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PRIVATE LABELS IN THE STRATEGY OF FOOD PRODUCERS AND RETAILERS

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1. Introduction

The appearance of store brands and their greater distribution has opened a new chapter in the relationships between producers and traders which are part competition and part co-operation. The newer generation development of store brands has speeded up in Hungary with the increasing concentration and globalisation of food retailing. The store brands were previously considered as “co-operators” but today they are actually “brand weapons”. The retailer's ability to find the ideal balance between the manufacturers’ and store brands is a key factor in business performance.

The object of our research fits partly with, and is a continuation of our study from 2009 [GYÖRE et al., 2009] about purchasing and pricing policies of food retailing. The primary surveys of the 2009 study are based on interviews with food retail managers. Our subsequent study [JUHÁSZ et al., 2010] asked mainly suppliers, and, within this, primarily food processors. The very useful information obtained during the interviews also subsequently enriched and nuanced our research concerning the purchasing and pricing policy.

2. Materials and methods

We undertook comparative evaluation and analyses of the national and international specialist literature, and personal interviews with processors’ and traders’ representatives. We interviewed altogether 24 food processors from the following branches: meat processing (6), fruit and vegetable processing (3), milk processing (4), milling industry (3), sweets and drinks processing (7) and others (1). From the interviewed companies 6 were small enterprises, 8 medium-size and 10 big enterprises. We interviewed 5 retailer chains. In addition, we looked for the most detailed data at product level concerning private label products, although in this respect we were not very optimistic that this would be available. We assessed the effect of the spread of private labels on the domestic market on the food industry's market share and profit through interviews and collating balance sheet data.

3. Results and discussion

The manufacturer brands dominated the consumer market until the 1970s but the store brand (own brand, private label) emerged as a new element in the system of brands in parallel with the worldwide concentration and growing bargaining power of the retail sector.

Store brands in particular – as their name indicates – are the creations of the retail chains and are “tools” for their benefit. Our study focuses on how much this means reality, and on challenges for the suppliers and how they can adapt to these new challenges.

In our experience all of these benefits, however, might be a ‘double-edged sword’, so that besides the advantages of production of store brands, their production poses a risk to the supplier's manufacturers’ brand production.

It is clear that the appearance of store brands has had a significant impact on the bargaining position between retailers and suppliers.

Our interviewees mentioned mostly regarding the production of private label products the capacity utilisation as the benefit. The answer is more nuanced, supported by a variety of contexts. One commented: “It would be foolish not to take advantage of this opportunity, the demand segment, because it brings market share, can be sold and brings returns. Capacity utilisation is helping to maintain market share, even if the revenues remain the same. It is important to maintain market share because it is much more expensive to regain it”. The capacity dimension is important as the store brand is bearing the overhead costs. The capacity utilisation is also important in view of the fact that in most sectors sales of manufacturer brands have decreased.

The respondents agreed that the prices of private label products are lower than the prices of the manufacturers' brands, there is no more background condition and quality requirements are harder. This is obviously due to the fact that the reputation of retailers is important and it cannot be ‘worsened’ by the supplier. There is also an exception for the condition: “Where there is central purchasing, but the stores do what they want, there should be a condition that the own-branded product makes a profit.”

4. Conclusions

We have identified four factors that have encouraged the spread of store brand products. These include:

1. Concentration of food retailing through establishment of conditions of scale efficiency;
2. Expansion of the hard discount stores due to large volume sales of own-branded products;
3. Commercial pricing advantageously influencing the consumer price that has become a significant benefit due to the effects of the economic crisis, and finally
4. The increasing level of acceptance by customers thanks to the constantly improving quality of private label products.

And what brings the future? We can expect probably the further spread of private label products especially at the “me too” type mainly because of Auchan, Aldi and Lidl. It can be expected further the widening of fourth generation products at all food retailer chains. As for the big food processors, they have a chance for the shaping of strong manufacturer’s brands and making use from the private label production at the same time. There is and will be a market opportunity for the SME-s at the production of private label products with a cost effective, modern technology.

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