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Manufacturer and retailer brands: Is strategic coexistence the norm?

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ABSTRACT

This article reports the results of research that investigated long-term strategic relationships between manufacturer and retailer brands, in the FMCG/supermarket industry, within New Zealand. The research utilised a multiple-case study methodology involving near-census samples of supplier and retailer managers drawn from several product categories. Data was collected via in-depth interviews and in-store category observation. The research found a clear perception among managers that manufacturer brands have a greater collective capacity for product innovation and marketing support than retailer brands. Retail managers believed that category dominance by retailer brands was not desirable, as retailer brands would then not be able to replicate the product innovation and related marketing activities of manufacturer brands, which would be detrimental to long-term growth and profitability of the categories studied. As excessively high retailer brand share in categories compromised overall product innovation and category support, respondents believed that varying optimum levels of retailer brand penetration existed for each category, and that these levels should be actively maintained over the long term. There was no evidence of retailer manager ambitions to either exceed these optimum points or to eliminate manufacturer brands.

CHINESE ABSTRACT

本文阐述了有关发达经济体中制造商和零售商自有品牌在快速消费品或超市行业的长期战略关系的研究成果。本研究利用多案例研究方法，从多个产品类别的供应商和零售商的经理处得到近似普查的样本，并通过深访和店内品类观察收集数据。研究表明，经理们明确表示同零售商品牌相比，制造商品牌在产品创新和营销支持上有更大的集中能力。零售商经理认为，零售商品牌的类别优势不显著，原因是零售商品牌无法复制制造商品牌的产品创新和相关营销活动，这不利于该类产品的长期增长和盈利能力。零售商品牌份额过高损害了整体产品的创新和品类支持，因此，受访者认为，每个类别都存在不尽相同的最佳零售商品牌渗透水平，这些水平应该得到长期积极维护。目前，尚无证据表明零售商经理志在超过这些最佳水平或取消制造商品牌。

1. Introduction

This article describes research on the nature of the strategic relationships between retailer and manufacturer (supplier) brands within five fast moving consumer goods (FMCG) categories in the grocery industry of a developed economy (New Zealand).[1] The strategic relationship between manufacturer and retailer brands is an important research area, given the increasing prominence of retailer brands in the grocery industry, and the perception that they offer a challenge to established manufacturer brands (with over 17% aggregate share world-wide; shares of 20% in the USA, 46% in the UK and 4% in Japan (Steenkamp and Geyskens, 2013)).

Glossary of Abbreviations: FMCG, Fast Moving Consumer Good, includes food and other low involvement frequently purchased items; SKU, Stock Keeping Unit, a single item/product; ST/R/W/Y/W, Interview identity codes. This research received category B clearance from the University of Otago Ethics Committee. In order to preserve anonymity in line with interviewee agreements and ethical consents, quotes are only identified by industry group and interviewee letter/number code. Specific categories are not identified.

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1 Throughout this article, the term **'retailer brand'** is used to describe brands that are owned by the retailer and the term **'manufacturer brand'** is used to describe those that are not. There are a wide number of equivalent terms that may be encountered in this context. Retailer owned brands may be described as: 'retailer brands', 'house brands', 'store brands' 'supermarket brands', 'private label brands/products' or 'own label brands/products'. Non-retailer owned brands may be described as: 'manufacturer brands', 'proprietary brands', 'supplier brands', 'independent brands/labels' or 'national brands/labels'.

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A majority of the academic research undertaken in this area has assumed that the nature of the retailer brand challenge is hostile, with a retailer management objective of continuing retailer brand growth and development, with no identified end point to the process, short of total retailer brand dominance and the elimination of their manufacturer equivalents: e.g. *"In our work, we focus on the generic battle between store brands and national brands,…"* (Steenkamp and Geyskens, 2013, p. 7); a focus also taken by other researchers (e.g. ACNielsen, 2005; Anselmsson and Johansson, 2009a, 2009b; Herstein and Gamliel, 2004; Kumar and Steenkamp, 2007a, 2007b). In addition, the recent comprehensive review meta-analysis of academic retailer brand literature conducted by Gooner and Nadler (2012) is entirely predicated by direct brand-on-brand competition.

This position did not accord with the researchers' own ongoing, but informal, observations of management behaviour within the supermarket FMCG sector. As a result, in-depth research on the relationships that existed between retail and manufacturer brand managers within a single category (dairy products) in New Zealand was undertaken. This research revealed a high, but unstated, level of strategic cooperation between the two types of brands within this category. This cooperation supported a long term 'optimum' equilibrium position for retailer and manufacturer brands within the categories (Hamlin and Chimhundu, 2007). This article reports the results of the replication and extension of this earlier research in order to establish if these findings could be extended beyond a single product category.

2. Theoretical background

The literature that is of specific relevance to research on brand related managerial behaviour can be divided into two major streams; research on the management of retailer and manufacturer brands, and research on the management of the categories within which these brands operate. The second stream can be further divided into two discrete sections; research on the category management process itself and research that directly addresses the nature of the relationships between manufacturer and retailer brands within the category.

2.1. Retailer and manufacturer brand management

Retail consolidation, the concentration of market share into the hands of small numbers of retailers, has been an almost ubiquitous feature of food markets in developed countries since the end of WWII (Reardon and Timmer, 2012; Wood, 2013). The degree of current concentration varies, with a share of just over 30% of US large format (15,000 + stock keeping units, SKUs) retail sales controlled by the largest four retailers (Kaufman, 2014), 75% of UK large format retail sales is held by the 'big four' UK retailers (Brooks, 2013), Australia, with the 'big three' (Woolworth's, Coles and Aldi) controlling nearly 93% of the grocery retail trade between them (Roy Morgan Research, 2014) and New Zealand, the most concentrated retail food market in the developed world, where a duopoly of Foodstuffs and Progressive Enterprises hold over 95% of the large format market between them (Kedgley, 2014).

Studies undertaken in several developed economies over a considerable period of time have indicated that retail consolidation gives more power to grocery retail chains in relation to manufacturers, and that this increase in relative power supports a rise in the aggregate market share of grocery retailer brands (Anselmsson and Johansson, 2009a, 2009b; Burt, 2000; Burt and Sparks, 2003; Coriolis Research, 2002; Cotterill, 1997; Galbraith, 1952; Porter, 1976; Steenkamp and Geyskens, 2013). Retail consolidation, and its attendant increase in and use of retailer power, is seen to be the major factor in retailer/manufacturer brand dynamics within this stream of research. These sources have not identified any specific 'end point' for the reported trends of retailer brand growth and development that lies short of the eventual total elimination of manufacturer brands (Hoch et al., 2002; Huang and Huddleston, 2009).

This assumption of a persistent retailer advance is also implicit in the broadly accepted concept of the 'generational' or 'evolutionary progressive' development of retailer brands. Laaksonen and Reynolds developed a four-generation classification to conceptualise retailer brand development (Laaksonen, 1994; Laaksonen and Reynolds, 1994). The classification, which has yet to be theoretically superseded, classifies retailer brands on an evolutionary basis; grouping them into first, second, third and fourth generations. First-generation retailer brands are generic, have no name, use simple technology and are of lower quality and image than leading manufacturer brands. Second-generation retailer brands are of medium quality but are seen as lower than leading manufacturer brands, and lag behind market leaders on technology. Third-generation retailer brands are of a quality that is comparable to leading manufacturer brands and are close to the leading brands on technology. Fourth-generation retailer brands are of similar or better quality than leading manufacturer brands and can take the lead in innovation.

The conceptualisation of retailer brand development as a progressive process does imply that a portfolio of all four generations is progressively created as the retailer moves up the generation ladder and expands their market share (Ailawadi and Harlam, 2004; Kumar and Steenkamp, 2007a; Nenycz-Thiel and Romainiuk, 2012). Third generation retailer brands have been present on supermarket shelves in numbers for at least twenty years (Ailawadi and Keller, 2004). Fourth generation retailer brands have been somewhat slower to emerge, with some high profile failures, such as the introduction and subsequent withdrawal of a major fourth generation retailer range by Coles in Australia in 2002. More recently, very high-end retailer brands that might be described as fourth generation have started to appear, with Tesco's 'Venture Brands' and Morrison's 'NuMe' being two examples in the UK, the latter clearly displaying the innovation infrastructure that matches the fourth generation requirements under Laaksonen's (1994) typology (Balfe et al., 2012; Dawson, 2013; IGD, 2012).

Research recently published in the British Food Journal showed that, far from growing aggressively, retailer brand shares had been stable, or growing very slowly, in all but one of the aforementioned countries since records became available between 20 and 50 years ago (Chimhundu et al., 2011). The one exception to this, Great Britain, showed aggressive growth to levels far in excess of the comparable economies by the year 2000, at which point a precipitous fall occurred, followed by a slow decline in the succeeding five years. This information does not appear consistent with the paradigm of an aggressively expanding and evolving retailer brand portfolio. It may well be that this universal paradigm is not incorrect, but rather is not fully applicable to a situation that has become increasingly complex in recent years as new retail formats that do not conform to either that of the 'big box' or of the of multi-brand category emerge and acquire significant market share (Bacon, 2014; Wood and McCarthy, 2014). On-line sales are one such format that has been well documented (Rafiq et al., 2013). But in the UK, these growing 'non-conformist' retail food and brand formats also include Marks and Spencer with their smaller store footprints and monolithic 'St Michael' and 'Simply M&S' brands, and Aldi and Lidl, with their broad portfolio of seemingly manufacturer branded products that are in actuality retailer branded products (Brandes and Brandes, 2012).

Thus, simple measures of retailer brand sales must be considered as only part of a picture within which retailer brands continue to be important and continue to grow, albeit in a much more complex and harder to track manner. Likewise, the concept of an evolutionary progression of retailer brand generations may only meaningfully apply to certain larger full service retail formats, which are not necessarily