CHAPTER I

INTRODUCTION

1.1 OVERVIEW

This chapter is organized into three parts. The first part discusses the emerging trends in retailing. The second part provides an overview of the role and growing significance of private label. The third part outlines the chapter-wise division of the research.

1.2 RETAILING AND EMERGENCE OF INTERNATIONAL RETAILING

The retailing can be referred to all the activities involved in the marketing and distribution of goods and services. The activity of retailing is carried out by the retailers who try to satisfy the consumer needs by providing the link between them and wholesalers. However international retailing has been in existence and has gained ground in the past two to three decades. The economic booms in several countries, coupled with globalization have given way to organizations looking at setting up retailing across borders. The retail internationalization is the process of a retailer transferring its retail operations, concepts, management expertise and technology across national borders.

1.2.1 GLOBAL RETAIL INDUSTRY

The retail sector is the largest sector in USA in terms of employees and establishment. The retail sector employs more than 23 million Americans and generates more than $3 trillion in retail sales annually. The largest retailer in the world, Wal-Mart based at USA with approximately US $ 245 billion sales annually employs more than 1 million associates in USA and more than 300000 internationally. The retail turnover in the European Union was almost 2000 billion in 2001 and the sectors better than average
growth looks set to continue in the future. The retail trade in Europe employs 15% of the EU workforce. (3 million firms and 13 million workers). In Turkey the retail industry is developing rapidly and its sales volume has reached $ 67 billion in 2006\textsuperscript{1}. In several Asian countries, (Thailand, Malaysia, China and Taiwan) the retail structure has been changed from locally owned supermarket to international hypermarket format\textsuperscript{2}. The share of organized retail varies widely with just one per cent in Pakistan and 36 per cent in Brazil. The MTOS, such as hypermarkets, superstores, supermarkets, discount and convenience stores are pervasive in developed world, whereas such forms of retail outlets have only just begun to spread to developing countries in recent years. A snapshot of the retail sector around the world is as follows:

- The worldwide retail sales are estimated at US $ 7 trillion.
- The top 200 largest retailers account for 30% of the worldwide demand.
- The money spent on household consumption worldwide increased by 68% between 1980 and 1998.
- The retail sales are generally driven by people’s ability (disposable income) and willingness (consumer confidence) to buy.
- The 1998 UNDP Human Development Report points out that global expenditure on advertising are (including in developing countries) increasing

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faster than the world economy, making a point that the sector is becoming one of the major players in the development process\textsuperscript{3}.

- Two third or US $ 10 trillion American economy is consumer spending. About 40% of that ($3 trillion) is spent on discretionary products and services.

- Out of the 500 fortune companies, the retail sector accounts for 50 companies.

Even if the global economy faced slowdown in 2011, the Governments across the continent cut spending and raised taxes, which further weakened economies and undermined consumer confidence. Despite a stumbling global economy, consumers continued to spend 2011 and the retail industry kept rolling–extending the rebound that began at the end of 2012. More than 80 percent of the top 250 (204 companies) posted an increase in retail revenue. Those with declining sales could often point to restructuring activities and divestments of non-core assets rather than deterioration of the core business.

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Retail Sales (US$ bn)</th>
<th>Share of Organized Retail (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>2,983</td>
<td>85</td>
</tr>
<tr>
<td>Japan</td>
<td>1,182</td>
<td>66</td>
</tr>
<tr>
<td>China</td>
<td>785</td>
<td>20</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>475</td>
<td>80</td>
</tr>
<tr>
<td>France</td>
<td>436</td>
<td>80</td>
</tr>
<tr>
<td>Germany</td>
<td>421</td>
<td>80</td>
</tr>
<tr>
<td><strong>India</strong></td>
<td><strong>322</strong></td>
<td><strong>4</strong></td>
</tr>
<tr>
<td>Brazil</td>
<td>284</td>
<td>36</td>
</tr>
<tr>
<td>Russia</td>
<td>276</td>
<td>33</td>
</tr>
<tr>
<td>South Korea</td>
<td>201</td>
<td>15</td>
</tr>
<tr>
<td>Indonesia</td>
<td>150</td>
<td>30</td>
</tr>
<tr>
<td>Poland</td>
<td>120</td>
<td>20</td>
</tr>
<tr>
<td>Thailand</td>
<td>68</td>
<td>40</td>
</tr>
<tr>
<td>Argentina</td>
<td>53</td>
<td>40</td>
</tr>
<tr>
<td>Philippines</td>
<td>51</td>
<td>35</td>
</tr>
<tr>
<td>Malaysia</td>
<td>34</td>
<td>55</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>34</td>
<td>30</td>
</tr>
<tr>
<td>Vietnam</td>
<td>26</td>
<td>22</td>
</tr>
<tr>
<td>Hungary</td>
<td>24</td>
<td>30</td>
</tr>
</tbody>
</table>

(Source: Planet Retail and Technopak Advisers Pvt. Ltd\(^4\))

The 2006 figures of share of organized retail in selected countries around the world suggest that, the organized retail in USA is 85%, Japan 66%, China 20%, UK, France and Germany 80%, India 4%, Brazil 36%, Russia 33%, South Korea 15%, Indonesia 30%,

\(^4\) Planet Retail and Technopak Advisers Pvt. Ltd\(^4\).
Poland 20%, Thailand and Argentina 40%, Philippines 35%, Malaysia 55%, Czech Republic 30%, Vietnam 22% and Hungary 30%. Even if India is an upcoming economic superpower the organized retail has not touched the double digit and is far behind of other developing and developed nations. So there is a huge potential for the organized retail sector in India in the coming days. The figure of developed nations suggests that, the organized retailing has travelled a long distance and accounts for more than 50% of market share. The changes in the international retailing scenario changed the face of Indian retail sector. The long journey of Indian retail sector from unorganized to organized and introduction of national brand to PL is written in golden letters of Indian retail history.

1.2.2 PHASES OF INDIAN RETAIL REVOLUTION

The pre-1970 era, it was common marketing and stores mainly sold unbranded/local packaged goods through Kirana stores. But in 1970-1980, departmental stores, Co-operative stores and public distribution system commenced functioning and started to sell local brands through segmented marketing. The 1980-1990, India
witnessed customized marketing with specialized stores selling regional and national brands. The 1990-95, it was niche marketing by retail chains selling national brands. The period from 1995-2005, the marketing model was customerization with the emergence of malls selling global brands. The post 2005 witnessed consumer specific marketing with the arrival of hyper markets selling local brands otherwise PLs.

### 1.2.3 TRENDS OF RETAILING IN INDIA

The retail sector in India is the largest employer after agriculture. The sector is highly fragmented and consist mainly small, independent and owner-managed shops. The Indian retail industry is one the fastest growing industry in India, over the last few years. It contributes 10 to 11% of the GDP and 8% of employment. The total retail outlet in India is estimated to be 12 million. According to the global consultancy firms AC Nielsen and KSA Technopak, India has the highest shop density in the world. In 2001 the consultancy firm estimated that there are 11 outlets for every 1,000 people. The estimates vary widely about the true size of the retail business in India. But it is expected that the sector amounts to $180 billion market and is six times bigger than that of Thailand and four to five times bigger than that of South Korea and Taiwan. The fifty of the Fortune 500 and 25 of the Asian top 200 companies are retailers.

The Indian retail industry, fifth largest in the world, can be classified as organized and unorganized. The organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These

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include the corporate-backed hypermarkets and retail chains and also the privately owned large retail businesses. The unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, paan/beedishop, convenience stores, hand cart and pavement vendors, etc. So ‘unorganised sector’ includes units whose activity is not regulated by any statute or legal provision, and/or those, which do not maintain regular accounts. In case of manufacturing, all manufacturing units using power and employing less than 10 workers or not using power and employing less than 20 workers. In the context of the retail sector, those forms of trade which sell an assortment of products and services ranging from fruits and vegetables to shoe repair. These products or services sold or offered out of a fixed or mobile location and the number of people employed could range between 10-20 people.

Traditionally; the Indian retail industry has been dominated by unorganized local players, with consumers shopping at mom-and-pop operations, roadside markets, and small grocery stores for their daily needs. The consumers remain loyal to neighbourhood vendors, who offer more than just goods by connecting with their customers on a personal level. The neighbourhood vendors are simply more familiar to locals and are recognized as part of the community; these vendors also extend credit to those in need and offer home delivery. In many areas of India, there are powerful bonds between neighbourhood vendors and their loyal local customers. Often, the shop at the end of the lane is seen as indispensable.

8 Guruswamy, M., Sharma, K., Mohanty, J .and Korah, T, “FDI in India’s Retail Sector: More Bad than Good?” By CPAS, Centre for Policy Alternatives, New Delhi, pp.1-25.
The retail industry in India is of not on time being hailed as one of the sunrise sectors in the economy. But present reports suggest that the Indian retail market is growing 30% annually\(^{10}\). The change of tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well\(^{11}\). The battleground is now set at the organized retail chains where the branded products of reputed companies are competing with locally manufactured products or the products of retail chains for bigger pie of market share and customer loyalty.

While an estimated 85 percent of retail outlets continue to operate in these traditional formats, the last few years has seen a rise in modern retail formats such as hypermarkets, department stores, multi-storied malls, and specialty stores—particularly in urban and semi-urban areas. According to the 8th Annual Global Retail Development Index (GRDI) of AT Kearney, global management consulting firm, Indian retail industry is the most promising market for investment. In 2007, the retail trade in India had share of 8-10% in the GDP of the country. In India, apparel, along with food and grocery, will lead organised retailing in India\(^{12}\). The McKinsey report 'The rise of Indian Consumer Market', estimates that the Indian consumer market is likely to grow four times by 2025\(^{13}\). The Commercial real estate services company, CB Richard Ellis 'findings state that India's retail market is currently valued at US$ 511 billion. In the year 2006, the

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\(^{12}\) http://www.atkearney.in/8th annual global retail development index (GRDI), accessed on June 16, 2012.

India retail market was estimated at Rs.120000 crores, of which the organized market is estimated to stand at Rs.55000 crores\textsuperscript{14}.

According to “\textit{The Investment commission of India}”, India is expected to be among the top 5 retail markets in the world in 10 years. The India's overall retail sector is expected to rise to US$ 833 billion by 2013 and to US $ 1.3 trillion by 2018, at a compound annual growth rate of 10 percentage. As an emerging market with high growth rates, consumer spending has risen sharply as the youth population (more than 33 percent of the country is below the age of 15) has seen a significant increase in its disposable income. The Consumer spending rose an impressive 75 per cent in the past four years alone. The India has one of the largest numbers of retail outlets in the world\textsuperscript{15}. A report by Images Retail estimates the number of operational malls to grow more than twofold, to cross 412, with 205 million square feet by 2010, and further 715 malls to be added by 2015, with major retail developments even in tier-II and tier-III cities in India\textsuperscript{16}. According to new market research report by RNCOS titled, "Booming Retail Sector in India", specifies that the number of shopping malls is expected to increase at a CAGR of more than 18.9 per cent from 2007 to 2015. According to industry experts, the next stage of growth is expected to come from rural markets, with rural India accounting for almost half of the domestic retail market, valued over US$ 300 billion\textsuperscript{17}.

In nut shell the unorganized and organized retail are bound not only to co-exist but also achieve rapid and sustained growth in the coming years. This is clearly not a case of a zero sum game as both organized and unorganized retail will see a massive scaling up

\textsuperscript{14} http://www.cbre.com, accessed on March 03, 2013.
\textsuperscript{15} http://www.investmentcommission.in, accessed on October 28, 2012.
\textsuperscript{17} http://www.rncos.com/ booming retail sector in India , accessed on December 28, 2012.
of their activities. The developed economies, the organized retail is in the range of 75-80 per cent whereas in developing economies, the unorganized sector dominates retail business.

Table: 1.2.3.1 Growths of Retail Outlets in India (Millions)\(^{18}\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Urban</th>
<th>Rural</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>0.58</td>
<td>1.76</td>
<td>2.35</td>
</tr>
<tr>
<td>1984</td>
<td>0.75</td>
<td>2.02</td>
<td>2.77</td>
</tr>
<tr>
<td>1990</td>
<td>0.94</td>
<td>2.42</td>
<td>3.36</td>
</tr>
<tr>
<td>1996</td>
<td>1.80</td>
<td>3.33</td>
<td>5.13</td>
</tr>
</tbody>
</table>

When comparing 1978 with 1996, the growth rate of retail outlets in India is almost three fold in urban area, while rural area, it is twofold and the growth rate is steady over a period of time. The total number of outlets in rural and urban comes to 5.13 million as per the estimate in the year 1996.More over rural areas having more number of outlets compared with urban area. It all shows the strength and the potential for retailing in India.

Table : 1.2.3.2 Growth of Retail Outlets in India (‘000)\textsuperscript{19}

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Food Retailers</strong></td>
<td>2769.0</td>
<td>2943.9</td>
<td>3123.4</td>
<td>3300.2</td>
<td>3480.0</td>
<td>3682.9</td>
</tr>
<tr>
<td><strong>Non-Food Retailers</strong></td>
<td>5773.6</td>
<td>6040.0</td>
<td>6332.2</td>
<td>6666.3</td>
<td>7055.5</td>
<td>7482.1</td>
</tr>
<tr>
<td><strong>Total Retailers</strong></td>
<td>8542.6</td>
<td>8983.6</td>
<td>9455.6</td>
<td>9966.5</td>
<td>10534.4</td>
<td>11165.0</td>
</tr>
</tbody>
</table>

A comparative analysis of food and non-food retailers between 1996 and 2001 proves that non-food retailers are almost double the size of food retailers. Apart from that both the classes of retailers showed a steady progress over the years. The total number of retailers by the end of 2001 is 11165.0 of this food retailers are 3682.9 and non-food retailers are 7482.1.

1.2.4 RETAILING IN RURAL INDIA

There are more than 5, 70,000 villages in India of varying size\textsuperscript{20}. A fashionable occurrence in India’s consumer culture is the materialization of the rural market for several consumer goods\textsuperscript{21}. The three fourth of India’s population lives in rural area and brings one-third of the national income. It shows the immense potential of rural market in


\textsuperscript{21} Nair, Suja R. (2009), Retail Management, Mumbai: Himalaya Publishing House, pp.19-23.
India. One of the estimates suggests that the rural market is growing at an astounding rate of 25% annum\textsuperscript{22}. The rural market is gradually growing over the years and is now bigger than the rural market for FMCGs (53% of the total share). The annual size in value terms is estimated around Rs.50000 crores. As per (NCAER) study, there are as many middle income and above households in the rural areas as there are in the urban areas. There are almost twice as many lower middle income households in rural areas as in the urban areas. Apart from that there are more than 3.8 million retail outlets in rural India, averaging 5.8 shops per village\textsuperscript{23}.

### Table 1.2.4.1 Rural Market Penetration Level of Selected Goods.

<table>
<thead>
<tr>
<th>Consumer Durables</th>
<th>Rural share %</th>
<th>Product</th>
<th>Penetration %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refrigerator</td>
<td>24.30</td>
<td>Coffee</td>
<td>7</td>
</tr>
<tr>
<td>Black and white Television</td>
<td>62.65</td>
<td>Biscuits</td>
<td>60.1</td>
</tr>
<tr>
<td>Washing Machine</td>
<td>14.64</td>
<td>Toilet Soaps</td>
<td>91.6</td>
</tr>
<tr>
<td>Pressure Cooker</td>
<td>51.51</td>
<td>Toothpaste</td>
<td>35.6</td>
</tr>
<tr>
<td>Instant Water Heater</td>
<td>2.04</td>
<td>Talcum Powder</td>
<td>16.4</td>
</tr>
<tr>
<td>Mixer/Grinder</td>
<td>27.43</td>
<td>Hair Oil</td>
<td>16</td>
</tr>
<tr>
<td>Colour Television</td>
<td>28.77</td>
<td>Shampoo</td>
<td>39.8</td>
</tr>
<tr>
<td>Scooter</td>
<td>28.56</td>
<td>Razor Blade</td>
<td>47.1</td>
</tr>
<tr>
<td>Motorcycle</td>
<td>47.87</td>
<td>Skin Cream</td>
<td>15.5</td>
</tr>
</tbody>
</table>

The rural market share of selected goods in Consumer Durables, namely, black and white television 62.65%, pressure cooker 51.51%, motorcycle 47.87%, colour television 28.77 %, scooter 28.56%, mixer/grinder 27.43 %, refrigerator 24.30% and washing


\textsuperscript{23} http://www.ncaer.org, accessed on September 12, 2012.
machine 14.64 are showing impressive share, while the penetration level of items such as toilet soaps 91.6%, biscuits 60.1%, razor blade 47.1%, shampoo 39.8%, toothpaste 35.6%, talcum powder 16.4%, hair oil 16%, and skin cream 15.5%, conveys the fact that, there is a huge un-tapped market is waiting the organized retail players in the Indian scenario\textsuperscript{24}.

The manufactures and marketing companies have a distribution arrangement for villages through village shopkeepers. It is necessary for the marketers to select a particular distribution channel in rural areas in accordance with the characteristics of the product. At the same time, the challenges faced by marketers and the retailers are immense in rural India on account of poor logistics, transport facilities, in-accessible markets and high level of demand concentration. The significance of retail outlet (traditional and modern) in such a marketing environment is immense. Therefore one needs to have good understanding of the role of retailers in rural India.

1.2.5 TRADITIONAL RETAIL FORMAT IN INDIA

It refers to those formats that have long been a part of the retail landscape of India. The Indian retail sector is dominated by traditional format. Traditional markets require rapid changes in their retailing strategy for survival and to compete with supermarkets\textsuperscript{25}. The two major traditional formats exist in India are:

Kirana and independent stores- The origin of these stores can be traced back to the olden days when the surplus in agriculture needs to be sold to obtain the essential commodities by the producer. The Kirana shops are very small in area, stocking limited range of products changing from region to region according to the needs and fancies of

\textsuperscript{24} http://www.ncaer.org, accessed on September 12, 2012.

consumers or owners\textsuperscript{26}. Around 78\% of the retail stores are family owned and utilizing household labour. Even if the labour is hired it will be below three. A small retailer is defined as one with an average turn-over between Rs.17500 and Rs.52500 per annum. In most of the cases it has no tax to pay. The ownership of the retailer shops passes from one generation to another generation and in most of the cases it is like a hereditary one. The consumers are not brand conscious in purchases from these stores.

**Co-operative and Government-owned stores**- The emergence of Co-operative movement can be traced back to the pre-independence period. It emerged as a reaction to feudal system. The Co-operative movement is strengthened after the independence, as the motto is to provide essential commodities and other products and services at a reasonable price. In 2002 there are about 35000 outlets run by Co-operatives\textsuperscript{27}.

### 1.2.6 MODERN RETAIL FORMAT IN INDIA

The modern retail employs many different formats. The formats are defined in terms of location, lay out, size, design, merchandise, price point, discount, service and experience\textsuperscript{28}. The various modern store formats are as follows\textsuperscript{29}:

- **Convenience Stores**- It is situated close to residential areas to enable target customers have easy access and select convenient merchandise. A convenience store can be thought of as a mini-supermarket. It has a store space of less than


\textsuperscript{27} Bajaj, Chetan et.al. (2005), *Retail Management*, New Delhi: Oxford University Press, pp.123-132.


5000 sqft. It will have extended hours of operation if not 24 hours. E.g. Grocery stores.

- **Chain of Stores** - A chain store is not a format by itself. It could be made up of speciality stores, or department stores, or supermarkets or stores of any other format. A single retailer starts a chain of stores with its exclusive-store design, merchandizing plan, promotion and services E.g.: Raymond’s.

- **Franchise** - The retail stores owned and operated by individuals on behalf and licensed by a big organization. E.g.: Mc Donald’s, NIIT and Pizza Hut.

- **Specialty Stores** - These are retail shops having narrow product lines, specializing in a particular type of merchandise and offering specialized service to customers. The jewellery shops dealing exclusively in diamonds are coming under this.

- **Departmental Store** - A department store offer products belonging to several categories. The stores having several departments such as Personal Care, Clothing, Books and Stationeries etc. The departmental store is operating under a single roof although functioning as a strategic business unit. The size of the department store is more than 10000 sq.ft. It may be a stand alone or a part of a chain.

- **Supermarket** - A store which is departmentalized, with self service offering Groceries, limited non-food items such as Health and Beauty related items and General merchandise. The supermarket is large in size and deals in thousands of SKUs, but usually not to the extent of a department store. The consumers have free access enabling them pick products from shelves.

- **Hyper Market** - Hyper market is essentially multi-category, large discount stores. An ambience that attracts the family as a whole is their other vital attribute. It
covers a floor area from 40000 sq.ft to 20000 sq.ft and has a large catchment area, very large in size; carry Grocery, Hardware, Appliance and other general merchandise with self service facilities, usually located in warehouse type structure with large parking facilities. E.g.: Big Bazaar.

- **Shopping Mall** - A shopping Mall is an arrangement of retail stores and providing the right mix of shopping, food courts and entertainment and parking facilities. The retail space is shared by anchor stores and other retailers who will pay the developers of the mall-rent or lease payment for putting up the shop within the mall premise.

- **Shopping Plaza** - The shopping plaza will be a configuration of many tenants using a space of 1000 square feet or for putting up store within a single building.

- **Discount Stores** - Products are offered relatively at a low price, offer broad variety of merchandise and limited services. They often merchandise at 20 % or more below the MRP. The discount store is also known as the bazaar format. There are two types within them-the big box stores and the neighbourhood ones.

- **Factory/Seconds outlet** - These are outlets owned and operated by manufactures directly. Usually seconds or cancelled orders are supplied through Seconds outlet.

- **Kiosk** - It is a concession format store placed within a mall/shopping centre, a bus station; airport etc. It is a free standing pavilion or open on one or more sides.
1.2.7 REASONS FOR RETAIL BOOM IN INDIA.

- The emergence of specialized and bigger retail formats supported by more demanding consumer, higher disposable incomes, entry of foreign brands in the Indian market and the entry of big corporate houses\(^{30}\).

- The deeper penetration of retail network with greater recognition of the potential in rural market for FMCG and Consumer Durables.

- The redesigning of the retail mix by the traditional outlets as a sign of greater maturity of the sector.

1.2.8 CHALLENGES TO RETAIL DEVELOPMENT IN INDIA

The organized retail in India is little over a decade old. It is largely an urban phenomena and the pace of growth is still slow. Some of the challenges of retail development in India are, the high cost of real estate, lack of adequate infrastructure in form of poor roads, lack of cold chain infrastructure and the complex taxation system. But a clear policy direction by Government can remove the hindrance of retail development and can bring a bright future for retail industry.

1.2.9 FUTURE OF RETAILING

The retailers operate in a fast-changing environment which offers threats as well as opportunities\(^{31}\). The last 30 years of change have witnessed dramatic increase in the power and the scale of major retailing organizations with the persistent power changing from the manufacturer, moving first to the retailer and then through to the consumer\(^{32}\).

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The trends pose threats to retailers but when handled properly it can be converted into opportunity. In response to the growing power of the consumer, retailers expanded product lines, became concerned with the strategic issue of discounting and then moved to everyday low pricing and then value retailing. The internet, M-commerce and virtual banking are all changing the face of retailing. The dynamics of retailing can be explained with the help of seven following diverse trends.

- Changing demographics and industry structure
- Expanding computer technology
- Emphasis on lower prices and lower costs
- Accent on convenience and service
- Focus on productivity
- Added experimentation
- Continuing growth of non store retailing

A large number of research houses, consultant and industry federations have speculated on the size that Indian retail is likely to touch in the years to come. The exact figures of the various segments of the industry are not available, the size and projected growth of the sectors have been taken from various industry estimates and reports.

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It is projected that the organized retail sector in India is poised to grow 14-18% of the total retail pie by the end of 2015 compared to 4-5% by the end of 2007.

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34 The Great Indian Bazaar (Organized Retail Comes of Age in India) by Mckinsey &Company (2008).
Fig 1.2.9.2 COMPARATIVE ANALYSIS OF ORGANIZED VERSUS UNORGANIZED RETAIL SECTOR IN INDIA AND THE PROJECTED FIGURES BY THE END OF 2018


The retail sector in India consisting of organized and un-organized has been growing consistently since 2008. The growth is expected to continue unhindered and the organized retail will be reaching a market share of 25% by 2018. The projection of 2012-2013 for the organized retail sector is good, but in reality they may be challenging for the retail players to catch the projected figures.

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1.2.10 THE NEW RETAIL ENVIRONMENT

The only variable stable in retailing is change and it is certainly true that the pace of development within retail is accelerating\textsuperscript{36}.

Before the advent of the new retail environment, the retailers secured customer faithfulness by offering convenient locations, special or unique assortment of goods, better services than competitors and store credit cards. All these have been changed. Some of the retail developments have changed the way consumers buy and manufactures and retailers sell. The developments are new retail forms and combinations, growth of inter type competition, competition between store based and non store based retailing, growth of giant retailers, decline of middle-market retailers, growing investment in technology and global profile of major retailers\textsuperscript{37}. The retail-store varieties have grown more similar as national brand manufactures place their branded goods in more and more places. The emergence of modern trade outlets has made the private label a reality. Even in promising market, there has been rising competition forcing many players to adopt for private label brands to increase store loyalty and to improve store margins\textsuperscript{38}. The role and importance of store brands, which are exclusive to a particular store chain and compete in several product categories with manufactures brands, have changed dramatically over the past decades\textsuperscript{39}.

\textsuperscript{36} Gilbert, David. (2003), \textit{Retail Marketing Management}, New Delhi: Pearson, p. 01.
\textsuperscript{37} Kotler, Philip et.al. (2009), \textit{Marketing Management}, Delhi: Pearson, pp.435-437.
1.3 THE INTRODUCTION OF THE PRIVATE LABEL

Historically, private label products are generic, commodity-based products developed to undercut higher-priced traditional national brand products—first developed by Sainsbury in the U.K. in 1869\(^{40}\). So the private label brands which are first introduced over 100 years ago in few product categories, has seen an impressive growth in past few decades\(^{41}\). These products often sacrificed quality to reduce costs and appealed primarily to lower-income consumers. The concept of private label brands is popularized and familiarized by large corporate supermarket chains which expanded their private label business at the expense of some heavily advertised national brands and items. The experience of the post-war years has seen decline of weak manufacturer’s brands (also called national brands), especially when not in the top three of a product category, in market share and even sometimes disappearing completely. While the major brands have strengthened their position somewhat, increasing retail concentration has put the brands owned by the large retailers into a strong position in number of product categories. By 1990, private label brands have become the dominant brand for nearly 20 percent of US supermarket product categories.\(^{42}\)

As the retailing continues to undergo changes, the increased use of private labels has emerged as a key business asset in developing a differential advantage for retailers. The retailers are shifting their emphasis on the development of private label brands into

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\(^{40}\) Global Private Label Trends.(2010),Market Analysis Report by International Markets Bureau in association with Agriculture and Agri-food Canada and Agriculture Agroalimentaire Canada, AAFC No. 11184E,p. 5.


high gear by using a variety of strategies to build the image of their brand into high gear by using a variety of strategies to build image, expand brand recognition and raise the brand image in the market place. An increasingly large number of retailers now decide on the products and brand they want to stock. The retail shelf space is of prime importance. The most retail stores have developed their own in-store brands/products known as private labels. The private labels are created not only by the large department and speciality stores but also by the Grocery retail chains. The climate is ideal for the entry of private label in India for retailers who basically see compelling reasons for launching store brands. The major retailers have introduced private label in budget and copycat form.

1.3.1 PRIVATE LABEL

A private-label brand (also called a reseller store, house, or distributor brand) is a brand the wholesalers and retailers develop. Private label products are products that are sold under retailer’s brands but are produced by firms further up the supply chain. The private label describes products manufactured for sale under a specific retailer’s brand. They are often designed to compete against branded products, offering customers an alternative to national brands. In another way, products or services under private label are typically those manufactured or provided by one company for offer under another company's brand. It can carry the company’s name or use other brands not associated to

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47 Kotler, Philip et.al. (2009), Marketing Management, Delhi: Pearson, p.443.
48 The impact of private labels on the competitiveness of the European food supply chain, European Commission Enterprise and Industry, 2011, p.11.
the company’s name. Still due to these characteristics and their appeals, the market for private label has grown in the last few years\(^ {49}\). The primary objective of introducing private label is to gain leverage during negotiation with national level brand manufacturers for extra margin and at the initial stage it is priced-low to compete with national brands\(^ {50}\). The private label gives the customers greater choice and variety. They add depth and breadth to the retailers existing ranges and provide a promotional pull\(^ {51}\).

**1.3.2 DEFINITIONS OF PRIVATE LABEL**

- According to Baltas (1997) store brands or private label brands are brands owned, controlled and sold exclusively by a retailer\(^ {52}\).

- A private label can be defined as a brand name owned by a retailer or wholesaler for a line or a variety of items under controlled exclusive distribution\(^ {53}\).

- A private label is characterized by being a product produced, improved, processed, packed or distributed exclusively by the organization that has the brand control\(^ {54}\).

- Private label products—commonly referred to as name brand, store brand, own label, retailer brand or generics—are brands owned by the retailer rather than the producer or manufacturer\(^ {55}\).


\(^ {55}\)
According to PLMA (2005) private labels can be defined as all merchandises sold under a retailer’s brand. This brand can encompass a retailers own brand, such as Banana Republic or Sainsbury, or can be a name created by a retailer, such as Tesco’s Whole foods range and Speciality Selected at Aldi.

A private label is a manufactured good that a retailer purchases from a supplier, with the intention of renaming, repackaging and selling it under the distributors own brand name.

1.3.3 EVOLUTION OF PRIVATE LABEL (GENERATION MODEL)

Laaksonen and Reynolds (1994) put forward the evolution of PL into four generations. The model presents the basics of the private label theory and why they are divided into the various generations.

Generic brands are unbranded, plainly packaged, less expensive versions of common products. They offer standard or lower quality at a price that may be much as 20% to 40% lower than nationally advertised brands and 10% to 20% lower than retailer’s private brands. The lower price of generic is made possible by lower quality ingredients, lower-cost labelling and packaging and minimal advertising. The simplest type of brands, often nameless, basic and functional products.

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55 Global Private Label Trends, Market Analysis Report, *International Markets Bureau in association with Agriculture and Agri-food Canada and Agriculture Agroalimentaire Canada*, AAFC No. 11184E, April, 2010, p. 3.


- **Quasi-brand/own label** is a retailer’s own brand, often related to the retailer’s name. The quality of the products are improved, but are still perceived as lower than leading manufacturers’ brands. The main competitive advantage is providing a better value product (quality/price).

- **Own brand** is what the retailers apply to products that have comparable quality to the brand leaders. Own brands either bear the same name as the retailer, or a new innovative name. The objective for these products is to imitate the traditional brand leaders. These products constitute so called me-too-products. The image of own brands shows the same perceived quality, but the price is strategically set slightly under the brand leaders.

- **Extended own brand** (premium private brand) is a more sophisticated form of the third generation brand. This category of products is exclusively offered by a certain retailer. These brands can, by price and quality, compare themselves to the brand leaders. The objective for these products is to create a value, besides high quality and good price for the customer.
A snapshot of the model suggested by Laaksonen and Reynolds (1994) is as follows:\(^{59}\):

**TABLE 1.3.3.1 EVOLUTION OF PRIVATE LABEL**

<table>
<thead>
<tr>
<th>Type of brand</th>
<th>1(^{st}) Generation</th>
<th>2(^{nd}) Generation</th>
<th>3(^{rd}) Generation</th>
<th>4(^{th}) Generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generic</td>
<td>No name</td>
<td>Quasi brand</td>
<td>Own brand</td>
<td>Extended own brand</td>
</tr>
<tr>
<td></td>
<td>Brand free</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Unbranded</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Generics</th>
<th>Cheapest price</th>
<th>Me-too</th>
<th>Value added</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
<td>Increase Margins</td>
<td>Increase Margins</td>
<td>Enhance category</td>
<td>Increase and retain the client base</td>
</tr>
<tr>
<td></td>
<td>Provide choice in pricing</td>
<td>Reduce manufactures power by setting entry price</td>
<td>margins</td>
<td>margins</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Provide better value product</td>
<td>Expand product assortment</td>
<td>Improve image further</td>
</tr>
<tr>
<td>Product</td>
<td>Basic and functional products</td>
<td>One-off staple lines with a large volume</td>
<td>Big category products</td>
<td>Image forming product groups</td>
</tr>
<tr>
<td>Technology</td>
<td>Simple production process and basic technology lagging behind market leader</td>
<td>Technology still lagging behind market leaders</td>
<td>Close to the brand leader</td>
<td>Innovative technology</td>
</tr>
<tr>
<td>Quality/Image</td>
<td>Lower image and inferior image compared to the manufactures brand</td>
<td>Medium quality but still perceived as lower than leading manufactures brands Secondary brand, alongside the leading manufactures brand</td>
<td>Comparable to market leaders</td>
<td>Same or better than brand leader</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Approximate Pricing</th>
<th>20 % more or below the brand leader</th>
<th>10-20% below</th>
<th>5-10% below</th>
<th>Equal or higher than known brand</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Consumers motivation to buy</th>
<th>Price</th>
<th>Price is still important</th>
<th>Both quality and price</th>
<th>Better and unique products</th>
</tr>
</thead>
</table>


---

The model suggest how brand advance through a gradual process. It explains how brands evolve from simple products to the considerably more advanced private brands that are offered today. The brand generation model is not strictly followed by all retailers in all markets. It is more suitable for retailers to concentrate on pursuing some of the steps in the generation model. It is rational to suppose that the different generations aim at different segmentations. There are a large number of incentives for retailers to mix the generations and thereby get more customized products for their target groups.

1.3.4 THE PHASE OF PRIVATE LABEL DEVELOPMENT

The own brand has passed through three stages before becoming a product innovator. At phase one, the PLB just followed the national brand and the trademark was low quality and low price. In phase two, just like the phase one, the store brand followed national brand but emphasis was on brand development and increasing quality. But in the third phase, there is a remarkable shift from follower of NB to innovator. This is the stage where quality has got predominance over the price of own brand. Moreover quality is almost same that of national brand. The stage wise analysis of the model is as follows:

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TABLE: 1.3.4.1 THE PHASE OF PRIVATE LABEL DEVELOPMENT

<table>
<thead>
<tr>
<th>Phase 01</th>
<th>Phase 02</th>
<th>Phase 03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sold on the basis of price</td>
<td>Sold on quasi brand basis</td>
<td>Sold on the basis of quality</td>
</tr>
<tr>
<td>Quality level acceptable relative to national brands</td>
<td>Quality level improved, unique packaging developed</td>
<td>Quality similar to national brands, price still lower</td>
</tr>
<tr>
<td>Emphasis: Lower price and low quality</td>
<td>Emphasis: Brand development and increasing quality</td>
<td>Market share significant</td>
</tr>
<tr>
<td>Followers of national brand</td>
<td>Followers of national brands</td>
<td>Emphasis: Quality over price</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Product innovator</td>
</tr>
</tbody>
</table>

1.3.5 THE PROCESS OF PRIVATE LABEL CREATION

The process of private label creation to a great extent is similar to the process involved in the sourcing of merchandise. The step involved in private label development is as follows:

**Stage: 1. Defining the objective-Identification of the need**

In the first step, the retailer identifies the reason for creating private label. Some of the reasons are to create a competitive differentiation or to offer wide and unique product range, increase margin and build customer loyalty.

**Stage: 2. Defining the Gaps in the market-Make or Buy**

As a second step, the retailer needs to understand the customer segment which is to be tapped. Some of the factors which are to be analysed under this situation are the

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sensitivity of price of target audience, the financial aspect and the supply chain efficiencies that would be needed from the organisation and the supplier if product is outsourced. The other factors such as pricing strategy, product mix, standard and quality of volumes are also decided under this stage.

Stage: 3. Decision on make or buy and sourcing-Placing order and allocating the goods.

This is the stage the retailer takes a decision whether to manufacture or source the product from outside. If to source the product from outside the suppliers need to be identified.

Stage: 4. Determine the marketing and sales strategy-Marketing

The product secured has to be marketed in the store environment. It involves deciding on the communication mechanism used in order to communicate the brand into the consumers mind. At this level a strategy has to be formed to effectively market the product. This makes the creation of the marketing and sales plan to define product positioning and strategy.

Stage: 5. Determine the measure of performance-Performance measurement

It is necessary to put in place a system to track and monitor the private label programme performance and to identify recommendations for programme refinement and improvement.

1.3.6 REASONS FOR THE GROWTH OF PRIVATE LABEL

The following are some of the reasons driving the private label growth around the world:

- An increased concentration among retailers.
- An improved quality perception among consumers.

- The rising social acceptance of private label consumption.

- The economic downturn has further boosted the appeal of private labels because of their price utility.

- The private label helps the retailer for convenient pricing for consumers.

### 1.3.7 CATEGORIES OF PRIVATE LABEL

The private label manufacturer’s association (PLMA) categorizes PL manufacturers into 4 main categories:

- Large national brand manufacturers that utilize their expertise and excess plant capacity to supply store brands.

- Small, quality manufacturers who specialize in particular product lines and concentrate on producing store brands almost exclusively. Often these companies are owned by corporations that also produce national brands.

- Major retailers and wholesalers that own their own manufacturing facilities and provide store brand products for themselves.

- Regional brand manufacturers that produce private label products for specific markets.

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According to Justin Beneke, PL brands can be grouped under three varieties. The first is a representative brand, which is a PL brand that is produced and solely owned by the retailer. The second being an exclusive PL brand, which is owned and produced by the retailer. The last is confined labels. These are the brands that are not owned by the retailer but are found exclusively in the stores.

According to Hakansson (2000) different kinds of private labels are as follows:

- **Store brands** - The retailer's name is very evident on the packaging.
- **Store sub-brands** - Products where the retailer's name is low-key on the packaging.
- **Umbrella branding** - A generic brand, independent from the retailer name.
- **Individual brands** - A name used in one category, this is only used to promote a "real" discount product line.
- **Exclusive brands** - Again a name used in one category, but to promote "added value" products within the category.

### 1.3.8 ROLE OF PRIVATE LABELS

Private label helps to earn more profit for intermediaries. The intermediaries search for organizations having extra capacity produce private labels at a low cost. Moreover, research and development, advertising, sales promotion and physical distribution are much lower in case of private labels. So, private labels can be sold at a lower price and

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can generate more profit (since the cost of production will be low, the product can be priced at a lower price). This will help the consumers in getting the product at a lower price and also the intermediaries.

1.3.9 THE NEED FOR PRIVATE LABEL

The retailers have become more sophisticated and competitive. The role of private label in the stores change from the price fighter to being value added marketing differentiator. The private label merchandise has been on the rise in all the retail sectors over the past decade. The PL started to diversity their offerings beyond the expected, enabling them to compete more effectively in product categories that have been traditionally dominated by NBs. The changing consumer taste and preference and the need to fill the gap in the product offering is a key reason for retailers to opt for offering private label. This gap may be due to the non-availability of a particular product/category. The retailer want to create a competitive advantage in their domain by aiming to offer product that is unique and thus to build customer loyalty. The private label allows the retailer to build a brand which is associated with the store. The advantage of PL to retailer is that, it offers a higher margin compared to branded products. The private label basically involves the retailer doing the designing, merchandising, sourcing and distribution. The advantage is that, the cost is under control and in-store makes the private label cheap compared to national brands.65

### 1.3.10 OBJECTIVES OF PRIVATE LABEL

The Hakansson (2000) presents a model which shows a number of strategic aims of distributor branding. The model distinguishes three major roles of private labels and is described as follows:

Table 1.3.10.1 The Aims of Private Label

<table>
<thead>
<tr>
<th>Private Label Objectives</th>
<th>Vindictive</th>
<th>Margin booster</th>
<th>Marketing differentiation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce power of manufacturers by reducing their volume and brand franchise</td>
<td>Enhance category margins</td>
<td>Provide a differentiated product to build retailer’s image Private label not just a means of cutting prices</td>
<td></td>
</tr>
<tr>
<td>Eliminate small competitors</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key</th>
<th>Price value</th>
<th>Price Value</th>
<th>Value and quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost cutting Periodic auctions</td>
<td>Cost cutting Periodic auctions Usually non-store label</td>
<td>Retailer needs marketing and technical skills Strong long-term relationship between retailer and manufacturer Usually store label</td>
<td></td>
</tr>
</tbody>
</table>

---

The retailers that attempt to increase competitive advantages in the centre of intensive competition in the retailing sector tend to develop their own branded products as a competitive strategy. According to Serkan Kulc and M Hakan Altmtas, the objectives for developing private label products are to get a different place in the market than rivals (Location), support the efforts of developing new products (New Product), present product variety to consumers (Diversification), increase consumer’s loyalty to store (Loyalty), reinforce the store image (Image), increase competitiveness against national branded products (Competition), develop relationships with consumers (Relationship), develop co-operation with manufacturers (Co-operation), use it as an advertising tool (Advertising), be less influenced by crises in the market (Crisis), allow consumers to buy products with lower prices (Price), increase the store’s profitability (Profitability), increase the market share (Market share), reach more consumers (Consumer), obtain control over shelf space and stocks (Shelf), force rivals to reduce their pricing (Rival product), provide a cost advantage to store (Cost), support forming retailer as a brand in time (Brand), check the present consumer group who buy national branded products (Present consumer), increase profit margins in product categories (Profit margin), present qualified products with convenient prices to consumers, create differentiation as a store (Differentiation), create a special target market for the store by focusing on a certain consumer group (Target market), lessen the dependence of the store to national branded products (Dependence) and follow rivals (Following).

1.3.11 REASONS FOR PRIVATE LABEL DEVELOPMENT BY RETAILERS

Before developing a store brand, it is better on the part of retailers to have a need gap analysis. The analysis will certainly help the retailers to come to a close where NB is lacking and strategies can be formulated based on that to effectively sell the own brand. Some of the reasons why PL is developed by retailers are, need for better margin, long

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term objective of creating customer loyalty, changing the customer habit and creating a unique merchandise mix.

**FIG. 1.3.11.1 DEVELOPMENT OF PRIVATE LABEL BY RETAILERS**

1.3.12 PRIVATE LABEL BRANDING STRATEGIES BY RETAILERS

- Develop a partnership with well-known celebrities, noted experts and institutional authorities.
- Develop a partnership with traditionally higher-end suppliers to bring an exclusive variation on their highly regarded brand name to the market.
- Re-introduce product with strong name recognition that have fallen from the retail scene.
- Brand the entire department or business not just a product line.

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1.3.13 SOME SURPRISING REALITIES OF PRIVATE LABEL\textsuperscript{71}.

\begin{itemize}
  \item Private brands, store brands have made inroads into various industries. Some of the sectors are fast moving consumer segment, apparels, pharmaceuticals, apparels and financial services.
  \item Consumer acceptance-Two Third of the consumers around the world accepts supermarket owned brands as an alternative to national brands.
  \item The purchase of private label products are considered to be smart purchase when the price of store brands are less than that of branded products and quality is comparable to national brands.
  \item Recession open a new window opportunity for private label products. The reason is that at the time of recession people-prefer products which are lower priced and have some level of quality. This in turn can move to brand loyalty even after the recession is over.
  \item The loyalty card of consumers is shifting from manufactures to retailers.
  \item The share of profit has increased for retailers.
\end{itemize}

1.3.14 PRIVATE LABEL-INTERNATIONAL SITUATION

The global consultancy firm, AC Nielsen in its report, the power of private label 2005, states that the private label account for 17% of sales in 80 selected categories across the globe (Europe 23%, US 17%).\(^\text{72}\) In Countries such as Switzerland, Germany, Great Britan, Spain, France, Canada, US, Finland and Australia the private label penetration is almost 100% where as Italy, Hong Kong and Chile the private label penetration is more than 90%, but in countries such as Colombia and Singapore, it is more than 70% but below 90%.

In USA the store brands have seen increase in popularity and quality over the past two decades.\(^\text{73}\) The PL brands have out-performed NBs in all but one of the last ten years in U.S. They now account for 20% of U.S sales in supermarket and mass merchandisers well as a healthy share of sales in department stores, category killers, speciality stores, and convenience stores.\(^\text{74}\) Nearly one out of every five products purchased from a U.S. supermarket, drug chain, or mass merchandiser is a private label product. In some product categories the private label market share exceeds 50%. A recent Gallup poll concluded that 92% of U.S. consumers surveyed bought private label, with the intention of future support. The industry's major dynamic is its complexity of retail, as evidenced by the vast number of stock keeping units ("SKUs"). The product, package, graphic design and size of orders are more variable in private label than for nationally advertised


brands. Moreover, private label manufacturers will likely be required to produce an even greater number of SKUs in the future as more store brands come into existence and to accommodate demand for more product variety. Another developing industry factor is the blurring of the lines of demarcation between the private label and branded manufacturers. Many private label manufacturers have begun to adopt business characteristics of their branded counterparts, including the creation of proprietary brand identities. There has been a major boost in private label brands in the recent years, both in the USA as well as in Europe. In the USA they currently account for some 15 percent of total dollar sales\(^{75}\).

The international private label brands constitute an average of 19% of total retail market share, with some European countries (e.g. Switzerland and UK) fast approaching 50/50 split in market share between store brands and national brands\(^{76}\). In an International review, the Boston Consultancy Group (2003) reveals that in countries such as UK, Belgium, Germany, France and Italy the share of store brands increased substantially and in some cases over 30%.\(^{77}\) The store brand grocery items enjoy enormous fame in Europe. In the UK, for example, the volume market share of store brand packaged goods exceeds 35 percent of total sales. In fact, store brands marketed by Sainsbury’s, the largest chain in the UK, account for over 60 percent of sales volumes\(^{78}\). Private label brands are also well entrenched in other countries. In France the giant chain Carrefour has become the industry leader through the strength of its products of private label brands. In several


European countries, store brands have even more prominent market shares, e.g. 18-23 percent in France, The Netherlands and Belgium, and 34 percent in the UK, and further increases are expected in the near future.

The retailers that attempt to gain competitive advantages in the midst of intensive competition in the retailing sector tend to develop their own branded products as a competitive strategy. The gradual increase in the tendency toward private labels by retailers makes this subject a focus of interest, especially in recent years in Turkey. Even in the most highly-developed private label country, Switzerland, where 97% of categories had private label entries, the product’s total market share was 45%. The countries such as Germany, Belgium and Spain have already surpassed 30%. The growth in private labels is attributable to several factors: retail concentration, retailer’s marketing strategies, economies of scale, size of the national brand market and consumer acceptance.

According to the 2002 report from the Retailing Institute, the store brand consumption in Turkey is around 3.2% and its growth rate is 18.2%79. But in “2006 market report from the Retailing Institute”, private label sales grew by 0.5% compared the prior year in Turkey80. The total share of private label sales is 21.7% across the product areas of private labels; the food product group growth trend had the highest market share. In Spain food and cleaning materials, perfumery, store brand reached a market share of 20.3% and 16.2% respectively, representing an increase of more than 10% from the beginning of the 1990s, making Spain the European country with one of the best potential

market for store brand development. In China the PL is still a new concept to most retailers and consumers.\textsuperscript{81}

The private labels have been seen as low-priced and low-quality products. In recent years, however, companies have started using private labels to market higher quality items, and many believe high-quality private labels will increase their presence. The era gone by, private labels have offered the consumer an inferior-quality alternative at a value price. Though many retailers have intentionally moved upscale, thereby introducing high quality private labels, which directly compete with national brands.

The international private labels firms normally spend much on advertising and promotional campaigns across international frontiers and consequently are more available and recognized in multiple countries. In such a circumstance, international firms are likely to be perceived better introducing reliable products. The international private labels can be recognized as being of better quality than local private labels. The international private labels have an inherent cosmopolitan image, they will be deemed more inspirational, desirable and appealing with higher prestige than local private labels. The international private labels can be counted better leading brands than local private labels. The international labels would like to promote their cosmopolitan image so as to generate greater receptivity to their products which are of foreign origin. It is reasonable to state that consuming international private label products can be associated with more sophisticated personalities than local private label products. That is, the brand personality of international private labels will be perceived superior to local private labels.

As per ACNielsen Global Services, September, 2005, the private label penetration in countries such as Switzerland, Germany, Great Britain, Spain, France, Canada, US, Finland and Australia is almost 100%. But in countries such as Italy, Hong Kong and Chile the store brand penetration is more than 90% but not 100%. It indicates that in developed nations the store brand has increased its significance over a period of time and it is almost at par with NBs.

(Source: Executive News Report from ACNielsen Global Services, September, 2005)
The ACNielsen Global Services, in its report dated September, 2005 states that store brand market share across the globe is 17%, Europe 23%, North America 16%, emerging markets 6%, Asia Pacific 4% and Latin America 2%. The Europe has gone far ahead in PL share compared to other markets. Internationally PL is recording a growth rate of 5%, where as in the emerging market, PL growth rate is 11%, which is the highest, followed by North America 7%, Asia Pacific and Latin America (5%) and Europe 4%.

**Table: 1.3.14.1 Comparison that Shows Retail Players Surpassed the Manufactures in Terms of Total Sales and Private Label Sales.**

<table>
<thead>
<tr>
<th>Serial No</th>
<th>Company</th>
<th>Total sales ($ billion)</th>
<th>Private Label %</th>
<th>Private Label Sales ($ billion)</th>
<th>The total sales of Manufactures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wal-Mart</td>
<td>316</td>
<td>40</td>
<td>126</td>
<td>75 Nestle</td>
</tr>
<tr>
<td>2</td>
<td>Carrefour</td>
<td>94</td>
<td>25</td>
<td>24</td>
<td>69 Altira</td>
</tr>
<tr>
<td>3</td>
<td>Metro Group</td>
<td>73</td>
<td>35</td>
<td>26</td>
<td>57 P &amp; G</td>
</tr>
<tr>
<td>4</td>
<td>Tesco</td>
<td>71</td>
<td>50</td>
<td>36</td>
<td>51 Johnson &amp; Johnson</td>
</tr>
<tr>
<td>5</td>
<td>Kroger</td>
<td>61</td>
<td>24</td>
<td>15</td>
<td>50 Unilever</td>
</tr>
<tr>
<td>6</td>
<td>Royal Ahold</td>
<td>56</td>
<td>48</td>
<td>27</td>
<td>33 PepsiCo</td>
</tr>
<tr>
<td>7</td>
<td>Costco</td>
<td>53</td>
<td>10</td>
<td>5</td>
<td>26 Tyson Foods</td>
</tr>
<tr>
<td>8</td>
<td>Target</td>
<td>53</td>
<td>32</td>
<td>17</td>
<td>23 Coca-Cola</td>
</tr>
<tr>
<td>9</td>
<td>Rewe</td>
<td>51</td>
<td>25</td>
<td>13</td>
<td>20 Sara Lee</td>
</tr>
<tr>
<td>10</td>
<td>Aldi</td>
<td>43</td>
<td>95</td>
<td>41</td>
<td>18 L’Oreal</td>
</tr>
<tr>
<td>11</td>
<td>Schwarz Group</td>
<td>43</td>
<td>65</td>
<td>28</td>
<td>18 Japan Tobacco</td>
</tr>
<tr>
<td>12</td>
<td>ITM</td>
<td>42</td>
<td>34</td>
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(Source: M + M Planet Retail, 2005, Fortune Global 500, Fortune, July 24, 2006, pp.113-120)
According to the report by M + M Planet Retail, 2005, Fortune Global 500, Fortune, July 24, 2006, the 12 largest retailers in the world have almost surpassed the manufactures in terms of sales value. Of the total sales recorded by the organized players, the private label sales accounts for, Wal-Mart 40%, Carrefour 25%, Metro Group 35%, Tesco 50%, Kroger 24%, Royal Ahold 48%, Costco 10%, Target32%, Rewe 25%, Aldi 95%, Schwarz Group 65% and ITM 34%. The five players having highest private label share are Aldi followed by Schwarz Group, Tesco Royal Ahold and Wal-Mart.

1.3.15 PRIVATE LABEL IN INDIA

The store brands in India are at a growing stage. Even if it is difficult to provide the details of sales because the sector in India is highly un-organized, it is expected that the PL contributes more than 700 crores in the organized retail sector. The value is considered to be low compared to other countries. India is expected to achieve a sizable volume in the coming years. The role of private labels can be attributed to retailers such as Pantaloon, Big-Bazaar, Shoppers Stop and Vishal Megamart who are the first to introduce the private brands. The margin on PL ranges from 15-20% in the FMCG sector, about 20% for electronics and from 30-70% for apparel goods.84

The Grocery is another segment where the private label trend is pronounced. The AC Nielsen indicates that close to 60% of the supermarket in India have gone for store brands. The estimate shows that Groceries make up for 46% of private labels, followed by Packaged Foods at 26% and Home Care items at 16%. After consolidating the private labels, some chains are planning to create a premium line of private labels. A premium private label needs to have a superior product quality in order to gain attention of the

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customer. The store also needs to play up the brand with a lot of in-store promotions so that it can compete with the mainstream brands in that category. The Trent/Westside (Tata) feels that the private label exercise would give more price flexibility. The Westside sells almost 100% private labels\(^8^5\).

In case of Future Group, the private label brands contribute around 25% to the overall revenues generated from the FMCG business. The group is present in some 40-odd product categories in the FMCG segment with its basket of private brands. The products are sold through Big Bazaar, Food Bazaar, KB’s Fair Price Shop, Home Town and the rural retail venture, Aadhar. Some of the brand mainstays include Fresh & Pure (Food and Staples), Clean Mate (Home Care), Care Mate (Personal Care products), Tasty Treat (Food, Snacks, Cola and Soft Drinks) and Premium Harvest (packaged Pulses and Rice). Future Group believes that the move to reinforce FMCG private brands will further help it negotiate better margins and terms with the mainstream brands\(^8^6\). In the Potato Chips category, which is dominated by national brands, the groups own brand has registered second place with an in-store share of 22%\(^8^7\). The Future Group has also introduced private label brands in Non-Food categories as well. In the Toilet Cleaner segment, the groups brand is now neck-to-neck in market share with the market leader\(^8^8\). The Future group sports nearly 20 private label brands in apparel segment which chip in considerably to its profitability. In case of the Future Group, the growth of private label brands is not only limited to Grocery and Apparel segment but also to Electronics items.


also. The group sells durable private label brands for a number of products categories across multiple formats.

The Bharti Retail has also introduced Wal-Mart’s top-selling apparel private label in its stores. The private labels owned by Bharti Retail, outsold several national brands in Home Care and Packaged Food categories at their retail stores as value conscious consumers opted for best bargain in an uncertain economic condition and soaring headline inflation despite consumer goods companies aggressively betting on modern retail to drive future growth rate. For instance, Bharti Wal-Mart’s private brand ‘Great Value’ tops the floor cleaner segment with 50% share and are in the top three selling spot in terms of market share in categories such as tea, Wheat Flour, Rice and Branded Snacks according to Nielsen’s latest retail index service during July-September 2011 period for the India FMCG Private Label market⁸⁹.

The retailers are opting different strategies for apparel segment. The players like Trent and Globus, the business is completely driven by its private label. Similarly, Globus - a multi-band retail chain, became a single store label brand under its own name. There are others like Shopper’s Stop which thinks in capping the percentage of private labels in Apparel in spite of being one of the pioneers of private label concept in India. At present, 20 percent of Apparel section at Shoppers Stop constitute of private labels. The Tata group company Infiniti Retail, which runs Croma stores in India, is going ahead selling products like microwave ovens, refrigerators and even laptops. It has over 100 consumer electronic products under its portfolio ranging from accessories like head phones, pen-drives to high-end products like LCD and plasma screen TVs.

The Reliance Retail sells 14 private label brands through its stores, which contribute almost 50% to its annual revenues in Apparel category\textsuperscript{90}. The private label food brands - Reliance Select, Reliance Value, Healthy Life, Good Life and Dairy Pure - contribute over 25% of the total food sales from its outlets\textsuperscript{91}. Reliance Fresh has opted for a strategy similar to British retailer Tesco by having private labels at two price points — one above the rest of the brands and one below — for a number of categories. In fact, the private labels — Reliance Value and Reliance Select — have even borrowed their names from Tesco’s private labels. Drastically, Reliance Fresh also has private labels in Staples and Sugar, where there are virtually no brands. For its Dairy Pure brand, Reliance Retail is attracting customers by offering 10% extra milk in every packet than that of its rivals for the same price. The company has launched private label brands in non-food category with introduction of Floor Cleaning products.

More, the retail arm of Aditya Birla Group, offers private label in Noodles, Pickles and Toothbrushes across various categories. These brands contribute 6% of share of category in More stores and have 18% penetration with ‘Club More’ loyal customers\textsuperscript{92}. More’s private label brands are cheaper than the other brands in the space and offer 8-10% incremental margin over national brands. Also, many of these brands contribute more than the share of national brands present in More stores.

One of the pioneers of Indian retailing, Spencer, offers extensive assortment of private brands, which encompasses both Foods as well as Non-Foods FMCG category. The Spencer's smart choice' is the leading in store brand which has a excess of products ranging from Juices, Noodles, Cookies, Honey, Air freshener etc. The ‘Spencer's’ also

has the 'clean home' range of home improvement products and 'Tasty wonders' range of Snacks and Impulse Food range. Apart from this Spencer’s has very successfully launched its general merchandize products under the brand name of MAROON which includes Non Stick, Hard Anodized, Home Plastic and Foils.

So the most important activities for the supermarket retailers are the creation and maintenance of their store brands. A well-developed private label program could not only contribute directly to retailer profitability but also have positive indirect effects such as better bargaining power with the manufacturer and building store loyalty. Given their strategic importance, it is imperative for retailers to understand the behaviour of their store brand buyers.

1.4 CHAPTER-WISE DIVISION

Topic: “Marketing of private label in the organized retail sector: A study on Kerala market with special reference to Grocery and FMCG” is divided into five chapters.

Chapter 1: Introduction

The first chapter discusses the emerging trends in retailing, the growing significance of private label and the chapter-wise division of the research.

Chapter 2: Review of Literature.

The second chapter deals with the various literatures pertaining to private label and the procedure of identification of dependant and independent variables.

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Chapter 3: Research Methodology

The third chapter investigates into the research problem, objectives, significance, scope of the study, data base design, measurement design, sample design, variable identification, framing hypothesis, statistical tools used in the analysis, data analysis, analysis procedure, composition of the sample and the limitation of the study.

Chapter 4: Analysis and Interpretations

The fourth chapter does the descriptive and the inferential analysis on sample of customers and experts and finally two structural equation models are developed.

Chapter 5: Findings, Recommendations and Conclusion

This chapter comes out with major findings, specific recommendations, conclusion and the scope for future research.