RETAIL PRIVATE LABEL’S STRATEGIES: 
A CASE STUDY IN A LARGE BRAZILIAN 
SUPERMARKET CHAIN

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ABSTRACT

The present study approaches the advantages and risks related to private labels under a retailers’ perspective, as well as the private label strategies and its growth in the Brazilian market. The paper analyses the strategies used by a large Brazilian supermarket chain with regards to its private labels’ management, using the case study method. The results showed the existence of two private label lines of products, with different strategies: one line of light products (proprietary brand) and another line of products that carry the name of the supermarket under study (retail brand endorsement), both classified as using the fantasy positioning strategy.

KEYWORDS

Private labels; Supermarket retailing; Strategies and positioning.

RESUMO

O presente estudo aborda as vantagens e riscos relacionados às marcas próprias, a partir da perspectiva dos varejistas, assim como as estratégias para marca própria e o crescimento no mercado brasileiro. O artigo analisa as estratégias utilizadas por uma rede supermercadista nacional de grande porte no que se refere ao gerenciamento de suas marcas próprias, por meio de um estudo de caso. Os resultados evidenciaram existir duas linhas de produtos com estratégias de marcas próprias distintas: uma linha de produtos light (marca própria proprietária) e uma outra linha de produtos que leva o nome do supermercado estudado (marca própria endossada), classificadas como estratégia fantasia.

PALAVRAS-CHAVE

Marcas próprias; Varejo supermercadista; Estratégias e posicionamento.
1 INTRODUCTION

The retail sector, according to Stern, El-Ansary, and Coughlan (1996), refers to the business activities related to selling products and services to consumers for their personal, familiar or home use. Retailing activities can be performed by all channel members, and even by the industry. Nowadays, the retailing intermediaries can take many forms, including department stores, mass merchandises, hypermarkets, specialty stores, convenience stores, franchises, purchase clubs, warehouse clubs, catalogue managers and on-line retailers. Conversely to what purely wholesalers intermediaries, these retailers sell directly to individual consumers, that are the end users. In Brazil, the most important retailer types for the distribution process are hypermarkets, supermarkets, convenience stores, specialty stores and grocery stores, among others (PARENTE, 2000).

It can be observed an intense competition within the retailing formats, what makes them to search for strategies that can better serve the consumer and assure larger profitability. Although, historically, the retailers’ role has focused on gathering a variety of products that are attractive for the end consumers, nowadays it goes far beyond that. Retailers can deal with private label products (store brands) and can also backwards vertically integrate in an efficient way in the supply chain (COUGHLAN et al., 2002).

With regards to private label brands, they can be defined as a brand name owned by a retailer or wholesaler for a line or a variety of items under controlled or exclusive distribution (EUROMONITOR, 1998). According to Fitzell (1992), retailers can choose different strategies for working with private labels: generic brand, rubber stamp brand, retail brand endorsement and proprietary brand. These different theoretical options are empirically investigated in the present study, by means of a case study with a large Brazilian retailer.

2 OBJECTIVES AND METHOD

The present paper represents a continuation of Giraldi and Scandiuuzzi’s (2003) paper, which studied the private label’s situation in Europe and in Brazil, considering aspects such as: growth figures, strategies pursued by retailers and manufacturers, trends and perceived differences between these two regions. In their paper, these authors performed a case study in a multinational manufacturer, in order to illustrate how a manufacturer deals with the private label issue, and also to better understand the differences between the European and the Brazilian markets.
This paper, in turn, analyzes the same theme, under a different perspective: the retailers’ one. The main objective is to understand the private label strategies used in Brazil. Specifically, the private label strategies used by a large Brazilian supermarket chain are analyzed. The researched supermarket chain was chosen among the five largest companies in the sector, according to the ranking elaborated by the Supermarkets Brazilian Association (ABRAS) in 2004. The option for one of the largest chains acting in Brazil is due to the fact that the firm has probably a deeper knowledge and experience about the strategies and positioning for private labels, comparing to smaller chains.

The intended results are:

- To identify the lines of private label products developed by the company under study;
- To identify and to analyze the main characteristics of the company’s private label brands, with regards to design, content, price and identity;
- To compare the characteristics identified in the private label products of the company studied with the characteristics of the leading products in each category;
- To empirically investigate the theoretical options for strategies and positioning of private labels in the company under study.

The methodology used in this study can be understood in two phases. Both phases’ approaches are exploratory. The first one is a secondary data analysis and the second one is a case study, according to the model proposed by Yin (1994). The secondary data research involves a bibliographic survey that, according to Malhotra (2001), helps to define the research problem and to identify key questions on the subject under study. For this paper, it was performed a data search in journals, congress proceedings and library databases of the main universities in Brazil.

The case study, according to Yin (1994), investigates a current phenomenon within the situation it occurs. In the case study phase, in-depth interviews were done with managers of the Brazilian company, with the aim to observe how the concepts identified in theory are used by the chain under study.

4 PRIVATE LABEL PRODUCTS: DEFINITIONS AND GROWTH REASONS

Private labels are increasingly being used to differentiate retailers and to counterbalance the power of their suppliers (COUGHLAN et al., 2001). A promi-
nent characteristic of private labels lies in that a certain kind of private label is, most of the time, only sold by a certain retail chain; the owner of that private label. It is not uncommon that private labels, in a lot of cases, carry the same names as the retailers, though it is a third party – manufacturers, not the retailers – that really produces the private label products.

According to Euromonitor (1998), 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 or exclusive distribution. For ACNielsen (2002), a private label is characterized by being a product produced, improved, processed, packed or distributed exclusively by the organization that has the brand control. It can carry the company’s name or use other brand not associated to the company’s name. Still according to ACNielsen (2004), due to these characteristics and their appeals, the market for private labels has grown a large amount in the last years.

Among the reasons that explain this growth, there is the fact that more and more retailers are seeking competitive advantages in the brands they offer and trying to use private labels to increase their margins (Stern; El-Ansary; Coughlan, 1996). In general, private labels can bring retailers a higher profit margin compared to those of branded products. The increasingly aggressive private-label programs by major retailers such as J. Sainsbury in the UK, Loblaw International Merchants in Canada, and Wal-Mart in the U.S.A are good examples of the strategy retailers use to obtain more competitive strength.

Another explanation, probably the most important one, for the private label growth is the price: private-label products are usually priced from 15 percent to 40 percent lower than branded products (Stern; El-Ansary; Coughlan, 1996). Since the quality of private-label products is increasing continuously, shoppers get the impression that they can generate better value from the money they spend if they buy private-label products (Mori, 1999). A last cause is the economic conditions. During the period of economic recession, consumers have become so price conscious that their preferences are changing from national brands to private labels (Euromonitor, 1998).

5 PRIVATE LABELS’ ADVANTAGES AND RISKS FOR RETAILERS

Aside from the increasing acceptance levels, advances in private labels in Europe can be attributed to the growing strength of the hypermarket and supermarket concepts. Besides, the ability to purchase products built to retail specifications in large quantities has also supported the private label trend. The expansion of the
retailer chains has not only made private label products more freely available to customers, but also helped to reinforce supermarket branding and build trust.

The branding of retailers through private labels has three underlying motives to become more competitive: to reduce manufacturers’ power in dictating margins, to differentiate product offerings from the ubiquitous national branded products offered by their retail competitors and to increase the stock and/or sales value of their companies (EUROMONITOR, 1998).

The Euromonitor report (1998) showed that retailers can enjoy some benefits in launching private labels. One benefit is the increased profit margin. By developing private labels and increasing the share of private label products within their ranges, retailers are able to retain successfully more of the gross margin generated from selling the products. Private labels do not need large expenses of advertising as national brands do and take a free ride on manufacturers’ product development efforts at the same time.

Another benefit is related to the retailer image. Retailers can choose the position of the brand and decide on the packaging and contents of the private label to build its image. It allows a retailer to differentiate itself from close competitors and to drive store traffic. Private labels can be the retailer’s most important tool in terms of positioning and differentiation. Through strategic private label positioning, retailer can strengthen its bargaining position when negotiating supply terms with manufacturers of national brands.

The rationalization of supply chain is another benefit derived from selling private label products. As private labels take the place of secondary or tertiary brands in ranges, they are often rationalized down to one or two pack sizes, reducing stock keeping units in the retailer stores, yet increasing direct product profitability. To many retailers, private labels play a key part in helping rationalize ranges by cutting down or completely excluding branded lines.

Finally, the increased control on suppliers is one last benefit. By supply chain rationalization and more buying commitment to the suppliers, retailers gain greater bargaining power. Once the control on suppliers is at hand, retailers are able and more willing to build long-term and more intimate relationships with their chosen supply chains. This, in turn, also allows the retailers to be more specific about the types of products that they are sourcing from the suppliers, the way they are packaged, the way they are distributed and the way information is passed between suppliers and retailers themselves.

However, private label products also carry risks. A retailer can easily ruin its reputation if it provides poor quality products in only one category. Besides, a retailer has to carry the costs of markdown and disposal, if the product fails. The retailers who want to create and open new market niches for private labels have
to shoulder the cost of developing the new lines and the risks associated with the marketing of new products. As a retailer begins to put more investment on new product development and innovation of a private label product, it must get prepared to take risks at the same time if that product turns out to be a failure (EUROMONITOR, 1998).

6 STRATEGIC ISSUES FOR RETAILERS

According to Fitzell (1992), the brand elements, such as the brand name, positioning (reason for being), trademark/trade dress (symbols, colors, typestyle, package configuration) and brand communications, when successfully developed and managed, create a strong identity for a company or a retail store. Over time, this can create brand authority.

To this author, there are four major routes to establish that brand authority in the private label world (see Exhibit 1). The first one is the generic brand, which carries no store or brand identity, makes minimal use of color, utilizes cheaper packaging materials, and works best in the product categories of household cleaners, paper products and condiments. The second one is the rubber stamp brand, which is the most cost-effective strategy, using identical corporate name, symbol, typestyle and color on all products. The retail brand endorsement is the third route to brand authority, highlighting the retailer’s name and identity but with the packaging design, color and graphics varied depending on the product categories. Finally, the last one is the proprietary brand, where products take on their own identity with little or no indication of their true ownership, in order to project a national brand image to a retailer’s product. This branding strategy, in fact, appears to be gaining the most momentum in the marketplace today (FITZELL, 1992).

On the other hand, Gracioso and Najjar (1997) present a simpler classification than the one proposed by Fitzell (1992). These authors state that the private label classification can be understood in two types: private labels that carry the same name of the company and private labels that carry other name (a different brand name). According to Gracioso and Najjar (1997), there exist advantages and disadvantages for the retailer that uses any one of the two types, which can be seen in the Table 1.
**Exhibit 1**

**FOUR MAJOR ROUTES TO THE ESTABLISHMENT OF BRAND AUTHORITY**

<table>
<thead>
<tr>
<th>Generic</th>
<th>Rubber stamp</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endorsement</td>
<td>Private Brand</td>
</tr>
</tbody>
</table>

**Source:** Adapted from Fitzell (1992).

**Table 1**

**ADVANTAGES AND DISADVANTAGES OF THE PRIVATE LABELS’ TYPES**

<table>
<thead>
<tr>
<th>COMPANY NAME VERSUS DIFFERENT BRAND NAME</th>
<th>SAME NAME</th>
<th>DIFFERENT NAME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motives</td>
<td>2/3 of the companies have opted for this strategy to capitalize on brand knowledge and on company’s credibility</td>
<td>This strategy allows firms to adapt to the market and to each category, consolidating a new exclusive brand</td>
</tr>
<tr>
<td>Advantages</td>
<td>Strengthening of brand image, increase in sales and profits, company divulgation and customers loyalty</td>
<td>It allows for offering more options, attending to and satisfying distinct audiences and preserving the supermarket name</td>
</tr>
<tr>
<td>Disadvantages</td>
<td>Necessity of more products’ quality control due to the direct association with the company name</td>
<td>More work is needed, it is more expensive and there is no direct association with the supermarket</td>
</tr>
<tr>
<td>Examples in Brazil</td>
<td>Carrefour, Barateiro</td>
<td>Qualité</td>
</tr>
</tbody>
</table>

**Source:** Gracioso and Najjar (1997).
PRIVATE LABEL’S POSITIONING STRATEGIES

According to Euromonitor (1998), the three basic platform-positioning strategies for private labels are budget, copycat and fantasy. When private label goods were firstly introduced by retailers, they represented low-price basics and were an alternative to premium brands. They usually did not challenge the market leading brands in terms of value for money or quality. Over time, retailers have seen the importance of moving their private label programs more up market to challenge the market leading brands for sales. In order to achieve a higher price and a higher market share for their private label lines, retailers have begun to create added value.

The prevailing trend in platform development within Europe is to evolve the copycat branding first, bolting on an edited assortment of budget lines and then beginning to build a higher platform at the fantasy level. Each of these positioning strategies will be explained in the following paragraphs.

The budget positioning strategy is strongly developed in the discount chains, like the German chain Aldi. What might explain the difference between low and high private label brands’ quality categories? According to Sayman, Hoch e Raju (2001), one possibility is that retailers pursue different positioning strategies depending on the quality of the store brand that they can obtain. When they can buy a store brand that is comparable to a national brand’s quality, they position it against the leading national brand. When store brand quality cannot match the one offered by the national brands, the retailer treats the store brands as inferior products and positions them against the weaker national brands. Another possibility is when the consumer simply does not accept the position that the retailer stakes out for their store brand. In this case, consumers may readily perceive the retailer’s intent to position the store brand against a strong national brand based on extrinsic characteristics but still do not accept that the store brand offers a similar level of intrinsic product quality.

With regards to the copycat positioning strategy, Sayman, Hoch e Raju (2001) noticed that store brands often imitate the category leader, presumably to signal comparable quality at a lower price. Although the demand for the store brand may increase, the potential downside of this strategy is that the demand for the targeted leading national brand may also decrease. Since the retailer also makes money by selling the national brands, it may not be optimal to have the store brand specifically compete against the national brand with the largest customer base and higher margins. Similarly, Morton e Zettelmeyer (2000) state that retailers should not want to closely mimic a national brand, because the retailer will benefit most when revenues are maximized, which should happen
when the store brand is differentiated from the national brand. Exhibit 2 presents an example of a copycat strategy for chocolate syrup category.

Finally, the fantasy positioning strategy is becoming much more important for the retailers. This strategy is all about creating innovation, adding value to the private label lines, which motivates consumers to move upmarket, generates greater sales values and higher profit levels, but carries higher risks. In part, this added value comes about through improvements made to packaging. Packaging design for private label goods has become increasingly important so that the goods may be shown to their best advantage and are given an appearance as good as that of the brand leader in the marketplace. While packaging in the private label market originally tended to imitate the branded goods, packaging in private label has developed substantially since then, mainly in the United Kingdom (EUROMONITOR, 1998).

The next most important way of adding value is through product innovation. Large retailers with sophisticated private label programs are now in a position to introduce new and more innovative products to their private label ranges as consumers have begun to trust the quality of private labels across the ranges. This is an important strategic move for the retailers. Such product innovations include the development of biologically friendly and ecologically friendly lines. The added value that retailers are creating with private label lines must be supported throughout the retail infrastructure. In order to be successful, a retailer must deliver on many fronts, such as in-stock position, merchandise display,
store environment, customer service and after sales service. Private label strategies must be fully integrated with the whole company strategies to work best.

Moreover, premium store brands offer the retailer an avenue for responding to the national brand’s ability to cater to heterogeneous preferences (DHAR, 1998). This appears more likely in categories where store brands already offer a high quality level, comparable to the national brands. Table 2 shows examples of European retailers that pursue a fantasy positioning strategy.

**Table 2**

<table>
<thead>
<tr>
<th>RETAILER</th>
<th>COUNTRY</th>
<th>ADD-VALUED EXAMPLE</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tesco</td>
<td>UK</td>
<td>Tesco Finest</td>
<td>Range of high quality, luxury convenience foods at premium prices</td>
</tr>
<tr>
<td>Migros</td>
<td>Switzerland</td>
<td>Anna’s Best Yoghurt mousse</td>
<td>Premium dairy products</td>
</tr>
<tr>
<td>Asda</td>
<td>UK</td>
<td>Store of takeaways</td>
<td>Cooked meals to eat in or take home</td>
</tr>
<tr>
<td>Carrefour</td>
<td>France</td>
<td>Etapes Gourmandes</td>
<td>Innovative food products at premium prices</td>
</tr>
<tr>
<td>Edeka</td>
<td>Germany</td>
<td>Fantasy brands</td>
<td>Shifting private label ranges upmarket</td>
</tr>
</tbody>
</table>


**8 PRIVATE LABEL IN BRAZIL**

According data from ACNielsen (2002), the share and development of private labels are higher in Europe, comparing to other international markets. The United Kingdom remains the country with the largest share of private labels. In the USA, the private label’s share corresponds to 19.8% of the units marketed in supermarkets, drugstores and mass merchandisers. The private labels strength in the USA is concentrated in the food and beverage categories and their penetration in American homes is 100%, with sales mainly in the households of more purchase volume, whose families are numerous, as well as in families with less acquisitive power (ACNIELSEN, 2002).

In the Latin American market, Argentina leads the private labels penetration. Since it is a less mature market, in Brazil the market penetration for pri-
Private labels was less than 1% in 1999 (ACNielsen, 2002). Launched in Brazil in the 70’s by the large retail chains (such as Grupo Pão de Açúcar, Carrefour and Makro), the private label products sales are expanding faster in recent years (Parente, 2000). Called generic white or free brands, they were up to 60% cheaper than the national brands, increasing their appeal to price-conscious Brazilian shoppers.

Although the costs remain a significant factor in the Brazilian food purchasing decisions (private-label products are often 20%-40% less expensive than the manufacturers’ brands), Brazilian retailers often position their private-label products in the middle of the price spectrum, between the product leaders and the discount brands.

Another factor to be considered when depicting the Brazilian market for private labels refers to the competition degree in the retail sector. In this regard, it can be said that the retail food sector in Brazil is extremely competitive. In recent years, several mergers and acquisitions have been carried out by the major supermarket chains that have bought out their competition in order to obtain a larger percentage of the retail market. Although recent consolidation among supermarkets has reduced the number of players, this trend has not stopped the expansion of product lines and the introduction of new foods to the Brazilian consumer.

Products that were not readily accepted in Brazilian households only a few years ago are quickly becoming regular purchases at the grocery store. Frozen, dehydrated vegetables and low fat or health-oriented products are growing in popularity in Brazil. Growth in private-label product awareness and acceptance, coupled with the general expansion of the Brazilian food industry, will create opportunities for new suppliers and new private-label products as players in the retail sector.

In relation to the most sold private label products in Brazil, it has to be stressed that private label foods typically have the highest penetration in the less glamorous food categories, such as: frozen French fried potatoes; bottled and canned vegetables; jams, jellies and marmalades; and packaged rice. Confections, such as chocolate bars and chewing gum, still rest firmly in the domain of manufacturer brands (Giraldi; Scandiuuzzi, 2003).

Besides, according to the ACNielsen’s 8th Annual Study on Private Labels (2002), the number of private label categories in Brazil has not increased from 2001 to 2002. However, there has been a significant increase in the number of brands and retail chains that have broadened the number of categories worked. Table 3 below presents the change in the private label basket content for the Brazilian market in 2002. The ACNielsen’s 8th Annual Study on Private Labels
(2002) also presents the total number of private label items per year, showing a 33% increase on the number of private brands carried by the Brazilian retailers from 2001 to 2002 (see Exhibit 3).

### Table 3

**PRIVATE LABEL BASKET OVERVIEW**

<table>
<thead>
<tr>
<th>BASKET</th>
<th>Number of Categories</th>
<th>Number of Brands</th>
<th>Number of Chains</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>107</td>
<td>104</td>
<td>237</td>
</tr>
<tr>
<td>House Cleaning</td>
<td>29</td>
<td>29</td>
<td>53</td>
</tr>
<tr>
<td>Hygiene and Health</td>
<td>50</td>
<td>49</td>
<td>50</td>
</tr>
<tr>
<td>Bazaar</td>
<td>43</td>
<td>43</td>
<td>74</td>
</tr>
<tr>
<td>Textile</td>
<td>5</td>
<td>5</td>
<td>19</td>
</tr>
<tr>
<td>Electronic Equipment</td>
<td>21</td>
<td>24</td>
<td>12</td>
</tr>
</tbody>
</table>

*Source: ACNielsen Brazil, 2002.*

However, some analysts indicate that the private label brands will hardly have in Brazil the same projection they have reached in the United Kingdom (REVISTA..., 2001), where they have 40% of the food retail sales. In Brazil, private label sales will reach at best 14% of the total revenues in the food retail sector (ACNIELSEN, 2002). This is because, differently from the situation in the U.K., where the local retail sector is highly concentrated, in Brazil the consumer market is very large and the retail concentration is much lower. This fact makes it difficult for the Brazilian retailers to generate a high volume level of private brands production in order to compete with national suppliers. Therefore, the private brands’ market share can grow in Brazil, but it will always be limited by the Brazilian market size and characteristics.

There is another reason that prevents private labels to prevail in Brazil: the Brazilian consumer behavior. The majority of them have a strong preference for national leading brands. While in Europe the consumer has faced wars, has become more conscious of his/her rights, and more rational in his/her purchases,
In Brazil, the consumer has faced many failing economic plans that have generated distrust in what is presented as a good product. Thus, the national leading brands have been proved to be safe alternatives (Revista..., 2001). Besides, due to the uneven income distribution, the leading brands are a way to reach social prestige. Because private labels are a cheaper alternative, they denounce the consumer economic condition, which is called a “poor syndrome”.

**Exhibit 3**

**Total Number of Private Label Items - Brazil**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>10568</td>
</tr>
<tr>
<td>2001</td>
<td>15493</td>
</tr>
<tr>
<td>2002</td>
<td>20681</td>
</tr>
</tbody>
</table>

Source: ACNielsen Brazil, 2002.

The Brazilian retail sector has, therefore, to improve its strategies in order to overcome the consumer resistance to private labels. Positioning, for example, is a problem. Nowadays, the focus is on price, but executives and specialists are beginning to understand that this should not be the only appeal, perhaps even not the main one. This is because price is not a good way to get consumers’ loyalty (Revista..., 2001).

**Case Study**

A case study can be exploratory, explanatory, or descriptive. In exploratory case studies, fieldwork, and data collection may be undertaken prior to definition of the research questions and hypotheses. Explanatory cases are suitable for doing causal studies. Descriptive cases require that the investigator begin with a
descriptive theory, which must cover the depth and scope of the case under study (YIN, 1994). The case present in this paper is a descriptive one.

According to Yin (1994), a case study may be based on six different sources of evidence: documentation, archival records, interviews, direct observation, participant-observation and physical artifacts. In his article, interviews were used as the main source of information, since they are one of the most important sources of case study information. There are several forms of interviews that are possible: open-ended, focused, and structured. In an open-ended interview, key respondents are asked to comment about certain events. The focused interview is used in a situation where the respondent is interviewed for a short period of time, usually answering set questions. The structured interview is similar to a survey, and is used to gather data in cases such as neighborhood studies. The type of interviews used here was a focused one, with managers of the company under investigation, and they were recorded.

According to Yin (1994), for a case study research, the research design components that are especially important are the study questions, the propositions and the unit of analysis. In relation to the study questions, the case study strategy is most likely to be appropriate for “how” and “why” questions, being the researcher’s initial task to precise the nature of the study questions. With regard to this component, the following questions will be investigated in the Brazilian supermarket: (1) How are classified, according to the theory, the company’s private label strategies? (2) Has the company always used the same strategy for its private labels? (3) How does the company position its private labels in the market? (4) How does the use of private labels affect the supermarket’s store image?

The propositions direct attention to something that should be examined within the scope of study. From the moment the propositions are state, the study starts to move in some direction (YIN, 1994). The following propositions are considered in response to the questions posed before: (1) The company uses the typology proposed by Fitzell (1992) to create its private labels; (2) Over time, there has been changes in the strategic way the private labels in the retailer studied were conducted; (3) The company uses the typology proposed by Euromonitor (1998), to position its private labels; (4) The company’s private labels positively affect the store image formation of company under study.

The unit of analysis is related to the fundamental problem of defining what the case is. The propositions are necessary to help identify the relevant information about the individual or individuals under study. The more a study contains specific propositions, the more it will stay within feasible limits (YIN, 1994). For this case study, the unit of analysis is a supermarket chain established in Brazil in 1948. This group was the pioneer in the food-retailing sector in Brazil and,
nowadays, it is the largest Brazilian retail company. The group manages four different retail formats, including supermarkets and hypermarkets, and this is one of its main competitive advantages. Its annual gross revenues were approximately R$ 12 billion in 2002 (around US$ 4 billion), with 58,000 workers and 500 retail points in twelve different states in Brazil. For this study, it was analyzed one business unit, which represents 31% of the net sales of the group in 2003.

In Brazil, there is little variation in pricing between the chains, and thus customer service and specialized products are what count. In this regard, the chain under analysis was the first chain to keep many of its stores open 24 hours a day. It was also the first to popularize its own brand of food items. The stores are characterized by a pleasant shopping environment, a broad mix of quality products, innovative service offerings and a high level of personal service, with an average of 6.2 employees per 100 square meters of store space. Many of these stores feature specialty areas such as perishables, baked goods, meat, cheese and seafood departments. Many stores offer shopping advisors to assist customers with inquiries about particular food needs, prices, special discounts and brand information. Most important to this case study, is the fact that the company offers private label products, including a brand of health food products which consists of approximately 120 items.

In the following part, each proposition will be investigated in the company. It was used the “pattern-matching” method to link data collected in the interviews to the propositions, as suggested by Campbell (1975). The pattern-matching is a situation where several pieces of information from the same case may be related to some theoretical proposition.

The first proposition suggests that the company uses the typology proposed by Fitzell (1992) to create its private labels. According to the managers of the unit under study, the classification used for the definition of the company’s private labels strategies is the “private label that uses the company name” and the “private label that uses other name”, which is similar to the classification proposed by Gracioso and Najjar (1997). The Fitzell’s (1992) typology is not known by the company and has never been used to define the type of private label adopted.

However, it can be stated that, if we were to compare the typology used by the company with the one proposed by Fitzell (1992), the result would be: the retail brand endorsement type for one line of products and the proprietary brand for another. This represents a point of departure from the past, when private label brands were traditionally defined as generic product offerings that competed with their national brand counterparts by means of a price-value proposition. There is an acknowledgement in the company that today’s proprietary brands have the ability to transcend the negative baggage and problems of traditional store brands, creating unique, resonant benefit propositions for consumers.
The second proposition declares that, over time, there have been changes in the strategic way the private labels in the retailer studied were conducted. According to the managers, the company under study divides its private labels history into four phases. The first one was during the 80’s, when the company used to work with the generic brand, which carried no store or brand identity. After these years until the year of 2000, the company started the second phase, when the strategic focus was on the products’ price. The company expected to offer private label products that were cheaper than other national brands, but without any innovation. The third phase began in October 2001, with products that were developed by researches based on market’s leader brands. Finally, the fourth phase is characterized by the differentiated private label commercialization, with innovative products with the same quality level of the most important brands in the market. This is the company’s current strategy to work with private labels.

The third proposition considers that the company uses the typology proposed by Euromonitor (1998), to position its private labels. Nowadays, there are two private labels in that company. The first one is a light product line with the same or superior quality than leading brands. This high quality is responsible for the customer’s satisfaction, because it exceeds the customer’s expectations, resulting in a high level of store loyalty. The other private label products’ line has the same name of the supermarket under study. This products’ line also brings an excellent result for the company, the managers say. These products have a high quality level, always offering some differential with reference to competitors, such as: shape and size of the packages and different product’s flavors.

Both supermarkets’ product lines were positioned by the company according to its consumer’s expectations and profile, without any relation with the typology presented in the literature review. However, to the authors of this study, the characteristics observed demonstrate that the company’s adopted strategy for both private labels product lines is closer to the fantasy strategy, which was one of the typologies suggested by Euromonitor (1998).

The authors observed the existence of characteristics such as product innovation and package design on both private labels commercialized by the company. One example of this supermarket strategy is the launching of new products developed for the Brazilian market (ready meals, artesian ice creams, low fat meals) and the creation of the first private label line of light products. As seen in the literature review, product quality and innovation are a necessary functional underpinning for a private label offering. By undergoing quality assessments, the company is able to ensure that its products live up to consumers’ expectations and that negative consumption experiences do not undermine the brand promise that is being developed and executed.
Finally, the fourth proposition declares that the company’s private labels positively affect the store image formation of the company under study. In Brazil, the private label products are generally associated with cheaper and more unqualified products in comparison to the products that are offered by larger producers in the sector. Nonetheless, according to the supermarket’s managers, the private label products traded by the supermarket compete directly with leading products, offering the same high quality, but with a price 15 to 25% cheaper, and at greater margins in relation to average of each category.

The area responsible for the private label products in the company under study has a formal structure to develop the products, with its own managers and Research and Development area (R&D). This structure allows for a more efficient product’s quality control. According to the company, this control is very important, because the private label products are able to create a positive store image and, thus contributing to customer satisfaction and loyalty.

The company has developed a private label strategy pursuant to which the divisions sell high quality products at competitive prices. The principal advantages of this private label strategy have been improved brand loyalty to the private brands and increased leverage with company’s suppliers, since the private label products are similar in quality to, but more favorably priced than, leading brands. The private labels take into account need states that are important to consumers and offer a credible point of difference from other category players.

Finally, the company believes that the key to successful marketing management for today’s retailers refers to the understanding of the contribution and role of their private label brands in the long-term business strategy and marketing mix of the store. Strategic brand management helps to establish sustainable points of difference in each aisle and segment within the store and also to define the company’s private labels portfolio in order to spur consumers to shopping.

10 CONCLUSIONS

Retailers are beginning to recognize that they cannot simply rely on national branded products to draw consumers into their stores and sustain loyalty. In this regard, the development of private labels involves a variety of economic factors, such as profitability, retailers and manufacturers’ relationship and social-economic environment. In general, the retailers are interested in private labels to obtain more power and control over their suppliers. Moreover, private labels can either result in interesting return rates and they can help create a positive store image. Therefore, a large number of retailers are seeking to
work with a clear private label’s strategy, in relation to production, positioning and store assortment.

The aspects investigated in the empirical part of this essay were: (1) How are classified, according to the theory, the company’s private label strategies? (2) Has the company always used the same strategy for its private labels? (3) How does the company position its private labels in the market? (4) How does the use of private labels affect the supermarket’s store image?

It was observed that the method adopted by the company to classify its private label products is very close to the typology presented by Gracioso and Najjar (1997). If the typology proposed by Fitzell (1992) was considered by the company to gather their private label programs, one of the two private labels product’s lines could be named as a proprietary brand, since these products have their own identity with little or no indication of their true ownership. The other line could be considered as an endorsement brand, because it highlights the retailer’s name and identity but with the packaging design, color and graphics varying, depending on the product categories.

Over time, there have been changes in the strategic way the private labels in the retailer studied were conducted. There were four phases: (1) in the 80’s, when the company used to work with the generic brand; (2) from the 80’s until 2000, when the strategic focus was on price; (3) from the year 2001, with products that were developed by researches, based on market leader brands and (4) nowadays, characterized by the differentiated private label trading, with innovative products and the same quality level as the most important brands in the market.

Moreover, to positioning its private labels, the company under study based its decisions on consumer’s expectations and profile, not on a specific theoretical typology. Nevertheless, it is important to stress that the authors observed that both private label lines are close to the fantasy strategy presented in theory.

Finally, the company considers that the private labels positively affect the store image formation. The private label’s influence on store image happens because it is part of the assortment that, according to Giraldi, Spinelli and Merlo (2003), is one of the store image components. Private labels can help build the store image, because they allow a retailer to differentiate itself from close competitors and to drive store traffic. Since private labels are available in only one specific store chain, they can be unique in terms of value and performance, and this exclusivity can be considered a form to obtain customer loyalty (SHETH; MITTAL; NEWMAN, 2001).

A limitation of this study is the very nature of the methodology used. Since it is a qualitative research, the results found cannot be generalized across the other retail chains. However, this is an attempt to better understand the private label’s
strategies in a national retail chain. In this regard, this paper offered a practical contribution, since retailers that are seeking to develop a new private label program could have information about different strategies and positioning.

Future studies could focus the aspects studied here in other retail chains so that a comparative analysis could be performed among these different supermarket chains. The five largest Brazilian supermarket chains according to the Supermarket Brazilian Association (ABRAS) ranking could be studied. The authors believe that, since these companies are the largest ones, they probably work more intensely with private label strategies than the smaller companies. These comparative studies could be done in a larger scale in order to allow for statistical analysis on the following aspects: How are represented, in the consumer’s perceptual space, the private labels from different supermarkets? Are the private label’s positions in this space corresponding to the ones planned by the retailers? Are there some profitability differences among the supermarket chains that adopt different private label’s strategies and positioning? When answering all these questions, these studies will contribute to a better understanding about the private label’s strategies in Brazil.

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