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Brand Architecture: Managing Large Brands at Retail

By Scott Young

For many small brands, the primary challenge at retail is simply to “break through clutter” and create an opportunity to sell. For larger brands with several feet of shelf space, such as Tide, Colgate and Campbell’s Soup, visibility is rarely a problem. The challenge these brands face is that of organizing their many offerings in a way that facilitates shopping and maximizes profitability.

Today’s packaging has to work harder than ever before to help shoppers sort through myriad flavors, features and sizes cluttering retail shelves—and to make sure new products are seen and considered. But when line extensions or sub-brands are designed independently, the end result on the shelf is often a “mish-mash” that weakens a brand and complicates shopping.

To address this challenge, marketers and designers are placing greater emphasis on brand architecture—the strategic process of creating a consistent framework for grouping product offerings and differentiating among competing brands. In this article, I’ll offer suggestions for approaching and assessing brand architecture, and I’ll share insights gathered from our studies.

Definitions and measurement

To improve brand organization, we need to begin with a thought process for defining and measuring success. To do so, it is helpful to think in terms of both “find-ability” and product differentiation.

Find-ability refers to shoppers’ capacity to locate specific SKUs on shelf. To measure this attribute, we give shoppers a specific task (find the 32-ounce size and chocolate flavor), time it takes them to complete the action, and confirm the accuracy of their identification. If more than 10 percent of shoppers are selecting the wrong SKU—or more than 20 percent need longer than 15 seconds to find the right one—it suggests that there might be a problem. Shoppers could be “deserting” your brand out of frustration, or going home to find that they’ve selected the wrong product.

In studying brand architecture, it is also essential to measure product differentiation—shoppers’ understanding of the relationships among offerings. We probe consumers to uncover whether they know which product to purchase for a specific need or occasion—and whether they understand why one product is more expensive than another. If more than 10 percent of shoppers associate the wrong package with a specific feature or benefit, again, it suggests that there may be a problem for the brand.

The idea of “find-ability” rests on the premise that shoppers know what they want, and that they approach the category looking for “their” product. But facilitating shopping is only half of the battle. Successful product differentiation is often the key to greater profitability for a brand.

For example, in many food and personal care categories, the primary opportunity lies in advancing incremental purchases (i.e. encouraging a shopper to buy a third or fourth can of soup). For higher-ticket items (such as technology products) where incremental purchases are unlikely, packaging can spur consumers to “trade-up” to higher-end products (i.e. from the “standard” to the “professional” edition). We need to go beyond helping shoppers simply find a product and, instead, focus on clearly conveying the “added-value” of new products and higher-end offerings.

What works? Using packaging to clarify distinctions

There can be no single “solution” to brand architecture because the issues and challenges of the task vary by category. Also, key decisions, such as whether to use a mega-branding approach, an “endorsement” from the parent brand, will often be driven by a brand’s strategy. However, despite differences in marketing objectives, our studies have uncovered consistent factors in brand packaging that facilitate both product find-ability and differentiation at the shelf:

1 Utilize color and structure

Color is the primary driver of product find-ability, as shoppers often shop “by color” (i.e. “I buy the Purina in the green bag.”). As most any brand manager will tell you, “owning” a color (such as Minwax Yellow) can help create a “signpost” that draws shoppers to your brand’s section of the aisle. We’ve seen that color-coding is typically the most effective way to differentiate flavors, scents or varieties—and that changing a variety’s color is perhaps the surest and quickest way to confuse loyal shoppers.

However, this does not mean that individual packages have to be fully color-coded. In fact, a more nuanced approach (via caps, a flag, etc.) can be just as effective in leading shoppers to the right product.

Shape and structure are also powerful design tools, particularly in terms of delineating sub-brands and conveying different product forms or quality levels. We’ve repeatedly seen that innovative structures (including foil enhancements and holographic features) are critical to conveying differentiation and supporting the price premiums associated with higher-end products.

2 Maintain visual continuity

Intuitively, you might think that a new product would need packaging that differs dramatically from established products to generate attention or justify a price premium. But, in fact, we've found that when SKUs vary dramatically in their appearance, shoppers have a difficult time comparing them and identifying the value of the more expensive model. Both find-ability and "trade-up" improve when appearance and label architecture remain consistent across products; shoppers know "where to look" when they pick up and compare packages.

3 Have packages "build" upon one another

When two products have completely different sets of claims and bullet points, they can be difficult to compare. To promote trade-up, we've found that it is valuable for a higher-end product package to present all of the features/benefits of the lower-end product, plus one or two additional points that convey the product's incremental benefit. In fact, incorporating four bullet points on a lower-end package and six on a higher-end item sends such a powerful visual message that the actual messaging/content of the bullet points is often irrelevant.

4 Ensure that naming conventions are descriptive

Too often, product names (such as "Ultra" and "Super") are not helpful in marking out a product, because they do not speak to specific features, benefits or usage occasions. Similarly, sub-brands (such as Motorola Timeport or BIC Cristal) can make shopping more difficult because they add an extra layer of complexity, without conveying information or intuitively clarifying a point of difference. It is important that package design and product naming work together to facilitate shopping.

Re-Thinking Brand Organization: Start at the Store

In developing brand architecture, it is best to start by observing shoppers in the aisle so you can better understanding their decision-making patterns. To develop a primary organizing principle for your brand, you need to know:

Which decisions can be influenced at point-of-sale? Does your primary opportunity rest in winning over brand switchers? In driving incremental purchases? In trading shoppers up to higher-end products?

How do shoppers arrive at their decisions? Is the decision-making process driven by brand? By specific features? By usage occasion?

From our experience observing and speaking with shoppers, we've come across two primary "disconnects" related to brand architecture. First, there is often a discrepancy between what shoppers claim is important in their decision to purchase a product and what they actually buy at retail. The reason might be that shopping behavior is largely driven by what people see. For example, a shopper may come to the analgesics shelf looking for a children's product, but a large Tylenol "brand block" will start her on the path to shopping within that brand.

There are also inconsistencies between how shoppers and marketers think about and classify products. Marketers are often very product-driven. They tend to classify their products in terms of ingredients, features or quality levels (i.e. good/better/best). On the other hand, shoppers are often more usage-driven. They tend to think in terms of users (Is it for me or my child?) or usage occasions (Is it for my kitchen or my bathroom? For dinner or an afternoon snack?).

For example, while aspirin and vitamin products were once classified almost exclusively by product form (Vitamin A, gelcaps, etc.), we now see products targeted to women and to specific pain types (headaches, back pain, etc.).

This reinforces the need for marketers to organize brands and product offerings in a way that more closely speaks to shopper needs and the way they actually make purchasing decisions at the shelf.

Driving More Profitable Brand Organization

To manage the architecture of a complex brand successfully and more profitably at retail, you should be sure that it is:

Rooted in shoppers' priorities and thought processes. Brand organization that is driven by the shopper—speaking directly to users, usage occasions and end-benefits—is nearly always more intuitive and effective than the ingredient- and feature-driven approach favored by most marketers.

Linked with brand objectives and opportunities at retail. Brand organization and packaging design should work to communicate a key objective, linked to the brand's primary opportunity to influence purchase decisions at the shelf.

Focused on clarifying product distinctions . Brand organization, naming and packaging design need to do more than help shoppers find specific products at the shelf. They need to ensure that product differences are clearly understood in order to drive incremental purchases and “trade-up” to higher-end products.

Ultimately, researching consumer shopping behaviors and organizing your brands around them is likely to lead to greater profitability at the point-of-sale.

The Mixed Brand and Private Label Strategy – Retailer's Perspective

illustrated by the Rema1000 case

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Abstract

In this paper, the terms "Focused" and "Mixed" suppliers / retailers are introduced and presented in an interface model. The general thesis is that suppliers and retailers face similar challenges and difficulties strategically and organizationally when they work with a mixed brand and private label strategy (working with both brands and private label in the same organization). Different models have been used with different results and the success/failure is not only a result of the individual approach but moreover of the co-operation between the two parties. This paper is limited to the retailers perspective and is covered through a literature review in particular about the reasons for retailers to get involved in private label and illustrated by an explorative case study of the discounter Rema1000.

Keywords: Retailers, suppliers, private label, interactions, dyads

Introduction

The last 10 years, I have been directly involved in selling private label products both in a company dominated by branded sales where private label had low priority but also in a private label dominated company where the priorities were opposite. During this period I have often experienced how difficult it is for the suppliers to balance the strategic focus between brands and private label. Likewise, I have experienced that retailers face the same strategic and organizational difficulties when it comes to a mixed strategy involving both brands and private labels.

It is my general thesis that suppliers and retailers face similar challenges and difficulties strategically and organizationally when they work with a mixed brand and private label strategy. Different models have been used with different results and the success/failure is not only a result of the individual approach but moreover of the co-operation between the two parties. My work concentrates around this area and is illustrated and explained with various in-depth case studies.

In the literature, the branded area is described intensively and the private label area to some extend. Furthermore, the interface and interaction between selling and buying firms is well described. The contribution in this paper is the combination of knowledge from these disciplines, and illustrated with the model of the focused and mixed players.

The article could take three angles: 1) The retailers perspective, 2) The suppliers perspective and 3) The interface/interaction between the selling and buying firm. This article will be limited to the former, the retailers perspective and will be illustrated by the Rema1000 case.

After a methodological and theoretical section, the article starts with a background description of the concepts of brands and private label, respectively. This will be followed by a model developed to describe the terms "focused" and "mixed" retailers / suppliers and a short description of the evolution in their relationship. In particular, there are many challenging strategic and organizational issues that must be addressed by the mixed players (working with both brands and private label in the same organization) individually but even more so when working together. But as mentioned, this article is limited to the retailers perspective. The model will be followed by a literature review on the retailers perspective mainly focusing in the question - why do they get involved in the development of private labels? The same question will be answered with the Rema1000 case, and moreover the focus of this case is to describe the demands and experience to/with suppliers they have for branded items and private labels, respectively, and how Rema1000 as a retailer has adapted to this situation strategically as well as organizationally.

Methodology

The paper is supported with a literature review in particular about the reasons for retailers to enter the private label market.

To challenge my overall thesis, I have conducted an explorative field study of the Scandinavian discount chain Rema1000. This includes various secondary company information: website, annual reports, articles and most importantly semi-structured interviews with buyers and managers from Rema1000 including the buying manager responsible for the general private label strategy of the chain.

The Rema1000 case is extremely interesting for a number of reasons:

1) This retailer has been very successful in Denmark despite a very competitive discount market with local and international players such as Fakta (Coop), Netto (Dansk Supermarked), Aldi and Lidl. This growth has continued during the last years of high economic growth in Denmark but also during the last period of recession. The turnover in 2008 showed an increase of 24.4%. In comparison, close competitors such as Fakta and Aldi grew 9.7% and 9.6%, respectively (Børsen 2009).
2) Since the start of Rema1000 in Denmark, the concept has changed dramatically from a chain of local “grocery stores with focus on brands” to a real “discount chain with a balance between branded items and private label”.
3) This retailer is known as a co-operative retailer who works closely with suppliers. This situation is aligned with the interaction perspective.

Theory

This paper falls into the business-to-business field with an interaction perspective (Håkansson 1982). Business firms working together have been described as dyads (Bonoma, et al, 1978). In this context a dyad is represented by two individual firms and their mutual interaction. Hence, the market in question can be defined as institutions in which interactions (of various kinds) between sellers and buyers take place. Sellers are active by marketing and selling activities and purchasers are active by purchasing, procurement and buying activities. Their joint interest is successful exchange, which normally requires mutual value creation of the exchange on both sides in a long-term perspective (Wilke and Ritter, 2006). Araujo, Dubois and Gadde (1999) suggest four different types of interfaces between suppliers and buyers: standardized, specified, translation and interactive and they evaluate how these four types contribute to increased productivity and innovation. The interaction also raises the question about how much each organization shall adapt to the other part in the interface.

Often the relationship between retailers and suppliers is described in hostile terms like two different teams playing against each other to win. In other words, they play a zero sum game and per definition when the one party gains, then the other party necessarily makes sacrifices. Like in other “warfare” this battle is related to the power of each side.

The concept of asymmetrical and symmetrical relationships is one way to describe the situation. Asymmetrical relationships may exist when there is an imbalance in the relationship characteristics and one of the companies is able to dominate the relationship and influence what happens in it for its own benefit, often for many years (Johnsen and Ford, 2002). During this time, the capabilities of the counterpart company may remain undeveloped while it is locked in a state of continuing dependence. Asymmetrical relationships present particular problems for firms in dyadic relationships where the capabilities in the relationship lie largely with one firm. Also, firms may feel the need to choose one capability path or another rather than trying to integrate or reconsile their conflicting capabilities (Johnsen and Ford, 2002).

Brands versus private label

One fundamental marketing decision concerns the branding strategy. A brand is a distinguishing name and/or symbol (such as a logo, trademark, or package design) intended to identify the goods or services of either one seller or a group of sellers, and to differentiate those goods or services from those of competitors (Aaker 1991). A product is something that is made in a factory; a brand is something that is bought by a customer. A product can be copied by a competitor; a brand is unique. A product can be quickly outdated; a successful brand is timeless (King 2007). Branding is about building a unique identity which can be protected and sustained against competition. You often come across two products which when compared on ingredients are identical, when compared on the packaging are identical and when tested in consumer blind tests are considered identical. Still, the consumers are willing to pay considerably more for the version with the known brand. A product can be “copied” but a real brand cannot.

This study will use the term private label (hereafter PL) although the terminology varies widely (PL, exclusive label, store brand, fancy label, manufacturer brand, national brand, retailer brand, private brand, no-name brand, distributor brand, own labels etc.). Likewise different definitions are possible but in short, PLs can be defined as products marketed by retailers and other members of the distribution chain (Keller 2008). Another more precise definition has been presented by Kumar and Steenkamp (2007): PL is any brand that is owned by the retailer or the distributor and is sold only in its own outlets. To this definition it should be noted that strong PLs have been exported by one retailer to another, typically based on an exclusive agreement.

It is difficult to describe PLs as *one* concept, as there are many types of PLs. The best way to illustrate this point is to have a look at the World’s (probably) most developed retailer in this field, Tesco from the UK. They have developed a Tesco brand architecture (Kumar & Steenkamp 2007) including:

- Tesco Value covering generic quality at low price
- Tesco Standard covering commodity-level quality at medium price
- Tesco special PLs (e.g. Cherokee, Organic, Fair Trade, Free From, Healthy Living, Carb control, Kids) covering special market segments at medium/high price
- Tesco Finest covering premium quality at high prices

Furhermore, Tesco has recently felt a strong pressure from the UK discounters, in particular Lidl and Aldi, and has in response introduced a discount range of products to fill the gap between low-cost own label lines and more expensive branded products (just-food.com, 2009).

Some fundamental differences between brands and PLs can be seen from the following table describing both concepts from a general viewpoint.

Table 1: Brands versus PLs – Identification of Main Differences

	Brands	**PLs**
Ownership and risk of failures/consumer complaints	Belongs to suppliers	Belongs to distributors and/or retailers
Uniqueness and difficulty of copying	High	Low*
Brand identity	Narrow and always consistent	Stretched and somewhat consistent across categories
R&D drive	High	Low*
Time frame	Long term/sustainable	Retailer dependant
Consumer advertising and promotions	High	Low
Distribution	Widely available	Available in own stores
Price profile	High	Low/Medium*
Consumer loyalty	High	High – but to the chain (not the product)
Buyer / seller relationship	Traditional selling/buying	Long term common objective
Coordination and info sharing between buyer / seller	Medium	High
* except for "special PL" and "premium quality"		

Source: Derived from above definitions and Ezrachi and Bernitz, 2009 and de Jong, 2007

A supplier of branded products is focused on maintaining and building own brands. This is secured through long term, innovative, widely distributed and advertised products to build uniqueness and preference in the consumers' minds. This justifies a premium price. However, this is not at all the case for a PL supplier where it is the retailer/distributor that, as owner of the label, tries to persuade its consumers through its own marketing organization to choose for the PL. The approach of individual products is often dependant on the overall PL platform as brands are stretched and applied across product categories. Also, as the ownership belongs to the retailer and hence the risk in case of any failure and/or consumer complaint, the retailer will typically involve a team of quality assurance people and technical managers in the development process. In this way, the suppliers account manager is "only" in-directly involved in the brand building but on top of good sales and marketing skills, he needs to manage/facilitate a broad network of expert functions.

A coherent PL product development process needs rigorous research and an unrelenting commitment to the PL's broader strategy. This has to be backed up by a thorough and robust quality control system. Once the PL is poised for public promotion, marketing and in-store merchandising budgets must be tailored to drive brand awareness, trial, and ultimately, preference (JC Williams Group, 2008).

De Jong (2007) explains that as the PL strategy of the retailer is no longer executed exclusively by the procurement officer, a number of his colleagues such as the category manager, quality manager, concept manager or logistics manager have a major say, sometimes invisible behind the scenes, in who is ultimately chosen as PL supplier. In the UK especially, technical managers within retail have a lot of power and influence in choosing the PL supplier. That is why it is important that a PL supplier communicates with all these professionals and thus manages to build a relationship. For this, the specialists on the manufacturing side must communicate directly with the specialists on the retail side. The supplier that succeeds in doing so will thus bring in a number of major advantages (reducing dependency on one procurement officer alone keeping in mind that buyers change frequently, professionals from both side communicate more efficiently directly and reduce the risk of errors and increase the speed, the general information level increases and the process can be influenced continuously).

The retailer / supplier interface model - the “focused” and “mixed” retailers / suppliers

On both the retail and the supplier side, a high concentration has happened over the past years. The interface between the two players has become increasingly important.

To visualize the forces we are faced with, it is interesting to consider the percentage of a manufacturer’s global sales that Wal-Mart, the world’s largest retailer, accounts for. For example, Wal-Mart now accounts for more than USD 10 billion of Procter & Gamble’s turnover – exceeding the GDP of Jamaica. Further, Wal-Mart sells for USD 126 billion of its own PL which is more than five times the annual sales of Coca Cola - Worldwide (Kumar & Steenkamp 2007).

To the extreme, powers like this have to decide whether they individually want to pursue PLs and/or brands and mutually whether they want to co-operate in the development of these. Thus, retailers and suppliers have to prioritize the strategic direction. For this purpose, the following model is introduced:

Figure 1: Retailers versus Suppliers and Strategic Options (focused or mixed)

		Retailers		
		PL focused 1)	Mixed 2)	Brand focused 3)
Suppliers	PL focused 4)			
	Mixed 5)			
	Brand focused 6)			
1) >55% value share of PL 2) <55% and >20% value share of PL 3) <20% value share of PL 4+5+6) Not defined for this paper				

Source: Own development

The exact values mentioned under 1-3 are not of outmost importance but the levels are. The logic behind the levels are that the PL focused players are players who have taken a strategic decision that PL is the most important part of the business. The maximum level of PL value sales that can be achieved by a mixed player has been discussed widely. There is growing evidence – in grocery at least – that there is an upper limit of between 40 and 50% PL for mainstream retailers (Kumar & Steenkamp 2007). This is supported by the fact that the most professional PL mainstream retailer – Tesco – has a PL value share of 50% (Lincoln and Thomassen, 2008). Furthermore, those retailers that operated with PL shares above this range ten years ago have cut back to fall within this 40 to 50% range (Ezrachi and Bernitz, 2009). In similar manner, the brand focused players, have *not* made it a strategic issue to be involved in PL but at best treat PL as a tactical tool. The average PL Value share in the US is 18.2% and 23.3% in Europe (PLMA´s 2009 International Private Label Yearbook). Hence, a 20% level is used to make this distinction.

In this way, the given PL market share of a certain retailers is used to categorize the strategic focus of the given retailer. The same logic is used on the supplier side, but the values are not researched and defined for this paper.

On the retail side, the first category (1) typically includes hard discounters with strong PL focus such as Aldi and Lidl. They are estimated to have a PL focus of 95% and 65%, respectively (Kumar & Steenkamp 2007). But also a number of more traditional groceries such as the Swiss Migros, the British Marks&Spencer and American Trader Joes are in this category. The second category (2) typically includes major traditional groceries such as (value shares of PL) Tesco (50%), Royal Ahold (48%), Wal-Mart (40%), Metro Group (35%), Intermarché (34%), Target (32%), Rewe (25%), Carrefour (25%), Kroger (24%) (Kumar & Steenkamp 2007). The last category (3) typically includes retailers in less developed PL countries, retailers in countries with more fragmented retail structure, less powerful/more local retailers and/or retailers with a strategic branded focus. The latter includes retail changes such as petrol stations and kiosks (so-called grey sector). An example of the third category (3) could be the American warehouse club CostCo which is the largest membership warehouse club in the World and the fifth biggest retailer in the US. In 2005, the PL share was 10% and in 2009 just below 20%. According to the CEO Jim Sinegal, Costco will now make PL growth a strategic priority and expects a 25% share within a few years. He says some PL items, such as olive oil, have become so popular that Costco no longer stocks a national brand equivalent (PLMA E-Scanner, 2009). Hence, Costco will more from category 3 to 2.

On the supplier side, the first two categories (1 and 2) include various manufacturers and middle-men with full or partly PL focus. The last category (3) typically includes big international brands such as the ones mentioned in the table above (Nestlé, P&G, J&J, Unilever, PepsiCo, Coca-Cola, Danone). Of course, there will also be many smaller and more regional brands in this category.

The retailer / supplier relationship

Historically, the trade was dominated by the manufacturers of strong brands. The first real known PL product started in 1882 which was bacon smoked in in-store ovens in the British Sainsbury´s (www.j-sainsbury.com), but up to the 1920s the power was on the manufacturing side. They had the power over the consumers through extensive mass consumer advertising and the retail level was seen as merely a "showroom and storage" facility needed to reach the consumers. The real rise in PL in modern times started in the 1920s when retailers noticed a shrinking profit margin for branded goods. However, the real revolution started in the 1970s when retailers started to develop national chains (Lincoln and Thomassen, 2008). As retail organizations grew and became stronger, the view changed and the need to involve and motivate the trade grew. With further concentration in the retail trade and the continuous development of PLs, the power balance shifted further in the direction of the powerful retailers. In this respect it is interesting to note that the Aldi discount concept started as the leading branded suppliers refused to sell their items at discounted prices (Kolind, 2006). This power shift is important when discussing brands versus PL and the dyadic relationship between retailers and suppliers. In the branded area, the suppliers had and to some extend still have an asymmetrical supplier-dominated relationship but when it comes to the PL area, the relationship is predominantly asymmetrical customer-dominated. Moreover, the products compete for the same consumers.

This, combined with the fact that different competences are needed when handling brands and PL products respectively, make the "mixed model" presented above very difficult to handle for retailers and manufacturers. Below, in the same model, the colours white, grey and dark grey are introduced. The black areas represent rather unlikely situations (PL supplier selling to brand focused retailer, and brand focused supplier selling to PL focused retailer). The white areas are very likely and strategically easy to handle as they represent no conflict of interest except for the normal trade related issues (PL supplier selling to PL focused retailer, and brand focused supplier selling to brand focused retailer). The grey areas illustrate where the real challenges lie, and the center square (marked with cross) is the most critical (mixed suppliers selling to mixed retailers).

Figure 2: Retailers versus Suppliers and Cooperative Challenges (focused or mixed)

		Retailers		
		PL focused 1)	Mixed 2)	Brand focused 3)
Suppliers	PL focused 4)			
	Mixed 5)			
	Brand focused 6)			

1) >55% value share of PL
2) <55% and >20% value share of PL
3) <20% value share of PL
4+5+6) Not defined for this paper

Source: Own development

Why do retailers get involved in PL ?

From the retailer perspective, there are clear advantages in developing its own PLs. In the literature, there is general agreement on some of the most import reasons:

1) Simple financial evaluation (maximizing turnover and margins).
2) Offering a price driven assortment towards consumers and hereby opening this consumer segment while fighting the competition.
3) Building loyalty and image to the chain.
4) Creating an alternative to brands and getting more manufacturing cost insights. Hereby increasing the negotiation power.
5) Covering special segments which could otherwise not be offered.
6) Export.

The UK Competition Commission undertook an analysis of the comparative cost structure between a manufacturer's brand and a similar PL product during their investigation of supermarkets published in 2000 (Ezrachi and Bernitz, 2009). They analysed the source of the difference in retail price between a brand and a similar PL and concluded that the retail selling price of a PL was 19.3% less than the brand, even though retailers were able to buy the PL product at a 29.4% lower price. The lower buying price was achieved through a lower supplier margin of 18.8% and a cost saving by the PL producer of 10.6%. The calculation of a 10.6% cost saving is presumed to be based on similarly incurred costs of manufacturing variable cost and fixed cost. The following table summarizes the differences in retail buying and selling prices:

Table 2: Differences in Cost Composition between PL and Branded Equivalent Products

Suppliers cost saving	10.6%
Lower supplier margin	18.8%
Retailers purchase saving	29.4%
Lower retail price	19.3%
Higher retail margin	10.1%

Source: UK Competition Commission 2000

Clearly this indicates that retailers on a percentage level can improve margins by introducing PLs, but this must be combined with the effect on volumes in case brands are replaced with PLs. Some PLs do just not have the traffic building power of brand name goods (Quelch and Harding, 1996).

Kumar and Steenkamp (2007) argue that the appropriate measure is dollar profit per square foot. Optimisation should be done in value (not percentages) with respect to the critical resource of a company which is shelf space in retail. This means that gross margins must be corrected for discounts, slotting allowances, listing fees, promotions, advertising and other "free" services. Furthermore, as brands are usually sold at a higher retail price. Thus even when the net margin as a percentage on brands is lower, the absolute value profit may still be higher than for PL. Lastly, the shelf space turnover (velocity) is often much higher for brands. European data indicates that, on average, the velocity of the leading manufacturer brands is at least 10% higher, but Kumar and Steenkamp's work suggests that this is conservative. Table 3 summarizes the key findings of what is probably the most extensive profitability analysis to date. It provides results aggregated across more than two hundred product categories for a major US supermarket chain.

Table 3: Profitability Analysis of PL versus Manufacturer Brands (U.S. Grocery Retail Chain)

	PL	**Manufacturers Brands**
Gross margin	30.1%	21.7%
Net margin	23.2%	15.9%
Price*	USD 1.00	USD 1.45
Dollar contribution	USD 0.23	USD 0.23
Velocity per square foot (index)	90	100
Direct product profitability	21	23
* Assumed price of PLs is USD 1.00.		

Source: Kumar and Steenkamp (2007)

From table 3 it can be concluded that, in general, one cannot assume that retailers have higher profitability on PLs. The higher gross margin on PLs compensates for the lower PL prices.

Table 2 and 3 also illustrates the second point, that PLs can be a vehicle in launching price competitive products and hereby attracting the cost conscious consumers. With similar products, retail prices can be reduced 20-30%. Some mainstream retailers have been forced in this direction by the intensified price pressure from the discount sector.

There is a general assumption that PLs are for low-income households or those that need to economize by buying bigger sizes. This notion is no longer true. A look at household data indicates that a greater proportion of lower-income households do indeed purchase PLs, but higher-income households are not far behind. In Europe, the market share of PLs across revenue levels indicates that they possess a near equal share of purchases for lower-income households (32%) and higher-income households (28%). In other words, the rich like it as much as the poor (Lincoln and Thomassen, 2008). As the CEO of the Belgium retailer Colruyt noted "Poor people may need cheap prices, but rich people love them" (JC Williams Group, 2008).

On the third point, products bearing these PL brands offer another way for retailers to increase customer loyalty and build a certain retailer profile. Empirical evidence supports the strong relationship between purchasing of PL and store loyalty (Kumar and Steenkamp, 2007). The retailers own the labels and hereby the consumers' loyalty. Adding PL to the range enables the retailer to differentiate itself from its competitors. Rather than manufacturers brands, PL has become a strategic weapon with which retailers compete for sales, market share and loyalty. This can be achieved through attractive packaging, with high-quality products and exclusive products, but also by offering products that are not available anywhere else. In most cases, the retailer uses the name of the store as its PL name. In this case, the product, as long as it is used in the domestic household and the packaging remains visible, will continue to promote the store (de Jong, 2007). From a retailer´s perspective, brands are commodities, available at many competing retail chains. By introducing store brands, the retailer differentiates itself from other chains. This increases the psychological costs for its customers to switch retailers since they will not be able to purchase their favorite store brands at competing retailers (Kumar and Steenkamp, 2007).

The fourth point has two sides. First of all, developing an alternative to the brands gives an obvious advantage in the negotiation with the branded suppliers. Even the most valuable brands in the World are not immune to this pressure. A former high level marketing executive of Coca Cola conceded that Coca Cola significantly lowered the wholesale price of its products in response to the introduction and aggressive shelf placement of a premium store brand by a large supermarket chain (Kumar and Steenkamp, 2007). Furthermore, de Jong (2007) describes that the general duration of a supply contract for a supplier of a PL is one or two years. The implication is that the retailer in regular, tough negotiations lay down the new conditions for the supply of a specific product. To be assured of the most favourable conditions, the potential suppliers are played off against one another in an uncompromising way. The result of this is that the retailer can make an estimate of the actual cost price of the product. In other words, obtains a rough idea of the profit margin and the mark-up that the branded manufacturer charges for its innovation and marketing effort. The retailer will use this knowledge in his negotiations with the brand suppliers in order to realise better buying conditions.

The fifth point concerns differentiation which can be illustrated well with the already mentioned Tesco special PLs. In general, branded suppliers will offer products that are aimed at the mass market. A retailer on the other hand, can develop products that are targeted to specific consumers who visit its store formula. By means of such niche marketing strategy, very specific target groups can be approached with PLs. With a PL portfolio, sub-segmented through quality and packaging design, the manufacturers brands can be rationalized. This has resulted in the disappearance of many branded items, often secondary and tertiary brands (de Jong, 2007).

The last point is rather special, but successful PLs can also be sold outside the retailer´s own stores. For example, Delhaize carries a large selection of pasta from the PL of Italian retailer Esselunga. “Swiss Delice”, a premium brand for the Swiss fine food specialities produced by Swiss retailer Migros is not only carried as PL by Migros but can also be found at Sainsbury´s and Delhaize (de Jong, 2007). Another example is the Canadian chain Loblaws. In 1978, the chain launched a basic PL under the No Name label which was a commercial success. During the 1980s and 1990s, Loblaws developed an upscale concept labelled President’s Choice which was based on a better quality than leading brands and exclusive packaging. By 1994, 15 chains in 36 US states carried President´s Choice (Boyle, 2003).

Hence, there are good reasons for introducing PLs, but in general brands are still desired. There are brands so strong that leaving them out of the assortment will mean loss of consumers. The best example of this is from the German discount sector. In fact, manufacturer brands are currently a major engine of Lidl's growth. In 2004-2005, brands sales grew by 16%, versus 9% growth in Lidl´s PLs. Even mighty Aldi appears to be no longer immune to the lure of manufacturers brands as Lidl outpaces Aldi in some markets of its larger share of manufacturers brands (Kumar and Steenkamp, 2007).

As mentioned, since the 1970s there has been a general shift towards the upper left hand corner in model 2 towards the PL focused players. But these players have one major problem related to the continuous development of the assortment. Pre-dominantly the area is dominated by "copycat" products which are developed as followers to the branded items. The consumer engines are on the branded side. On one side this means that PL do not face the risks associated with new product introductions, because they only introduce such copycat brands once the manufacturer's new product has become a hit (Kumar and Steenkamp, 2007) but on the other side they also loose valuable time and money as new trends can be overlooked or at least first noticed when over. Also, the PL focused players will often have limited access to R&D facilities as opposed to the brand focused players.

The case - Rema1000

For reasons already mentioned, the Rema1000 case is extremely interesting in the PL area. Rema1000 is a player in an extremely competitive market – the discount retail segment. The chain is part of the Reitan Group which comprises other major retail players in Scandinavia such as 7-eleven, Narvesen in Norway, Pressbyrån in Sweden and Brdr. Løvbjerg in Denmark. In total, the turnover in 2007 of the Reitan Group was NKR 45 billion (Euro 5.1 billion). This study will only cover the Rema1000 story, and only in Denmark. The reason is that this is where the PL concept has been developed successfully as opposed to Norway (where the market is focused on branded items).

<u>How it all started and status 2009</u>

The Rema1000 adventure started in Norway in 1948 when Margit and Ole Reitan started a grocery store in Trondheim. Their son, Odd Reitan, started working in the store where he immediately found big interest in the retail trade. He saw big opportunities in achieving scale through a chain of stores. He started his first grocery store in 1972 in Trondheim and the following years he opened another five stores. During a visit to Germany in 1977 he experienced the Aldi discount chain and the philosophy behind the concept. He was impressed with this new innovative concept of discount thinking. His Norwegian version became REMA which is a combination of "Reitan" and "Mat" (food in Norwegian). The initial focus was an assortment of 500 to 600 SKUs (Stock Keeping

Units). But for competitive reasons and not least to live up to the needs of the shoppers, he decided to expand the assortment. In 1980, the number of SKUs reached 1000, and the name of the retailer was changed to Rema1000. Since then, the number has been increased considerably and has now passed 2500 SKUs. In 1994, the first Rema1000 store opened in Denmark and today the number of stores has increased to 170 stores. The ambition is to create bigger scale through a chain of 300 stores.

The discounter market in Denmark is very competitive and Rema1000 is fighting big international retailers such as Aldi and Lidl which makes the success of Rema1000 even more impressive. In Denmark, the discount market includes the following (major) players:

Table 4: Market Overview of Danish Discounters

Fascias	Owner	# of stores (2009 / 2006)	Turnover per store 2007	Estimated market share	Trend
Netto	Dansk Supermarked A/S	401 / 378	41.054	43.5%	⇑
Fakta	Coop	361 / 345	24.514	23.4%	⇑
Aldi	Aldi Nord	242 / 245	18.405	11.8%	⇔
Kiwi (old Alta)	Supergros	51 / 56	23.135	3.1%	⇓
Lidl	Lidl & Schwarz	52 / 41	31.692	4.4%	⇑
Rema1000	Reitan Group	170 / 152	30.799	13.8%	⇑

Source: Various Homepages, Company Annual Reports and Retail+, Retail Institute (2008)

<u>The concept year 2009</u>

The foundation of the Rema1000 concept is a balance between centralized scale advantages and dedicated and local implementation on store level.

A chain of 170 stores gives certain advantages in scale. These are focused on central purchasing (selection of assortment and conditions), logistics and profiling/marketing. The central functions are centralized from the Danish headoffice in Horsens.

The local dedication is secured through the special set-up which Rema1000 is founded on – all stores are franchised. This means that the person running the store is also the owner. Hereby he/she is personally involved and committed to the success of the store and the satisfaction of the shoppers in terms of important factors such as pricing, assortment, cleaning and service level.

The slogan of Rema1000 Denmark is “much more discount” (meget mere discount). Additionally, the assortment has been focused around the ability to offer a wide assortment with focus on meat, fish and fruit/vegetables. Hereby, consumers do not have to shop around (Børsen, 2009).

Main areas to cover in interviews:

- What is the brand / PL relation today and how has the development been ?
- Why did Rema1000 expand into PL away from the focused brand platform ? (financial reasons, need for price driven assortment, loyalty/image building, alternative to brands/increased negotiation power, cover special segments, export).
- How is the competition in the Danish discount sector seen, in particular how is the competition with the focused PL players Aldi and Lidl ?
- What types of PLs do Rema1000 carry and focus on ? How is the platform secured ?
- What is the experience with suppliers of brands and PL, respectively ?
- What are the criteria for selection of PL suppliers ?
- How did Rema1000 adapt to the increase in PL share, strategically and organizationally ?
- How is a typical PL development program from start to launch ? Who are involved and when ?
- How is the co-operation / interface with suppliers ? What information is shared ?
- What is the best PL case in Rema1000 ?

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UNDERSTANDING RETAIL BRANDING: CONCEPTUAL INSIGHTS AND RESEARCH PRIORITIES

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Understanding Retail Branding: Conceptual Insights and Research Priorities

With the growing realization that brands are one of a firm's most valuable intangible assets, branding has emerged as a top management priority in the last decade. Given its highly competitive nature, branding can be especially important in the retailing industry to influence customer perceptions and drive store choice and loyalty. We integrate lessons from branding and retail image research to provide a better understanding of how retailers create their brand images, paying special attention to the role of the manufacturer and private label brand assortment. We also highlight some important areas that deserve further research in the form of three sets of research priorities.

RETAILERS AS BRANDS

The last decade has seen major flux in retailing, especially in the U.S. grocery and general merchandise industry. On one hand, the growth of promotions and private labels has been seen by many as an indicator of growing retailer power. On the other hand, the growth of discounters and warehouse clubs has put immense pressure on traditional retailers and significantly increased retail competition both within and between retail formats. Since a large portion of most retailers' revenue and profit comes from selling manufacturer brands, which many of their competitors also offer, building their own equity is a particularly challenging problem, but one with big potential rewards. Such equity insulates them from competing retailers, which has the direct impact of increasing revenue and profitability, and the indirect impact of decreasing costs as their leverage with brand manufacturers also increases.

Although many important branding principles apply, retailer brands are sufficiently different from product brands that the actual application of those branding principles can vary. Retailer brands are typically more multi-sensory in nature than product brands and can rely on rich consumer experiences to impact their equity. Retailers also create their brand images in different ways, e.g., by attaching unique associations to the quality of their service, their product assortment and merchandising, pricing and credit policy, etc.

In most consumer industries, the image and equity of retailer brands also depends on the manufacturer brands they carry and the equity of those brands. Retailers use manufacturer brands to generate consumer interest, patronage, and loyalty in a store. Manufacturer brands operate almost as "ingredient brands" that wield significant consumer pull, often more than the retailer brand does. To the extent "you are what you sell," manufacturer brands help to create an image and establish a positioning for the store.

At the same time, retailers compete with manufacturers for consumer pull to increase their relative market power and their share of the total channel profit pie (Steiner 1993). In doing so, they may sell some of their own brands. In fact, in industries like apparel, one can find several examples of retailers who carry only their own private label products, e.g., GAP, Brooks Brothers, and Talbots. Private label products may have their own unique brand names or be branded under the name of the retailer. They allow the retailer to differentiate its offerings from competing retailers, although often without the support afforded manufacturers brands.

Understanding how a retailer should be positioned and how the brand assortment sold by the retailer is related to its image are thus of critical importance. Some retailers have managed their brands more effectively than others, as is evident in their performance. For instance, although overall U.S. retail profitability did not improve during the eighties and nineties, some retailers have fared exceedingly well (Ailawadi, Borin, and Farris 1995).

The purpose of this article is to (1) integrate the lessons from branding and retail image research to provide a better understanding of how retailers create their brand images; (2) review what we know about how the types of brands that retailers sell – manufacturer brands and private labels – influence and are influenced by the retailers' brand image; and (3) highlight some important areas that deserve further research in the form of three sets of research priorities.

THE DIMENSIONS OF RETAILER IMAGE

Following the American Marketing Association's definition of a brand, a retail brand identifies the goods and services of a retailer and differentiates them from those of competitors. A retailer's brand equity is exhibited in consumers responding more favorably to its marketing actions than they do to competing retailers (Keller 2003). The image of the retailer in the minds of consumers is the basis of this brand equity.

Researchers have studied a multitude of retailer attributes that influence overall image, e.g., the variety and quality of products, services, and brands sold; the physical store appearance; the appearance, behavior and service quality of employees; the price levels, depth and frequency of promotions; and so on. Lindquist (1974) and Mazursky and Jacoby (1986) categorized these attributes into a smaller set of location, merchandise, service, and store atmosphere related dimensions. To organize our review of the key lessons from retailer image research, we adopt this categorization, but modify it slightly to better reflect the increasing emphasis that pricing and the breadth and depth of merchandise assortment have received in more recent research. The five dimensions we use to review past research are: 1) access, 2) in-store atmosphere, and 3) price & promotion, 4) cross-category product/service assortment, and 5) within-category brand/item assortment.

Access

The location of a store and the distance that the consumer must travel to shop there are basic criteria in their store choice decisions. Beginning with gravity models (e.g., Huff 1964) store choice and the optimization of retail site location attracted a lot of research attention in the eighties (e.g., Achabal, Gorr, and Mahajan 1982; Ghosh and Craig 1983; Donthu and Rust 1989). Today, suburban sprawl, greater driving distances, the appearance of new warehouse retail formats that are often located in large spaces away from residential areas, and online retailing have made location somewhat less central as a store choice criterion.

Consistent with this trend, Bell, Ho, and Tang (1998) find that location no longer explains most of the variance in store choice decisions. Rather, store choice decisions seem to be consistent with a model where consumers' optimize their total shopping costs, effort to access the store location being one component of their fixed cost of shopping. That is not to say, however, that location is unimportant. Consumers' store choice may be based on different criteria depending upon the nature of the trip. For instance, small basket, fill-in trips are very unlikely to be made to distant or inconvenient locations. And, retailers in some formats, like convenience, drug, or supermarket have less flexibility in their location decision than mass merchandisers or warehouse clubs.

In summary, although location no longer explains a major portion of the variance in consumers' choice of stores, it is a key component in consumer's assessment of total shopping costs and is still important for retailers who wish to get a substantial share of wallet from fill-in trips and small basket shoppers.

Store Atmosphere

Mehrabian and Russell (1974) note that the response that atmosphere elicits from consumers varies along three main dimensions of pleasantness, arousal, and dominance. This response, in turn, influences behavior, with greater likelihood of purchase in more pleasant settings and in settings of intermediate arousal level. Different elements of a retailer's in-store environment, e.g., color, music, and crowding, can influence consumers' perceptions of a store's atmosphere, whether or not they visit a store, how much time they spend in it, and how much money they spend there (Bellizzi, Crowley, and Henderson 1983; Milliman 1982; Eroglu and Machleit 1990; Grewal et al. 2003). Baker et al. (2002) provide a good review of this research and categorize the elements of in-store atmosphere into physical features like design, lighting, and layout, ambient features like music and smell, and social features like type of clientele, employee availability and friendliness. They note that atmosphere can affect consumers' perceptions of the economic and psychological costs of shopping in a store and find that pleasing physical design lowers both economic and psychological costs while music lowers the latter.

Store atmosphere mediates consumer perceptions of other dimensions of store image. For instance, Baker et al. (2002) find that store environment factors, particularly physical design perceptions, significantly affect consumers' perceptions of merchandise price, merchandise quality, and employee service quality. Schlosser (1998) argues that, since store atmosphere has a social identity appeal, a pleasing atmosphere in the store should influence perceptions of socially communicative products in the store, not so much intrinsically rewarding products. This logic can be extended to argue that store atmosphere would have a greater impact on perceptions of products with higher perceived (social) risk. Indeed, Richardson, Jain, and Dick (1996) do find that consumers' ratings of the private label's quality are higher when the store is aesthetically pleasing than when it is less attractive, although there is no significant difference in their ratings of national brands' quality.

In summary, a pleasing in-store atmosphere provides substantial hedonic utility to consumers and encourages them to visit more often, stay longer, and buy more. Although it also improves consumers' perceptions of the quality of merchandise in the store, consumers tend to associate it with higher prices. From a branding perspective, an appealing in-store atmosphere offers much potential in terms of crafting a unique store image and establishing differentiation. Increasingly, brands are being positioned on the basis of their intangibles and attributes and benefits that transcend product or service performance. Even if the products and brands stocked by a retailer are similar to others, the ability to create a strong in-store personality and rich experiences can play a crucial role in building retailer brand equity.

Price and Promotion

No matter how the characteristics of the consumer, product, store, or purchase situation might differ, price represents the monetary expenditure that the consumer must incur in order to make a purchase. From the vast literature on pricing, we highlight three areas that are of direct relevance to consumers' image and choice of retailers.

Store price perceptions. A retailer's price image should be influenced by attributes like average level of prices, how much variation there is in prices over time, the frequency and depth of promotions, and whether the retailer positions itself as EDLP or HILO. Decades ago, however, Brown (1969) highlighted the difference between consumers' perceptions of price levels in various stores and reality, showing that consumers may use non-price related cues like service offerings and quality levels to form their price perceptions. That consumers may not form valid perceptions of actual prices in a store is supported by Dickson and Sawyer's (1990) widely cited work, but consumers do develop some general price perceptions of products in a store, and can evaluate their expensiveness in relative terms (Monroe and Lee 1999).

Desai and Talukdar (2003) develop a product-price saliency framework to examine how consumers form an overall store price image (OSPI). They show that products with high unit prices and high purchase frequency are more salient and therefore contribute more to OSPI, with purchase frequency dominating unit price in importance. Alba et al. (1994) examine how consumers' perceptions of store prices change with prior beliefs and information about how frequently a store has a price advantage on a set of products and the magnitude of that price advantage. They find that, although prior beliefs affect price perceptions, frequency of price advantage dominates both prior beliefs and magnitude of price advantage in influencing consumers' perceptions of store price level.

Retailer pricing format. A retailer's price format, which is on a continuum between EDLP (Every Day Low Price) and HILO (High-Low Promotional Pricing), also influences consumers' store choice and shopping behavior. Bell and Lattin (1998) show that "large basket shoppers" prefer EDLP stores whereas "small basket shoppers" prefer HILO stores. The intuition behind the finding is straight-forward. Large basket shoppers are captive to the pricing across a large set of product categories at a time and do not have the flexibility to take advantage of occasional price deals on individual products. They therefore prefer EDLP because it gives them a lower expected price for their shopping basket. Small basket shoppers, on the other hand, can take advantage of variations in prices of individual products and, by buying on deal, can lower their basket price even if average prices in the store are high.

Ho, Tang, and Bell (1998) also explain why both EDLP and HILO co-exist in the market. They show that average prices are higher in HILO stores and average purchase quantities are lower. HILO pricing is more effective in enticing shoppers to make more frequent store visits, but, since shoppers have the flexibility to buy more on trips when prices are lower, the HILO store's revenue per unit time is lower. In contrast, EDLP decreases shopping frequency but generates higher revenue per unit time. Thus, neither format is dominant.

***Price promotion induced store switching*.** The third research area studies whether retailer price promotions result in store switching by consumers. Kumar and Leone (1988) and Walters (1991) find a significant impact of promotions on store switching/traffic. However, it is unlikely that consumers would keep track of weekly promotions on a multitude of categories in all the stores in their neighborhood. Bucklin and Lattin (1992) show that retail promotions in any one category do not directly influence a consumer's store choice decision, but they indirectly affect where the category is purchased. Consumers typically shop in more than one store. They may purchase a promoted product in the store they happen to be visiting whereas they would otherwise have purchased it in another store. This also reiterates the important moderating effect of in-store atmosphere. The impact of promotions will be higher in a pleasant atmosphere because the longer consumers stay in a store, the more likely they are to notice promotions and buy more than planned during the shopping trip.

In summary, consumers are more likely to develop a favorable price image when retailers offer frequent discounts on a large number of products than when they offer less frequent, but steeper discounts. Further, products that have high unit price and are purchased more frequently are more salient in determining the retailer's price image. One pricing format does not dominate another, but large basket shoppers prefer EDLP stores while small basket shoppers prefer HILO, and it is optimal for HILO stores to charge an average price that is higher than the EDLP. Finally, price promotions are associated with store switching but the effect is indirect, altering consumers' category purchase decisions while they are in the store rather than altering their choice of which store to visit.

These findings are crucial for retailers who are trying to build their retail brand. They highlight the levers that retailers can use to influence their price image and the impact of their price promotions, and they show that retailers have considerable flexibility in following different pricing strategies and avoiding head-to-head price competition with other retailers even though they may carry many of the very same manufacturer brands that competing retailers carry.

Cross-Category Assortment

Consumers' perception of the breadth of different products and services offered by a retailer under one roof significantly influence store image. The benefits of a wide assortment are clear. First, the greater the breadth of product assortment, the greater the range of different situations in which the retailer is recalled and considered by the consumer, and therefore the stronger its salience. As noted by Keller (2003), salience is the most basic building block for a brand. Second, the one-stop shopping convenience that a broad product assortment enables is becoming more important than ever for today's time-constrained consumer (Messinger and Narasimhan 1997), putting pressure on retailers to broaden their assortment. Third, consumers regularly shop at more than one store, and, as noted earlier, they may purchase a category in the store that they are visiting based on in-store assortment and marketing mix activities whereas they would otherwise have purchased it in another store. Together with the fact that unplanned purchases comprise a significant portion of consumers' total shopping basket, this gives an advantage to retailers with broader assortments.

The branding literature, however, suggests some potential pitfalls of broad assortments, apart from the rather obvious downside that increasing assortment breadth brings with it significantly higher costs for the retailer. Inman, Shankar, and Ferraro (2004) show that certain types of product categories have "signature" associations with specific channels, e.g., supermarkets with food, drug channel with medications and health products, and mass merchandisers with household items. But, research has shown that a brand that is seen as prototypical of a product category can be difficult to extend outside the category (Farquhar and Herr 1993). Therefore, if a retailer has strong signature associations with certain categories, consumers may find it difficult to think of the retailer in connection with other, very different categories. Brand extension research also shows that a large number of associations could produce interference effects and lower memory performance (Meyers-Levy 1989).

The good news, however, is that if the retailer attempts to sell a new line of products or offer a new service that fails to connect with consumers, there may be little long-term harm as long as the new line is not too closely connected to the retailer's signature categories or its own brand name. Research on brand equity dilution has found that parent brands generally are not particularly vulnerable to failed brand extensions: An unsuccessful brand extension potentially damages a parent brand only when there is a high degree of similarity or "fit" involved (Ahluwalia and Gurhan-Cali 2000; Gurhan-Canli and Maheswaran 1998; Keller and Aaker 1992). Of course, the retailer's image and reputation would be more vulnerable if the expanded product assortment is a private label branded under the store's own name.

Another finding from brand extension research is also relevant to retailers' assortment decisions. Keller and Aaker (1992) showed that by taking "little steps," i.e., by introducing a series of closely related but increasingly distant extensions, it is possible for a brand to ultimately enter product categories that would have been much more difficult, or perhaps even impossible, to have entered directly (Dawar and Anderson 1994; Jap 1993; Meyvis and Janiszewski 2004). Successfully introduced brand extensions can lead to enhanced perceptions of corporate credibility and improved evaluations of even more dissimilar brand extensions that are introduced later. In other words, retailers are most likely to be successful if they expand their meaning and assortment in gradual stages, as for example Amazon, or even Walmart, did.

In summary, a broad assortment can create customer value by offering convenience and ease of shopping. It is risky to extend too far too soon, but, staying too tightly coupled to the current assortment and image may unnecessarily limit the retailer's range of experimentation (Danneels 2003). The logic and sequencing of a retailer's assortment policy are critical to its ability to successfully expand its meaning and appeal to consumers over time

Within-Category Assortment

Consumers' perceptions of the depth of a retailer's assortment within a product category are an important dimension of store image and a key driver of store choice. As the perceived assortment of brands, flavors, and sizes increases, variety seeking consumers will perceive greater utility (McAlister and Pessemier 1982; Kahn and Wansink 2004), consumers with uncertain future preferences will believe they have more flexibility in their choices (Kahn and Lehmann 1991), and, in general, it is more likely that consumers will find the item they desire.

More offerings in a category, however, can be costly both for the retailer and the consumer. From the viewpoint of the retailer, cutting out 20% of the most inefficient items from its assortment can mean savings of several million dollars per year for a large chain. From the viewpoint of the consumer, researchers like Greenleaf and Lehmann (1995), Tversky and Shafir (1992) and Iyengar and Lepper (2000) argue that increasing the choice set leads to cognitive overload and uncertainty and can actually decrease the likelihood of purchase. In recent years, therefore, researchers have focused on how consumers perceive an assortment and whether and how actual assortment can be reduced without adversely affecting consumer perceptions.

Kahn and Lehmann (1991), Hoch, Bradlow, and Wansink (1999), and Boatwright and Nunes (2001) highlight, for example, the importance of uniqueness or differences in attribute levels among items, with greater uniqueness being associated with greater perceived variety in assortment. Kahn and Wansink (2004) show that the organization and symmetry of an assortment moderate the impact of actual assortment variety on perceived variety and consumption, with organized and asymmetric assortments having a more positive effect.

Broniarczyk, Hoyer, and McAlister (1998) find that SKU reduction does not lower consumers' perceptions of assortment much unless their favorite item is dropped or the total amount of space devoted to the category is reduced. Further, a moderate decrease in number of SKUs can actually increase consumers' perceptions of assortment as long as their favorite item and total category space are maintained. Dreze, Hoch, and Purk (1994) and Boatwright and Nunes (2001), do find that aggregate sales actually increase when less popular SKUs are deleted.

In summary, greater perceived assortment does influence store image, store choice, and satisfaction with the store, but a greater number of SKUs need not directly translate to better perceptions. Retailers can reduce the number of SKUs substantially without adversely affecting consumer perceptions, as long as they pay attention to the most preferred brands, the organization of the assortment and the availability of diverse product attributes.

BRAND ASSORTMENT

One specific aspect of the retailer's assortment strategy, brand assortment, has become particularly important in the last decade as a tool for retailers to influence their image and develop their own brand name. Most retailers carry manufacturer brands, but, increasingly, they also offer private label products. One motivation for offering private labels is the higher percent margins that they provide to retailers (Hoch and Banerji 1993); another is the negotiating leverage they provide over manufacturers (Narasimhan and Wilcox 1998); and a third is the implicit assumption that providing a private label brand engenders loyalty to the retailer (Steenkamp and Dekimpe 1997).

The growth in private labels has spawned much research on who buys private label products, whether and how private labels provide leverage to retailers, and the category and market determinants of private label share. We review the main findings from this research and summarize the implications for retail branding. We also review the rather small body of research that throws light on whether and how the manufacturer brands carried by a retailer influence consumers' evaluation of private label products.

Private Labels

Although the growth of private labels has been interpreted by some as a sign of the "decline of brands," it could easily be argued that the opposite conclusion is more valid, as private label growth could be seen in some ways as a consequence of cleverly designed branding strategies.

One of the most fundamental questions that researchers have asked about private labels is "Who is the private label prone consumer?" Interestingly, despite a large body of research on this issue (e.g., Richardson, Jain, and Dick 1996; Ailawadi, Gedenk, and Neslin 2001), we have few empirical generalizations about the characteristics of the private label user. The best we can say is that s/he is price sensitive but not image sensitive, middle-income, and educated.

Another key question is "Do private labels give retailers negotiating leverage over national brand manufacturers?" Several analytical models have been developed in recent years that claim the answer to this question is "yes" (Mills 1995; Narasimhan and Wilcox 1998), and Ailawadi and Harlam's (2004) empirical analysis supports the hypothesis that retailers are able to earn high margins on national brands in categories where their private label has a high share.

A third question relates to the category characteristics that are conducive to private label success. Several researchers have noted that private label proneness is more category specific than consumer specific (e.g., Sethuraman 1992; Sethuraman and Cole 1997). Private labels gain higher share in large, less-promoted categories with a small number of brands, and when the price differential between national brands and private label is large (Hoch and Banerji 1993; Dhar and Hoch 1998; Sethuraman 1992). But, the most important driver of private label share is its perceived quality (Hoch and Banerji; Sethuraman 2000).

The fact that the perceived quality differential between private labels and national brands is so important clearly means that the better the private label position in terms of quality, the more likely it is to succeed. However, should the private label be positioned against the leading national brand? Sayman, Hoch, and Raju (2002) show analytically that it is profitable for the private label to position itself close to the leading national brand, particularly when the leading brand has a high share. Empirically, they find that, when private labels do target a particular national brand, they tend to target the leading brand. Interestingly, though, the large majority of private labels do not seem to target a particular national brand, perhaps because that positioning may not be credible.

Is private label use related to store loyalty? The answer has direct relevance to the ability of private labels to help build retailers' brands. Conventional wisdom certainly has it that store image and loyalty may improve as consumers become familiar with the private label and their shopping is facilitated by the ability to buy a single brand across a wide range of product categories (e.g., Steenkamp and Dekimpe 1997). Corstjens and Lal (2000) also show analytically that the ability to engender store loyalty can make private labels profitable for retailers even if they do not have a cost advantage. However, empirical evidence of the relationship between private label use and store loyalty is not only sparse but mixed.

Corstjens and Lal (2000) provide empirical evidence of a positive correlation using scanner data for one product category, and Ailawadi, Gedenk, and Neslin (2001) show a positive association using survey data. On the other hand, Ailawadi and Harlam (2004) find that heavy private label users buy significantly less from a retailer than do medium private label users. Further, none of these studies can attest to the direction of causality in the relationship. As a result, it is by no means clear that private labels increase consumer loyalty to a retailer's stores.

In summary, private label users span a wide array of demographic and psychographic characteristics, so retailers who use a strong private label strategy are not limiting themselves to only a narrow section of the market. The negotiating leverage provided by a successful private label can make it easier for a retailer to strengthen some of the other levers of brand image, e.g., more attractive prices and promotions for the best national brands. There is significant variation in private label share across categories, and the quality differential with national brands is a much more important driver of share than the price differential. But, it is not clear whether private labels really improve store loyalty, and though analytical research suggests that positioning next to the leading brand is a smart strategy for maximizing category profit, it is not clear whether such positioning is credible in the minds of consumers.

The Impact of Manufacturer Brands on Private Label Success

Since consumers' representations of private labels, which are not advertised much and vary from one retailer to another, may not be as well elaborated as their representations of well known manufacturer brands, extrinsic cues are more likely to affect perceptions of private labels. The manufacturer brands carried by the retailer can serve as one important extrinsic cue.

The quality of manufacturer brands positively influences consumers' image of the retailer. In turn, strong retailer image spills over to improve ratings of private label products. Jacoby and Mazursky (1984) find that carrying strong brands can improve the image of a retailer although strong retailer image cannot improve the image of a weak brand. And, Richardson, Jain, and Dick (1996) find that consumers' ratings of private labels are higher when store image is favorable although their ratings of manufacturer brands are not affected by store image. Simmons, Bickart and Buchanan's (2000) analysis of whether the presence of high equity brands increases the economic value of less established brands also suggests that stocking high quality manufacturer brands can help retailers improve the performance of their private label products.

However, the influence of manufacturer brands on private label evaluation and choice may vary depending upon the assortment of price-quality tiers and display structure in the store. Simonson and Tversky (1992) show that adding an even higher quality option to an existing assortment leads consumers to prefer a higher-quality, higher-price option, with the cheapest option losing the most. On the other hand, adding a lower quality option does not shift choices to lower quality levels. This reiterates the importance of quality in private label success and shows that the strategy of stocking an even lower quality manufacturer brand to make a low quality private label look more appealing will not be effective.

Simonson and Tversky (1992) also show that consumers choose middle or compromise alternatives in some cases but not in others. Simonson (1999) proposes that compromises are chosen when the dimensions on which choices vary have diminishing marginal values whereas non-compromise options are chosen when marginal values are increasing. Given that most private labels in U.S. packaged goods are not positioned at the extremes, this may explain why they perform better in utilitarian versus hedonic categories.

Nowlis and Simonson (1997) show that low price, low equity brands are more likely to be chosen when they are displayed alongside competing options while high price, high equity brands are more likely to be chosen when they are displayed separately. In seeming contradiction, Simmons, Bickart, and Buchanan (2000) find that, when unfamiliar brands share the retail portfolio with well known brands, the former do better in separate displays than in mixed displays. A key difference between the studies is that, in the latter, the unfamiliar brand is described to be identical to the high equity brand, generally even in price, whereas Nowlis and Simonson's low tier brands are low equity and low price. Thus, mixed displays may help the private label when it has a lower price and superior features compared to the higher equity manufacturer brands, because comparisons are easier. Otherwise, separate displays may be better because they reduce consumers' ability to use informational cues from manufacturer brands.

In summary, stocking high quality manufacturer brands improves the valuation of a retailer's private label by improving consumer perceptions of the retailer's overall image. However, the assortment of price quality tiers that the retailer carries and displays along with the private label can influence private label choice. Positioning the private label as a compromise between high and low tier manufacturer brands may increase its share in some categories but not in others. And, whether a mixed or separate display is better for private labels may depend upon whether it has superior price and product features.

FUTURE RESEARCH PRIORITIES

The above review highlights several insights that past research has provided into some relevant retailer branding considerations. Yet, much work clearly still needs to be done. In this concluding section, we review three areas that deserve greater research attention.

Development and Application of Traditional Branding Theory

There are a number of branding principles and concepts that could be productively applied to retailer brands. Here we highlight three important ones.

Brand personality. Much of the theory and practice of branding deals with intangibles – how marketers can transcend their physical products or service specifications to create more value. One important brand intangible is brand personality – the human characteristics or traits that can be attributed to a brand. One widely accepted brand personality scale is composed of five factors (Aaker 1996): 1) Sincerity (e.g., down-to-earth, honest, wholesome, and cheerful), 2) Excitement (e.g., daring, spirited, imaginative, and up-to-date), 3) Competence (e.g., reliable, intelligent, and successful), 4) Sophistication (e.g., upper class and charming), and 5) Ruggedness (e.g., outdoorsy and tough). But, how applicable are these brand personality dimensions to retail brands? Do other dimensions emerge? Which retailer attributes affect which dimensions of retailer brand personality and how does this vary across market segments?

Experiential marketing. An important trend in marketing is experiential marketing – company-sponsored activities and programs designed to create daily or special brand-related interactions. Schmitt (1999, 2003) has developed the concept of *Customer Experience Management (CEM)* – which he defines as the process of strategically managing a customer's entire experience with a product or company.

Retailers are obviously in an ideal position to create experiences for their customers. These experiences may involve their own private labels, manufacturer brands, or not be tied to a specific product but the store as a whole. A host of questions are raised by such strategies. What kinds of feelings can be engendered by a retailer's event? How can that become linked to the retailer's brand? How do retailers develop their communication strategies as a whole? Can retailers use the Web to provide further event support and additional experiences?

A related issue is how retailers can engage in activities, perhaps in collaboration with national manufacturers, to encourage product use and communicate or demonstrate product information to build brand awareness and enhance brand image for the individual products or services that are sold. How can in-store merchandising, signage, displays, and other activities leverage the equity of the brands that the retailer sells while still building its own equity?

Brand architecture. Brand architecture involves defining both *brand boundaries* and *brand relationships*. The role of brand architecture is two-fold: 1) to clarify all product and service offerings and improve brand awareness with consumers and 2) to motivate consumer purchase by enhancing the brand image of products and services. In general, there are three key brand architecture tasks:

1. *Defining brand potential*. What can the brand stand for? What should the brand promise be? How should the brand be competitively positioned?
2. *Identifying opportunities to achieve brand potential*. What *products or services* are necessary to achieve the brand potential? What *markets* should be tapped to achieve growth?
3. *Organizing brand offerings*. How should products and services be branded so that they achieve their maximum sales and equity potential?

These tasks suggest a number of research questions. In a retailing context, brand architecture issues revolve around how many and what kind of products and services are provided by the retailer (i.e., cross- and within-category assortment) and how the various products and services are branded. An obvious question is how the retailer chooses to develop private label offerings, if at all, as described in the next section. But, several other issues need to be considered, as follows.

For example, at the store level, how can a retail brand be optimally positioned with respect to competitors? How should competition best be identified and addressed? How should the brand essence or core meaning of a retail brand be defined? How flexible are the mental categories consumers form for retail brands? Within the store, other brand architecture issues also exist. Should the retailer develop brands for different sections of the store or groups of branded products or services? How can the retailer add value to already-branded products and services? Does creating sub-brands under the retailer brand name help increase awareness or enhance the image of the brands that are being sold? Retailers need to carefully design and implement a brand architecture strategy to maximize retailer brand equity and sales.

Role of Private Labels in Building Retailer Brand Equity

Although researchers have discussed optimal private label introduction, quality, pricing, and positioning strategies from the perspective of private label sales or category profit maximization, there is little work, either normative or descriptive, that links these strategic decisions to building the retailer's brand equity. We discuss below some issues that are particularly important from the perspective of retail branding.

Category determinants of private label success. What are the category and market factors that determine how effective private labels will be in building the retail brand? Should retailers in different formats emphasize private labels in different categories? Inman, Shankar, and Ferraro (2004) show that consumers associate different product categories with different retail formats. Bell, Ho, and Tang (1998) also argue that consumers build both category-independent and category-specific store loyalty. Would it be more effective for retailers to develop private labels in categories that consumers already associate them with or in categories that are not traditionally associated with them?

Private label tiers and retailer brand positioning. There are at least four tiers of private label products, ranging from low quality, no-name generics to cheap, medium quality own labels to somewhat less expensive, comparable quality private labels, to premium quality, high value added private labels that are not priced lower than national brands (Laaksonen and Reynolds 1994). In Europe, especially in the U.K., one can find many examples of the last two tiers, most notably Marks and Spencer's or Tesco's private labels. In North America, brands such as GAP, Tiffany, Brooks Brothers, and Talbots have established strong, premium private labels, but Loblaw's Presidents Choice may be the only really successful example of a premium private label in packaged goods.

However, more retailers are attempting to create a line of private labels that spans these tiers. For instance, the supermarket retailer Kroger offers a line of three private labels – the premium quality "Private Selection", the Kroger Brand that is guaranteed to be better than or equal to national brands, and the most economical FMV brand (For Maximum Value). Clearly, this private label portfolio strategy allows the retailer to cover a range of price-quality tiers but, how effective is it in building the retail brand? Is the retailer's ability to position his or her retail brand improved or restricted by the presence of a private label, and the tier(s) in which the private label is positioned? What types of retailers are most likely to benefit from private labels in terms of their retail brand equity?

Private label branding strategy. Many retailers give their own name to their private label, whereas others use different names for their private label products. For instance, CVS puts the "CVS" name on all its private label products while Kmart does not. Aldi, a German hard discounter who is becoming a major force in European retailing, also does not put its own name on any of the products it sells even though only private labels are sold in its stores.

Little research has examined the effectiveness of retailer's private label branding strategy. The one exception we are aware of is Dhar and Hoch (1998) who included the private label branding decision as one of the variables in their analysis of private label market share and found that putting the retailer's own name on the private label is positively associated with private label share. What are the factors that determine whether one strategy would be more or less effective than the other? On one hand, having the same name and perhaps even the same package design for products in a wide array of categories across the store, certainly strengthens awareness and recall of the retail brand, and may facilitate the consumer's decision making. On the other hand, will consumers find it credible that the retailer can provide a good value, strong product in so many different product categories? Would it be desirable for a retailer like Aldi to have its big box, discount image be transferred to the products it sells?

Consumer perceptions of a private label product branded under the store name are more likely to color their impressions of the store as whole – and vice versa – than if a different name were used to brand the product. Yet, the different inherent qualities of a retail store and its products suggest that the flow of meaning and equity may not always be strong. In other words, consumers may be able to mentally compartmentalize product offerings as distinct from retailing activities such that, even if they deemed a particular store brand product as unacceptable, they may be less inclined to downgrade their evaluations of the retailer as a whole. If the retailer chooses not to use the store name for private label products, the feedback effects, both positive and negative, would presumably be less strong,

Extending private labels. One of the major benefits of brand equity is the option it provides for extending the brand name to other market segments within the category or to other product categories. Although some retailers with premium private labels sell those private labels through other retail outlets (e.g., Starbucks), it is not yet common for North American packaged goods retailers to do so -- they do not yet seem to have that kind of equity.

In terms of building brand equity, the key point of difference to consumers for private labels has generally been "good value," a desirable and transferable association across many product categories. As a result, private labels can be extremely "broad," and their name can be applied across many different products. Research has shown that because of their intangible nature, more abstract associations may be seen as more relevant across a wide set of categories (Aaker and Keller 1990; Rangaswamy et al. 1993).

But all brands have boundaries. If a retailer extends its private label assortment too far beyond the categories that consumers associate with its channel type, will the benefits be so small as to outweigh the costs of that assortment breadth? Or will such an action be particularly effective in differentiating the retailer’s image from competitors in its own channel? Is a strategy of multiple private label brand names more effective from the point of view of extension than having a single private label under the store name?

Manufacturer response. Manufacturers have responded to the rise of private labels in a number of different ways: decreasing costs, cutting prices, increasing R & D expenditures, increasing promotions, introducing discount "fighter" brands, and supplying private label makers. Hoch (1996) and Dunne and Narasimhan (1999) discuss how manufacturers should think about private labels and what issues they should consider in deciding whether to supply private label products. Ailawadi, Gedenk, and Neslin (2001) show that although there is a segment of value conscious consumers who buy private labels and manufacturer brands when the latter are promoted, there are also two separate and sizeable segments that buy one but not the other. Offering deeper promotions to combat private labels may therefore not be the ideal response for manufacturers. However, more empirical analysis is needed to examine the effectiveness of different types of manufacturer response. Some manufacturers have their own outlets (e.g., Niketown, Polo) which compete with their retailers. What are the brand equity and consumer loyalty implications of manufacturer-controlled stores?

Measuring Retailer Brand Equity

The measurement of brand equity has been one of the most challenging and important issues for both academics and managers. A common conceptual definition of brand equity and a clear distinction between the consumer-based sources of brand equity and the product-market outcomes of brand equity have been very useful in efforts to develop measures of brand equity (e.g., Keller and Lehmann 2002; Ailawadi, Lehmann, and Neslin 2003), but a single measure that offers rich insights and diagnosticity and yet is easy to compute and track still evades us.

As if the measurement of brand equity were not hard enough, the measurement of retail brand equity adds its own unique challenges. Brand equity is defined as the marketing effects or outcomes that accrue to the product or service with its brand name as compared to the outcomes if that same product or service did not have the brand name (Keller 1993). Since it is difficult to determine what outcomes would accrue in the hypothetical "no brand name" situation, researchers often use private labels as the "no brand name" benchmark (Park and Srinivasan 1994; Sethuraman 2000; Ailawadi, Lehmann, and Neslin 2003). What should be the benchmark for assessing a retailer's equity and comparing it with other retailers?

One possibility is the approach developed by Dubin (1998) who uses oligopoly economic theory and a series of simplifying assumptions to derive an analytic expression for the incremental profit that a product would get with its brand name versus if it did not have the brand name. However, although Dubin does not treat the private label directly as a benchmark, it does play a role in his analysis – his expression for brand equity is a function of, among other things, the price elasticities of branded and private label products.

Another possibility might be to use a cross-retailer hedonic regression type of approach.[1] For instance, one could regress retailer revenue or profit on various physical attributes such as location, square footage, store timings, product/service assortment, availability of private label, etc. A retailer's residual from this regression, i.e., the portion of its revenue or profit that cannot be explained by physical attributes, can be conceptualized as a measure of its retail brand equity.

A second complication in the measurement of retailer brand equity is that brand equity is supposed to enable the brand to charge a price premium. In fact, many researchers view this price premium as a measure of brand equity (Aaker 1991, 1996; Sethuraman 2000; Sethuraman and Cole 1997). However, several of the strongest retailers today, e.g. Walmart, Target, Aldi,

[1] We thank Don Lehmann for this suggestion.

are built squarely on a low price positioning. Clearly, the fact that these retailers charge lower prices than their competitors does not mean they do not have equity. Perhaps one way to conceptualize retail brand equity is to think in terms of the "resources premium" that consumers are willing to expend in order to shop with the retailer. Resources may reflect financial considerations but also other factors such as distance traveled, brand or size preferences compromised, or services foregone.

CONCLUSION

Our contention is that branding and brand management principles can and should be applied to retail brands. Even though there has not been much academic research on retail branding per se, a lot of work has been done on retailer actions and consumer perceptions of retailer image that has direct relevance to branding. We reviewed academic research on five main dimensions of store image – access, in-store atmosphere, price and promotion, cross-category assortment, and within-category assortment – and integrated the major findings with lessons from branding research.

Consumer perceptions of these dimensions of retailer image can help develop strong and unique retail brand associations in the minds of consumers. They also influence the utilitarian and hedonic benefits that consumers feel they gain from retailer patronage and ultimately the price premium consumers will pay, the extra effort they will be willing to expend in order to shop the retailer, and the share of trips, share of requirement, and loyalty that the retailer enjoys. By influencing consumer preferences and shopping behavior in these ways, retailers' image becomes an important base for their retail brand equity. The relative importance of different image dimensions and of utilitarian versus hedonic utility vary for different retail formats, different consumer segments, and even for different purchase occasions for the same consumer, thus providing ample opportunity for retail brands to differentiate themselves from one another.

Perhaps because of the lack of explicit focus, however, a number of important retail branding questions and issues are yet to be resolved. We have offered suggestions in three main areas – applications of traditional branding principles, the role of private labels in building retailer brand equity, and the measurement of retailer brand equity. We hope our discussion will stimulate progress in these and other areas of retail branding.

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From the Research Desk

MVI Mid-Year Forum Preview: Retail Brand Architecture and Its Impact on CPG Brands

At MVI, much of our efforts for the last 18 years have been aimed at helping you understand how different retailers grow — and how to align your business more closely and profitably with those growth retailers.

Today many of the simple rules that govern marketplace growth remain the same — we could call these the MVI foundational points:

- Retailers that are relentlessly focused on selling products to consumers continue to gain market share vs. retailers trapped in an economic model based on selling opportunity to suppliers. These are the retailers that are growing faster than the market.
- In order for your company to grow faster than the market, you must align with retailers that are growing faster than the market.
- Therefore, faster-than-market growth involves partnering with retailers that are relentlessly focused on their shoppers.

This leads to one very powerful conclusion: the retailers that are going to enable you to achieve your growth targets will earn the right to build brands.

Most of the research you will see at MVI's Mid-Year Forum 2006 (June 6-8, in Boston, MA) revolves around how retailers create brands and what brand-building retailers will require from manufacturers in the future. This topic may sound abstract, but when you look at the key retailers you care about, you can see that many of them are grappling with branding as an issue — and that grappling can/will have significant impact on your business (as a wise Japanese sportswriter once said, "If you're in the ring with a sumo wrestler, and they decide to grapple, it's going to have an impact on your day."):

- Wal-Mart and its move to "relevance" with a different brand positioning — and the increased importance of the marketing function.
- The role of supplier brands at Target as its confidence increases in its own offer.
- What Costco expects from branded manufacturers as it seeks to position itself as a purveyor of the best products in the marketplace — branded or not.
- How SAM'S Club is balancing itself between a B2B wholesale outlet and a destination for affordable luxuries.
- How Kroger is repositioning its value proposition as it learns more about its most profitable shoppers.
- What Walgreens is doing to improve its in-store merchandising experience to communicate a more thoughtful shopping experience.
- How CVS continues to refine its offer for its three target shoppers and what this means for store layout, promotional strategy, and brand selection.
- The balancing act Dollar General/Family Dollar continue to play between its core audience and a temptation to adopt a higher positioning to attract a broader range of value shoppers.
- The "what do I want to be when I grow up" series of retailers — donors undertaking a repositioning of their brand strategy:

The retailers that are going to enable you to achieve your growth targets will earn the right to build brands.

- Safeway;
- Sears; and
- "Albertsons" — both Cerberus and Supervalu.

- The continued rise of "Alternative Alternative Channels"— how Whole Foods, Trader Joe's, Ulta, Winco, and eventually Tesco will push us to redefine how retailers create brands.

Like many things, it is often easier to establish what retail branding is not — there are a number of misconceptions about this that distract suppliers from the real issues, challenges, and opportunities that branding retailers create. The MVI Shopper ROI Framework can help you think through some of the following issues (Figure 1):

- Retail branding is not a private label strategy: Private label for most retailers is as much an economic strategy as a brand builder, and it is our contention that retailers that simply put their name on products that look like the lead brand in the category are NOT using private label to build brand at all. This type of private label (which we will call brand equivalent private label) is probably the worst way imaginable for a retailer to develop a brand. There are three reasons for this:
  1. The strategy is not differentiated (functional parity of strategy): Every retailer thinks the act of putting ITS name on a product is what creates a point of difference — but if every retailer's private label strategy is precisely the same, how can this be a point of difference? In our Shopper ROI framework, if functional parity is 1 there can be no competitive advantage!
  2. The brand equity being used is the supplier's brand, not theirs (the "emotional" multiplier accrues to someone else's brand): This is a point that is so obvious I almost regret writing it, but in this case the cliché "imitation is the sincerest form of flattery" could not be more true. The retailer's brand in this case is highlighted as a provider of value (an equivalent functional return requiring a lower shopper investment), which is fine, but for most retailers a wholly incomplete strategy.
  3. Even if the shopper does emotionally connect to a private label product, the equity isn't consistent (the emotional connection is not consistent enough to aggregate to the retailer's brand): A shopper who buys Kroger (or any retailer's) brand-equivalent private label in soda and mouthwash may be emotionally invested in each of these two Kroger brands, but that emotional investment is probably not consistent enough for the retailer to leverage into sustainable competitive advantage, as it is rooted in two brands (Coke and Listerine) that have very different equities. Coke and Listerine can do a magnificent job of connecting to their consumer because they are focused on their particular relationship with the consumer — a retailer here cannot aggregate these meaningfully.

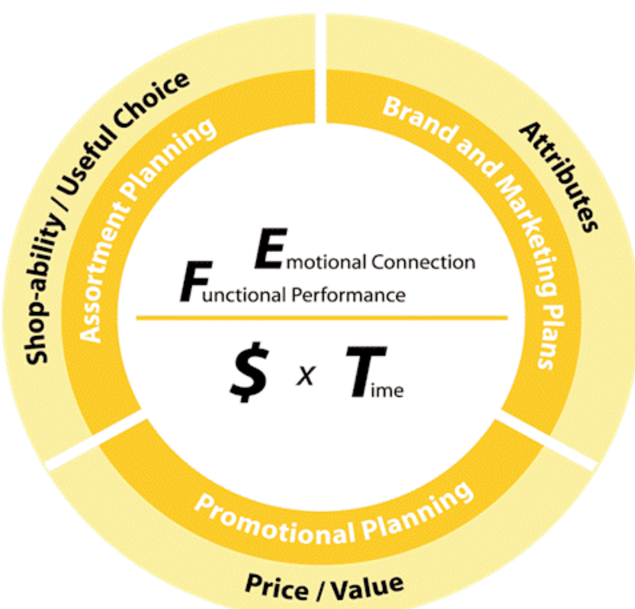

Figure 1: MVI Shopper ROI Framework

Source: MVI research

Do some retailers use private label as part of a broader brand development strategy? Of course they do, but too often the discussion about retailer branding stops here and it can't if manufacturers are to understand this changing retail world. MVI will seek to give you our best thinking on the state of private label development in the channels and retailers we follow so you are best prepared to go back to your organization and manage this ongoing debate.

- Retail branding is not an advertising strategy: Often, when asked to determine the strongest branded retailers, thoughts go to retailers like Target, which does a marvelous job of constructing marketing campaigns that capture shoppers' (and marketers') imaginations. However, there are many other retailers that build a strong connection without significant investment in sophisticated advertising (like Wegman's) or without investment in advertising at all (Costco and Trader Joe's come to mind). Advertising can be a part of successful retailer branding, but it is neither necessary nor sufficient.

- Retail branding is not a flagship store strategy: Although prototype or lab stores can be an interesting, fun, and sexy way for retailers to generate buzz or learn something, a retailer cannot change its brand fundamentally through a single store. It is important to understand these prototypes (like the Wal-Mart Plano store pictured in Figure 2) but a mistake to pin the retailer's total brand on a one-store pilot.
- Retail branding is not a monolithic strategy: There is more than one way to build a successful retail brand, and evaluations of successful retailers must be able to reflect a variety of these. Also, manufacturers will need more than one response to grow effectively with tomorrow's branded retailers — they will continue to build brand in different ways.
- Retail branding for suppliers is not simply a "store as a media outlet" strategy: Although many retailers (most notably, Wal-Mart) have been successful at getting suppliers to think about stores as a brand-building environment, the first wave of thinking on this has simply been to adapt conventional TV messaging to the media the store makes available. David Muir, CEO of WPP's The Channel (in a recent presentation entitled "Retail As Media - The State of Play in US and Europe") argued rationally that even if in-store TV is effective, it requires an entirely different creative brief and mindset than existing TV marketing in order to maximize its effectiveness.

With that, much of the excitement around this area may be as much an old mindset trying to cling to what has worked in the past as much as anything — if TV ads are what marketers know how to do well, we need to be careful that with that "hammer," any place where people congregate begins to look like a "nail" — i.e., a place where people are situated to passively receive broadcast communication. Organizations must be careful to not let conversation around an emerging technology distract from the broader issue — how do we build brands in a retail environment if retail brands are built differently than CPG brands?

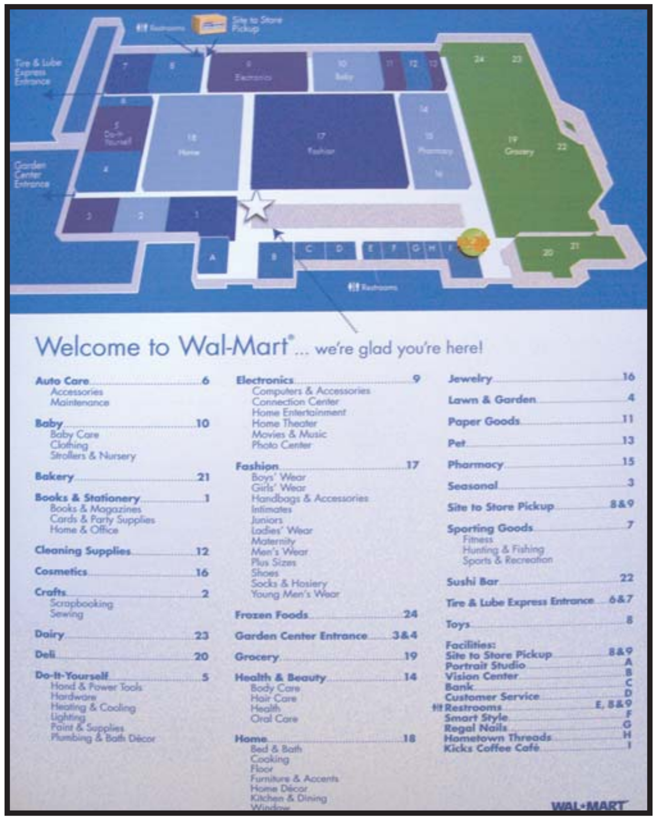

Figure 2: Wal-Mart Plano, Texas Prototype Source: MVI store visit

So, if we now know what retail branding is not — what is it? Retail branding is all about maximizing the shopper's ROI. This leads us to five conclusions that we will investigate on Day 1 of our Mid-Year Forum:

- Shoppers, like investors, manage a portfolio of formats to maximize Shopper ROI; therefore, no retail brand operates in isolation. Figure 3 highlights the results of Cannondale Associates' Industry Shopper Study — it shows that even with shoppers as time pressed as they are, 80% of American shoppers will shop five or more different retail outlets over a three-month period to meet their grocery and consumable needs. 26% use 10 or more outlets over that same time period! This suggests several important things:
  - The importance of shoppers "being able to get everything in one place" may be overblown…we may need a more sophis-

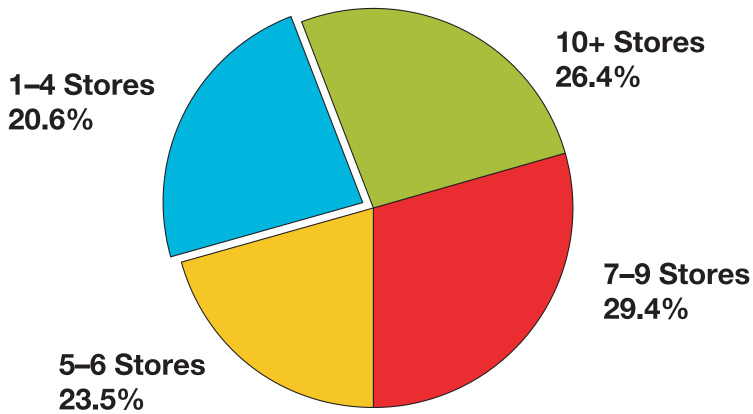

Figure 3: Industry Shopper Study

Source: Cannondale Associates

ticated way of thinking about retailers that sell a wide variety of products.
  - This may dramatically shift as shoppers begin re-adapting purchase behavior to gasoline prices (this survey was conducted in the fall of 2005) — most retailers are reporting declines in trip frequency but increases in market basket as gas prices change driving behavior.
  - Retailers have understood the negative impact of having certain retailers in their trading area for years; however, shopper portfolio theory would suggest there may be a positive benefit to certain retailers operating near each other as well.
- Retail branding is more about the retailer's store base than its advertising strategy, and inconsistency in the quality of the store base for a retailer is like sporadic quality of ad copy for a CPG company — fatal to brand messaging. Two things usually allow a retailer to build a consistent retail brand:
  - Real estate similarity: allows consistency of design. A key enabler to a retailer's brand development strategy can be a consistent store base. Complexity in layout and prototype (other things being equal) make managing a retail brand very challenging (SAM'S Club is a great example of a retailer that through the years has tried to develop a core message that is hard to manage given how different its store base is). Also, demographic similarity of that real estate can be important. Sears/Kmart continues to battle its legacy real estate portfolio as it seeks to create meaningful difference in-store - its stores are simply in too many different demographic areas to create a meaningful single story.
  - A commitment to maintaining store standards: allows consistency of execution. Imagine if in a CPG company every individual assistant brand manager were allowed to design their own company logo? This is what happens to retailers that are not organized to ensure consistency in store execution. Their brands become muddled, as shoppers do not know what to expect from one store to the next. Retailers like Target and Lowe's do a great job of measuring store manager performance against. standards and rewarding store managers who build a typical, excellent store.

We would expect the flip side to be struggling retailers (and this is true — see "Efficient Operations" below), but Wal-Mart and Home Depot are two retailers that have struggled mightily with this challenge, as they have a legacy of strong store manager empowerment. Home Depot has spent much of the last five years unwinding that part of its culture, causing tremendous organizational turmoil but getting to a point where its massive investments in media-based branding can be realized through consistent stores. This will be a major part of Wal-Mart's branding effort — to bring a higher and more consistent level of execution to its store base (Figure 4).

- Retail branding is as much about retail as it is about branding: To understand the most successful retailers' brands, there are three areas of a retailer's business that are most critical to understanding a retailer's ability to brand (Figure 5):
  - Efficient Operations: A retailer that cannot run the fundamentals of its business stands little chance of building a strong retail brand over time. This is partially through systems and technology to the store and partially through associate satisfaction in the store — Wal-Mart in particular has talked extensively about the correlation between associate satisfaction and customer satisfaction in recent months. In fact, much of its store opening strategy has been around reducing volumes/building to a point where the return on capital on a store might be lower, but the asso-

ciate satisfaction is higher (due to a less hectic work environment). This satisfaction translates into lower turnover and employee replacement costs, and also into higher customer satisfaction (Figure 5).
- Economic Returns: A retailer that cannot build a model that consistently generates cash flow and profits will struggle to keep its stores adequately staffed — stores forced to reduce staffing levels due to declining sales/profits usually find it hard to maintain base levels of service, and achieve any type of brand success.
- Fun to Shop: Most retailers that build strong brands build them on the back of a fun shopping experience — there is a need to connect to the shopper emotionally that draws heavily on the experience the shopper has in-store.

- Retail product brands become interesting when they stand on their own, not leverage a supplier brand to create a value perception. The development of retailer product brands is most interesting when these brands take one of two positions which are not simple Brand Equivalent Private Label:
  - Extreme value: Aldi's family of brands is the best example of this (Figure 6 shows some of its wine and beer brands and Figure 7 is its proprietary Mexican food brand). Here products are presented in an appealing way but without brand references — but at price points that are significantly lower than a national brand can achieve. Other retailers (notably European players like Tesco and the Canadian retailer Loblaws) have gone with a bare-bones packaging strategy for opening price point private label which creates a strong, retailer-centered value perception.
  - High quality: Aldi in Europe is regarded as being both value priced and high quality (though it has yet to attain that status here). More specialty players do a terrific job here (particularly Trader Joe's of course), and Loblaws' President's Choice is probably the most famous example of this strategy in North America;.however, the largest premium retailer brand in the US is Costco's Kirkland Signature — at approximately USD8 billion in sales, it is one of the largest premium brands in the US, period!

The core conclusion is that retailers that use their own brand architecture to support differentiated product offerings are far more challenging to CPG suppliers than retailers that simply

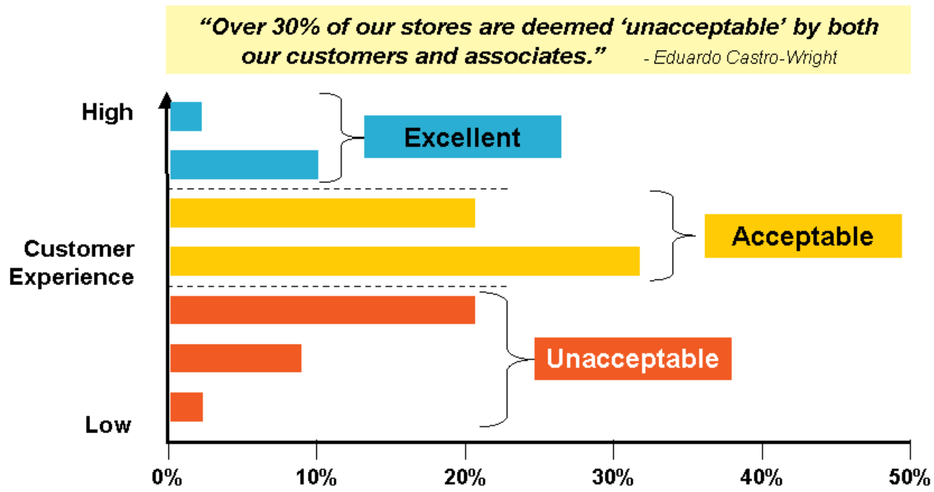

Figure 4: Wal-Mart's Customer Experience Source: MVI research, company reports

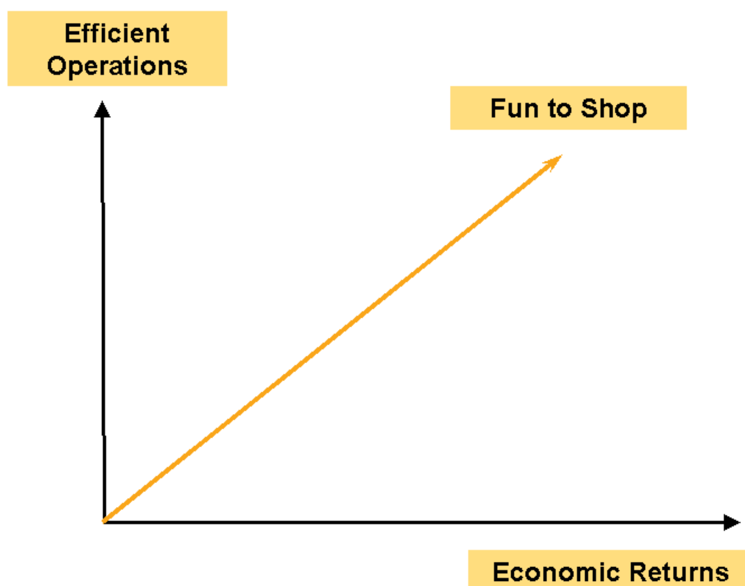

Figure 5: Three Elements of Retail Branding Source: MVI research

Figure 6: Aldi's Wine & Beer Brands

Figure 7: Aldi's Mexican Food

Source: Aldi

replicate trade dress to communicate value.

- In a 21st century demand creation environment, retailers may be better positioned to brand themselves than suppliers. Think, at a top level, about the types of branding that dominated late 20th century brand architecture:
  - Mass communication;
  - A fairly homogenous population;
  - A shopper at home to receive passive broadcast imaging — significant economies of scale in developing that imaging and purchasing the distribution of it;
  - Homogenous, one-way execution — a consistent standardized approach works best;
  - Huge economies of scale in R&D/intelligence to innovate; and
  - A consumer who relied on manufacturers as "portals" to the rest of the world or to the future — with imperfect information.

- Every one of these favored a centralized, scaled approach to brand and product development. Now, with these six criteria revamped for 21st century branding, let's see what they look like:
  - Fragmented communication;
  - A diverse population demographically, and an increasingly "tribal" population in terms of affinities and interests;
  - A shopper at work who values her time more than her money — where products and service are king, and where the cost of developing messaging and distributing it are more level (except in areas where effectiveness is declining, like mass media!);
  - Tailored/personalized execution that is more of a conversation than a mandate;
  - A significantly lower cost of entry for R&D/development for all but the biggest of ideas due to lower cost manufacturing and IT; and
  - A consumer who relies on a variety of sources as their "portals" to the world or the future — and who can see innovation far more globally in things they care about than they used to.

The core conclusion, and the mission critical challenge for CPG companies, is that almost all of these changing factors lend themselves better to a retailer's brand architecture — the clustered, tribal, fragmented, conversational, service-oriented brand sounds more like a retail brand than a conventional manufacturer brand. The real risk to CPG companies is not commoditization in this retail environment, but irrelevance — is your company ready?