

## “EMERGENCE OF PRIVATE LABELS IN INDIA”

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### Abstract

*“The growth of organized retailing has led to the emergence of private labels in India. Although initial growth of private labels in India has been limited to certain categories like grocery and apparel, it is expected to expand into many other categories as well. The private labels may be an enormous opportunity in Indian market but it is also accompanied by country specific challenges. It will be interesting to understand cultural antecedents which can be pivotal for attitude towards private labels. This paper discusses the private label concept, private label scenario in India, global comparisons and case of organized retail in India. In addition, the paper highlights correlated demographic and socio-cultural factors as drivers for organized retail and adoption of private labels in India. Finally, this paper identifies the salient issues faced by private labels towards adoption in this country.*

**Key Words:** Consumer, National Brand, Organized Retailing, Private Label, Retailer

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### Where does Private Label stand?

A private label (also known as store or house or retailer brands) is the one which is developed, stocked, carried and sold by retailer. Private label contain names given by retailers and are less expensive to consumers and better controlled by retailers.

“For many shoppers, store brands have come to represent better selection, value and savings. Simply put, they are products that stores put their own names or brands on. They may also be called private label, private brands, house brands, own brands, own label or retailer brands, but they all have one thing in common – they are manufactured and brought to market in much the same way as the familiar national brands sitting next to them on store shelves. Years ago, they might have been called generics, but that name isn't accurate anymore. Today, they are brands like any other (Private Label Manufacturers Association, New York, 2014).”

An important evolution in the retailing industry is the growing emergence of store brands however their level of penetration varies widely across countries and industries (Steenkamp, et al 1997). Store brand use relates with traits related to economic benefits and costs (Ailawadi et al 2001). The first image aroused by ‘retailing’ for many of us, especially those of us who are somewhat older, is that of the corner grocery store. Not so long ago retailing was, and it still is in some parts of the world, a fragmented, local, unsophisticated, traditional business run by vulnerable owner-operators. Now, there is a talk about a revolution in retailing which is driven by retailers who have grown up overtime into large, global, technology intensive, powerful, fast-growth corporations managing their own private labels (Nirmalaya Kumar 1997).

Brand managers should give attention to the evolving needs of buyers within a market. It takes understanding and dealing with the fuzziness of product markets driven by increased deregulation and competitive initiatives, which has new products/services creation and cost as major benefits; an increasing pace of technological change contributing to blurred product market boundaries; the growing bargaining power of the channels of distribution; and pressure from investors to produce more predictable growth in revenues and profits. These forces affect consumer expectations and opportunities and while doing so impact back upon themselves, thus creating opportunities through change. Retailers are competing with national brands manufacturers by offering private labels as off price brand. Further, several retailers have

improved quality aided with attractive packaging and are pitching their private labels as superior products by offering better value. (Shocker et al 1994)

There is a value imperative which as per literature on branding is considered as a function of consumer benefits to costs incurred by consumer but, sensitivity of consumers increases during tougher economic conditions. It requires a paradigm shift in price quality relationship to create sharp focus on value i.e. from higher quality products which always means higher prices to one in which firm can produce private labels of higher quality but offer to consumers at lower prices. The linkage between shifting power base of retailers and control on brand names along with the marketing programs supporting those brand names requires to be understood. In addition, whether the status of being private label or national brand creates fundamental distinction irrespective of quality of product needs to be understood. (Shocker et al 1994)

In a significant development in global apparel industry, the phase out of Multi Fiber Agreement (MFA) in 2005 led to the trade impact on developing countries that could not get guaranteed access to the markets of developed countries. This was further accentuated by realignment of apparel industry supply chains for lower cost structure. There is a significant increase in the volume and diversity of retailer private labels. Retailers that develop proprietary brands use in house design teams and outsourced manufacturing capacity, often by direct foreign product sourcing. By eliminating the middleman associated with national brands, retailers can shave costs and widen profit margins. Today, retailers are expanding the range of private-label products offered and developing higher-margin private-label goods. (Gereffi et al 2010)

Supermarkets are traditionally viewed by development economists, policy makers and practitioners as shopping place for rich people. The developing countries in Asia, Africa and Latin America are certainly less affluent than western counterparts. The rapid rise of supermarkets in these regions in past few years has transformed agri-food markets in the countries in this region. It is interesting to note that many of these transformations present significant challenges along with tremendous opportunities for the countries. These opportunities need to be harnessed by development models and policies for quick adoption and diffusion of benefits to the people. As development progressed in these regions, markets shift from fragmented local markets (village markets) to larger centralized wholesale markets. This de-

fragmentation occurred initially in dry goods (grains) and later in fresh product (fruits, vegetables, dairy products, eggs etc). The integration is further accelerated by urbanization and improved road conditions in regions by respective governments. The retail transformation will change the wholesale sector and will impact conditions faced by farmers. (Reardon et al 2003)

### **Taking stock of Indian Scenario**

The Indian retail sector is traditional, however the formats for retail are evolving. The contribution of organized retailing in overall retail sector is very small. In the country modernization of retail trade is governed by factors such as economic development; improvements in civic situation; changes in consumer needs, attitudes and behaviour; changes in government policies; increased investment in retailing and rise in the power of organized retail (Mulky 2003). A new class of consumers are emerging in India due to increased income and dual career families. In this setting, understanding consumer's perceptions, attitudes, desires, expectations and aspirations are important for retailers (Goyal et al 2009). The Indian retail sector is going through transformation wherein the retailers are experimenting with new retail formats such as malls, hyper/supermarkets, specialty stores, discount stores and convenience stores (Jhamb et al 2012). Indian retailers are beginning to develop their strategy based on private label merchandise (Pandey 2010). Retailers must create value for consumers and decide a suitable vehicle in form of retail format in order to deliver that value to the consumer (Sinha 2007).

### **Size of Indian Retail Sector**

The size of Indian economy was 804 Billion US\$ in 2005-2006 and is currently 1.72 trillion US\$. In 2007, turnover of retail sector was 337 Billion US\$ out of which organized retail constituted 15 Billion US\$ representing 5% of overall retail. In 2011, turnover of retail sector was 455 Billion US\$ out of which organized retail constituted 33 Billion US\$ representing 7% of overall retail. It is expected that by 2016, turnover of retail sector will increase to 731 Billion US\$ out of which organized retail will account for 116 Billion US\$ representing 14% of overall retail. The organized retail penetration for India is 7% where as it is 20% for China, 30% for Indonesia, 40% for Thailand, 55% for Malaysia, 81% for Taiwan and 85% for USA (Booz & Co. 2013). In view of recent opening up of FDI in retail sector, the growth of organized retail is expected to accelerate further. It is expected that proposals will provide access to new

technology and capital from global retailers to Indian retail sector, benefit consumers by lowering price points and enhancing shopping experience, create 1.5 million jobs both directly and indirectly.

### **Demographic and Socio-Cultural factors**

The advances in organized retailing in India is driven by factors as urbanization, changes in family structures, younger population and double income families. In India, the evolution of organized retail has been driven by apparel and footwear with investments in food and grocery picking up recently. In the first growth wave till 1991 there were early entrants such as “Bata” and “Metro Shoes” in footwear and “Raymonds” and “Vimal” in apparel. During the second growth wave between 1991-2004, new retailers such as Big Bazaar, Spencer, McDonald, Domino, Café Coffee Day expanded in food & services retail ; Shoppers Stop, Mark & Spencer, Pantaloon, Fabindia, Lifestyle, Westside moved in fashion and lifestyle retail. In addition, global footwear majors such as Nike, Reebok and Adidas fortified their retail operation by increasing number of stores and Titan along with Tanisq in jewellery and watches. Liberalization in policies led to third growth wave around 2005 in which there has been substantial investments in food & grocery retail along with entry of large domestic and foreign players such as Walmart, Tesco, Carrefour, Aditya Birla group, Reliance, Starbucks, Mom & Me, ZARA, ALDO etc. (Booz & Co. 2013)

The growth of organized retailing in India has also led to emergence of private labels in India signifying the big economic opportunity for the retailers. Although initial growth of private label in India has been limited to certain categories like grocery and apparel, it is expected to expand into many other categories as well. The Indian economy is expected to grow and based on the projections of robust economic growth coupled with increased consumer confidence the organized retail sector is expected to grow to 116 Billion US\$ by 2016 from 33 Billion US\$ in 2011 which actually means organized retail in India is likely to grow to three times in five consecutive years.

### **Private Labels in Indian Retail Sector**

In India private labels are still in formative stage, however Indian companies are beginning to focus on private labels as a tool to increase market penetration. Future group has launched

private labels at different price points in its various formats namely Pantaloon, Big Bazaar and Food Bazaar. Tata group has launched private labels in Tata Croma which is a large format multi brand consumer durables and electronics chain, Shoppers Stop has also launched few private labels across categories. Bharti Retail has launched few private labels in its Cash and Carry store format Easyday. The Indian consumers are now information rich, they are evaluating brands more carefully and are willing to economize where ever it is possible. The consumers are watching with interest the improvement in quality as competing manufacturers try to duplicate the quality of established brands and they are more concerned about getting good value of their money.

Future Group operates 1000 stores spread over 16 million square feet retail space in 73 cities and 65 rural locations across the country. The group launched various formats namely Pantaloons-retail chain, Big Bazaar -hypermarket chain, Food Bazaar - supermarket chain, other formats include Ethnicity - a concept store, Brand Factory, Planet Sports, aLL, Top 10 and Star and Sitara. Home Town is a large-format home solutions store, along with specialized format Furniture Bazaar and consumer electronics through eZone and Electronics Bazaar. Key private labels in Fashion and Apparel category include John Miller, Lombard, Bare, DJ&C, Buffalo and RIG. In kitchenware, bed & bath linen, and Home Décor categories in Home segment private label Dreamline is launched by the company. In the food and home care segment private labels include Tasty Treat, Premium Harvest, Fresh & Pure, Care Mate and Clean Mate. In consumer durables and electronics space, the Future Group private labels include Koryo and Sensei; Mela and Fashion station phased out.

Shoppers Stop has 33 stores covering two million sq. ft. and plans to add 27 stores in four years and with 1.5 million sq. ft. of space and 18 per cent of Shoppers Stop revenues came from private labels. Shoppers Stop has launched Private Labels across Men's casual wear to formals to Women's wear such as Kashish - Mens's Ethnic Wear; Stop - Western Wear (Men & Women); Life - Mens Casual Wear , Jeans Wear; Mario Zegnoti - Men's Formal Wear; Acropolis - Men's Formal Wear; Push and Shove - Eye Wear; Vettorino Fratini - Premium Men's Wear. Homestop is a home solution chain operating recently in Bangalore, Delhi, Mumbai & Navi Mumbai.

Crossword chain operates 12 retail stores, stocks the range of Books – Movies- Music- Toys- Stationery- Magazines and CD ROM's.

Bharti Walmart B2B Joint Venture was done for back-end supply chain management operations to serve small retailers, manufacturers, institutions and farmers, launched “Best Price Modern Wholesale brand”, 50,000-100,000 square feet, sells fresh, frozen and chilled foods, fruits and vegetables, dry groceries, hotel and restaurant supplies, general merchandise items. Bharti Retail that runs retail stores in multiple formats under the ‘easyday’ brand, operates neighborhood stores and compact hypermarket stores and carry apparels, home furnishings, appliances, mobile phones, meat shop, general merchandise, fruits and vegetables etc.

The Tata group operates retail chains such as Croma and West side, Croma is a 100% subsidiary of Tata Sons, large format (15,000 sq.ft.) retail chain for consumer electronics and durables is introducing many private labels. Westside offers a wide range of garments, accessories and home products. Westside offers lot of its merchandise as private labels, others labels include Titan, Tanishq, Sonnata, ZOYA and Fastrack. In addition, Spencer's retail launched private label Smart Choice, Tasty Wonders, Trusted Value in food; Island marks and Asankhya in ethnic and casual wear; Mark Nikolas in formal wear, Scorez in sportswear; esentialz in personal care. Reliance Fresh launched private labels Reliance Value, Power noodles and Dairy Pure; Vishal Mega Mart launched private labels V-Needs, V-Fresh.

### **Private Label Dynamics**

Three sets of players are affected by private labels and interact to create its net impact: the retailers, the manufacturers and the consumers. For the retailers, private labels typically provide greater margins. Since private labels by definition can be exclusively sold by the retailer that carries them, many retailers attempt to use this exclusivity to differentiate themselves from the competition. Moreover, private labels change the retailer-national brand manufacturer interaction from one of cooperation to one of competition. For the national brand manufacturers, there is growing competitive element in the manufacturer-retailer relationship. Therefore, national brands increasingly find themselves in a battle for market share with their own customers i.e. retailers. The responses of consumers define the demand side of retailing industry. Private label

brands often make it more affordable for consumers to buy into the category, and thus may increase primary demand.

Private labels are attractive to consumers largely because of their lower prices. Here private label can be seen as a tool for empowerment of people where private label allow people to buy more in less. Private label give consumers a choice to evaluate competing brands on value based criteria and take an informed decision. Private labels now are seen as equivalent competing branded products across multiple categories and price points. In few cases, consumers do not even realize private label brands are owned by retail store because of improvements in innovation, quality and packaging.

Several changes are currently underway in India which will transform how Indian people will shop in coming years and thereby realign various formats of retail catering to the needs of urban, semi-urban, and even the relatively large villages in rural India. The transformation is underpinned by increased time poverty experienced by urban consumers, double digit inflation due to which middle class is value centric, younger demographics with 435 million in age group 15-34, separation between needs and aspiration among consumers, increase internet connectivity and mobile density across urban and rural India (Singhal 2013). It is worth mentioning that National Optic Fiber Network (NOFN) project with outlay of 20,000 crores is under way by BBNL, BSNL and Power Grid Corporation to provide broadband connectivity up to Gram Panchayats in the country by placing and operating a Optical Network Terminal (ONT) in 2,50,000 Gram Panchayats. This project is geared to create massive impact on the lives of people living in 6,50,000 villages in country by empowering them by providing access to the broadband and eco-system of service provisioning (Bajpai 2014). It will be interesting to see how high mobile density and broadband access translate into increase in organized retail and increased share of private labels.

### **International scenario**

As per Nielsen report 2011, many consumers have purchased more private label products during economic recession. This trend is likely to continue as economies struggle out of recession and take time to rehabilitate with more stability. This environment may witness a number of consumers keep their focus on value with a preference to buy at retail stores that have everyday



low prices (EDLP) and exhibit a tendency to create value for customer who are struggling everyday to stretch their available resources in these difficult times of economic uncertainty. Retailers too will adjust to this environment by exploring and innovating new formats newer formats in order to address the needs of this consumer class. The report says that private label phenomenon is real and it is here to stay. In fact more than half the consumers who were surveyed revealed that they have purchased more private labels during recession. It is very interesting to find that around 91% existing private label buyers indicated that they will continue to buy private labels even when economic condition improves.

When considered on global scale, the impact of troubled economic environment based on recession has played only little role on private label. When we compare global markets, there is a slow, but steady progress of private labels, which is the result of many more retailers developing private label products in a ever growing number of categories of goods for a time span more than two decades. The flip side of this fall out is that the smaller and medium brands have given way in favor of private label. Generally, the category leading brands are doing well because private labels are not counterproductive for healthy brand leaders. In Europe where private label is most sophisticated, private labels still only capture an average 35 percent market share whereas in the USA private label's market share is still fewer than 20 percent. (Nielsen 2011)

The evolution of private label products has also resulted in these brands occupying above the lowest price band. In addition, increased visibility in retail store through visual merchandising and expansion of Store Keeping Units (SKU) has resulted in greater familiarity and awareness of these private labels among consumers. National brand manufacturers are realizing that the best way to protect their brands is to treat private label as legitimate competition to established brands and reactionary price reduction measures will only provide temporary respite. National brands who are well entrenched still command a greater market share in their categories and private label usually takes the place of challenger brand in a vibrant and dynamic market for shoppers. Private label brands now are positioned to compete on value and quality which are two key attributes that consumers seek. The opportunity for retailer is to use private label in order differentiate them based on exclusivity and innovate to help build and sustain the image of their portfolio of private labels.

### Private Label Outlook in India

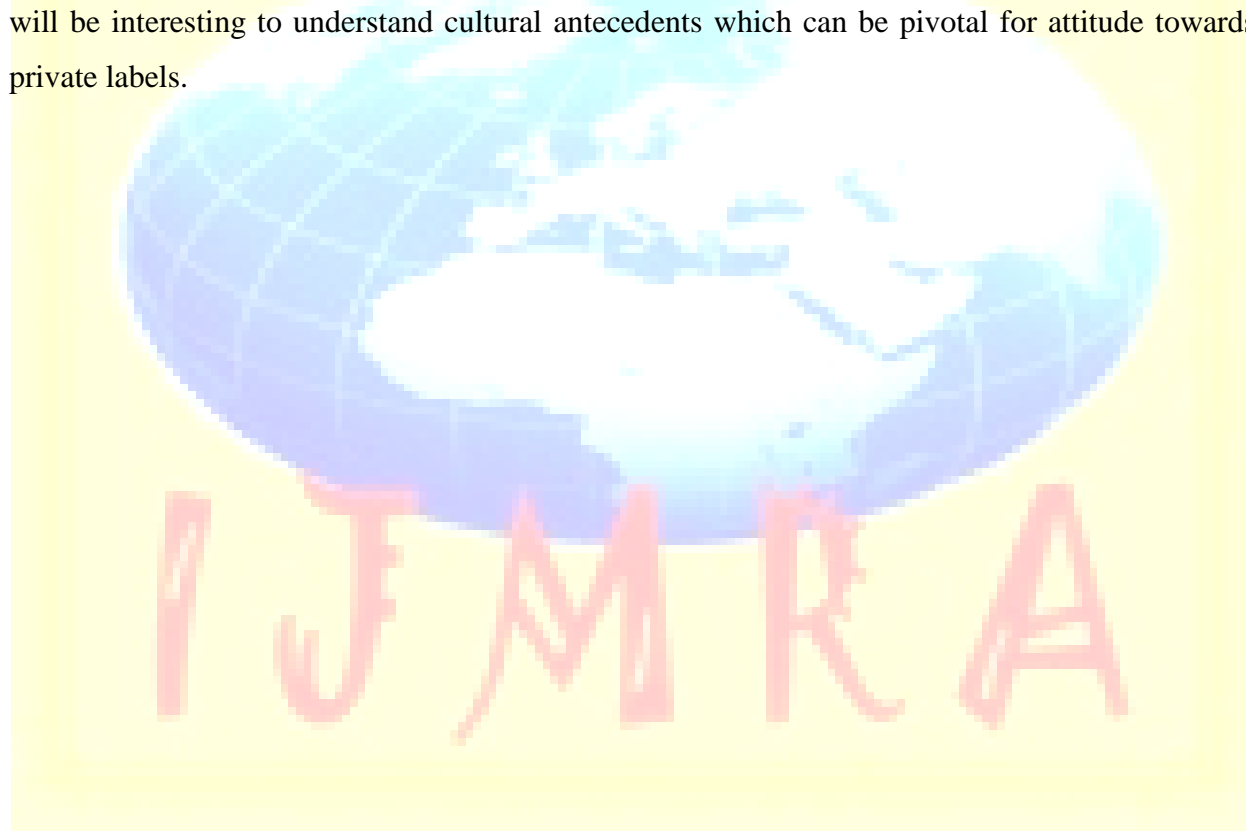
At micro level, private labels offer opportunity to manufacturers as private labels fill excess production capacity of manufacturer's factories that get benefitted by lower manufacturing costs due to incrementally higher economies of scale. Since, the manufacturers producing private labels now operate from lower cost position; the savings obtained from low cost position are translated into improved profit margins for participating manufacturer. At macro level, private label increase primary demand of goods and thus contribute directly in country economy which get benefitted by increased investments, more job creation, lower unemployment. In addition, private labels adoption in a given country improves social equity by empowering people to purchase good quality products at lower price.

In India, there are significant challenges for private labels because the private label adoption is intertwined by growth of organized retail sector in the country. One of the challenges is non availability of quality retail space along with rising real estate rentals which are big bottleneck for retailers across the board. Another issue is MRP which is a constraint for all retailers to operate on very thin margins forcing sales breakeven levels to rise. There is an intensified competition from local kirana neighborhood store on one hand and foreign retailer on other hand which increases rivalry within the sector. In addition, inefficient supply chains including cold chains due to inadequate infrastructure cause wastage of goods and incidences of stock out due to timely non availability of goods (Booz & Co. 2013). India is a multicultural society where small, individual stores have been selling no-name goods for ages; it will be interesting to understand cultural antecedents which can be pivotal for attitude towards private labels.

In a country like India, private labels are only in initial stages because the size of organized retail is very small currently only 7% of overall retail sector which around 500 US\$. Private labels have been introduced in low involvement product categories like apparel and grocery but slowly they are being introduced in other categories as well. The current private label shares in India are insignificant less than 1%, now when this data is contrasted with global weighted average of 14.9% for private label shares becomes an eye opener. This fact underpins the big private label opportunity for Indian retail sector.

## Conclusion

The Indian retailers are learning to see private labels as a major opportunity to differentiate their offerings. The economic downturn has sent across the message that private label is important for Indian retailers to have sustainable profitable growth rather than only top line growth. The growth of private labels in India is intertwined with growth of organized retail sector faced by challenges such as limited availability of quality retail space, rising rentals, increasing competition, MRP and inefficient supply chains. The private labels may be an enormous opportunity in Indian market but it is also accompanied by country specific challenges. India is a multicultural society where small, individual stores have been selling no-name goods for ages; it will be interesting to understand cultural antecedents which can be pivotal for attitude towards private labels.



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