



## Private Label Brands in Indian Retail Industry

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**Abstract:-** Private label brands are typically those manufactured or provided by one company for offer under another company's brand. Private label goods and services are available in a wide range of industries from food to cosmetics to web hosting. They are often positioned as lower cost alternatives to regional, national or international brands, although recently some private label brands have been positioned as "premium" brands to compete with existing "name" brands. Organized retail is on the threshold of a boom in India. But as companies line up to grab a bigger and bigger slice of the retail pie, another battle is likely to change the face of the industry -- the one between the manufacturer brands and the retail chains' private label brands, which are far from being just cheap generics. Worldwide experience shows that as retailers become more powerful, they have increasingly focused on their own brands at the expense of manufacturer brands. Private label brands, which occupy less than 5 per cent of the market in India now, are likely to corner 50 per cent of the market as the retail space opens up and matures. The article discusses about the effective use, role, share, creation and development, promotion and future of private labels in the Indian retail industry.

### INTRODUCTION TO PRIVATE LABEL BRAND:

What keeps brand managers in manufacturing companies awake at nights? Would you say rival brands that are snapping at their heels? You would be way off the mark. The answer is private labels owned by the retailers themselves, which are also known as store brands or own labels.

Should manufacturers really lose sleep over what the retailer is doing? Well, private labels are large in developing markets — they account for 40 per cent of Wal-Mart sales (\$126 billion or Rs 5,16,600 crore), 50 per cent for Tesco (\$36 billion or Rs 1,47,600) and are eating into a larger chunk of the organised retail sale in developed markets. In Germany, for instance, private label has shot up from 12 per cent of sales to 34 per cent. This has, in effect, changed the balance of power between brand manufacturers and retailers, giving the latter a decided advantage when negotiating terms with the brand manufacturers. And apart from the multibrand retailers, a category of private label-only retailers has

also been created — Ikea, Toys 'R' Us, Zara — who sell only private label brands.

### ROLE OF PRIVATE LABEL BRAND IN INDIAN RETAIL

Retailing in India is still very primitive. At the moment, private labels almost do not exist in the country. They are less than 5 per cent of the retail business and still have a long way to go. But Indian retail is extremely hot and it offers a proposition that can't be seen anywhere else in the world. Only in China and India can retail chains have as many stores as they have in the US. In no other country can one imagine companies having 5,000-6,000 stores of their own.

Here's a little calculation: in a few years, most retail chains will have close to 5,000 stores in India. A profit of, say, Rs 5 lakh a store a month would mean a profit of Rs 250 crore. Ten such companies would mean profits of Rs 2,500 crore with their combined turnover being more than Rs 25,000 crore.

In the next 20 years, the richest Indian or one of the top three richest people in India will surely be a retailer. Private labels will have a huge role to play in this. As much as 50 per cent of Indian retail will be occupied by private labels. The question is not whether this will happen, but when? If the government opens up retail, we would see it happen within the next 10 or 15 years.

### SHARE OF PRIVATE LABEL BRANDS IN INDIAN RETAIL:

Private labels constitute around 10-12 per cent of the organised retail product market in India and their share is likely to grow even in the current economic environment, says a report by global consultancy firm KPMG.

Private labels are brands that are not owned by a manufacturer or producer but by a retailer or supplier who gets its goods made by a contract manufacturer under its own label.

In a report titled 'Indian Retail: Time to Change Lanes', KPMG said India is witnessing an increasing presence of private labels in various segments and retail players

are adopting such brands to address consumer needs and increase profitability.

"In India there is an increasing trend towards acceptance of private label brands and thus their penetration is on the rise especially in the apparel, consumer durables, home care and FMCG segments.

"Overall, in India private labels constitute 10-12 per cent of the organised retail product mix," it said.

The growth of private labels is likely to continue in the current financial environment as "cash-strapped consumers' perception of the products as a 'cheaper option' changes," the report added.

"Part of private label growth in a recession is permanently sustainable," KPMG said.

Among the major Indian players, the degree of private label penetration was the highest in Trent with 90 per cent, followed by Reliance Retail (80 per cent), Pantaloon (75 per cent), Nilgiri's (38 per cent), Indiabulls/ Piramyd (30 per cent) and Food world (22 per cent).

Sl. No.	Company	Degree of private label penetration
1	Trent	90%
2	Reliance retail	80%
3	Pantaloon	75%
4.	Nilgiris	38%
5.	Piramyd	30%
6.	Food world	22%

In comparison, international retailers like the US-based Wal-Mart and Tesco of the UK have 40 per cent and 55 per cent own label brands representation in their stores, respectively, the report added.

Among the reasons for the likely growth of private labels, KPMG cited higher margins, cheaper price and better bargaining power for the retailers.

"In the long run, the retailer can use the private labels to attract customers to his outlet. Thus, many retailers are considering increasing their private label offerings significantly," the report said.

Citing retail players like Shoppers Stop, Tata Trent, Pantaloon, Reliance, Spencer's, and Vishal Retail, the report said that in India the predominant trend of third party sourcing due to increase in categories for private labeling and volumes.

#### Creating Private Brands

A significant opportunity for the large retailers is to develop private brands that can create a proposition of value from the consumer's perspective. A proven example of this is the Aldi chain in Germany. Almost 95 per cent of the commodities in this chain consist of local brands. Wal-Mart could not budge the strength of this chain due to its strong positioning amongst its buyers who enjoyed the value offered to them though the

various brands. This model is often referred to as one of the major causes of Wal-Mart's failure in Germany.

If we look at the Indian market there is colossal capacity existing with the retailers to explore in this area of private branding due to the diverse spread of spending power and generic competition at the lower end of the market.

Product categories like FMCG, Fruits, vegetables which may be bought on daily basis a good quality can draw a premium price from the consumers at the higher end who are not very sensitive to price as compared to quality. This section of consumers wants the best of products and would not hesitate to spend on a private brand which is not well established in the market and would willingly pay a premium price for such brands provided they get a better quality.

Thus the option of private branding may be suitable for a organized retailer trying to compete with the local seller catering to the high end consumer.

However if we look at the bottom of the pyramid which is a massive consumer section of Indian socio-economic continuum we find the presence of generic competition. There is the reality of minimum wages and a high price sensitivity which makes the consumer balance between his desire to use branded products from well known retailers and his income. For these consumers quality means acceptable level of performance across categories. And hence these consumers may balance their budget by having a trade-off by buying branded commodities across product categories. The consumer may buy a few branded products and compromise in the other product categories for unbranded offerings.

Hence there is a massive potential of developing private labels suitable to the various segments. Big Bazaar has already started developing such private labels with regard to durable categories.

#### Develop private label brand:

Private labels act as margin generators, increasing sales Volume by positioning the label as providing higher perceived value to consumers. In the Long run, they also increase the retailers' bargaining power with national brand suppliers. Private labels generate customer loyalty by providing exclusive products, which works Towards differentiation strategy, much sought after by the retailers.

To add to this, the companies can also give their Private label brands to the small retailers to sell it to the common public. This move will allow the small retailers to retain those customers who were moving out in the search of the branded products outside, now they will get all of them at their door steps.

Not only that, the retailer will now be more motivated to sell the private label branded products to the customers as they to a great extent will also increase their brand equity. Undoubtedly it will also help the big companies

to seek the potential customers easily i.e. helps in expansion

Promotion of the Private label brand:

Promotion is that aspect of marketing communications that keeps the product in the minds of customers and helps stimulate trial and repeat purchase. Most retail owners and marketing managers are familiar with promotional strategies such as:

- Advertising
- Personal selling
- Sales promotions (buy one get one, coupons, introductory offers, etc.)
- Public relations & publicity

Experiences of Indian companies with Private labels brand:

The Aditya Birla retail launched an experiment across 30 stores in Visakhapatnam in Andhra Pradesh. Titled Project Vizag, after the colloquial name of the port city, the strategy places private labels in 25-30% of a store's shelf space, against a mere 4-5% earlier, Varghese said.

The difference is a fourfold increase in sales, he claimed, and that sales numbers have held up for April, too.

According to Raghav Sehgal, a research analyst at Angel Broking Ltd, Shoppers Stop gets 20% of its sales from private labels while Future Group gets about 24-25%. "India is still an under-branded country and in each category there is still a lot of scope for growth, this is where the private label comes in."

Future of private label brand

Private retailers will occupy 50 per cent of the market the world over. At 50 per cent, they begin to saturate. If they try to occupy more than this, then consumers feel that there aren't enough choices. In countries such as Switzerland and the UK, private labels have reached this



limit and these markets have saturated. But they will continue grow in the other countries till they reach the same level. And this will happen very soon in India, too.

### CONCLUSION:

Indian retail is ranked 50th in the world, so there is a lot that retailers here can learn from the 49 countries ahead. My advice to them is don't do cheap and nasty private labels. Private labels won't work by just keeping the products cheap. Retailers must look at developing good quality and value-added products.

Also, they must make sure that they don't over exercise the private label option. If they fall into the trap of using too many private labels, they will end up losing customers. It has been seen that when retail chains rely heavily on private labels, customers feel they lack choices.

Many retailers have suffered due to this; Sainsbury is a classic example. The UK-based retail chain was a mainline traditional retail chain, but when it used too many private labels, customers did not find regular brands at its stores, and as a result, sales dropped.

### REFERENCES:

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