

Private Labels: The New Indian Retail Strategy for Kirana stores

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Abstract

Private Labels (PLs), the store brands of retailers, are making its presence felt in the Indian retail story, the growth of organized retail, growing middle class, increased disposable income and a spirit to try new, have fuelled this growth, represent a sizable portion of modern retailing and are becoming a significant source of profits to the retailers. This has flagged off a combat between PLs and manufacturer brands. PLs which were perceived as inferior goods in terms of quality took a U-turn by making their mark in the premium-end segment too. They have reached about maturity in developed countries of Europe and US occupying major share of retail. The Indian retail industry, though dominated by unorganised retailers, organised retailers are poised to grow. However, the question is what are the potentials of launching private labels in the Indian organised retail industry? Or will it be unorganized retail too?

Private labels are relentlessly marching and making inroads in the big Indian retail growth story. Taking cue from the West, Indian retailers are also churning out newer ways to increase their profit margins—one such initiative is the introduction of in-house brands. With Indian customers increasingly accepting these private label brands, they would soon be major contributors to the profits of Indian retailers.

The Indian scenario of retail, dominated by kirana stores, has to be dealt differently, focus for the private label has to be on the rural markets, the local kirana stores, which through the private labels would provide better value to the rural customer, who is price conscious and for whom the brand is of little concern. A strong private label would provide him the basis for a better choice, where he is in a position to make a better decision. A strong brand like "SACH" coupled with the reach of HUL could be the key to survival of private brands in India.

Key words: *customization, store brands, organized retail, kirana stores, value addition, SACH*

Introduction

In recent years, Indian retailers have been liberating themselves from the traditional definition of private label marketing as being the poor relative of national brand consumer goods, and, in doing so, opening up huge opportunities for private label branding. These opportunities require the adoption of a different set of marketing and branding practices to support and propel the retailer's business and marketing ideals for its private label brands.

Unlike national brands where such differences are muted, with private labels, customizing your offering is critical. Private labels weren't always taken so seriously; in the past, they were considered cheap, no-name substitutes for "real" brands -- cheap in terms of price as well as quality. They were found mainly in generic products such as detergent and toilet paper, and staples such as rice and sugar. While many consumers bought stores' own brands, which usually sold at a substantial discount to national brands, they didn't often acknowledge it. For the retailer, the private label was one more way to earn a little extra. As quality improved, though, customers became more accepting, and retailers began to change their attitudes.

Not only are private brands now found across a spectrum of products -- from groceries and staples to apparel, consumer electronics and mobile handsets -- they are considered brands in their own right. The fundamental reason for the success of private labels is their price advantage, made possible by their nonexistent or very limited spending on product development and brand promotion. The bulk of the products are reverse-engineered copies of category leaders and they are promoted within the store, not advertised outside. Their value still resonates with customers, but it is no longer the only reason private labels are finding their way into more homes.

In India, the growth of store brands is a function of increasing retail sophistication. Large-format, modern retail stores (known as the "organized" retail sector) -- as opposed to smaller, traditional Kirana, stand-alone stores -- are presently only a small portion of total retail in the country. A report by investment bank Northbridge Capital, titled "Indian Retail Research 2009," estimates the total Indian retail market at US\$450 billion, growing more than 30% a year and expected to cross US\$720 billion in 2011. Of this, organized retail accounts for just 14%, or US\$63 billion -- although this sector is expected to grow 40% faster than the overall market to reach US\$90 billion in 2010.

The Importance of being a Private Label:

1. Greater profit margin for the retailer: By the process of disintermediation, whereby the intermediaries get eliminated, due to direct purchase from the farmer and selling to consumers from the stores, retailers get the benefit of having a greater profit margin, also the products manufactured are a replica, (not considering the quality, which can either be improved or diluted depending on the value proposition), the development costs are almost nil, coupled with the fact that marketing channel gets shorter, the savings add to the profit margin. For retailers, gross margins on private labels are, on average, 25% to 30% higher than on those of manufacturer brands.

2. In consumer products especially, retailers' margins on national brands are in the 12% to 17% range, which is not enough to offset the cost of modern trade overhead. With a house brand, the margin can be upward of 40%, points out Pankaj Gupta, head of the consumer and retail practice at management consultancy Tata Strategic Management Group. "From the retailers' point of view, the urgency is obviously because of margin play."
3. The introduction of a store label also gives the retailer greater leverage with manufacturer margins and an increased ability to ride out business cycles, because the retailer has more leeway in pricing, marketing strategies and long-term planning. Retailers view manufacturer brands as little more than commodities that can be easily procured from any outlet. Store brands, then, help retailers differentiate themselves. "As these products are unique to our stores, we benefit [from] the increase in [consumer visits] and overall sales," says Gunender Kapur, president and chief executive of Reliance Retail. If a store brand becomes popular enough to become a destination brand, it has implications for customer loyalty and profitability. "If a customer remains loyal to the store but switches brands, that works for the retailer," says Avinash Mulky, professor of marketing at the Indian Institute of Management, Bangalore.

To some extent, the market for private labels will grow on its own. "The more consolidation there is in retail trade, the greater the growth of private labels," notes Nirmalya Kumar, director of the Center for Marketing and co-director of the Aditya Birla India Center at the London Business School. According to a September 2009 report by PricewaterhouseCoopers on the outlook for the retail and consumer products sector, retailers across Asia -- and particularly in India -- report a strong increase in the sale of private label goods. "India may be Asia's most receptive market for private label goods. Today, private labels account for 10% to 12% of the retail market there, and leading brands are far less dominant than in other countries."

Even the economic downturn has not damped that enthusiasm. In fact, private label sales typically increase during a recession as cost-conscious consumers trade down from branded products. While brands tend to return to favor when the economy recovers, the correction isn't to the same degree, Kumar says. "There is a permanent positive effect." Others echo that thought. "As consumers learn about the improved quality of private labels in recessions, a significant proportion of them are likely to remain loyal to private labels, even after the necessity to economize on purchases is no longer required," says a March 2009 KPMG report titled, "Indian Retail: Time to Change Lanes."

4. Improved negotiating power: private labels have the advantage of reducing the cost, despite the fact that the quality may be better than the manufacturers' brands, which puts pressure on them to reduce their costs, for e.g the price of kisan ketchup has been reduced by 20% after the competitive pricing of tasty treat from big bazaar. By increasing the shelf space and prominent display of its products, the store brands get a better exposure, numerous studies show that in many product categories consumers make their final brand decisions in the store, which could be as high as 70%, In store advertising is designed to increase the number of spontaneous

POP buying decisions, and provide a competitive advantage to store brands. It also appeals to youngsters, to experiment with new products, and with their growing influence in buying decisions, store brands get an advantage.

5. Increasing the switchover cost: By customizing the products and services as per the local conditions, it becomes easy for the retailer to address to the specific demand issues, which is not possible by the manufacturers brands, as they are mass produced.
6. Take me in your arms: store brands have the opportunity to almost shout at the customer and attract their attention, by having effective package, as on an average a supermarket which stocks 15,000 items, the typical shopper passes by some 300 items per minute, given that 53% of all purchases are made on impulse, the effective package attracts attention, describes the product features, and creates customer confidence. For e.g the book publishing industry, where consumers decide by looking at its cover. The toothpaste SACH, having Sachins' photo is an example how store brands can by effective packing, can make products attractive.
7. Emotional connect with consumers: Private labels have the advantage of establishing emotional connect with consumers, like SACH

Implications for Kirana stores

1. Distribution of Private Labels through kirana stores in metros' and cities:

The key to make the private brand successful would be thru' kirana stores, which account for major sales, private labels will have to penetrate the kirana stronghold to be successful. They also need to sell their private labels to other malls, like a brand like SACH could be sold thru' Reliance or More, strategic alliances are needed, and products depending on their strengths could be sold thru' different chains.

2. Distribution of Private Labels through malls and kirana stores in towns and smaller cities:

The same logic applies in this case also, as they are the new growth markets, as the city and metros stabilize in sales.

3. Distribution of Private Labels through kirana stores in villages:

Hariyali Kissan Bazaar, e-chaupal, Godrej Adhaar and SRS Kisaan Bazaar, form an ideal

launch pad for the rural markets

4. Be Indian Talk Indian

Use of local language dialect; tamatar ki chatni, tel, sabun..instead of ketchup, oil and soap. Local language script, which may be used: Hindi, Bengali, Marathi..instead of English

- 5. Global Hub of Private Labels:** India and China have the potential of being the global hub, with low input costs, ready availability of raw materials, technology and inflow of FDI, India and China can collaborate and eventually become the global hub of Private label.
- 6. Buy as a single entity:** Big Kirana stores, with geographical proximity can get together and buy as a single entity, and get the advantage that big retailers are getting, this will lower the cost and they can sell t competitive rates.
- 7. Use of Information technology:** The biggest advantage Wal-Mart can boast of is the use of information technology, which helps them provide better servie to their clients, Kirana stores can also get the advantage of cloud computing, and get similar advantage, at a fraction of the cost.
- 8. Strong and Tight Supply Chains:** Kirana stores can opt for making their supply chains stronger, by choosing better partners, stressing on long term relations and treating their suppliers as part of their business, they have the advantage of having good relations with customers, by providing them with credit, home deliveries and having cordial long term relations.
- 9. Focus on Customer Lifetime Value:** For a kirana store, a single transaction my seem to be a small amount, but when they are added, over the lifetime of consumer, it makes a very big amount, for a car dealer in US, the customer lifetime value may be more than \$3,00,000. Kirana stores need to think in terms of CLV, and not the small individual transactions.
- 10. Use of Customer Relationship Management:** Kirana stores can also take the advantage of CRM, and use it to make stronger bonds with the big customers.

Conclusion

In the past, private label was a moniker for consumer products that were lower priced and lower value. Retailers fostered them as they represented a growth engine because of high returns in terms of margins and profitability on a relatively small investment. As the industry continues to advance, there is increased acknowledgement that this approach to private label management may allow for near-term gain, but can have a detrimental impact on a retailers' long-term success.

There has been a rapid shift in mindset about the role and requirements for today's private label brands. Retailers are evolving to a new definition and greater focus for these proprietary offerings to elevate their stature and influence on the current and future business strategy.

Today's private label brands need to embody the attitude and demeanor of an "own" brand. "Own" brands are relevant to the broadest set of audiences. The trade feels an affinity and desire for the "own" brand to prosper. The consumer is loyal to "own" brands and seeks them out as an integral part of his/her lifestyle. The retailer celebrates and nurtures the "own" brand as a vital embodiment of its brand proposition that will build and sustain a greater degree of loyalty.

This new paradigm of private label thinking requires that retailers consider an arsenal of often-overlooked business and branding tools to further success.

Category management and brand management must work together to fuel the marketing strategy. One cannot replace the other. Both product and positioning points of difference set the "own" brand apart in consumers' minds. A consumer-centric approach is at the heart of "own" brand development and elevates above the product-centric thinking of the past.

In order to have a consistent and compelling brand voice, retailers need to understand the contribution and role of proprietary or "own" brands within their business and also within the lives of their consumers. "Own" brand products, branded communication and expressions should all be developed in accordance with this thinking.

When "own" brands are appropriately created and steered, they have the potential to reach their pinnacle of success. In doing so, they create a persuasive connection with consumers, drawing them into a retail store, but more importantly, becoming an essential, experiential and indispensable lifestyle choice that they embrace over the long-term.

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