A LITERARY REVIEW OF HOUSE BRAND SUCCESS INFLUENCING FACTORS.

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What is a House Brand?

House Brand – A Definition.

A starting point for this review is to ensure that there is a common definition of brand and how house brand differs from the base definition. There seems to be a large base of literature that defines brand. It is largely consistent in its terminology. Definitions from Bradmore and Kotler give a benchmark.

> *Brand - a name, sign, symbol or design, or some combination of these, used to identify a product and to differentiate it from competitors' products.*
> *(Bradmore 200)*
> *A brand is a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one sellers or group of sellers and to differentiate them from those of competitors.*
> *(Kotler 2000)*

There is however a variety of slightly differing definitions of what constitutes a house brand. While the base definitions are consistent and are best exemplified by Baltas and Laaksonen.

> *Own label products are defined as consumer products produced by, or on behalf of, retailers and sold under the retailers' own name or trademark through their own outlets. (Baltas 1997)*

> *…commissioned, marketed and owned by a retailer as opposed to manufacturer's brands which are available for all retailers" (Laaksonen, 1994).*

A more stringent definition and test are offered by Davies to distinguish a house brand from merely a house or generic label.

> *(1) **Differentiation**: Does the supposed brand name differentiate the product/service positively from other, similar offers in the marketplace in the mind of customers/consumers?*
> *(2) **Premium price**: Does the supposed brand command a higher price in the marketplace than a similar product/services, because of an image for quality and/or reliability?*
> *(3) **Separate existence**: Can the supposed brand be valued, used, sold or licensed separately from the business owning the brand/name?*
> *(4) **Psychic value**: Does the supposed brand offer benefits to the customer at a symbolic or sensory level? (Davies 1992)*

Davies maintains that unless a retailer can answer yes to the above four questions then the retailer does not have a brand but just a convenient label. The work of Davies has been further developed by Pellegrini who suggest that there may be a further four tests that the brand must pass before being considered a real brand.

> *(1) the degree of identification between the trade name of the retailer and the name used for its brands,*
> *(2) the positioning of its brands with respect to leading manufacturer brands and, consequently, their qualitative standards,*
> *(3) the width of the range of the products covered by the brand(s),*
> *(4) the extent of backward integration into marketing functions traditionally performed by manufacturers. (Pellegrini 1994)*

Further works that review the value of house brands rely on the Davies and Pelligrini definitions of house brands. We can therefore conclude that these appear to be the most widely accepted and contemporary definitions of what constitutes a real house brand.

Is the market growing or declining?

As this review is a preface to a wider study on the launch of a consumer electronics house brand, it is pertinent to review whether house brands generally are on the increase or decline.
A review of contemporary literature supports the statement "generally house brand market share is growing relative to national brands." One limitation to this statement could be that house brand market share is not growing at the same rate across all product segments and all markets. There is much research and data available to support growth across the grocery product segments, but little available on consumer durables.
It appears that the marketing of house brands is more developed in the UK. Brands developed and marketed by Tesco. Sainsbury and Marks & Spencer are acknowledged as being at the pinnacle of current house brand development. A number of products from within these retailers' ranges command dominant market shares in the UK.

> *The strategic role of store brands to distributors and retailers has increased in importance throughout the 1990s . Once positioned on the basis of price or value for money, store brands are now marketed by many firms using a "quality" focus. The success of such a strategy is especially evident in Europe where retailers such as J. Sainsbury have achieved dominance over national brands in many product categories (Fitzell, 1992).*

> *This extensively discussed and documented trend in both practitioner and academic oriented literature, characterizes most western economies in Europe and North America. In the UK, own-label grocery products have risen their market share by an average of nearly 1 percent yearly, from 22 percent in 1977 to the current 39*

percent. There appears to be an upsurge within this trend as in the past six years alone the private-label market share has grow by 8 percent. (Baltas 1997)

Private labels are well established in several European countries such as the UK. Sales of private labels have also been growing in the USA and now account for over $48 billion in grocery products. In fact, in 1995, private labels gained share in 71 percent of 238 grocery product categories; by early in the next century, they are expected to grow to over 20 percent dollar share (Sethuramen et al 1999)

On the strength of the literary review it could be reasonably concluded that the development of a house brand to fit within the consumer electronics market is likely to have a positive effect. The limitation here is that whether the Australian consumer electronics market is in fact in a growth phase and not in decline. This however is outside the scope of this review.

What Factors Influence House Brand Success?

Having determined that development of a house brand could have a positive effect, what are the key factors that have been used to develop successful house brands.
From the body of literature available, it seems reasonable to conclude that there are a number of key factors that determine the likely success of a house brand.
These are:

1. Positioning of the brand quality. i.e. premium or "cheap"
2. Price.
3. Packaging.
4. Communication.
5. Strength of the link between the store brand and product brand.

Positioning of the quality.

House brands that are acknowledged to have been successful are generally positioned at the premium end of the quality spectrum. Quality or perceived quality is seen as a key factor in enabling the retailer to differentiate their house brand from other retailers' house brands. This premise was supported with empirical evidence in research conducted by Corstjens and Lai and papers presented by Richardson.

> *It is also important to recognize the role of the quality of the store brand. If the higher quality of the store brand results in an increase in the fraction of consumers that perceives the store brand to be of acceptable quality, profits to the stores increase with increases in the quality of the store brand. This is true even though our model is based on a homogeneous set of consumers and the store brand has cost parity with the national brand. (Corstjens & Lai 2000)*

> *Recent research shows that store brand market share is largely dependent on the degree to which retailers are successful in communicating a quality rather than a low price image to consumers (Richardson 1994)*

There are a number of papers that support the statement "Low quality house brands are likely to face consumer purchasing reluctance." As outlined in a paper by Dick et al.

> *A rich body of literature has been undertaken in an attempt to profile the store brand prone shopper. Conducted for the most part in the 1960s and 1970s, these studies profiled store brand buyers in terms of socio-economic variables (e.g. Coe, 1971; Frank and Boyd, 1965; Murphy, 1978), personality characteristics (Myers, 1966), shopping style (Bellizzi et al., 1981), and information processing (Bettman, 1974). These and other experimental studies suggest that households are reluctant to buy store brands because they perceive*

these products to be of relatively poor quality (e.g. Bellizzi et al., 1981; Cunningham et al., 1982).

As quality is often difficult for a consumer to judge, they often have to revert to surrogate measures of quality. These can include the price, the brand name (eg. Presidents Choice), the packaging and the style and type of advertising.

Positioning of the Price

It is generally accepted that house brand pricing should be at a discount to the national brand.

A major selling point for private labels is their lower price relative to national brands. For instance, an 18-oz. box of Kellogg's corn flakes costs $2.95 while the same size box of a local retailer's store brand costs $1.69. That is, the price of the store brand is about 43 percent lower than the national brand price. Those consumers who are willing to pay a 43 percent premium for Kellogg's will purchase the national brand while those who will not pay the 43 percent premium would purchase the store brand. We define price premium as the maximum price consumers will pay for a national brand relative to a store brand expressed as the proportionate price differential between a national brand and a store brand. (Sethuramen et al 1999)

The most obvious benefit to consumers afforded by own brands is lower prices. On average, private labels are 10-30 percent cheaper than national brands in grocery product classes. (Baltas 1997)

While in about 40 percent of the observations, consumers perceive the store brands to be equal or higher in quality to national brands, in only 7 percent of the cases would they pay the same or higher price for the store brand. (Sethuramen et al 1999)

The degree of the discount that is required to make a house brand successful has been the subject of much research. The size of the discount is related to such variables as customer demographic and psychographic segmentation, the perceived risk vs reward attached to the purchase, whether the purchase is considered to be utilitarian or hedonistic,

Conceptually, we can state that the premium a consumer is willing to pay for a national brand depends on the perceived risk associated with the store brand. Perceived risk arises from consumers' perceptions about the magnitude of the adverse consequences and the probabilities that these consequences may occur if the store brand is purchased. (Sethuramen et al 1999)

Busch (1987) reached similar conclusions about the poor performance of individual demographic and psychographic factors relative to the role of consumer perceptions regarding product

> *qualities and price. Omar (1996), however, found personal characteristics among other variables, to be useful in identifying segments of national and store brand buyers. Recently, Richardson et al. (1996) identified familiarity with store brands, extrinsic cues usage in product evaluation, perceived quality variation, perceived risk, perceived value for money, income and family size as factors influencing own-label proneness.*
> *(Baltas 1997)*

It is therefore conclude by review of the literature that price is a key factor in determining the success of a house brand. It is the size of the discount relative to the national brand that seems to be the important price variable.

Packaging and Communication.

Packaging and communication are seen to be important success factors in differentiating the house brand from the national brand and competing store house brands. They are also surrogate measures of quality. It is important to use these two attributes to differentiate a house brand, as often, physical differentiation is hard to maintain.

> *………….the fact that differentiation on physical attributes alone is almost impossible to maintain. Duplicating features is not difficult; the challenge today is to create a strong and distinctive image. Let us assume Norelco introduces an innovative electric iron to the market, which sells very well. If Black & Decker desires, it can study the product, imitate it, have manufacturing lines set up, and put it on the shelf in less than three months! (Kohli 1997)*

> *We find that brand name is a primary cue consumers utilize in quality assessment. Store brand managers might take advantage of this tendency and attempt to establish a strong brand image for their proprietary lines. Investment in advertising and promotion aimed at familiarizing consumers with store brands may improve expectations regarding how good a given store brand may taste and perform with respect to a variety of other intrinsic attributes.*
> *(Dick et al. 1996)*

Store Brand Vs Product Brand.

An important success factor for house brands is the positive link between the store brand (eg Dick Smith Electronics) and the product brand (eg Digitor). Not only must there be a strong link, the attributes or personalities of both entities must be consistent. If a store image is one of high quality and service, it is unlikely that a product that is positioned as cheap and throw away would be a success.

> *The French, by contrast, have used own brands as a defensive strategy to boost temporary margins as an alternative to manufacturers' brands. Most French grocery chains do not promote*

> *their names as store brands which makes image building impossible. Only those companies with a strong high street presence (Casino, Monoprix and Prisunic) have ventured down the route taken by most UK multiples with a value-added differentiation approach. Only Carrefour, of the hypermarket operators, has developed a similar strategy in that the power of its name can generate store loyalty and the building of the store brand. Even then the company acknowledges it has a long way to go to achieve the success of Tesco or Sainsbury's in the UK.(Fernie & Pierrel 1996)*

The relationship between store brand and product brand can be two-way with the attributes of the store brand enhancing the product brand and visa versa.

> *Another important result from our article relates to the sustainability of the quality store brand differentiation strategy. Many retailer strategies often used for creating differentiation (such as increased service, longer hours, lower prices, and larger assortment) cancel out when competing retailers match their strategies. In this article, we have shown that the quality store brand strategy, on the contrary, is most effective when all competing retailers follow it. In this sense, quality store brands are an implicit coordination mechanism for regulating competition among retailers. (Corstjens & Lai 2000)*

Does the Presentation of House Brands have a Positive Effect?

The effects of presenting a house brand can be evaluated in a number of ways, some qualitive and some quantitive. For the scope of this paper we will focus on two of the quantitve.

1. Increased profitability due to purchase and sale mix factors.
2. Increased store loyalty or "stickiness".

Purchase & Sales Mix Factors

It is generally accepted that for the majority of house brands, the margin available to the retailer is higher than that of national brands. This is due to a number of factors relating to the purchase of the product.
Many house brands are manufactured for the retailer by lower cost manufacturers.

> *Most own labels are not actually produced by the retailer. Manufacturers may elect to produce own-label products for retailers in order to achieve scale economies in production and distribution, utilization of excess capacity, sales increase without marketing cost, as well as price discrimination because of image differentiation between branded and private-label products. Originally, private labels were only produced when capacity allowed it. Increasingly, entire factories are dedicated to production of private label products. Nevertheless, it appears that most own-label suppliers are small regional players not coincidentally playing on the major manufacturers' field*
> *(Hoch, 1996).*

The manipulation of the sales mix between national and house brand product is also likely to enhance retailer gross margins on sales.

Store Loyalty

There have been a number of papers argue that even if profitability of house brands at the product level is less than that of national brands the overall profitability of the retailer will be enhanced due to a reduction in propensity for consumers to switch stores (stickiness).

> *For retailers, store brands offer an opportunity to increase store traffic and build store loyalty. Although store brands are generally priced lower than national brands, the higher margins earned on these products enable retailers to expand into lower volume categories for which success depends on greater per unit contribution margins. More importantly, the availability of proprietary brands not sold elsewhere may encourage store loyalty and increase store traffic. Once inside the store, the consumer also becomes a prospect to which to sell the entire grocery basket owing*

to the cost of time involved in multi-store shopping. (Dick et al. 1996)

The central issue in this article is the role of store brands in a retailers' strategy. We have shown when and why a quality store brand can enhance a retailer's profitability, even when the store brand is equally profitable or is at a cost disadvantage relative to the national brand. In addition to the arguments of higher margin and improved bargaining position in relation to branded goods manufacturers, we argue that store brands can play a role in increasing store-switching costs, which leads to greater store differentiation and higher profits for the retailer.
(Corstjens & Lai 2000)

Conclusions.

It is to be concluded from the literary review that house brands are considered to be an important part of the overall product mix for a retailer. They have a number of positive contributing aspects, which include but are not limited to, increased profitability, increased customer loyalty, and enhanced store image.

There are a number of factors that are critical to the success of a house brand. These factors can vary with the type of product, the type of store and the market into which it is launched.

Further investigation of the Australian consumer electronics marketplace is required prior to concluding whether launching of a house brand into this market is likely to have a positive outcome for Dick Smith Electronics. The success variables relate to the specific market not to the concept of a house brand.

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