Retail brands fighting for consumer loyalty: a case for cross cultural research

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Introduction

With the global growth of retailer own brands we consider the impact that their introduction has on consumer loyalty. The twentieth century was the time of manufacturer brands, where companies turned their focus on the importance of the consumer. By using all of the marketing tools at their disposal, manufacturers successfully persuaded consumers to buy their brands (Alreck and Settle, 1999, Kumar and Steenkamp, 2007) and retailers were at the mercy of these companies who demanded distribution control as a means of building and developing relationships with the consumer. Sometime during the 1970’s, this all changed. Seizing opportunity, retailers expanded to become international players (Davies 1990, Kumar and Steenkamp, 2007) so that names such as Walmart, Target, IKEA became brands in their own right.

This strategy was so successful, that by the end of the first decade of the twenty first century, retail brands provided a formidable and competitive offering in comparison to manufacturer brands (Knowles, 2009, Kumar and Steenkamp, 2007). With few exceptions, Marks and Spencer in the UK being one, these retailer brands were generally viewed as a budget alternative, particularly within the grocery business. Store brands, also referred to as private label brands, are not a new phenomenon and much has been written about how they contribute to the overall grocery environment (Collins-Dodd and Lindley, 2002), particularly when taking into consideration that as a result of this market change, consumers have been able to save more than 35 percent off their supermarket bills by buying retailers brands (Hilderbrandt, 2011). Further compounding this, a recent Nielsen (USA) report suggested that the stigma of buying a store brand is slowly dissipating and three quarters of consumers believe store brands are a good alternative to manufacturer brands especially from a quality perspective (Hilderbrandt, 2011). This implies a radical adjustment is underway in terms of how consumers make decisions to buy private label brands.

Private Label brands and Retailers

The focus of this study is to propose a comparison of two different markets where customer response and underlying motives may be very different. Where one country’s success is due to the ability of retailers to develop successful strategies for building consumer loyalty towards private label brands, whereas in another, success is more reliant on the existing market structure and repeat purchasing.

Stores rely on repeat buying for their very survival. A plethora of research has been carried out to confirm this (Bruyneel *et al*. 2006, Hoyer, 1984 Oliveira-Castro et al, 2005, Riley and Ehrenberg, 1997) but considering only purchasing behaviour hints at a state of ‘inertia’ (Huang and Yu, 1999. Rowley, 2005) which offers an unstable, low commitment situation where brand switching is more likely because of the absence of attitude. No retailer or manufacturer wants this. Instead many are now turning to developing consumer relationships and using their brands as a means to achieve this. According to Huddleston *et al.* (2004) retailers can increase their life time profits by 75 percent by simply maintaining an additional five percent of existing, loyal customers. Seeking to fulfil consumer expectations from a relationship perspective creates an avenue for competitive advantage (Pepe *et al.,* 2011) be that from a national or retailer brand perspective. It is proposed that the presence of retailer brands complements a retailer's image and is specifically aimed at developing relationships with consumers and are now positioned to be the same quality as manufacturer brands (De Wulf *et al.* 2005).

The majority of retailers now offer a multi-tier range of private label brands, starting from low price, lower quality through to those of a premium standard which rival national brands (SymphonyIRI Group, 2011). Supermarket executives are savvy enough to know that private label brands need to more than just price differentiated. It is just as important to create a total value package which includes brand identity, clear attributes and high perceived quality thus giving them the opportunity to strengthen their own brand significance. If retailers are successful in achieving this, consumers are more likely to make an effort to seek out the retailer, whose brands are only available at their store, thus increasing potential to capture more of their loyalty.

It is this aspect that is of concern to manufacturers of national brands. Traditionally private label brands were relegated to a cheaper, lower quality offering; now they compete to the same standard. Knowledgeable consumers now demand to know why they should be paying more if they can achieve the same benefit elsewhere.

In this paper we make a comparison between the UK, where retailer brands such as Sainsbury's and Tesco remain high in consumer loyalty (Humby, et al, 2008, Retail Week 2011) and Australia where premium retailer brands are still in their, albeit rapid, infancy. The Australian context is of particular interest because of the dominance of just two retailers who control approximately 80% of the market (Ferguson, 2009). This places it in a unique situation when compared to that of the UK and other markets around the world where competition is far more intense. Retail grocery brands in the UK are recognized as having attained a far more sophisticated level of representation than other countries around the world (Burt, 2000) and thus provide a solid starting point for any further analysis into this area.

The Australian Grocery Environment – a case of limited competition

Australia is one of the very few countries in the world where the grocery market is dominated by only two key retailers – Woolworths and Coles (owned by Wesfarmers). From another perspective, for every $10 spent in Australian shops, $1.25 goes to Woolworths and $1.30 goes to Wesfarmers. This puts them with a higher share of wallet than the world's number one store chain Wal-Mart ($1.10 for every $US10 spent) and on par with British retailer Tesco (Lee, 2009). According to Rogut (2007) the future of the Australian supermarket will include the demise of manufacturer brands who do not hold the top two positions in their category, and consumers will be obliged to choose from the market leader, a retailer label – be that a low generic or premium house brand – and perhaps one other.

With an initial introduction of twenty tinned products, retail brands are now offered in every grocery category. This puts brand penetration at a similar level to that as the UK stores but the speed of introduction has been at a much faster rate (Ferguson, 2009). The topic is an emotive one whenever it is discussed in the media and this is only compounded when companies such as HJ Heinz and Lion announce factory closures because of the lack of available shelf space due to the retailer brand onslaught. It has been suggested that in 2010, retail brands made up 25 per cent of shelf space which will increase to 33 percent by 2016 (Dalley and Sheftalovich, 2012).

A recent snap poll (Greenblat, 2011b) showed that whilst 39 per cent of respondents buy brands that offer better value, slightly more (43%) try to avoid home branded goods, no matter the price (n=6271). Another similar study (Lee, 2011) showed that 55 per cent of respondents put quality as their main factor for choosing a grocery product, whilst only 20 per cent chose price (n=3075). Finally, when asked directly about brand choice in supermarkets (Greenblat 2011a), 19 per cent thought there was enough, but nearly double (40%) thought there were too many supermarket brands (n=3059). The following comments included in these studies offer further insight:

> "*Coles and Woolies are dominating everything from groceries to petrol",*
> *"I refuse to buy (retailer brands) because I know what will happen; eventually all products in these supermarkets will be their own brands"*
> *"In the future you will only be able to buy their stuff and one other alternative. Boycott them now before it's too late*"
> "*If we aren't careful, Coles and Woollies (sic) will end up driving everyone else out of business. Look at the decrease in independents in petrol*..."

Although the data presented comes from media polls rather than academic research, these snapshots into the Australia psyche reveal very little positive feedback about how the grocery landscape is shifting and more frustratingly, households see themselves as powerless to change the facets they don't like. There are a myriad of reasons proposed about why this may have occurred: ranging from consumers putting price over quality and choice through to shareholder dividends driving business decisions. But underlying all of this is ever present negativity about the situation.

The UK Grocery Environment – a case of broad competition

The United Kingdom has one of the most advanced markets when it comes to own label brands (Vignali et al., 2006, Nenycz-Thiel, 2010). The major supermarkets, Tesco, Asda, Sainsburys' and Morrisons have a total market share of approx 76 per cent (Dalley and Sheftalovich, 2012) with a market share of 57 per cent for private label brands (Symphony IRI Group, 2011). There, supermarkets also hold a dominant place in retailing and use their own brands to position themselves in nearly every product class (de Kervenoael et al, 2011). First driven by Marks and Spencer, private label brands have gained integrity not seen elsewhere (Burt 2000, Buckley, 2004, Vignali et al., 2006) to such an extent that companies such as Tesco and ADSA, have successfully re-positioned their products from the 'poor relation' to one that challenges manufacturer brands at all levels.

UK retailers know that consumers are not only interested in paying the lower price, but instead seek the 'whole package' offered by the brand. To some extent, there is a certain 'snobbery' about where they shop (Buckley, 2004). According to Nielsen UK (2005), 81 percent of UK respondents believe that private label brands are a good alternative to branded products, compared to 51 per cent of their Asian counterparts and a 68 per cent global average. But this also needs to be tempered to some extent. Recently, Sainsbury's learned a valuable lesson by including too many of their own labels, up to 70 per cent, and consumers seeking choice, went elsewhere. As a result the store was forced to re-evaluate its private label strategy (Dalley and Sheftalovich, 2012). It is unlikely the same could be said for Australian consumers should the same thing happen there.

The UK market has been selected for this study because the European experience shows that store brands, if properly marketed, can create the competitive advantage that most retailers elsewhere have yet to achieve (Dick *et al.*, 1995). Nearly half of the sales in stores such as Tesco now come from their private labels (Nenycz-Thiel 2010). The crucial factor in the realignment of retail brand ranges in the UK has been a clear appreciation of what the retail tradename means to the customer. After all, it is this tradename which is placed on the product and the "values" that customers attribute to it which are transferred to the product. If the retailer wishes its retail brand product range to be perceived as a high quality alternative, it must be comparable to the leading manufacturer brand. Research suggests that almost half (49%) of UK consumers bought more products from supermarkets' premium own-brand ranges during 2010 than in the previous 12 months (Barnett, 2010). This implies that UK supermarkets who don't offer a premium retail brand will become the exception, rather than the norm.

Seeking to Understand Consumer Mindspace

Ultimately all brands, manufacturer and retailer alike, seek to attain brand loyalty, not just repeat purchasing. It has been suggested that when retailers use private label brands with strong and exclusive imagery, this influences store traffic and increases store loyalty (Levy and Weitz 2001). Whilst manufacturers are constrained by the structure and power relationships within the market and their ability to generate these relationships, grocery retailers have the opportunity to take advantage using their retailer brand as the central cue (Vignali et al, 2006). However gaining market share is not the only end goal for retailers. Less obvious is that whilst manufacturers make profits from their own brands, retailers make profits from the entire category thus resulting in more revenue going to one channel of distribution and giving more control to that same company.

To show how this can potentially impact an industry, a recent study has revealed that Australian grocery prices have risen 41 per cent since 2000 - faster than Britain's 33 per cent or America's 28 per cent (Ja & Godfrey, 2009). These numbers indicate that retailers have much to gain in terms of market structure (i.e. price positioning, consumer loyalty) and distribution (i.e. product range, store availability) and are looking overseas to see what can be replicated locally.

Prior research has focussed on attitudes towards private labels (Garreston *et al* 2002), the perceptions of private labels (Richardson *et al*, 2004, De Wulf *et al*, 2005) and how store loyalty can be developed via store brands (Collins-Dodd and Lindley 2002) to such as extent that retailers use this to increase awareness and aid attitude formation. Pepe *et al.* (2011) recommend that retailers should use national brands to entice consumers into the store but then offer private label products to provide incremental sales once they are there. It therefore becomes a fine balance between how much shelf space should be dedicated to each without isolating customers. Little research has been done comparing two distinctly different grocery situations, particularly from a motivational and perceptual viewpoint. We seek to uncover how influential market structure and marketing strategy is in determining the likelihood of building such relationships between consumers and retailer brands.

Can UK and Australian retailer brands occupy the same 'mindspace' for consumers especially if the environment and the drivers for such devotion are different? Does lack of retailer choice (and subsequent brand options), devalue brand equity rather than build upon it? A review of current literature has uncovered very little academic research in this area, particularly in comparing two distinct markets offering the same marketing strategies.

We propose that there is potential for research to investigate how consumers have benefited in countries where store brands are well established and if this outcome will be the same in Australian stores. It aims to add to this body of knowledge by comparing the behaviour of consumers in the UK where there are up to six major supermarkets vying for their loyalty versus the very different market in Australia. Supermarkets in both countries offer simple generics through to the premium store brands. Both countries present core similarities in terms of culture, heritage and lifestyle, thus allowing for a viable comparison.

Moving forward

Initial reports have indicated that consumers in Australia are taking up premium house brands to such an extent that these (and generics) now have 22 per cent grocery market share in the Australian market, (Greenblat 2011c, Nielsen, 2009) and this growth is now outstripping that of manufacturer brands (Knowles, 2009). Even with these growth figures, Australia still lags leading Western nation in terms of private label volume. British supermarkets sell three times as many store branded goods compared with Australian supermarkets, and US supermarkets twice as many (Greenblat, 2011a).

According to Nenycz-Thiel (2010), Australian premium store brands are in their infancy and both supermarkets are focussing their strategy around raising awareness. We argue that two years on from this study, the strategy has markedly changed so that there is greater alignment with the UK approach using communication strategies around the notion of brand image and perceived quality. This is particularly relevant in light of Woolworths aggressively advertising their Select brand from April, 2012, a move not seen since the launch of this product range (Silmalis, 2012).

Given these consumers are taking up retailer brands at a greater rate, there is little understanding on the foundations for this growth. Is it because of the effect of stimulus generalisation enabling the carryover of the retailer's image onto their retailer brands, or is it simply a case of national brands being unable to remain competitive? The next stage of the research is to undertake exploratory research to expand the items to include the influence of consumer culture, and the influence of retailer competition between two divergent markets.

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