8. Consumer preference distributions and corresponding store brand strategies: a compilation

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8.1 INTRODUCTION

Modern-day store brands or private labels are brands generally owned, controlled, and marketed exclusively by a retailer. They were introduced more than 100 years ago in some limited items such as tea, and they are now prevalent in over 60 percent of grocery product categories in the United States and Europe. According to the Private Label Manufacturers Association (PLMA 2017) nearly one out of four grocery products bought in US supermarkets in 2016 was a store brand, recording over $120 billion in total sales with a revenue share of 17.7 percent and a unit share of 21.1 percent. Private label penetration in Europe is even higher, with shares reaching over 30 percent in many countries. Private labels are also beginning to take root in developing economies such as Asia and Latin America (Nielsen 2014).

The traditional view of the private label has generally embraced the following premises:

(i) Private labels succeed in commodity products with little scope for differentiation.
(ii) Private labels thrive in high volume categories.
(iii) In these categories private labels are positioned as low-priced, value alternatives to name brands or national brands.
(iv) Thus private labels are engaged in a zero-sum game with national brand competitors in an *us vs. them* approach.
(v) The greater the share of private labels, the higher the retailer profits because retail margins on private labels are higher than national brand margins.

While this traditional view may be prevalent in many situations, there is also ample evidence to the contrary. For example, in a recent report on the state of private labels around the world, the leading market research firm Nielsen (2014) observed the following:

(i) What is a commodity product in one country may not be a commodity in another country.
(ii) Store brands have done well in non-commodity products such as cereal and alcoholic beverages in some countries.
(iii) Astute category management has the potential to create a win-win situation for national brand manufacturers and retailers rather than a win-lose situation.
(iv) While some commonalities exist, the categories where private-label market shares are strongest vary dramatically by country.
(v) Even in the most-developed European markets, where one might expect similar purchasing habits across countries, big differences exist in private label and name brand performance for each category by country.
(vi) Sophisticated private label programs in developed countries have witnessed the emergence of a multi-tier private label strategy with the introduction of more than one store brand in a category.
(vii) Private label struggles to gain consumer trust in Asia and the Middle East, where consumers are fiercely brand-loyal.

These observations, contrary to the traditional view, suggest that there is no "one-size-fits-all" approach for global private label development. Retailers have to adopt the private label strategy that is appropriate for the demand and supply conditions they face in the particular category in that market. The purpose of this chapter is to compile a set of store brand strategies that correspond with different consumer markets.

The rest of the chapter is divided as follows. In the next section, I describe the development of consumer segments and the resulting consumer preference distributions. In the following section, I develop the store brand strategies for each of the consumer markets represented by a preference distribution. Finally, I summarize the key insights related to store brand strategies and provide the limitations and directions for future research.

8.2 CONSUMER PREFERENCE DISTRIBUTIONS

I take the perspective of a retailer who considers introducing a store brand or a private label in a market where one or more national brands are present. The doctrine of *Caveat Emptor* (Buyer Beware) gave way to *Caveat Venditor* (Seller Beware) in the early twentieth century. This transition forced sellers to take responsibility for their offerings and discouraged them from selling products of dubious quality. Subsequently, sellers or manufacturers started to affix a name to their brand and these *name brands* began to perform the role of providing implicit warranty. Now, thanks to mass media channels and sophisticated marketing, these name brands have evolved into *national brands* and established themselves as the primary goods of transaction in frequently purchased consumer goods. Brands like *Coca-Cola* and *Kellogg* represent not just identity and quality but status, image, emotion – a rich collection of tangible and intangible benefits. Store brands, in this modern economy, are deemed to be follower brands introduced by the retailers to enhance their competitive position and profitability.

The retailer procures the national brand(s) from the manufacturer(s) and decides whether to introduce one or more store brands. Then s/he decides on the retail price of the national brand and the retail price, positioning and promotion strategies for its store brand(s). These decisions depend on the nature of consumers faced by the retailer in that market.

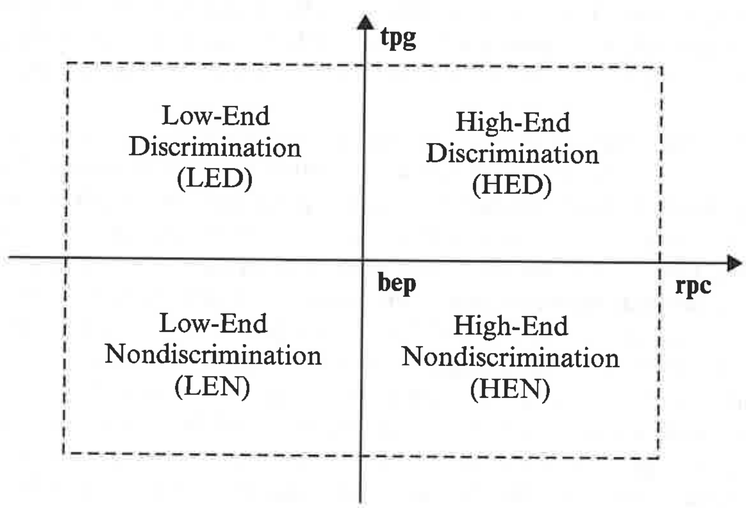
Consumers vary in their preferences along two dimensions: (i) the reservation price or maximum price they are willing to pay for purchasing a brand in the category, and (ii) the threshold price gap or maximum price differential they are willing to pay for the national brand over the store brand. I call the former Reservation Price for Category (rpc) or simply reservation price. I call the latter Threshold Price Gap (tpg) or simply price gap. In general, price gaps are positive, implying consumers are willing to pay a higher price for a national brand than for a store brand (Sethuraman 2003).

These two factors determine whether consumers buy the national brand or the store brand, or neither. In particular, a consumer will buy the national brand if his/her reservation price (maximum price willing to pay) for a category is above the retail price of the national brand and the threshold price gap (maximum price differential willing to pay for the national brand) is below the actual price gap (apg) between the national brand and store brand. S/he will buy a store brand if (i) his/her reservation price for the category is below the retail price of the national brand but above the retail price of the store brand and s/he feels the store brand is a purchasable alternative, or (ii) his/her reservation price for the category is above the retail prices of both the national brand and store brand, and the threshold price gap is above the actual price gap between the national brand and store brand. A consumer will buy neither brand if his/her reservation price is below that of both national and store brands.

On the supply or cost side for the national brand, I posit that there is a minimum retail price, dictated by cost of manufacturing, distribution, brand marketing, and expectation of minimum margins for manufacturer and retailer, below which it is not sustainable (profitable in the long run) for a traditional national brand to be on the market. I call this Breakeven National Brand Retail Price (bnp). Similarly, on the store brand side, I define Breakeven Price Differential as the minimum price differential from a cost standpoint below which it is not sustainable (profitable in the long run) for a *standard* store brand to be on the market (bpd). Again, this price could include the supply cost of a store brand, and minimum expected margins for supplier and retailer. For example, if a national brand cannot be supplied at a retail price below \$2 and a store brand cannot be offered below retail price of \$1, then the breakeven national brand price is \$2 and the breakeven price gap is \$1 (2–1).

Now I combine the breakeven prices and consumer preferences (reservation prices) and define four segments of consumers based on whether their reservation price and price gap are below or above the breakeven prices, as shown in Figure 8.1. These four segments are:

I. Low-End Discriminators (LED): These consumers have the reservation price lower than the breakeven national brand price (Low-end) but also feel the national brand is superior to the store brand and so their threshold price gap is higher than the breakeven price gap at



Notes:
rpc = reservation price for category; tpg = threshold price gap
bep = breakeven point = (breakeven national brand price, breakeven price gap)

Figure 8.1 Consumer preference segments which the store brand can be offered (Discriminators). Fitzell (1992) highlights the presence of such a segment. Some low income consumers may not be able to pay a high price for the category, at the same time they prefer to buy national brands and not store brands, either because they are not knowledgeable about the quality of store brands or because they feel purchasing a national brand reflects a higher status in their society.

II. High-End Discriminators (HED): These consumers have a reservation price higher than the breakeven national brand price (High-end) but they also feel the national brand is superior to the store brand and so their threshold price gap is higher than the breakeven price gap at which the store brand can be offered (Discriminators). These consumers may be the high-income, quality-sensitive segment who are most conducive for national brand marketing.

III. High-End Nondiscriminators (HEN): These consumers have a reservation price higher than the breakeven national brand price (High-end) but feel there is not much difference between the national brand and the store brand and so their price gap is lower than the breakeven price gap at which the store brand can be offered (Nondiscriminators). Educated, middle-income consumers tend to be in this category (Sethuraman and Gielens 2014).

IV. Low-End Nondiscriminators (LEN): These consumers have a reservation price lower than the breakeven national brand price (Low-end) but feel there is not much difference between national brands and store brands and so their price gap is lower than the breakeven price gap at which the store brand can be offered (Nondiscriminators). These are the lower-income, more price-sensitive, less quality-sensitive segment that traditional private labels are posited to serve.

Consumers in a given market may be distributed along one or more of these segments. We consider 15 consumer distributions ranging from consumers being concentrated in each of the four segments to consumers being distributed across all four segments – see Table 8.1. Feasible store brand strategies for these consumer preference distributions are discussed below.

8.3 STORE BRAND STRATEGIES

We present each consumer preference distribution (CPD) and discuss feasible store brand strategies. By feasible store brand strategies, we mean those that enable the retailer to break even (obtain positive profits) on both the national brand and the store brand.

Table 8.1 Consumer preference distributions and corresponding store brand strategies

Consumer Preference Distribution					Store Brand Strategy				
CPD#	LED	HED	HEN	LEN	#	Store Brand Type	Switching Strategy	Expansion Strategy	Acronym
1	X				S1.1	Premium	No	Low	PSB-NSW-LES
					S1.2	Standard	No	High	SSB-NSW-HES
2		X			S2.1	Premium	Low	No	PSB-LSW-NES
					S2.2	Standard	High	No	SSB-HSW-NES
					S2.3	Niche	No	Low	NSB-NSW-LES
3			X		S3.1	Standard	Low	No	SSB-LSW-NES
					S3.2	Standard	High	No	SSB-HSW-NES
					S3.3	Standard	Total	No	SSB-TSW-NES
4				X	S4.1	Standard	No	Low	SSB-NSW-LES
					S4.2	Standard	No	High	SSB-NSW-HES
					S4.3	Std. + Econ.	No	High	(S+E)SB-NSW-HES
5	X	X			S5.1	Premium	Low	Low	PSB-LSW-LES
					S5.2	Standard	High	High	SSB-HSW-HES
					S5.3	Std. + Prem.	High	High	(S+P)SB-HSW-HES
6	X		X		S6.1	Standard	Low	No	SSB-LSW-NES
					S6.2	Standard	High	Low	SSB-HSW-LES
					S6.3	Std. + Prem.	Total	High	(S+P)SB-TSW-HES
7	X			X	S7.1	Standard	No	Low	SSB-NSW-LES
					S7.2	Std. + Econ.	No	High	(S+E)SB-NSW-HES
					S7.3	Std+Prem+Eco	No	High	(S+P+E)SB-NSW-HES
8		X	X		S8.1	Standard	Low	No	SSB-LSW-NES
					S8.2	Standard	High	No	SSB-HSW-NES
					S8.3	Std. + Prem.	High	No	(S+P)SB-HSW-NES

9		X		X	S9.1	Standard	No	High	SSB-NSW-HES
					S9.2	Std.+Econ.	No	High	(S+E)SB-NSW-HES
					S9.3	Std.+Prem.+Econ	Low	High	(S+P+E)SB-LSW-HES
10			X	X	S10.1	Standard	Low	Low	SSB-LSW-LES
					S10.2	Standard	High	High	SSB-HSW-HES
					S10.3	Std.+Econ.	Total	High	(S+E)SB-TSW-HES
11	X	X	X		S11.1	Standard	Low	No	SSB-LSW-NES
					S11.2	Standard	High	No	SSB-HSW-NES
					S11.3	Std.+Prem.	High	Low	(S+P)SB-HSW-LES
12	X	X		X	S12.1	Standard	No	Low	SSB-NSW-LES
					S12.2	Std.+Econ	No	High	(S+E)SB-NSW-HES
					S12.3	Std.+Prem.+Econ	Low	High	(S+P+E)SB-LSW-HES
13	X		X	X	S13.1	Standard	Low	Low	SSB-LSW-LES
					S13.2	Std+Econ	High	High	(S+E)SB-HSW-HES
					S13.3	Std.+Prem.+Econ	Total	High	(S+P+E)SB-TSW-HES
14		X	X	X	S14.1	Standard	Low	Low	SSB-LSW-LES
					S14.2	Std.+Econ	High	High	(S+E)SB-HSW-HES
					S14.3	Std.+Prem.+Econ	High	High	(S+P+E)SB-HSW-HES
15	X	X	X	X	S15.1	Standard	Low	Low	SSB-LSW-LES
					S15.2	Std.+Econ	Low	High	(S+E)SB-LSW-HES
					S15.3	Std.+Prem.+Econ	High	High	(S+P+E)SB-HSW-LES

8.3.1 CPD1: Low-end Discriminators Only

All consumers in the market are low-end discriminators, whose reservation prices are below the breakeven national brand price and whose threshold price gap is higher than the breakeven price gap. Because national brands' breakeven price is above the consumers' reservation price, they cannot serve these consumers. But these consumers are wary of or unfamiliar with store brands, so they want a higher price gap to switch to the store brand than what the retailer can afford on the store brand by way of a breakeven price gap. So, both traditional national brands and standard store brands are not sustainable.

While this pattern may seem like an extreme hypothetical case, it can occur in markets where consumers who, either because of lower income or lower utility for branded goods, will pay a relatively lower price for the product. However, they also do not think standard store brands can offer a reasonable quality alternative at that price. We suspect this situation may occur in high-end "luxury" grocery products such as candies and organic goods, especially if the grocery store is in low- to middle-income household markets. It can also occur in international markets like India and The Philippines, where consumers are enamored of national brands like Kellogg's cereals but cannot afford them, and also do not care about store brands in these categories.

What are feasible store brand strategies in this situation?

S1.1. Premium Store Brand, No Switching, Low Expansion Strategy. Because standard store brands are not generally preferred by these low-end discriminators, one retailer strategy is to work with the national brand manufacturer or otherwise create a non-traditional premium private label that is of good quality and mimics a national brand in terms of packaging and other characteristics. We call this strategy *Premium Store Brand, No Switching, Low Expansion Strategy* (PSB-NSW-LES). Since a national brand does not exist, there is no switching. Since the market is not served and there is small expansion with the store brand, we call it low expansion. Table 8.2 provides a pictorial and verbal description of this strategy (S1.1). If this premium store brand name is used in other categories as well, the retailer needs to first establish its reputation in those other categories before introducing the label in this category.

Whole Foods' recent introduction of its *365* premium store brand in the USA may be consistent with this strategy. Many consumers do not purchase organic foods because they are expensive. At the same time, consumers may not feel standard store brands can offer quality organic foods. *Whole Foods 365* can establish itself as a premium store brand and offer a high quality organic produce to these low-end discriminators representing this quadrant.

S1.2. Standard Store Brand, No Switching, Aggressive Expansion Strategy. Another, rather unique, strategy would be to carry a national brand at a high retail price as a "decoy," specifically to exacerbate the actual price differential (so that it exceeds the threshold price gap) and use a standard store brand to get as many of the low-end discriminators as possible – see Table 8.2 (S1.2). There are some caveats to this strategy: (i) consumers may not fall for the decoy national brand and may even switch stores, (ii) national brand manufacturers may not want to fulfill that role of being a decoy national brand with negligible sales, and (iii) the store brand may be viewed as a cheap brand because of the large price differential and this may affect retailer image.

In general, the presence of a significant number of Low-end discriminating consumers is not optimal for either the national brand manufacturer or the retailer.

8.3.2 CPD2: High-end Discriminators Only

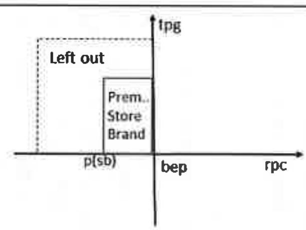
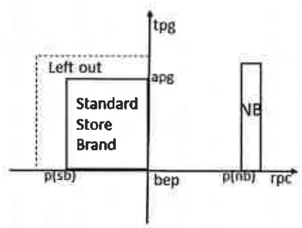
Since high-end discriminators have reservation prices above the break-even national brand price, traditional national brands can serve all of them. But these consumers are wary of or unfamiliar with store brands, which is reflected in their high price gap.

This situation, which favors the national brand, occurs in developed markets in hedonic categories where national brands have clearly established their high brand equity or quality or technical superiority (e.g., Gillette razors, Breyers ice cream). It is also common in underdeveloped and emerging markets such as India where consumers are fiercely loyal to national brands since those have been the primary brands sold and advertised.

There are a number of potential options for a retailer, depending on the nature of national brands and supply constraints. If the national brand is a dominant leader and the retailer cannot compete on the supply side, it may be best to just offer the national brand at the breakeven price and serve most of the market. For example, in the salt category in USA, where the national brand *Morton Salt* is well established and dominates the supply chain, it may not be profitable for many retailers to introduce a store brand and keep the price sufficiently low to cause switching. The same situation may hold for specialty candies or ice cream, as well as in developing countries where retailers are too small to supply a store brand as a viable alternative to national brands.

Alternatively, if the national brands compete intensely among each other, then the retailer may be better off exploiting the upstream competition for higher profits without introducing a store brand. For example,

Table 8.2 *Description of store brand strategies*

#	Acro nym	Visual Description	Role	Price	Positioning / Promotion
S1.1	PSB NSW LES		Attract some low-end discriminators unserved by national brands	Slightly lower than breakeven price of national brand	As premium national brand equivalent
S1.2	SSB NSW HES		Attract low-end discriminators using decoy national brand at high price and highlight price differential	Low and close to breakeven price of standard store brand	Value brand with good, acceptable quality compared to national brand
S2.1	PSB LSW NES		Price national brand at breakeven and passively switch some high-end discriminators from national brand	Slightly lower than national brand	No major promotion needed for passive switching

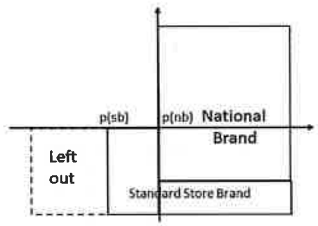
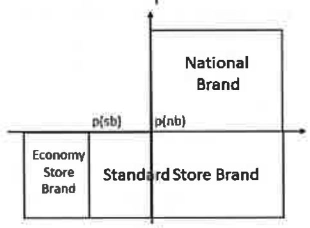
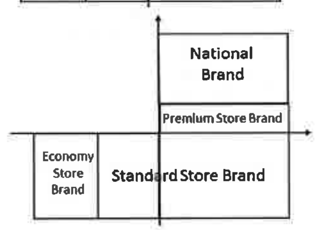
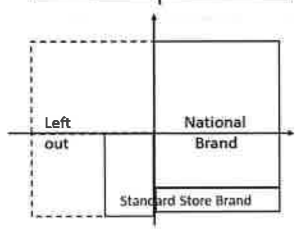
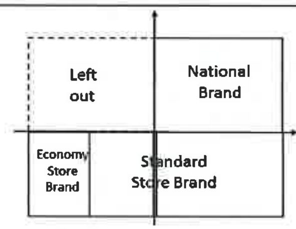
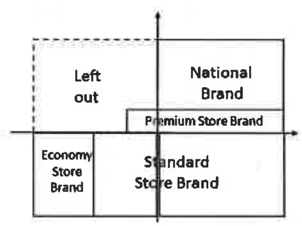
S14.1	SSB LSW LES		Switch some nondiscriminators leaving high-end discriminators for NB	Slightly lower than NB	No promotion needed
S14.2	(S+E) SB HSW HES		Switch high-end nondiscriminators with SSB and low-end nondiscriminators with ESB leaving high-end discriminators for NB	S: Low E: Lower	Distinguish SSB from ESB Promote SSB for penetration
S14.3	(S+P+E) SB HSW HES		Attract nondiscriminators with SSB and ESB while switching some high-end discriminators with PSB	P > S > E P low enough S: Low E: Lower	P: NB like S: Value E: acceptable, cheap
S15.1	SSB LSW LES		Passively switch some high-end nondiscriminators while attracting some low-end nondiscriminators, leaving high-end discriminators for NB and low-end discriminators unserved	Slightly lower than NB	No promotion needed

Table 8.2 (continued)

#	Acro nym	Visual Description	Role	Price	Positioning / Promotion
S15.2	(S+E) SB LSW HES		Switch high-end nondiscriminators with SSB and attract low-end nondiscriminators with ESB leaving high-end discriminators for NB and low-end discriminators unserved	S: Low E: Lower	Distinguish SSB from ESB Promote SSB for penetration
S15.3	(S+P+E) SB HSW LES		Switch high-end nondiscriminators with SSB and attract low-end nondiscriminators with ESB and some discriminators with PSB	P > S > E P low enough S: Low E: Lower	P: NB like S: Value E: acceptable, cheap

Raju et al. (1995) have shown that when manufacturers (e.g., Coke and Pepsi) compete on the basis of price, retailers can get a lower wholesale price and be more profitable without necessarily introducing a store brand.

If supply conditions are conducive, retailer's options for introducing a store brand are:

S2.1. Premium Store Brand, Low Switching, No Expansion Strategy. One strategy is to introduce a superior-quality premium store brand (e.g., *Sam's Choice* in Wal-Mart). In this scenario, the retailer will charge a relatively modest penetration price for the national brand for maximum market coverage of the high-end market, and use the premium store brand to siphon the remaining high-end consumers. In this strategy, the retailer uses a premium store brand to passively switch some high-end consumers from the national brand with no scope for expansion, hence the term Premium Store Brand, Low Switching, No Expansion Strategy – Table 8.2 (S2.1).

S2.2. Standard Store Brand, High Switching, No Expansion Strategy. The other option is to offer the national brand at a relatively high price to skim the high-end market with a high reservation price and offer a standard store brand at a competitive penetration price (high price differential) to aggressively switch the rest of the market. This aggressive switching through an increase in the national brand price may leave some high-end discriminators unserved because they cannot afford the national brand but don't want the store brand. Such consumers may be prone to switching stores.

S2.3. Niche Store Brand, No Switching, Low Expansion Strategy. A third option, particularly suitable for this market but which can apply to other markets as well, is to offer a niche store brand. If the brands are feature differentiated and there are some niche features not catered to by the national brands due to small size or localized preferences of the market, the retailer may introduce a store brand to satisfy that feature need (e.g., low-fat, single size servings – Choi and Coughlan 2006).

8.3.3 CPD3: High-end Nondiscriminators Only

Consumer reservation prices are above the breakeven national brand price. So, the national brand has the ability to profitably serve the entire market. But these consumers also feel standard store brands are not inferior to national brands, which is reflected in their lower price gap relative to the breakeven price gap. So, both national brands and store brands are viable in this market. Since all consumers can potentially consider both the national brand and the store brand, this is also a market with most intense competition between the two brands. It is likely to occur in many relatively undifferentiated, commodity products and where supply barriers are minimal (e.g., milk, bread) as well as in many mature packaged goods like household cleaners.

The optimal retailer strategy would be to introduce a standard store brand that is effectively positioned against the national brands for maximizing category profits. The role of this standard private label may be low (passive), high (aggressive), or total switching (replacement). No expansion is envisaged in this market.

S3.1. Standard Store Brand, Passive Switching, No Expansion Strategy. If the national brands have sufficiently covered the feature space and the competition among them is such that the retailers are able to gain profits from them, it may be prudent for the retailer to merely show its presence as a passive low-priced but acceptable-quality alternative. For example, it is believed that peas that are uniform in size are packaged as national brands and those that are non-uniform in size, though of the same quality, are packaged as store brands at a lower cost as part of a dual branding strategy by national brand manufacturers. In this case, retailers can offer the store brand as a slightly lower-priced alternative and passively switch some consumers with a low price gap, without aggressively competing with a national brand such as Birdseye – Table 8.2 (S3.1).

S3.2. Standard Store Brand, High Switching, No Expansion Strategy. On the other hand, retailers can take a more aggressive stance. If the scope for differentiation of the national brand due to quality or brand equity is not significant and the store brands are able to offer comparable quality at a lower price, a head-to-head positioning of the store brand is a viable strategy that can aggressively switch consumers from the national brand. For example, a national brand priced higher and a standard store brand priced lower can switch a significant portion of high-end nondiscriminators to the store brand.

This strategy is generally adopted in over-the-counter drugs such as aspirin, cosmetics such as shampoo, and food items such as cooking oils. Packaging that looks like national brands and the use of "Compare and Save" shelf talkers are common in this strategy. Sayman et al. (2002) point out that such positioning is most profitable against the leading national brand. Note further that this strategy of pricing out the national brand may leave some consumers unwilling to pay a high price for the national brand but would not buy the store brand. These consumers may seek alternative stores, making the focal store vulnerable to competition.

S3.3. Standard Store Brand, Total Switching, No Expansion Strategy. An extreme extension of the high switching strategy is total switching, where the national brands are replaced by a standard store brand. If the retailer has monopoly power (consumers are loyal to the retailer), the products are not that well differentiated, and an acceptable store brand can be procured at low cost, then the retailer can do away with (the) national brand(s) and carry only the store brand. Traditional retailers have adopted this strategy in categories such as baked goods and fresh foods. Aldi, a leading European retailer chain, carries only store brands in most categories.

But retailers have to be careful about adopting this strategy. Over time, consumers may seek some variety or comparable alternatives and may desert the retailer if it goes too far with this strategy. For example, Dutch chain Edah and Spanish chain Mercadona delisted thousands of national brands with a store-brand-only assortment in many categories, but had to relist or reintroduce some of the delisted national brands to prevent increased consumer boycotts and further damage to their store image (Gázquez-Abad et al. 2015). Even Aldi is planning to introduce national brands in some select categories.

8.3.4 CPD4: Low-end Nondiscriminators Only

Consumers in this market have reservation prices for the national brand below its breakeven price, so the national brand is not a viable option. But these consumers are not that quality-sensitive or discriminating with respect to store brands, which is reflected in their lower price gap, which makes the store brand the only viable option. Fresh baked goods and fresh deli products are candidates for this market. While this situation puts the retailer in a comfortable position of not having to compete with national brands, it also gives them the added responsibility of leveraging their store brand to reflect desired store image and optimize on profits. Since there is no national brand, hence no switching, the role of the store brand is only to expand the market. We see three potential store brand strategies.

S4.1. Standard Store Brand, No Switching, Low Expansion Strategy. To start with, a standard store brand can be offered at a relatively high price to skim or serve only the high-reservation price consumers in this market among the low-end consumers (low expansion). This strategy might provide a more positive image for the store brand but leave out a significant portion of the market.

S4.2. Standard Store Brand, No Switching, High Expansion Strategy. A second strategy is to aggressively price the standard store brand and get more of the consumers in this market. An EDLP store like Wal-Mart situated in a low-income neighborhood may want to have a standard private label (*Great Value*) positioned as an attractive product for all its customers buying that category.

S4.3. Standard + Economy Store Brand, No Switching, High Expansion Strategy. A third strategy where the retailer wants to serve a wide range of its consumer base, it may blanket the market with a cheaper economy store brand to cater to the lower income group while using the standard brand to set its store image and get higher margins. Retailers may adopt this strategy in some cheaper essential goods, such as paper products and bread, in mixed (low- and mid- income) neighborhoods.

8.3.5 CPD5 to 15: Two or More Segments in the Market

Most markets, however, will be comprised of two or more consumer segments. The corresponding store brand strategy will likely be some combination of the ones set forth for each of the individual segments (CPD1 to 4) described above. Table 8.1 compiles the store brand strategies corresponding to each of these consumer preference distributions. Table 8.2 presents visual and verbal descriptions of each of these strategies. These are self-explanatory and somewhat repetitive. Hence, they are not discussed in detail here.

8.4 SUMMARY AND CONCLUSION

In a recent State of the Industry report, Store Brands (2015) found that nearly 40 percent of retailers adopt a single-tier private label program, about 40 percent adopt a two-tier private label program, and about 20 percent adopt a three-tier private label program. However, there are no guidelines on what specific store brand strategies should be adopted in different consumer markets. In this chapter, we offer a compilation of 44 store brand strategies corresponding to different consumer markets represented by 15 consumer preference distributions (Table 8.1). These strategies differ based on the following three considerations: (i) whether the store brand is standard, premium, economy, or niche; (ii) whether the role of the store brand for competing with the national brand is no switching, low (passive) switching, high (aggressive) switching, or total switching (replacement); and (iii) whether the role of the store brand with respect to the category is no expansion, low (passive) expansion, or high (aggressive) expansion.

The following are some key observations from the compilation of store brand strategies in Tables 8.1 and 8.2:

1. Standard, Premium, and Economy private labels are used for targeting distinct segments of consumers.
2. Standard store brands primarily serve high-end discriminators – those who are willing to pay more than the breakeven national brand

price but feel the store brand is a good alternative. In this regard, standard store brands compete directly with national brands and are often called NB equivalents. It is important that store brand quality is consistent and comparable to the national brand, but priced lower to show value. Packaging to promote equivalence and promotion with Compare and Save slogans are appropriate in this case.

3. Standard store brands can be used passively for low switching, and aggressively for high switching and even for total switching or replacement of national brands, if the dominant market comprises high-end discriminators. Which strategy to adopt will depend on the relative margins of the national brand and the store brand. If the margin is higher (lower) for the national brand than for the store brand, then a passive (aggressive) switching strategy is preferred.
4. In a market comprising both high-end and low-end nondiscriminators (those who will switch to the store brand for a small price gap), an aggressive switching strategy adopted for the standard store brand will result in significant expansion into low-end nondiscriminators. In this case, maintaining a low price for the standard store brand can bring dual reward of both switching and expansion for the retailer.
5. Aggressive switching through setting a large price differential between the national brand and the store brand can be accomplished by keeping a low store brand price or by jacking up the national brand price. Retailers have to be cautious about adopting the latter approach as it makes the firm vulnerable to competing stores that carry the national brand.
6. Premium store brands, in my framework, are best used to attract discriminators who think national brands are instrinsically superior and will pay a higher price differential for them. In this case, the store brand should reflect superior quality, with packaging and image akin to that of a national brand. However, a premium store brand may be used to attract high-end discriminators and low-end discriminators depending on the market. The scope for using a premium store brand to attract high-end discriminators is substantial while the scope is limited with low-end discriminators. In the latter case, the premium store brand should be priced low for low-end consumers without losing its quality perception.
7. In general, premium store brands are best for low or moderate (passive) switching and expansion. Using a premium brand for aggressively switching discriminators may not be advisable for the retailer as the strategy may alienate loyal national brand consumers. The strategy may be used if customers are very store loyal or there are clear economic benefits.

8. In general, the presence of significant low-end discriminators is not in the interest of either the manufacturer or the retailer because neither the national brand nor the store brand can meet their price and quality expectations at the same time.
9. Economy store brands are most appropriate for targeting low-end nondiscriminators who want a cheap, acceptable-quality brand. These should be marketed with the particular target in mind (primarily market expansion) without attempting to cannibalize the standard store brand or switch national brand consumers.
10. As retailers take the initiative in innovation and new product introduction, they should look for unmet needs in the market, especially among high-end discriminators, and satisfy those needs using a niche store brand.
11. Many markets consist of more than one consumer segment. In such markets, the best approach is to offer all three brands – Standard, Premium, and Economy store brand. The increasing popularity of three-tier store brands highlights the importance of managing the portfolio carefully to meet consumer needs and enhance overall retailer profitability (Geyskens et al. 2010).

8.4.1 Limitations and Future Research Directions

This chapter is primarily a thought exercise with some analytical reasoning. It presumes that consumers have well-defined reservation prices (demand side) and act based on those preference measures. It also presumes the existence of a threshold price for national brands and store brands at the retail level (supply side). But these measures are used primarily as conceptual underpinnings for explicating the strategies. Our next step is to validate these store brand strategies with consumers and retailers. Do consumers have some, even amorphous, reservation-price-based consumer preference? Can retailers identify with the strategies summarized in Tables 8.1 and 8.2, even if indirectly? If so, in what categories do they adopt the different strategies, and in which categories do they need guidance for developing their private label programs? If not, how do retailers visualize and operationalize their store brand strategies? These are questions that we would like to address in our future research and encourage other researchers to pursue. We also believe it would be worthwhile to derive optimal store brand strategies given the supply and demand conditions using economic equilibrium models.