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Taking private labels upmarket: Empirical generalizations on category drivers of premium private label introductions

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Abstract

Premium private labels (PLs) are considered one of the hottest trends in grocery retailing. Still, retailers do not feel the need to introduce premium PLs in every category. Generalizing across approximately 150 categories for six retailers from two countries that already carry premium PLs for several years, the authors find that retailers are more likely to introduce premium PLs in categories with a higher industry PL share, and with a more proliferated assortment in terms of standard PLs. However, retailers are also aware of the risk of creating PL fatigue at high levels of standard PL proliferation. Further, premium PLs are more likely to be introduced in categories with more frequent price promotions, a longer interpurchase time, a higher need for variety, and higher functional, but lower social, risk. In addition, retailers consider category growth and the prevailing practice of their country's premium-PL pioneer when deciding in which categories to also introduce a premium PL. Finally, when NBs spend a smaller amount on advertising and NB proliferation is moderate, premium PL introductions are more likely. Importantly, while some of the earlier empirical generalizations on factors conducive to a standard PL entry still hold for a premium PL entry, new variables need to be considered as well, while other insights need to be updated to better reflect the new reality of higher-quality/higher-price premium PL introductions.

Keywords: Grocery retailing; Private labels; Premium quality tier; Empirical generalizations

Introduction

Private labels (PLs) have witnessed considerable growth around the world. The standard PL variant is by now present in almost every consumer-packaged-goods (CPG) category (de Jong 2011; IRI 2009). Still, many grocery retailers wish to expand their PL offerings even further. As a result, they increasingly adopt a multi-tiered portfolio in order to reach a wider consumer base, and offer standard, economy, as well as premium PLs (Martos-Partal and González-Benito 2011; Palmeira and Thomas 2011).

Economy PLs were primarily introduced to fight hard discounters, and are no-frills, bottom-of-the-market PLs (Dekimpe et al. 2011). However, they typically have lower margins, especially in absolute terms (ter Braak, Dekimpe, and Geyskens 2013). As they have been found to cannibalize the retailer's higher-margin standard PLs (Geyskens, Gielens, and Gijsbrechts 2010), their contribution to the retailer's overall category performance has been questioned. More recently, premium PLs have emerged, which are called the hottest trend in PL retailing (Kumar and Steenkamp 2007, p. 41), and referred to as many retailers' "Holy Grail" (Pauwels and Srinivasan 2009, p. 279). Premium PLs are positioned at the top end of the market, and their unique features in terms of taste, origin, and/or ingredients enable retailers to compete with the highest-quality national brands (NBs) (Bazoche, Giraud-Héraud, and Soler 2005; Geyskens, Gielens, and Gijsbrechts 2010). Notable examples include Loblaw's President's Choice in the U.S., Fair-Price Gold by NTUC FairPrice in Singapore, and Tesco's Finest in the U.K. The latter has recently been estimated to be worth about $2.26 billion in annual sales (Store Brand Decisions 2013).

Of all PL tiers, the market shares of premium PLs have been growing the fastest (Dobson and Chakraborty 2009),[3] even though retailers refrain from offering them in too many

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[3] In Germany, for example, the premium PL segment already captures 13% of the CPG market (Wildner 2013), up from 8.8% in 2005, while the Italian

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categories (Pierce, Ryan, and Berlinksi 2002; Sethuraman and Raju 2012). As premium PLs directly compete with the highest-quality NBs in the category, the retailer's relationship with leading NB manufacturers may be affected. Since leading NBs continue to play an important role in signposting a category (IGD 2006), retailers remain selective in picking their battles with top-quality NBs (Kumar and Steenkamp 2007).

Following an extensive review of the PL literature, Sethuraman (2009, p. 773) emphasized the need for more empirical research on "conditions conducive for premium private labels." To that extent, we analyze in which categories several retailers from two different countries that are widely seen to be at the forefront of new PL developments (Belgium and the Netherlands; de Jong 2011) introduce premium PLs. By focusing on communalities in these retailers' practices, we formalize the "combined industry wisdom" in the domain. By considering multiple retailers, our insights become more generalizable, and less sensitive to the idiosyncratic features of a single organization's decision process.

Managerially, our study helps retailers identify appropriate categories for premium PL introductions, and reduce the risk of having to withdraw them at a later stage (cf. Raju, Sethuraman, and Dhar 1995). When faced with novel situations, retailers (and managers in general; see, e.g., Anderson 1988; Geletkanycz and Hambrick 1997) often turn to prevailing practices in their industry to learn which decisions are good, or even best (Gielens and Dekimpe 2007). As more and more retailers prepare to add a premium line to their PL portfolio, these insights have clear managerial relevance. Likewise, NB manufacturers can infer in which categories they are most likely to face this new competitor, and learn what preemptive strategies to adopt to deter premium PL introductions in their category. The importance of this issue is also reflected in the Harvard Business School case on the PL portfolio of retailer H.E.B. (Rangan and Bell 2003).

Substantively, we investigate to what extent earlier empirical generalizations (see, e.g., Sethuraman 2009; Sethuraman and Gielens 2013) on the category drivers of *standard* PL introductions still hold, or whether they should be adjusted when dealing with the new reality of higher-quality/higher-price *premium* PL introductions. In addition, we consider the impact of a new set of potential drivers, which were not yet relevant in a standard PL setting, but which have come to the fore in a multi-tiered PL landscape. As such, we add to the empirical knowledge base on an important recent trend in retailing that is clearly in need of more empirical research, and (in line with the recommendations of Barwise 1995) we identify potential boundary conditions to earlier empirical generalizations.

Theoretical background and hypotheses

Several studies have looked at the drivers of standard PL introductions (see, e.g., Raju, Sethuraman, and Dhar 1995; Sayman and Raju 2004; Scott-Morton and Zettelmeyer 2004) and standard PL success (see, e.g., Dhar and Hoch 1997; Hoch and Banerji 1993; Steenkamp and Geyskens 2014). Recent reviews of this literature include Sethuraman (2009) and Sethuraman and Gielens (2013), among others. It is unclear, however, to what extent empirical generalizations that have been derived from that literature still apply in the context of premium PL introductions, for two reasons.

Foremost, the *competitive setting* has changed. When deciding whether or not to introduce a standard PL in a category, NBs were the only incumbents retailers had to consider. However, standard PLs are currently offered in almost all categories (IRI 2009), and retailers deciding on the addition of a premium PL should now also take their standard PL offering in that category into account. This leads to a new set of variables – *which were not yet relevant in prior standard PL studies* – that should be considered when studying premium PL introductions.

Second, the *positioning* of premium PLs is very different from the positioning of standard PLs. While standard PLs tend to imitate mainstream-quality manufacturer brands (Geyskens, Gielens, and Gijsbrechts 2010), they are typically sold at a price 20–30% below that of the NBs they are competing with (Steenkamp, van Heerde, and Geyskens 2010). Premium PLs, in contrast, are positioned at the top end of the market, and deliver quality similar to or higher than premium-quality NBs (Geyskens, Gielens, and Gijsbrechts 2010). Also their price is very similar to (and sometimes even higher) than the price of the premium-quality NBs. Because of this, quality becomes much less of a differentiator for NBs vis-à-vis premium PLs than vis-à-vis standard PL variants (Sethuraman and Raju 2012). Similarly, while standard PLs have often been viewed as products catering mostly to the price-sensitive (switcher) segment, this may be less the case for premium variants: premium PLs are more intended to contribute to a distinct category- and store-quality image (Thain and Bradley 2012). Given these considerations, the role of price, quality, and imagery-related variables may have to be reconsidered for premium PLs. Although such variables have already been studied in the literature on standard PLs, unlike the set mentioned before, *their effect may be different* for premium PLs.

In what follows, we offer expectations as to how these two sets of variables affect a retailer's propensity to introduce a premium PL in a category *next to* his standard PL. Fig. 1 summarizes our conceptual framework.

Expectations related to the extant PL competitive setting

Retailers' inclination to introduce a premium PL is likely to depend on the strength of the standard PL incumbents in the category. To that extent, we study (i) the industry PL share in the category, (ii) the retailer's standard PL share in the category, and (iii) the retailer's standard PL assortment proliferation.

Industry PL share

The industry PL share, i.e., the PL share in a product category across all retailers in a country, signals the intrinsic appeal of PL products to consumers (Kumar and Steenkamp 2007). We expect that retailers are more inclined to introduce a premium

premium PL market experienced a growth rate of 22.3% in 2010, reaching a level of 5% of the total CPG market (SymphonyIRI 2011).