considering features as region, biological lines and age. Above all, the main features taken into consideration for an effective "segmentation" of the store brand offer in the definition of categories are: purchase behavior and consume. Through an analysis of these features, the private brand will be structured in a more rational and accurate way, increasing the possibility of success in the choice of the customer. Generally, segmenting the offer of private labels means for the retailer the possibility of taking advantage of the several features of the demand. Rather than

offering products with its own brand – which will be undifferentiated and “mass oriented”, the choice of a segmentation significantly increases the effectiveness of policies of assortment.

Rationalization of the market offer also passes through another important step useful in the store brands strategies: the accurate selection of product categories for launching private brand products with high content and differentiation. The effectiveness of distribution branding strategy, in fact, requires an accurate consideration and selection of the product categories for introducing and increasing in value products with their own brand (Sansone, 2001). Not all the categories – it is well known in this area of studies – are able to support this ambitious strategy, so that retailers focus on “descriptive” categories, those concerning a more frequent and reflected purchase, which make the brand better identifiable and recognizable.

Selecting descriptive categories is a fundamental step to develop successful store brands, which could contribute to the assortment and the retailer: the association assortment-retailer is considered interdependent, both concerning their image and competition, because their successes are strictly connected.

Actually, today competition between retailers also includes the quality selection: the assortment can play a role of competitive element if it shows exclusivity and originality of the offer. The inferior is the overlapping – and comparability – in the assortment, the wider is the differentiation of the offer with respect to the competitors (Fornari and Grandi, 2009). In this perspective, the store brand represents, of course, the element which can guarantee the maximum level of differentiation (even as an offer), above all if it is associated to categories able to increase strategically its introduction, supported by a good display.

The success in assortment is also obtained through an integrated marketing strategy between category management, store brand, market dimensions and formats. The relation between selection of product categories and brand products presents the problem of the positioning of the store brand and its market proposal in the customer’s mind. Attracting the customer it is not a differentiated offer anymore, but products and brands that, according to “no commodity” references, should impact for packaging, facing and advertising [5]. From this point of view, it is more and more important the development of deep synergies between brand store strategy and category management and merchandising strategies, which can represent significant tools for the a successful assortment.

2.2 Increasing in value of retailers.

Increasing profits through the sale of products and service is the main step in the development of any distribution firm. Therefore, the price found in the retailer includes a margin that rewards the market intermediate and includes the profit. Determining this margin in the pricing activity is a very delicate aspect for retailers, especially because defining margins and prices must take into consideration at least: purchase costs and services offered (Lugli, 2005), the elasticity of the demand (Rosa Diaz, 2006) and the competition (McGoldrick, 1987). It has to be added, then, that price is a very delicate marketing variable because it is easily modifiable and changeable in short periods – even for the fact that for “customers” it is the element more perceptible and comparable within the offer (Fornari and Grandi, 2010).

In determining margins and prices, therefore, retailers must take into account very strict links, which can represent obstacles for the achievement of pre-fixed profits. The introduction in assortment of store brands represents, on the other hand, a very important opportunity for several reasons. With all the limits previously exposed, a specific characteristic of store brands is represented by the transversal presidium of many product families with the same brand. Store

brand, therefore, differently from industrial brands, contribute to improve the complete profitability of a wide range. Moreover, private labels ensure much higher unitary margins than the category average for two reasons: inferior marketing costs – in terms of commercialization and communication – and the higher margin of unitary contribution (Fitzell, 1992). Another element is given by the presence of industrial brand products in the assortments of all the competitive retailers, and this makes their demand slightly elastic in the price whereas those with private brand are proposed as “monopoly” of the retailer, that brings to an absence of comparability and to a reduced elasticity of the customer towards the price (Ceccacci, 2009).

Finally, the use of store brand products can also be functional to the variability of margins between product categories or within each of them: each brand product could correspond to a different positioning, and that influences the application of differentiated prices. In this case difficulties in strategic choice for the retailer become evident for what concerns the correct balance between presence of label brand and fantasy brand for certain product categories. Among the main critic points there is the definition of communication towards the final consumer of the label positioning, given the marketing strategy emerging from brand product lines. To direct benefits, also indirect benefits must be added: introduction in assortment of store brand product allows to reach better unitary margins even on industrial products as confirmed by different empiric studies (Hoch and Lodisch, 1998; Puwels and Srinivasan, 2004).

Concluding, brand label products and private labels are tools which can guarantee a strong increase about marginality, contributing this way in increasing profits and, thus, in consolidating the base of future development for distribution groups – although in some cases, while profit margins of brand label products tend to be higher than the industrial products, profits per product do not do the same necessarily (Ailawadi and Harlam, 2004). Since store brands tend to have an inferior price with respect to industrial brands, sometimes– on the short period - retailers’ efforts in converting the demands of industrial brands in demands of store brands risk leading to inferior profits per product category.

Different authors underline as the policies of store branding can be positive in terms of profit only if it is sided by a wide sale of industrial products, on whose prices and margins exists in fact a higher freedom (Corstjens and Lal, 2000; Gabrielsen and Sjørgard, 2006), specifically as further consequence of the bigger negotiation and influence power towards suppliers, also coming from the retail branding.

2.3 Reorganization of the vertical relations in the channel.

The strategic role of store brands contributed to reinforce the continuous balance in the relation industry-distribution.

The appearance of store brands has been always perceived as a threat by industry. Store brands, in fact, are in direct competition with the industrial brands and, on the relational field, this obviously plays in favor of distribution firms, both from the tactic point of view – linked to purchase prices, negotiation of sales and contributes – and from the strategic point of view (Meza and Sudhir, 2005). Moreover, the consequent reduction of free spaces in the assortment for industrial products sharpened the competition among producers, on the other hand improving their attitude towards distribution firms, which got the benefit of a growing contractual and conditioning power.

The further sharpening of the store brand strategy in the time, with the affirmation of the store brand, marked this relational dynamics, leading the retailer, in some cases, to emerge as the new channel leader (Fiocca and Sebastiani, 2010).

The emerging conflict, beyond the relational dimension, obviously invests also the market competition: the store brand appears in fact as strong competitor of the industrial brand in the perspective of consumer's preferences and fidelity. Challenging industrial brands on the market, distribution has on its part the bigger "closeness" to the consumers and the bigger capacity of grasping their preferences, even dynamically. On the other hand, anyway, it has to face against brands with a long tradition of success, very well known among customers and with big investments in communication.

The new dimension of relations industry-distribution following the development of the store brand must not be read only in a competitive key: the development of a store brand has also opened possibility of cooperation (Castaldo, 1994), mainly linked to relations of co-packing. The store brand good is produced in fact by a manufacturing firm basing on a specific supplying agreement (Lugli, 1993), which produces benefits for both the parts. Considering the enormous reachable benefits, the evolution of relations in co-packing followed the same strategy of distribution branding. As retailers got far from those logics of fantasy brand and "me too" strategies, achieving higher and higher level in production quality, co-packing agreements – initially concerning above all small and medium firms because of the reluctance of big producers – also extended to industries of leader brand, in relation to the possibility of grasping the benefits mentioned above, fundamental for competition even for the biggest industries.

The last area of potential strategic benefits produced by store brands is that of co-marketing, meant as possibility of a common management between industry and distribution – through the so called co-category management – and of the marketing mix related. Planning of assortments, identification of product categories with high description value in the consumers' choices, interchange between purchase and consume processes, "discriminate" use of space in the retailer, re-configuration of sale concept in the perspective of consumes, packaging highlighting information contents (not only emotional ones), represent competitive features between firms requiring a synergic and shared approach - sided by policies of pricing, promotion, advertising, merchandising, co-category management - in the mutual research of improvement (Dioletta and Sansone, 2000).

2.4 Competitive differentiation, support to the store image and creation of consumer's fidelity to the label.

The growth of market firms, both national and international, as their tendency to concentration and spread in a growing number of markets, determined since 90's a progressive growth in the competition, present in every field of this sector: single retailers, distribution organization and firm in its wholeness.

Intensification of horizontal competition in this sector has also been reinforced by liberalization and deregulation progressively actuated during years, which favored the rise of new business ventures and opened to an even international competition. This situation implies for retailers the necessity of big resources and strategic decisions in order to achieve a competitive profit, both lasting and defensible (Morschett et al., 2006).

A fundamental principle for the development of distribution groups is then the competitive differentiation (Sudhir and Talukdar, 2004). To achieve the success in so turbulent and crowded market nowadays, retailers try to find their way to emerge with respect to their competitors, in order to affirm their image at consumers' eyes. In a market characterized by the presence of numerous competitors there is the risk of getting lost in the "mass" if consumers are faced to a very similar offer, tending to standardization. Recourse to marketing techniques – based on innovation and personalization – allows instead of avoiding this risk.

In this frame, the use of the store brand becomes a very efficient tool. For their nature, store brands are exclusive possession of a retailer, who indirectly controls production and directly controls commercialization. Moreover, in the consumer's mind, they are seen as an extension of the store image (Collins-Dodd and Lindley, 2003). Then, having in assortment products with their own brand gives an effect of absolute personalization to the offer, with great benefit for the differentiation of the label and its retailers at the customer's eyes.

Particularly, the effect of differentiation connected to store brands is duplex: on one hand they contribute to the assortment differentiation – as seen in par. 2.1. -, on the other hand they increase in value, support and above all differentiate the store image of the label.

In fact, the development of adequate policies of private brand can contribute to improve slightly the image of the distribution firm on the market, creating a higher faith in the regular customers and attracting new buyers. Additionally, if the buyer is satisfied about the relation quality/price in a store brand, he/she will tend to repeat his/her purchase at the same label, because the customer value offered is wider, and this will happen even more easily if the brand is identifiable with the label itself (Corstjens and Lal, 2000). Generating a customer value higher than the competitors is fundamental for achieving high levels of customer satisfaction – the main issue on which basing the consumer's fidelity towards label and retailer. This way the consumer is supposed to move from the traditional brand loyalty to the new store loyalty (Ailawadi, Pauwels and Steenkamp, 2008), that actually marks the “distraction” process in the consumer's mind from fidelity to industrial brands, already ambitiously started with the creation of the first fantasy brands. The potential benefits coming from this process “value-satisfaction-fidelity-image” are enormous: the customer – satisfied and faithful – feels positive to purchase again, but he/she is also ready to suggest label and offer to other people. This increase notability, reputation and image, generating even further trust (Busacca and Castaldo, 1996).

In this complex and ambitious strategic path aiming at a competitive increasing of the label it is also fundamental to construct an adequate positioning of the store brand and its support to the consolidation of the complete store image.

The relation between store brand image and store image is mutual and bi-directional (Vahie and Paswan, 2006). Atmosphere of retailers, quality of services and products, and generally the set of organizational, relational and symbolic elements transmitted in the store image reflect positively or negatively on the image that the consumer creates of store brand products. At the same time, characteristics of these products - and their positioning in terms of relation price-quality and external characterization of the product – influence the customer's perception about retailers and the whole label.

Generally, the experience of a consumer with a brand product influence his/her consideration about the ability of a specific retailer to satisfy effectively his/her own needs, and about the trust the retailer deserves even respect to the other competitors (Castaldo et al., 2008).

Through an efficient differentiation and an adequate positioning both as store and private labels, the retailer aims at reaching an ambitious final goal: creating fidelity in the customer. The capacity of creating store loyalty became the crucial point of development policies for distribution firms and their strategic goal.

On the whole, the store brand represents the new frontier and offers new possibilities: the creation of an offer with store brand is the strategic tool with the best perspectives, as regard as distinguishing from competitors and developing a regular clientele. Affirming this aim as a priority for the retail branding, shows the store brand nowadays as a real strategy, in which mere tactic features – significant at the beginning – only play a secondary role.

3. The re-organization of vertical relations inside distribution channels

Since their origin, through the development of private labels retailers have tried to increase their contractual power towards industrial counterparts, and specifically towards national brand companies, in order to gain more advantageous purchasing conditions.

The introduction of private labels in commercial assortments creates the effect of an increasing inter-brand competition among national brands. In the meanwhile also rises the new alternative of commercial brand.

In this scenario another important factor is the reduction of shelf spaces, which generates an increasing “cannibalism” effect among brands. In the struggle for the conquest of shelf spaces, private labels obviously benefit from an advantageous position against national brands due to the fact that they are owned and managed by the same actors who control shelf spaces. Consequently they can receive the best treatment in space allocation.

Therefore, the position of industrial brands is highly threatened and that pushes them to look for alternative solutions in the seek for adequate shelf space, particularly through the effort for reducing competitors’ space. In this perspective industrial producers, even the most powerful and well-established national brands, gradually started to grant more favourable purchasing conditions to retailers, enhanced their investments in trade marketing [6], and became more willing to produce for retailers brands as copackers.

Anyway, the increasing focus of national companies on the distribution channels rather than on end-consumer markets and the persistent condition of merchandising disadvantage towards private labels determined a gradual impairment in the market position of industrial producers, who suffer from the higher substitutability of their brands and the rising of trade firms’ contractual power, while these companies benefit from the reduction of their dependence on industrial brands.

The use of private labels as a powerful tool in contractual relations with industrial firms represents the tactical aspect: trade companies push own brands in order to gain more favourable supply and marginality conditions on industrial goods and in order to increase their negotiating capability.

The progressive rise and enhancement of own brands, together with the growing consciousness by retailers about their great potential, consequently enriched their administration with important strategic outcomes, also in the field of distribution channels’ vertical relations. This strategic development of private labels also on the relational tier culminated with the introduction of store brands, which play a fundamental role in the organization of vertical relations for three reasons.

The first aspect revealing the contribution of store brands is the new balancing of vertical relations, not only on the tactical point of view but also, and mostly, on the strategic one. With the rise of autonomous and modern branding strategies by retailers, vertical relations start to be managed by trade companies with the clear objective of inverting the traditional schemes of distribution systems, giving retailers the chance to become the new channel leaders with the capacity of coordinating the whole value chain, from the production phases till the selling ones. The source for this dramatic re-balance has to be identified as the growing competition in final markets.

Indeed, the second aspect is competition: the introduction of store brands determines the evolution of private label policies into proper branding strategies by retailers, equivalent to those developed by industrial firms, and not only based on an imitative or tactic approach. In this case retailers decide to directly enter the competitive arenas of brands, which traditionally was only attended by industries, and their brands are clearly proposed as direct opponents to the most established and well-known national brands too. The competitive battle between national brands and store brands does not take place only on the attribution of shelf space, but involves the whole marketing process of the single product. The driving force is the effort to win stable preferences

by the consumer and to create a genuine store loyalty effect, as a substitute for the traditional industrial brand loyalty.

The third aspect is related to the possibility of collaborative relations. The new dimensions of manufacturer versus retailer relations deriving from the diffusion of store brands do not have competitive characteristics and outcomes only: the development of retailers brands also creates opportunities for collaboration (Castaldo, 1994), in terms of co-packing and co-marketing connections.

The goods marked with store brands are still produced by manufacturer firms as the result of a specific contract which yields benefits for both the actors: retailers can use the productive structure and know-how of the industry to produce their goods without the need for direct investments. Manufacturers, on the other hand, have the possibility to maximize the use of their productive capacity, to gain additional profits and to receive a more favourable treatment by the retailer counterpart in the space allocation on the shelf for its products, also reducing the remaining available space for competitors' brands.

Taking into consideration these great potential benefits, the evolution of copacking relations followed the one of retail branding. Because of these advantages, which are getting more and more important also for leader manufacturers, as retailers have abandoned the simple logics of "fantasy brands" and "me too" strategies, trying to achieve higher quality levels in their private labels, copacking agreements – which once involved only medium and small sized manufacturers – have been extended also to leader brands producers.

Another important area of potential advantages generated by store brands and derived from the increasing strategic enhancement of copacking deals is represented by co-marketing, and it consists in the opportunity for a common administration of the categories – co-category management - and their specific marketing mix between retailers and manufacturers (Dioletta M.P. and Sansone M., 2000).

The planning of assortments, the identification of highly distinctive categories, the information exchange about purchasing and consumption processes, the discriminated use of spaces inside point of sales and the restyling of product packages towards higher informational, emotional and reassuring contents: these represent some of the elements characterising the current competitive scenarios, which therefore require a synergic and collaborative approach for the definition of pricing, promotion, advertising, merchandising and co-category management policies in order to find and focus areas of reciprocal improvements.

In the perspective of the effects and objectives pursued through the introduction of store brand in the specific field of vertical relations, a deeper comprehension of the concrete strategic importance of this phenomenon also requires a general description of the reaction-strategies implemented by manufacturer firms.

4. Manufacturers counterstrategies for the development of store brands and management implications

In relation to the increasing diffusion of store brands and its strong influence on the characteristics and the balance in vertical relations, manufacturing firms need to find appropriate and specific counterstrategy among three different options (Morris D. 1979).

The first option consists in the decision of producing only for the company brand, refusing any participation in copacking collaborations. This choice is highly risky and challenging, and it can be implemented by companies who can benefit from a stable market leadership as a result of high-quality processes and expertise in marketing, R&D and production.

In general this strategy is implemented by major national brands companies, who have been able to build up durable loyalty relations with customers across the time, and who therefore have

consistent competitive advantages in final markets. In this situation, private labels and store brands exclusively represent competitive actors for the manufacturer, who consequently tries to adopt several competitive strategies in order to block or control their increasing success. The most common strategies are the following:

- **Price reductions:** reducing the price of its products and decreasing their own margins manufacturers try to restrain private labels market share; however, this option is not useful in the case of store brands because it may have a bad influence on national brands image, with a consequent competitive advantage for store brands.
- **Secondary brands:** manufacturers can also decide to introduce a secondary owned brand with the same price positioning of store brands in order to directly trouble store brands. However, this action is short-termed and is not really likely to be effective because of the easy possibility of exclusion from the assortments by retailers.
- **Pull strategies [7]⁶:** national brand companies can try to enhance and consolidate the brand loyalty of their customers through actions such as a more accurate market segmentation, a more effective branding strategy and higher investments on creative and original advertising.
- **Higher product quality-differentiation:** raising the investments on product development and marketing strategy, the manufacturer can try to enhance the quality gap and positioning gap towards store brands, reinforcing the communication and aiming at creating a distinctive brand image.
- **Product innovation:** focusing more effectively on R&D activities manufacturers can attempt to introduce new features in their products or completely innovate them, thus creating technological and financial obstacles for the retailers who aim at producing quality-equivalent store brands.

Clearly not all of these options can be practised or easily implemented by small and medium-sized industrial manufacturers. Indeed these alternatives are more suitable for large sized and successful enterprises, which have gained a stable position inside their markets, because every single abovementioned initiative requires important investments and wide internal competences. The majority of companies dealing with retailers for the planning and realisation of private label products are medium sized enterprises which have developed strong partnerships with retailers throughout last decade. The Italian industrial scenario is characterised by the prevalence of small enterprises, therefore there is an increasing important role played by network aggregations, and particularly consortiums between several small firms which are specialised on a specific kind of goods which are eventually distributed through mass retailers and store brands.

Some examples are represented by retailers new tendency to offer premium store brand products which are identified as local typical productions. On the other hand it would not be possible to offer wide and deep assortments without specialized producers and their consortiums: to this extent some examples are consortiums dealing with the production of special kinds of cheese, wine, pasta, etc.

The small manufacturer enterprises which are able to organize themselves in a collaborative network are perceived as more trustworthy by retailers and therefore they are more likely to be involved in store brands copacking collaborations on the basis of the following principles:

- Delivering of products of consistent and sustainable quality (both product and package graphics);
- Developing an innovating platform to evaluate new concepts and ideas;
- Managing risk and improving new product launch success;
- Providing significant and sustainable improvements in store brand revenue, customer acceptance, cost controls, market time and resource management.

Particularly, for small companies the network cooperation represents a necessary condition to create and maintain a competitive advantage and to increase their contractual capacity towards mass retailers.

As regard as Italian food-processing industry, it is important to notice that, in the best cases, consortiums can play a simple coordination role between the participant companies as well as a more complex supporting role in various activities, such as dealing with retailers, and, in particular, handling the furniture of store brands.

An example is the “Consorzio del Formaggio Parmigiano-Reggiano”, in which the totality of producers participates. The role of this consortium concerns the protection of the special “genuinity” trademark (“Denominazione d’Origine”) [8]⁷, and the facilitation on commercial and consumption processes, through initiatives aiming at the promotion of products’ typicality and exclusiveness.

More examples come from the canning industry. In this sector the consortium “Conserve Italia” – which owns the brands Valfrutta, Yoga, Derby, Jolly, Mon Jardin –, with its nine production plans in the region of Emilia Romagna, is the most important actor working on the processing of fruit, tomatoes and other vegetables. Other successful cases are Copador and Parmasole (with its brand “Bell’Emilia”) in Parma, both dealing with tomatoes processing, and also Fruttigel and Alfonsine for fruit and tomatoes processing.

In the food processing sector the concentration process was determined by retailers’ need to deal with producing counterparts who are not only supposed to deliver products, but also services (efficient logistics, fast and prompt deliveries, promotional and advertising support on products). From this point of view another important example is the “Consorzio per la Tutela del Formaggio Mozzarella di Bufala Campana Dop”[9] established in 1981. The activities carried out by this organisation are: the promotion of initiatives aimed at the protection of the typicality, peculiarities and trademark of their products, at the improvement of production processes and techniques and at controlling the production and commercialisation of their mozzarella, coherently with their strict quality code.

Lately the market share of store brands in Italy has steadily grown and the efforts of some retailers are now focusing on their category-base segmentation and the valorisation of premium store brands. The case of Conad is very significant, having recently created a new format dedicate to its premium store brand “Sapori&Dintorni”. Store brand is becoming an important driver for assortments, also contributing to increase the range of lower price alternatives.

[1] The importance of the phenomenon called store brands in continuous spread, especially in Europe, where according data published by PLMA for 2009 it reached peaks between 48% and 54% in equities of market, respectively in United Kingdom and Switzerland. The European average is a bit under these values – around 40% -, while the American market is around 20%. What is more important, however, is that the phenomenon appears in strong growth, even in Countries with slower innovation as Italy and Greece.

[2] Among the main variables taken into consideration there are – beyond the income, even age, instruction and width of family.

[3] Extrinsic attributes for the product, used for increasing its quality, such as price and fame, socio-economic and marketing factors, such as the difference between industrial and store brand, value attributed to the product and risks perceived

[4] The presence in assortment of private labels can contribute in a significant way for improving the structure of the assortment, in a strict connection with the category management (Du, Lee and Staelin, 2005) and the retailer's merchandising. According to the data elaborated in "Rapporto Marca" by AdemLab for the Italian market, in 2009 store brand products reached a sale proceed close to 8 milliards euro in the different distribution channels, with a growth of 10,4%: about five times more than the industrial brand, fix at 2,4%. Moreover, after some initial technical difficulties and after having reached a higher fidelity at the consumer's eyes, the store brand manage to spread from simple products (avoid of technical and market complexities) to much more complex products, with a higher economic value, confirming a strong development trend – both on the product than strategic level.

[5] The level of communication offered to brand products is not very high talking in the most Italian retailers. Although some retailers appear in the main traditional media with several messages for brand products, communication in media and stores is not always so efficient. Care in the product design, in the in-store promotion tools – with a differentiation of the brand product lines existing – seem to be necessary. Some retailers (Selex, Standa, Iper) prefer using fantasy brands to differentiate the positioning of specific product lines, even taking care someway of the effective positioning in the store.

[6] Trade marketing includes the set of techniques and instruments implemented by manufacturers companies to manage their relations with retailers. For this purpose, the set of tools commonly used comprehends: selling conditions, selling prices to the end consumer, logistics and communication mix. Cfr. I. TREVISAN, "La grande distribuzione e i rapporti tra imprese industriali e commerciali", in C. BACCARANI (a cura di), "Imprese Commerciali...", op. cit., p. 111-116

[7] A marketing placement strategy is referred to as "pull" if the communication and promotion initiatives by a company are mostly focused on end customers in order to foster their brand loyalty, which then can be used as a power tool against retail companies. On the opposite side, a "push" strategy is mostly focus on the distribution channels in order in order to directly stimulate positive responses. J.J. LAMBIN, "Marketing strategico...", op. cit., pp. 345-347.

[8] One of the most important solutions ideated by the consortium in order to protect their original brand was, since 1964, to introduce the label "Parmigiano Reggiano" directly marked on the side of the products, adopting a solution which is still kept and characterises this particular cheese. Website reference: www.parmigiano-reggiano.it

[9] The "DOP" mark refers to an acronym which identifies a particular kind of quality mark officially ammette by law: it is conferred to those products whose characteristics are strictly dependent on the territory in which they are produced. The geographical environment of an area is often characterised by an original combination of natural and human factors (climate, habitat, etc. on one side; traditions, know-how and expertise on the other) which, combined together, are

able to create products which are unique and not imitable in other production areas. For a product to obtain the DOP mark the phases of production, processing and transformation have to be carried out in its area of origin, according to strict quality code rules and under the control of a specific organisation. Web reference: www.dop.it

BIBLIOGRAFIA

- AILAWADI K.L., (2001). "The retail power-performance conundrum: what have we learned?", *Journal of Retailing*, vol. 77, n 3.
- AILAWADI K.L., HARLAM B., (2004). "An empirical analysis of the determinants of retail margins: the role of store brand share", *Journal of Marketing*, vol. 68.
- AILAWADI K.L., NESLIN S.A., GEDENK K., (2001). "Pursuing the value-conscious consumer: store brand versus national brand promotions", *Journal of Marketing*, vol. 75.
- AILAWADI K.L., PAUWELS K, STEENKAMP E.M., (2008). "Private Label use and store loyalty", *Journal of Marketing*, vol. 72.
- APELBAUM E., GERSTNER E., NAIK P.A., (2003). "The effects of expert quality evaluations versus brand name on price premiums", *Journal of Product & Brand Management*, Vol. 12 Iss: 3
- BETTMAN J.R. (1974), "Relationship of information processing attitude structures to private brand purchasing behaviour", *Journal of applied Psychology*, vol .59 n 1.
- BUSACCA B., CASTALDO S., (1996). "Il potenziale competitivo della fedeltà alla marca e all'insegna commerciale", Egea, Milano.
- CARMIGNANO G., (1993). "La marca commerciale", Etaslibri, Milano.
- CASTALDO S., (1994). "Le relazioni distributive. La dimensione collaborativa nei rapporti Industria-Distribuzione", Egea, Milano.
- CASTALDO S., PREMAZZI K., GROSSO M., (2008). "Store trust building: the emerging role of private labels", Atti del Congresso "Marketing Trends".
- CECCACCI F., (2009). "Il comportamento del consumatore e l'acquisto dei prodotti a marca commerciale: una ricerca empirica", Atti del Congresso *Marketing Trends*.
- COLLINS-DODD C., LINDLEY T., (2003). "Store brands and retail differentiation: the influence of store image and store brand attitude on store own brand perceptions", *Journal of Retailing and Consumer Services*, vol. 10.
- CORSTJENS M., LAL R., (2000). "Building store loyalty through store brands", *Journal of Marketing Research*, vol. 37, iss. 3.
- CRISTINI G., (1994)"Il posizionamento della marca commerciale nella Gdo italiana", *Trade marketing*, (11), , pp. 47-81
- DALLI D. ROMANI S. (2003) "Acquirenti e processi di acquisto dei prodotti di marca commerciale ", in LUGLI G. (a cura di), "Branding Distributivo", Egea, Milano.
- DE WULF K., ODEKERKEN-SCHRODER G., GOEDERTIER F., VAN OSSEL G., (2005) "Consumer perceptions of store brands versus national brands", *Journal of Consumer Marketing*, Vol. 22 Iss: 4.
- DHAR S.K., HOCH S.J., (1997). "Why store brand penetration varies by retailer", *Marketing Science*, vol. 16, n. 3.
- DIOLETTA M.P. – SANSONE M., (2000). "Politiche di co-marketing nel processo di Category management: il ruolo strategico della marca commerciale nell'evoluzione dei rapporti verticali", Atti del Congresso *Marketing Trends*, Venezia.
- DU R., LEE E., STAELIN S., (2005). "Bridge, Focus, Attack or Stimulate: retail category management strategies with a store brand", *Quantitative Marketing and Economics*.
- DUNNE D., NARASIMHAN S., (1999). "The new appeal of private labels", *Harvard Business Review*, vol. 77, n 3.

- FIOCCA R., SEBASTIANI R., (2010). *“Politiche di Marketing”*, McGraw-Hill, Milano.
- FITZELL P.B., (1992). *“Private Label Marketing in the 1990s: The Evolution of Price Labels into Global Brands”*, Global Book Productions, New York.
- FORNARI E., GRANDI S., (2009), *“Le leve della competizione assortimentale”*, *Mercati e Competitività*, n. 3, Franco Angeli, Milano.
- FORNARI E., GRANDI S., (2010), *“Retailer pricing competition”*, Atti del Congresso *Marketing Trends*, Parigi.
- GABRIELSEN T.S., SORGARD L., (2007). *“Private label, price rivalry and public policy”*, *European Economic Review*, vol. 51.
- HOCH S.J., BANERJI S., (1993). *“When do private labels succeed?”*, *Sloan Management Review*, vol. 34, n 4.
- HOCH S.J., LODISH L.M., (1998). *“Store brands and category management”*, research paper.
- KOTLER P., (2003). *“Principi di marketing”*, Isedi, Torino.
- LEVY M., WEITZ B.A., (2001). *“Retailing Management”*, McGraw-Hill.
- LUGLI G., (1993), *“Economia e politiche di marketing delle imprese commerciali”*, Utet, Torino.
- LUGLI G., (2005), *“Pricing commerciale e valore di marketing.”*, *Mercati e Competitività*, n. 3.
- LUGLI G., PELLEGRINI L., (2003) *“Marketing distributivo”*, Utet, Torino.
- MANZUR E., OLAVARRIETA S., HIDALGO P., FARIAS P., URIBE R., (2009). *“Store brand and national brand promotion attitudes antecedents”*, *Journal of Business Research*.
- MAZI S., SUDHIR K., (2005). *“Do private labels increase retailer bargaining power?”*, in *Quantitative Marketing and Economics*.
- McGOLDRICK P.J., (1987), *“A multi - dimensional framework for Retail Pricing”*, *International Journal of Retailing*. vol.2 (2).
- MORCHETT D., SWOBODA B., SCHRAMM-KLEIN H., (2006). *“Competitive strategies in retailing—an investigation of the applicability of Porter’s framework for food retailers”*, *Journal of Retailing and Consumer Services*, vol. 13.
- MORRIS, D. (1979) *“The strategy of own brands”*, *European Journal of Marketing*, vol. 13, n. 2, pp. 59- 78
- MYERS, J.G. *“Determinants of private brand attitude”*, *Journal of Marketing Research*, 1967. 4
- PARKER P., KIM N., (1997). *“National Brands versus Private Labels: an empirical study of competition, advertising and collusion”*, *European Management Journal*, vol. 15, n 3.
- PAUWELS K., SRINIVASAN S., (2004). *“Who benefits from store brand entry?”*, in *Marketing Science*, vol. 23, n 3.
- QUELCH J.A., HARDING D., (2004). *“Brands versus store brands: fighting to win”*, *Harvard Business review*,
- RAJU J.S., SETHURAMAN R., DHAR S.K., (1995). *“The introduction and performance of store brands”*, *Management Science*, vol. 41, n 6.
- RICHARDSON P.S., JAIN A K, DICK A. (1996). *“Household store brand proneness a framework”*, *Journal of retailing*, 72.
- ROSA DIAZ I.M., (2006), *“Demand restrictions in price-based decisions: managers versus consumers”*, *Journal of Product & Brand Management* n°15.
- RUBIO N., YAGUE M.J., (2009). *“The determinants of store brand market share. A temporal and cross-sectional analysis”*, *International Journal of market research*, vol. 51, iss. 4.
- SANSONE M., (2004). *“Le determinanti dell’innovazione nei moderni contesti distributivi”*, Aracne, Roma.
- SANSONE M., (2001). *“Relazioni strategiche tra category management e marca commerciale nella differenziazione competitiva dell’insegna”*, *Industria e Distribuzione*, n. 2, Franco Angeli, Milano.

SERRA, T. & PUELLES, J. A. (1993). "Análisis de las marcas de distribución en el mercado de la alimentación". *Atti del "V" incontro dei Professori Universitari di Marketing*. Sevilla.

SINHA I., BATRA R., (1999). "The effect of consumer price consciousness on private label purchase", *International Journal of Research in Marketing*, vol. 16, iss.3.

SPROTT D.E., SHIMP T.A., (2004). "Using product sampling to augment the perceived quality of store brands", *Journal of Retailing*, vol. 80, iss: 4.

SUDHIR K., TALUKDAR D., (2004). "Does Store Brand patronage improve store patronage?", *Review of Industrial Organization*, n 24.

VAHIE A., PASWAN A., (2006). "Private label brand image: its relationship with store image and national brand", *International Journal of Retail & Distribution Management*, vol. 34, n. 1.