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The influence of retailing-mix levers on private label market share: The case of the Italian FMCG market ☆

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ABSTRACT

An in-depth analysis of the impact of retailing-mix levers on private label market share in the Fast Moving Consumer Goods sector in Italy is made. The direction and intensity of the impact of assortment, price and sales promotion is measured for different product categories. OLS and GMM regressions run on an IRI Group dataset indicate a strong positive effect of product range, which can be considered as a proxy of on-shelf brand visibility. Increasing private label assortment share thus appears to constitute the key supply-side factor in augmenting sales share on the Italian grocery retailing market.

1. Introduction

Over the last two decades the development of private label products has been an important strategy for grocery retailers, who are investing financial resources and know-how in branding for many reasons. The first is that in a context of maturing demand, where there is increasing competitive pressure on prices, private brand guarantees significantly higher retail margins than manufacturer brands. Private label products allow retailers to make higher profits on service factors and increase investment capacity (Narasimhan and Wilcox, 1998; Bontemps et al., 2008). A number of studies have shown that on markets showing falling profit levels, retailers with above average private label market share perform significantly better than their competitors (Ailawadi et al., 1995). The second reason is that the capacity to create, strengthen, sustain and defend their own brand is an indicator of marketing autonomy for retailers, and thus constitutes a proxy of their "power" in channel relationships with manufacturers. Private label, in fact, enriches this relationship with a new dimension; horizontal intra-brand competition for consumer preference. This is in addition to the traditional vertical competition on negotiation aspects (Verhoef et al., 2002; Juhl et al., 2006). Managing their own label gives retailers greater direct control over the whole product value chain, reducing the risks of uncertainty in sales forecast for the products themselves and their relative costs (Putsis and Cotterill, 1999; Hansen et al., 2006). Retailers thus show a marked preference for integrated upstream channels compared to channels where control of production processes is in the hands of manufacturers. This is leading to higher commercial and financial barriers for manufacturer brands, especially followers and minors, to entering retailer assortment.

The third reason for investment in product branding by retailers is the opportunity to differentiate their range from horizontal competitors (Richardson et al., 1994; Scott-Morton and Zettelmeyer, 2004; Liu and Wang, 2008). There are two complementary ways this happens. The first is offering a lower-priced alternative to leading manufacturer brands, with the aim of meeting consumer needs for low prices. This softens the competitive impact of more aggressive formats like discount stores. The second way is offering exclusive product/packaging variables to meet specific needs of a number of consumer targets. Original and firm-specific brand architecture makes ranges less directly comparable (Sayman and Raju, 2004; Esbjerg and Bech-Larsen, 2009; Dawes and Nenycz-Thiel, 2013).

The fourth reason for private label product development is to gain consumer store loyalty. A number of empirical studies have shown the existence of a direct relationship between consumption penetration of private labels and share of consumer

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wallet (Steenkamp and Dekimpe, 1997; Corstjens and Lal, 2000; Binninger, 2008). Gaining consumer loyalty depends on the ability of the retailer to build the brand in the same way as manufacturers do, creating a distinct brand image characterized by positive associations which are common to different product categories (Keller, 2003).

This has led retailers to invest significant resources in product branding policy, and the market share of private labels has seen steady substantial growth throughout Western countries. There is therefore a need for empirical studies to identify factors in the growth as well as its effects (Ailawadi and Keller, 2004).

The present work thus aims to make an empirical analysis of the impact of different retailing-mix levers on private label market share, with a focus on the Italian grocery retail market. Three main elements characterize this contribution compared to previous literature. First, it focuses on supply-side factors, rather than demand-side factors. Second, it explicitly takes into account a possible existence of a bi-directional relationship between private label share and relative price positioning. Finally, it is thought to be the first study examining this aspect of the grocery retail market in Italy, where the majority of retailers are still positioned at the initial stage of the retail branding life cycle.

The paper proceeds as follows. Section 2 reviews existing literature on the topic. Section 3 provides a short overview of the Italian Fast Moving Consumer Goods (FMCG) market. Section 4 describes the methodology and presents the empirical results. Finally Section 5 discusses managerial implications which can be drawn from these results and concludes.

2. The theoretical framework

Most literature on the growth in private label market share can be classified into two main fields of study. The first assumes the growth to be independent, and measures the impact it has on different retail mix levers, assumed to be dependent variables. The basic principle is that retail product branding is characterized by continuous growth in all different product categories and for all retailers operating in the grocery sector. The analytical focus is therefore on the effects that this irreversible growth has on various dimensions of horizontal competition between retailers. This research takes a category perspective, from which the increase in private label sales has big negative effects on the positioning of manufacturing brands in retailer assortments. The research hypotheses in these studies tend to concentrate on the impact that the growth has on the following variables:

(i) Average category prices (Bonfrer and Chintagunta, 2004; Anselmsson et al., 2008). A number of studies note how the growth in private label share tends to lead to a reduction in prices, especially in the early phases of share growth from 0% to 10%. Some recent studies show, however, that when private label growth leads to higher use of shelf space and a consequent reduction of Stock Keeping Units (SKU) of manufacturer brands, lower intra-brand competition can lead to an increase in average category prices (Pauwels and Srinivasan, 2004);

(ii) product category margins (Ailawadi and Harlam, 2004). It has been empirically shown that private label market share growth yields a significant improvement in retail margins and general profitability of the product category;

(iii) assortment rationalization (Verbeke et al., 1998; Sloot and Verhoef, 2008). In the presence of private label market share growth an increase in manufacturer brand delisting has been noted, which can reduce the negative impact of consumer store switching;

(iv) the "power" relationships between different brands (Cotterill et al., 2000; Juhl et al., 2006; Fornari et al., 2011). It is noted that the growth of private label market share tends to modify the equilibrium of competitive positions among brands, especially in product categories where there is no clear manufacturer brand leadership and where there is inertia in both demand and supply;

(v) perception of store image and store loyalty (Ailawadi et al., 2008; Ngobo, 2011). Especially where private label market share is under 30–40%, there is a positive relationship between growth of private label share and store loyalty levels measured by share of wallet. These relationships however are neither linear nor uniform between different types of retailers or store formats.

The second field of research takes the growth of private label market share to be a dependent variable, and the prevailing approach is to measure the impact of different retailing-mix levers on the growth variable. These studies nearly always take a brand view, in the sense that they focus on store brand, independently of competition with other brands present in the reference product category. In most studies, research methods are demand-orientated in that they focus on the dimensions of consumer attitude and purchase intention towards private label products. Research hypotheses tend to focus on the intensity/direction of the impact of attitudes/perceptions of consumers towards the growth of private label market share. Many of these empirical studies examine consumer attitudes to baseline price (Ailawadi et al., 2001; Anselmsson et al., 2008), price promotion (Bellizzi et al., 1981; Garretson et al., 2002; Manzur et al., 2011) and shelf visibility (Amrouche and Zaccour, 2007; Dursun et al., 2011; Bauer et al., 2012) of private label brands.

Regarding baseline price, it appears that the level of awareness of relative price indexes of different brands significantly positively influences intention to buy and market share of private label (Jin and Suh, 2005; Sinha and Batra, 1999). Price consciousness tends to vary widely between product categories. It reflects the risk associated with purchasing different products, familiarity with the category and price-quality positioning of leading manufacturer brands. It follows that in categories where there is greater awareness of a price gap favorable to the private label, and equal product quality perception, there is an ongoing and significant growth in sales share of private label to the detriment of manufacturer brands. A number of studies also emphasize that in the absence of high levels of familiarity and price consciousness, private label is considered interesting only by markedly price sensitive consumer segments. For other segments, the relatively low price tends to be an indicator of low product quality, and this lowers market share (Vahie and Paswan, 2006; Wu et al., 2011).

Regarding price promotion in general, the appeal of price discounts on private label products is lower than on manufacturer brands, although their attractiveness is tending to increase thanks to the progressive upgrade in private label product quality. The impact of price promotion on private label market share tends to be higher as products move from initial to more advanced phases in the retail branding life cycle, when consumers usually perceive equivalent quality in private label and manufacturer brands (Delvecchio, 2001; Soberman and Parker, 2006) and when perception of risk associated with purchase also tends to drop (Gonzalez Mieres et al., 2006; Sheau-Fen et al., 2012). The perceived riskiness however differs widely from retailer to retailer, as it is apparently closely associated with store brand image (Dawes and Nenycz-Thiel, 2013; Wu et al., 2011; Beristain and Zorrilla, 2011).

Lastly, concerning shelf visibility, a number of empirical studies have shown that purchasing intention towards private label (and thus market share) tends to increase proportionally to the increase in shelf space. In reality, this is true of all brands, and it has been theorized that there is a direct relationship, albeit decreasing,