

Indian Private Labels: Modifying Retailing Perspective

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Abstract

Retail is the largest private industry in the world which accounts for 8 % GDP. In countries like US, UK, Germany, France major market share is in larger formats of business in terms of retail activities, categories, range, brands, and volumes etc. Indian retail industry is slowly inching its way towards becoming the next boom industry, as retail sector has been getting major attention from the government, promoters and the large retail chains. Major Indian retail chains beginning to establish themselves by reaching critical masses, the next step of the retail story begins with the introduction of private labels in full swing. As on one side, store labels give the retailer higher margins on a portion of the inventory and maintain sustainability private labels carry a margin of 25-30% as compared to the national brands which offer only 12-17%. Private labels were earlier considered as “cheap”, “no-name substitutes” for the real thing – cheap in both quality and in price. Retailers are therefore curious and in fix which strategy will be implemented in Indian retail. This empirical paper is a modest attempt to study the retail potential of private brands in Indian context. It will lead to implications for big retailers as well as provides a direction for further research in the similar area.

Key words: Retailing, Private Brands, Retailers, Indian Retailing

1. Introduction

The Indian retail sector has experienced radical changes in the last decade or so. Most of the challenges are due to changing society parameters such as demographic, social, politic, business and climate. The organized retail market in India was US\$ 26 billion in 2011, which has projected growth of 26 % and expected to be US\$ 84 billion market by 2016 [1]. Retailing in India is major sector of the economy and accounts for 14 to 15 percent of its GDP. The origin of the Indian retail industry dates back to times where independent retail units were found in the village fairs, Melas or in the much hyped and awaited weekly markets. These retail stores by nature of their existence were highly unorganized. The retail sector took the mature leap with the establishment of retail stores in the locality for convenience of their customers. The retail environment is changing in a dynamic manner than ever before [2]. Retail in India is emerging as one of the most turbulent and fast paced industries which consist of various local, national and multinational players who are paving the way for others in entering the market. Changing demographics of population is the key driver in the booming of retail in Indian context. Indian retail has emerged as a most dynamic and fast pace sector with mammoth competition. Indian retailing is undergoing a process of evolution is poised to undergo dramatic transformation [3]. The census studies of retail outlets showed an increasing trend. India too is moving towards growth and maturity in the retail sector at a fast pace. Reshaping and adaptation in retailing is visible in groceries, fast food and personal care. Retailers are operating in a highly competitive market especially in India. Retail is considered to be sector of the next leap, stimulated by the country's huge consuming class and mass population. In Indian retail scenario, food is considered to be the largest segment of the retail industry. The potential for new entrants in this sector is huge and substantial, particularly in untapped and undiscovered markets. Due to all such data and forecasts, retailers are mushrooming like anything in India. Customers have many more choices than ever before, and retailers increasingly must vie for customer attention just to keep their stores in business. Retailers are getting more

concerned for how a customer behaves in shopping a product. Retailers therefore, whether organized or unorganized, big or small are focusing on consumer behavior in terms of retail purchases. Therefore it becomes necessary to understand the retail buyer decision-making process, both individually and in groups. Every retail stores have their own image in the customer mind and customer perceives these retail stores according to their perception. A retailer's brand equity is exhibited in consumers responding more favorably to its marketing actions than they do to competing retailers [4].

2. Private label brands in India

Introduction of private labels dates back to 100 years [5]. Private label products are seizing an increasing share of global retail sales on the back of both supermarket consolidation and an improved image. A private-label is a brand that a retailer generally manufactures or purchases from a third party manufacturer. In some cases, the retailer manufactures product as its own. Private label brands in India were almost insignificant till early 2000. With the passage of time and consolidation of retail sector, the private label brand is demanded by households due to various benefits. Retailers are therefore indulging in creation of new private label brands in order to compete with national and international brands of repute [6] Initially the private label was only available in the commodity or non-branded product range which included spices, grams, wheat flour, masalas, papads and other eatables. Now the private label brands have grown up and are available in high technology electronic gadgets like juicer, mixer, mobiles, TVs, water purifier and such. In a country like India, Private label helps customers to purchase good quality brand at a lower price and at a same time provides an assurance of quality and adequate performance. Private label brands are comparatively less in Indian retail context [7]. In India, organized retail chains had made a high growth which had led to the growth of private label brands in India retail formats. In Indian context, private label brands are being introduced via day-to-day item categories like grains, peas, and lentils, which were otherwise bought in loose, unhygienic commodity packaging. Therefore the value addition seems to be the hygiene factor, which is making a game away from local and national retailers. The loyalty with store has a positive association with private label brands. With increasing convenience, various retail formats are becoming prominent touch points for millions of Indian retail consumers. Taking hint from global retailers, Indian retailers are also looking for newer ways to increase their profit margins by introducing in-house brands and also developing niche strategies for promotion of these private label brands.

3. Literature review

Private label brand is penetrating around the globe now. In India, however it is a recent phenomenon. In international markets, there is high concentration and penetration of private label brands [8]. Different brands like national, private label and generic brands have different perceptions as far as consumer mind is concerned [9]. Private label brands are generally perceived inferior in comparison to established national brands on the parameters of brand, quality, performance, appearance, and attractiveness. Consumer's attitude towards national brands is therefore superior as compared to private label and generic brands [10]. Private labels neither were nor par with national brands as far as repeat purchases were concerned [11]. Private label were not found good in taste as compared to national [12]. From these studies, it can be deduced that private label brands suffer from low quality image when compared with national brands despite various kind of efforts made by retailers.

Differentiation on the basis of features can be done in private labels by making it in different forms, sizes, or packaging as compared to other established brands [13]. Private brands often replicate the leader of category – generally a well-established national brand [14]. Private labels can be supported by in-store merchandising by the retailers in order to make them profit oriented [15]. Most of the researches in private label brand domain are conducted in developed markets with negligible researches in Indian context. Moreover the researches are in the product categories of grocery, apparel and other categories. Very less

researches are general in nature which sets out a clear perspective in this regard. Therefore, this paper addresses this gap of literature by substantial examination of private label brands in Indian context.

4. Objectives

The objectives of the study include:

- To find out whether there exist awareness of Private label brands in the consumers mind.
- To examine the impact of private label brand in general buying behavior
- To find out whether consumers prefer private label brands over national / International brand

5. Research methodology

Private label brands in India are a recent trend. The population frame as suggested and interpreted by various authors and industry experts comprises of retail consumers as well as retailers who deals with private label brands. It is neither feasible nor desirable to conduct the study on all the retail outlets. Therefore, out of numerous retail outlets, purposively 125 retail outlets from different sectors had been chosen at random for the study. Similarly there are thousands of consumers use private label brands. For the purpose of the study 250 consumers were selected on the basis of systematic sampling using the system of choosing every 5th customer who was visiting the retail stores identified earlier. To examine their behavior towards private label brands, which influences their decisions? The sample had provided adequate flexibility to have data on the various aspects including qualitative features under study. The respondents were surveyed through structured and non-disguised questionnaire in case of retail consumers as well as retailers. Therefore there were two questionnaires developed for the study. The questionnaire(s) reliability was tested using Cronbach alpha, it was found to be more than 0.72. "Brand awareness" was measured by questions taken from Richardson, et. al. [16], and from Burton, et. al. [17] work measuring to what extent well-known branded products offer better quality and to what extent higher price signals quality. Scale was also modified by taking into consideration work done by Batra and Sinha [18] to measure "Buying Decision." Hypotheses were formulated after literature review. Chi Square test was used for analyzing the relationship between variables. This was used to find out the dependence between various variables as mentioned in the questionnaire. During the analysis phase SPSS 19 version software was used extensively.

6. Findings and analysis

- **Impact of National / International Brand and the Buying Decision.**

In order to find out the relationship between brand and buying decision, following hypothesis was formulated. In order to find the relationship, Chi Square Test of independence was used.

H₀: National / International Brand don't have an impact on the buying decision of the customer in retail outlet

The significance value obtained is .040 which is less than .05. Therefore the null hypothesis gets rejected. This means the chi-square test is showing that there is a significant association between the above two variables i.e. the National / International Brand and the buying decision. Consumers prefer National / International Brands, because they assume an assurance of quality, while buying these brands, even if brands charges premium for their products.

- **Awareness of Private brands Vs Buying decision**

In order to find out the relationship between awareness of private brands and buying decision, following hypothesis was formulated. In order to find the relationship, Chi Square Test of independence was used.

H₀: Awareness of Private Brand don't have an impact on the buying decision of the customer in retail outlet

The significance value obtained is 0.014 which is less than 0.05. Therefore the null hypothesis gets rejected. This means the chi-square test is showing that there is a significant association between the above two variables. This is generally felt by the consumers, that if they get awareness of private brands, they would at least compare it with the national/international brand in the criteria of price, quantity and most importantly about the ingredients used.

- **Trial of Private Brands Vs Buying decision**

In order to find out the relationship between Trial of private brands and buying decision, following hypothesis was formulated. In order to find the relationship, Chi Square Test of independence was used.

H₀: Trial of Private Brand don't have an impact on the buying decision of the customer in retail outlet

The significance value obtained is 0.021 which is less than .05. Therefore the null hypothesis gets rejected. This means the chi-square test is showing that there is a significant association between the above two variables. Consumers were of the opinion, that if they were provided with the trial of private label, they were able to judge the quality, price and other such features. This will be useful in considering private labels at different consumption levels.

- **Private Brands Vs Increase in Profits**

In order to find out that the Retailers are satisfied or not with the selling of Private label brand in reference of increased sales, therefore , following hypothesis was formulated. In order to find the relationship, Chi Square Test of independence was used.

H₀: Private label brands does not increases the sales of retail store

The significance value obtained is 0.000 which is less than 0.05. Therefore the null hypothesis gets rejected. This means the chi-square test is showing that there is a significant association between the above two variables. This shows that Retailers are highly satisfied with the private brands and want to sell the entire product category under private brands to increase the sales in terms of revenue and profit margin. This also shows that private brands are the good option for retailer to sell along with national / international brands initially.

7. Discussion and conclusions

The Indian retail industry is witnessing growth on daily basis. Though much money-spinning, there is huge and cut throat competition in the indian retail market in both organized and unorganized retailing formats including both branded and unbranded products. In Indian retail, retailers are eying for an every possible share in the retail pie in order to consolidate themselves. Majority of the Indian retail customers perceive private label brand as average quality and low priced substitute of national brands. Food category and the apparels categories were the section where customers prefer private label the most, because of less stakes involved. On the other side consumers were least bothered about private brands in Electronics Category as the involvement in terms of price, time and quality impact is high. For retailers private brands provide better margin and more sales, because of which, retail outlets offer more discount on price to attract consumers to go for private label brands. However this is possible in certain categories, not applicable to all product categories. The study undoubtedly brings forth the relevance of price as an important and sometimes the only factor responsible for influencing customer's adoption or refusal of private brands in relation to other reputed brands. Indian retail customers are always value-conscious and look for value for money, private labels if provides value, it can be looked for. Moreover retailers are turning no stone unturned in increasing awareness and exposure of the retail consumers towards private label brands, which is making retail consumers of India more choosy, smart and vigilant. As a result their interest lies in those products and brands which get easily fit their life style by giving them unique pride with adequate comfort and quality at affordable prices. The reason why retailers are interested too much in private label is that it also increases their profits and at the same time helps them in maintaining loyalty as these private brands are store specific. It can be concluded that if retailers can consistently provide value enhancers to customers on factors

required by customers, there is a high possibility for them to establish their private label brands as acceptable and satisfactory brand in the minds of customers, which will further improve customers' perception about private label and lead to more adoption. Retailers must also position private label as comparable brand with reference to national brands especially in terms of positioning based on pricing.

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