

Consumer perception of private label brands in the Czech Republic

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Abstract

The very tough fight for customers in the retail trade is reflected by the strong growth in the number of products sold under private labels that are currently becoming an important factor in business competitiveness. These are brands that are produced and offered by retailers under their own name or brand. The range of retail brands is very extensive. While in the past, they were offered primarily as a low cost alternative to national and international brands, nowadays, these products have been competing with them at a higher price level as a so-called standard or premium private label. The aim of this paper is to analyze and discuss the relationship of Czech consumers to these private brands.

Keywords: private labels, retail, consumer, economic, standard and premium private labels, knowledge and awareness of private brands

Introduction

The paper deals with the growing importance of private brand names and their use in the current competitive environment of the Czech retail market. It points to trends in the development of private brand names in retail chains, and emphasizes their special role as a competitive tool. The next section of the paper introduces the partial results of the perception of private brand names analysed by Czech consumers, based on a questionnaire survey.

Brands are now an integral part of the product mix; they facilitate consumer choice and orientation in the current crowded market. The brands have an equally important influence to the companies themselves. They give the ability of finding a place in the market, gaining more customers and business partners due to brands. A distinctive feature is the fact that the brand name forms a barrier against competition. Therefore, today trademarks are one of the largest firms' intangible assets, protected by patents, and great attention is paid to their creation.

Private or retail brands can be described as products that are produced and offered by retailers and other distribution channels. The most important

advantage of retail brands is that the cost of production, distribution and sales are lower than those of competing manufacturers and national brands and also those retail brands allow retailers to distinguish themselves from competitors.

This makes products sold under the retail brand as convenient for the customer, who can be attracted by its lower price, as well as for a trader, to whom these products allow to achieve a significantly higher profit margin.

Theoretical background

The brand can be defined according to Kotler as: "... name, expression, sign, symbol or design or combination which are to differentiate products from competitors" (Kotler, Keller 2010). This definition implies that the main task of the brands (and the reason why they are created) is to distinguish and identify the source, manufacturer or provider of goods or services. The brands give consumers a certain degree of expectation, which is due to previous experience with the products of the company and the way how the company operates in consumer marketing. "The strength of the brand lies in the minds of consumers." (Keller 2007).

A specific position is occupied by private, commercial or retail brands. The most commonly used is the English term "private label brands". In the literature or the practice of chain stores, we find expressions such as own brands, home brands or, where products are named directly by the trade name, we find the expression "store brands".

A range of private brands is very diverse and includes almost all products for daily consumption of food, dry goods, and clothing to perfumes. Differentiation of retail brands according to segment products, in which they are likely to occur, can be illustrated by the Nielsen approach, which in its global research divides private brands into the following fourteen categories.

Nielsen categories are sorted according to the proportion in the range and are as follows (ACNielsen 2005):

1. Refrigerated food 32 % – (dairy and meat products, chilled ready meals, semi, etc.);
2. Paper, Plastic & Wraps (PPW) 31 % – (plastic bags, wrapping foil, toilet paper, paper towels, etc.);
3. Frozen Food 25 % – (frozen vegetable, meat, semi products);
4. Pet Food 21 %;
5. Shelf-Stable Food 19 % – (pasta, pulses, rice, ketchup, tins, etc.);
6. Diapers & Feminine Hygiene 14 %;
7. Health Care 14 % – (multivitamins, current medications, etc.);
8. Non-Alcoholic Beverages 12 % – (tea, coffee, bottled water, soft drinks, juices, etc.);

9. Home Care 10 % – (washing powder, detergent, etc.);
10. Snacks & Confectionery 9 % – (biscuit, bars, crisps, chocolates, etc.);
11. Alcoholic Beverages 6 % – (beer, wine, spirits);
12. Personal Care 5 % – (soaps, shampoos, deodorants, body milk, shaving needs, etc.);
13. Cosmetics 2 % – (lipstick, nail varnish, etc.);
14. Baby Food 2 %.

The growth of retail brands in the market is not only due to the fact that consumers today often prefer cheaper goods, but also by cleverly applied brand strategies when private brands are introduced and used. The basic feature of private brands has always been a value that is measured as the ratio of cost to the utility value of the product (Keller 2007). A wide-range shops, especially multinational supermarket chains try to offer, via a private brand as many product categories as possible and offer them in their less expensive substitutes. Private brands increasingly focus on fighting the national brands, against which they compete, with their products in higher grades, although they are not already sold at the lowest price but have comparable quality. Large chains provide the marketing support in their leaflets, special offers and exclusive choice of placement in stores to these products.

What are the advantages of private brands? Private brand products allow retailers to differentiate their products from competitors' products, and provide consumers with an alternative to other brands. There are various advantages for the retailers to go for private label brands. The advantages include control over pricing of the product or service, put forth own ideas on marketing plans, creating a personalized image which in turn leads to higher customer loyalty, enable retailers higher control on production, marketing, distribution and profits, give their own inputs, additional materials, logos, tag lines and strengthen their relationship with consumers. Retailers know that consumers can buy a national brand anywhere, but they can only buy their private brand at their stores.

The manufacturer's advantages are in long-term cooperation with retailers which enable access to new markets and spending less money on consumer advertising and promotion to build own brand preference. Manufacturers of private brand products fall into four main classifications:

- Large national brand manufacturers that utilize their expertise and excess plant capacity to supply private brands.
- Small, quality manufacturers who specialize in particular product lines and concentrate on producing private brands almost exclusively. These companies are often owned by corporations that also produce national brands.

- Major retailers and wholesalers that own their own manufacturing facilities and provide private brand products for themselves.
- Regional brand manufacturers that produce private label products for specific markets.

For the consumer, private brands represent choice and the opportunity to regularly purchase quality food and non-food products at considerable savings compared to buying national brands. Because the store's name or symbol is on the package, the consumer is assured that the product is manufactured to the store's highest quality standards and specifications. Moreover, store brands are made from the same or comparable ingredients as the national brands and because the store's name or symbol is on the package, the consumer is assured that the product is manufactured to the store's quality standards and specifications.

Most retail chains' range private brands is divided according to price and quality into three categories, i.e. the economic category, standard and premium (exclusive). Economic private brands are both the oldest and lowest categories of private brands. This category is one of the lowest priced products on the market, whose quality is below average. Standard private brands include products of standard categories. They are qualitatively the same as national brands, but they are offered at a lower price. They often bear the name of the chain in which they are offered. Currently, it is the most numerous group of goods. In the category of premium private brands, there are expensive and exclusive high-quality products, these products create a brand image and try to attract more demanding clientele.

Historically, private brands signified good value for consumers while national brands were usually seen as the premium item in a category. That is no longer true. Store brands have come to mean more than value. Many chains now offer a wide range of products that are not solely focused on value. They offer premium products just like the national brands. As they become more than just a place to buy products, stores are actively involved in finding and developing new items they can put their own name or brand on.

For retailers and manufacturers, who give up their own brands in favour of secured long-term high and steady sales of products under a private business brand, it is an important factor in the way how consumers perceive private brands. Previously, the retail brand was perceived mostly by consumers who searched for goods at the lowest price. This was partly changed with the introduction of standard and premium categories, which expanded a range of potential customers on the other segments. Especially due the recent financial crisis, there was an increase of the segment of customers who compare the price / quality ratio, on which the standard private brands focus.

High sensitivity to a price and relatively low loyalty brands to brands – it is typical for the Czech consumers (GFK 2011). Therefore, it can be assumed that buying private brands with a strong marketing support from chains will also increase customer loyalty, especially those who are limited in their purchasing decisions and looking for financial options, like price-friendly products. In

today's shops there can be found brands such as Albert Quality, ARO, Clever, Coop, Coins, Spar, Farmyard, Tesco, Bargain and many others.

Materials and methods

To what extent are the Czech consumers aware of the existence of private brands as seen and in particular, whether and to what extent they purchase them? The research sought answers for the following questions. It took place with the participation of students from VSTE in Ceske Budejovice in autumn 2010.

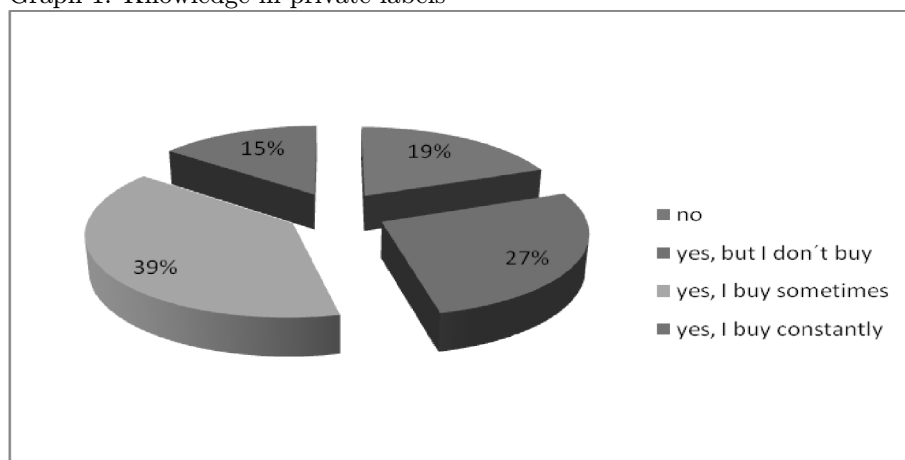
The research was conducted by a survey, a total of 450 respondents were personally interviewed. The chosen sample included an approximately equal numbers of men and women in all age categories. In terms of professions, employees dominated a lot, pensioners were relatively well represented, students and freelancers, too. Respondents lived in southern Bohemia, in the Vysocina region, central and western Bohemia, the representation of other area was exceptional. The survey was focused on several areas related to the perception of private brands; there are only some selected results in this paper.

Results and discussion

The awareness of private brands has been examined as part of the research. Respondents were asked if they knew the private brands and whether they purchase any of them.

The results are shown in the following pie chart No. 1

Graph 1: Knowledge in private labels



Source: own

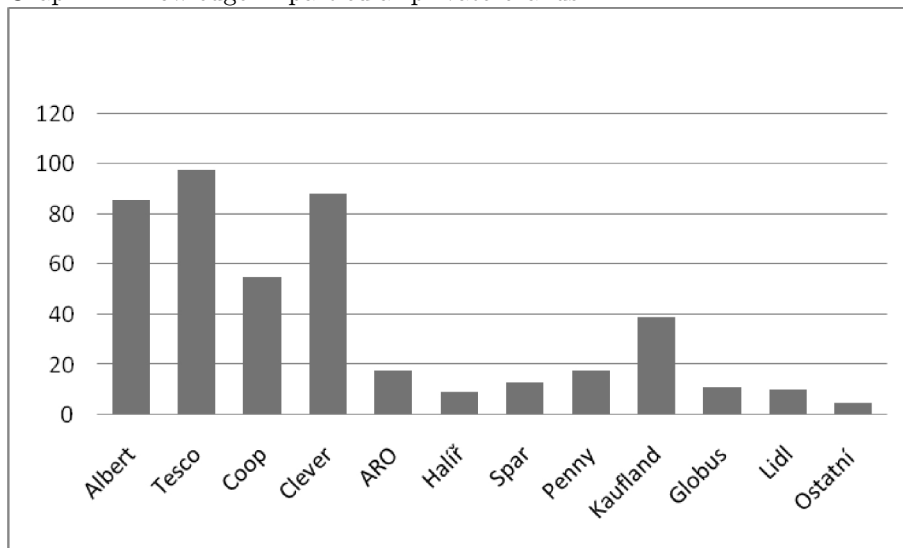
This is especially the men, the lowest and highest consumer age, people with basic education and residents of small communities. It is therefore evident that

knowledge and awareness of Czech consumers of private brands is very high. 81 % of respondents know about the existence of products with private brands.

The pie chart shows also clearly that there was a large group of consumers who, despite knowledge of some private brands, prefer to purchase other products. This group consists of more than a quarter, respectively of 27% respondents. Goods with private brands are bought by 64 % of respondents, of whom only 15 % regularly. Most respondents buy the brands only occasionally. In terms of socio-demographic characteristics a group of regular and occasional customers buying private brands internally structured differently. Regular product shopping with retail brands is more typical for women, citizens with university graduation and residents of the largest municipalities. Occasional shopping is common for pensioners and households with children.

Another question was directed to the specific items of private labels. An overview is available in a chart No. 2.

Graph 2: Knowledge in particular private brands

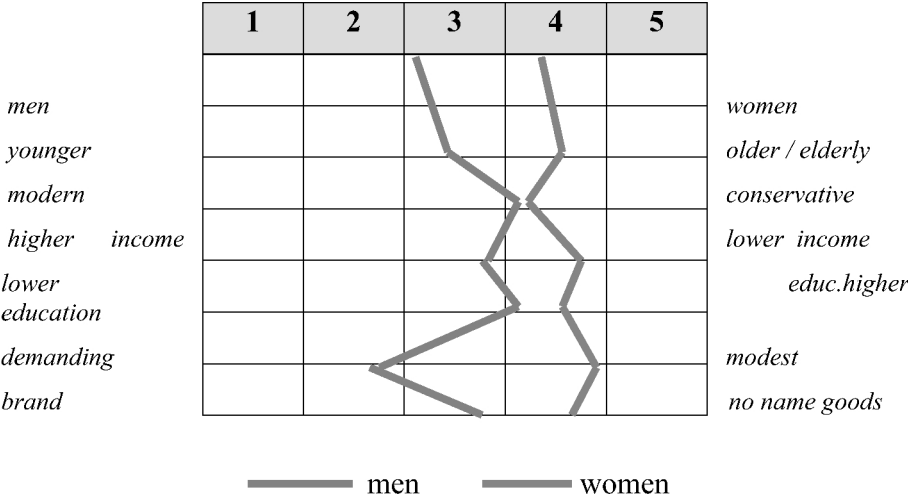


Source: own

The results show that the most popular private brands include large international chains. These are the Tesco Value brand, the Clever Billa and the Albert chain of hypermarkets and supermarkets Quality Albert. The surprise is a relatively high COOP brand recognition, which includes cooperative businesses with purely Czech background. The knowledge of which is particularly high in southern Bohemia, where the position of the Jednota stores and their marketing activities are outstanding. Equally surprising is the relatively low knowledge of private brands of discount stores. The knowledge of large international chains' private labels is very high. 89 % of residents of the middle-sized and large municipalities know about the existence of products with private brands.

Based on the analysis of socio-demographical characteristics of responders, a polar profile of perceptions of private brand by the Czech consumers was compiled. Responders were asked if they knew the private brands. Evaluation is based on a scale of 1-5, 5 is the maximum value. The results are shown in chart No. 3.

Graph 3: Polar profile of perceptions of private brand



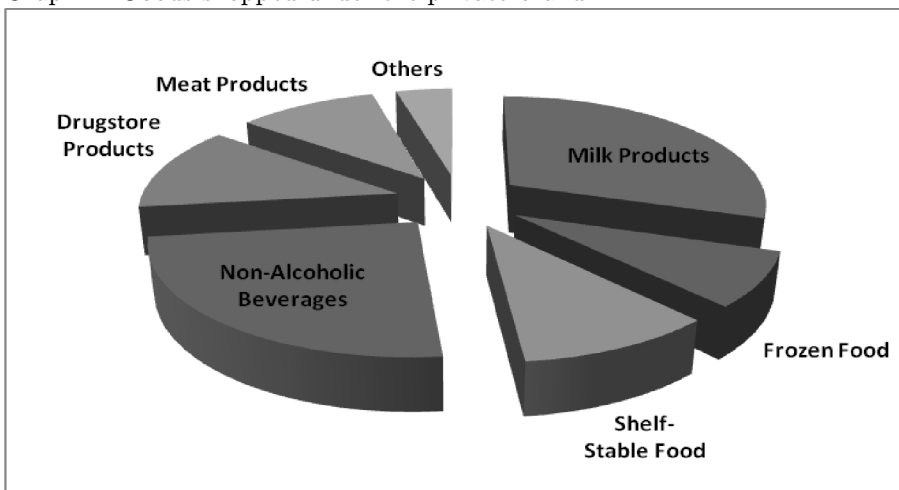
Source: own

There are significant differences (in the profile above) in the perception of private brands for men and women. The result may be influenced by the fact that the family shopping and budgets is the women's domain. They notice better the highlighted goods with a private brand which attract by a price promotion. Private brands are positively perceived by senior citizens, people with lower incomes and surprisingly by people with higher education. Demanding men tend to refuse private brands.

Another area examined by a survey was the structure of goods bought under the private brand, where respondents had to mention one type of goods they buy frequently. The results are shown in pie chart No. 4.

The most popular and therefore the most purchased are private brands included in the group of dairy products, soft drinks and shelf-stable foods. Another popular group is drugstore products. These groups are very similar to the European Union trends, where the percentage of goods purchased under a private brand is higher. Given that the recently published results of the STEM agency regarding perceptions of household poverty shows an increasing number of population groups who consider themselves poor (44 % of the population) (STEM 2011). This population group consists of people with lower education, the unemployed and the retired. So, it is possible to predict that the demand for private brands in these groups will grow consistently.

Graph 4: Goods shopped under the private brand



Source: own

Conclusion

Retail chains in the Czech Republic have recognized the growing importance of private brands, which have become now one of the most important competitive tools in retail battle. Private brand products are bought by more than by 80 % of customers nowadays. These brands do not serve only as a tool to generate profits, but also as a communication tool, but mainly as a means of co-creating the image and the influence perception. Brands often bear the name of the parent chain and traders represent themselves with these brands. In addition, the brands provide a certain uniqueness and difference to a chain; the customer will not find these products anywhere else.

Along with the change in the companies approach, the perception of customers is changing too. Customers, who previously purchased these products exclusively for their low cost, now, they are seeking primarily price / performance ratio. Private brand products are not ranked as substandard by most of them. On the contrary, they put them qualitatively on the level of national brands and 60 % of customers are even willing to keep doing their shopping because of these brands in a particular chain. Private brands are perceived more strongly by women, elderly, people with lower income and city dwellers. Women strongly understand the whole range of goods but the knowledge of private brands for sausages, drinks and frozen goods – this is domain of men.

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Vnímání privátních značek spotřebiteli v České republice

Tvrdý boj o zákazníka v maloobchodě se projevuje výrazným růstem počtu výrobků prodávaných pod privátními značkami, které se v současné době stávají významným faktorem konkurenceschopnosti obchodu. Jedná se o značky výrobků, které jsou produkovány a nabízeny maloobchodem pod jeho vlastním jménem či značkou. Sortiment maloobchodních značek je velice obsáhlý. Zatímco v minulosti byly nabízeny především jako nízkonákladová alternativa značek národních či mezinárodních, v současné době jim konkurují ve vyšší cenové hladině jako „standardní nebo prémiové“ privátní značky. Cílem příspěvku je analyzovat a diskutovat vztah českých spotřebitelů k těmto privátním značkám.

Klíčová slova: privátní značka, maloobchod, spotřebitel, ekonomické, standardní a premiové privátní značky, znalost a vnímání privátních značek

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