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STORE BRAND PRODUCTS ON THE MARKET OF HEALTH PROTECTIVE FOODS

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ABSTRACT

In Hungary the first store brand – alias private label – products appeared on the shelves of shops in 1995. In 2011 we cannot find any chains of stores without their own private label products in their line of goods. Private label distribution shows higher and higher proportion rates in the product range of national food chain stores. In the strong economic competition, it is not easy for chains of stores. Experience shows that it is more and more difficult to find such a product which successfully expands private label product lines. One of the most important options for progression is innovation, namely to develop brand products.
Keywords: food trade, private label, brand label, innovation

LITERATURE REVIEW

We could observe two major trends in food trade during the past years: one shows the increase of private label product rate and the other one shows an increasing number of health protective and organic foods in shops. There is also another significant trend on the market of traditional and provincial (local) foods, and on functional and organic food markets. According to *Oberholtzer* (2009) the share of store brand private label organic products had risen from 2% (2003) to 17.4% by 2008. In the case of milk, this ratio has doubled from 12% to 27%. The authors state that the quality of store brand products has improved significantly since the 1970-80's. Based on the reports of *Progressive Grocer* (2007) all sales of private label (in each category) have reached \$46.5 billion. The market of organic products has risen even faster than the market of private label products. The study mentioned above reports that in the USA bio-product sales went up from \$3.6 billion to \$21.1 billion between 1997 and 2008.

According to surveys made in 2008, 69% of the American adult consumers have bought organic products 'at least occasionally' and 19% of them have bought these products on a weekly basis. With reference to the organic food study of Hinter International Group, the market of organic products tripled at a global level between 1997 and 2007 with the biggest influences in Europe (54%) and North-America (43%). Based on the studies of *Sahota* (2009), the organic food sales account for as much as 4% of the total food sales volume in several European countries.

Changes in customer preferences raise the question of whether traditional foods can satisfy the new consumer demands. Due to the more and more competitive environment food retailers are able to and motivated to respond quickly to the changing consumer preferences. According to *Weaver and Moon* (2010) those innovation possibilities must be taken into consideration, which can generate such health protective private label goods that are not part of brand product lines. The report throws light on the fact that as a consequence of globalisation, market evolvement and informational advantages, the retailers are in a bargain position and can react to consumer demands quickly.

According to the survey of the Private Label Manufacturers Association (*PLMA*, 2010) the market of private label products is $88 billion annually in the USA. Over half of the customers in the USA buy store branded products. Based on the data of *Groznik and Heese* (2009) the market share of private label products is 16% in the USA and 30% in Europe. In the studies of *Avinash and Pindich* (1994), and *Zozaya-Gorostiva* (2003) it is said that for retailers the best opportunities lie in the timing of private label products, although they believed that customers were not likely to acknowledge and appreciate the functional features of trade brand products. *Weaver and Moon* (2010) assume that consumers can be divided into at least two major segments which are:

1. the segment of traditional buyers,
2. the segment of health conscious and experimentalist buyers.

The innovation possibilities for health care private label products and the buyers' reception are two very difficult areas for a store network to estimate. The retailer has to assess the future demands and has to decide whether to launch a product under a private label or not. If the answer is yes, the timing of launch must be decided for the private label product which might substitute a brand label product of similar quality and price position. In the writers' opinion food store chains often put such own private label products on the market which possess such health claims/messages that are not represented by the brand product. In these cases the private label represents for a higher quality or at least the same quality as the similar manufacturer brand name. However, this situation is quite contradictory to former statements of literature. According to *Choi and Conghlan* (2006) manufacturer brand products are of higher quality than private label goods, or customers are brand-loyal.

PRIVATE LABEL VS. BRAND LABEL

Based on literature we can distinguish two copyright brands: the 'manufacturer brand' (brand label, national brand) and the 'store brand' (own brand, own label, private label).

Store brands are such products which can be purchased only in a certain chain of stores. The most important features of brands are summarised in *Table 1*.

Before presenting the current situation of private label products it is worth knowing the stages of development (*Table 2*).

Table 1

Features of brand label and private label

Features	Brand label	Private label
Risk of possession and failure	Is the supplier's	Is the distributor's and/or the retailer's
Uniqueness	High	Low*
Brand identity	Narrow and always consistent	Expanded and consistent
R+D driving force	High	Low
Time limit	Long term/maintainable	Depends on retailer
Customer ads	High	Low
Distribution	Widely available	Available only in own stores
Price profile	High	Low/medium*
Customer loyalty	High	High only to the chain
Customer/seller relationship	Traditional selling	Common aims
Customer/seller coordination	Medium	High

*Except for 4th generation premium and innovative niche private labels.

Source: Based on *Ezrachi and Bernitz*, 2009; *de Jong*, 2007

Table 2

Stages of private label product development

Features	First generation 'economic'	Second generation 'characterless'	Third generation 'me too'	Fourth generation 'unique'
Brand	'No name'	'Quasi brand'	Umbrella brand	Segmented brand
Products	Basic food	Large volume	Many categories	Image maker goods
Technology	Basic technology with low limits	Behind market leader (brand 'B' type)	Nearer to market leader (to brand 'A')	Innovative
Quality/image	Lower than brand product	Medium but not really noticeable	The same, trade quality guarantee	Good/better than leader brand. Trade image aura.
Customer motivation	Price	Price	Good value for price	Better than other products
Manufacturer	National, mostly not own brand specialized	National, partly own brand specialized	National, mostly own brand specialized	International, largely own brand specialized

Source: Based on *Sattler*, 1998; *Bruhn*, 1997

THE EFFECTS OF STORE BRAND PRODUCTS ON PRODUCT INNOVATION

Defined by *Iványi and Hoffer* (2010) 'Product innovation is such a service or product development with launch which is new or mostly renewed in terms of product features and its usage. It involves technical descriptions of development, product components and materials, the built-in software, the user-friendly features or other functional characteristics.'

Drucker (2003) derives sources of innovation from seven fields:

- unexpected events,
- lack of harmony,
- needs of processes,
- changes in market and industry,
- demographic changes,
- changes in mentality,
- appearance of new knowledge and its utilisation.

The connection between store brands and innovation is sometimes addressed with positive, sometimes with negative criticism in certain literature.

Viewed as negative effects if:

- The spread of store brands limits the innovation processes of manufacturers. According to *Olbrich et al.* (2005) and *Sexton et al.* (2002) in this case manufacturers can ignore innovation in research and development.
- New innovative brand products are copied faster and better than before – there is no time to recover the costs of innovation.

Viewed as positive effects if:

- Real, non-copied product innovation can be realised by retailers based on direct customer feedback (*Chunling et al.*, 2008; *Maurer*, 2006).
- It can speed up innovation processes at well-capitalised food-industrial companies (*Competition Commision*, 2007).

For manufacturers and retailers there might be innovation ideas in the following things: the unhealthy lifestyle of the Hungarian population, improper eating habits, aging society and the need for sustainable development (*Szakály*, 2010). The quality of food and the product range may influence significantly the customers' quality of life, health and eating habits.

Based on the innovation strategy plan of the *Hungarian National Food-Technology Platform* (2009) the R+D innovation efforts should focus on the following areas:

- innovations to facilitate health conscious diet,
- innovations to provide more convenience and pleasure to consumers,
- innovations to protect features of traditional foods,
- innovations of processing technologies and related technologies,
- innovations to satisfy Hungarian consumers' taste,
- innovations of methods to increase effectiveness and reduce losses.

A major element of the strategy is to encourage efforts for promoting the purchase of nationally produced, healthy foods. Unfortunately, the economic recession of the past years has hindered innovation processes. Between 2003 and 2007 the volume of production has decreased by 8.4%, the domestic sales by 14.4% and the number of employees by 17%. Due to recession, Hungarian consumers have become considerably price sensitive.

Countless questions arise in the customer during shopping, but first of all the question of *where* and *how much*. In the strict sense of the word, healthy food is really hard to find in a little local shop. We can obtain this type of food mainly—beside hypermarkets—at specialized shops, organic food stores or drug shops.

Nowadays, almost all of the food chain stores sell store brand products which cost 20-30% less than similar category products. The favourable price and the prevalence of the chains of stores make it possible for the customers to purchase those foods which meet the requirements of up-to-date and health conscious mentality. In 2008 a Hungarian food chain of stores saw an opportunity to widen its store brand product range with functional food products.

EXPERIENCE IN THE DISTRIBUTION OF HEALTH PROTECTIVE STORE BRAND PRODUCTS

The Hungarian Coop food chain of stores has been selling store brand products for almost ten years. The chain has been producing its store brand products under its own name and now there are 800 of these products. This number has been increasing year by year dynamically, though it can be felt that it is becoming more and more difficult to find such a product category which is worth being launched under the store name.

In 2008 Coop also saw an opportunity to widen its store brand product range with functional food products, so experimentally it released 14 new store brand products.

Not just the quality and the higher intrinsic value of the products were emphasized, but the packaging and the obvious information too. The highlighted, vital features of the nourishment were easy to read with the help of pictograms to inform the customers. The main graphic design is characterised by naturalness and high quality product photos.

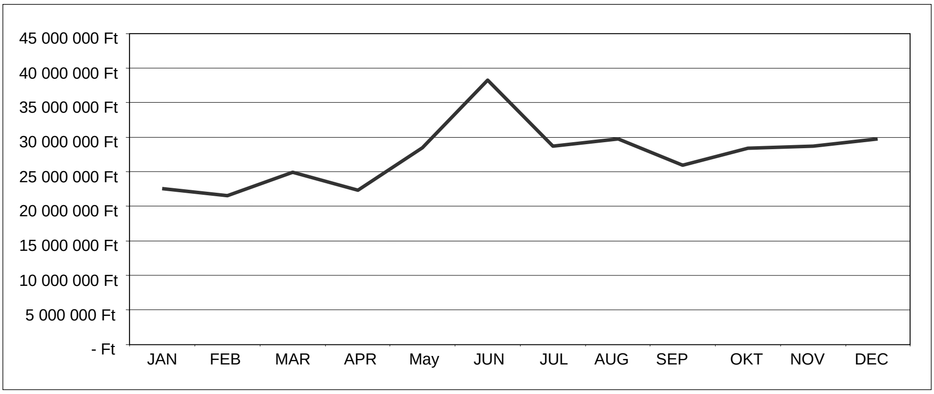
In the stores leaflets were distributed to draw customers' attention to the highlighted features of the products and their effects on health:

- Source of dietary fibre
- With wholemeal grain
- Gluten free
- Source of protein
- Free of flavour enhancer

The products were well received by the customers, which can be supported by the turnover figures, the sales after an initial period have reached over HUF 20 million per month.

Figure 1

Turnover figures of Coop *Good for Me!* products



Source: *Coop inner data*, 2008

There is a peak in the yearly figures in June (*Figure 1*). The reason for this was an intensive marketing campaign which included for example, flyers, discount price and use of media. The turnover data in the graph show a continuous increase.

CONCLUSIONS

On the basis of sales experience the following aspects were important beside product quality:

- Preparedness of staff: shop assistants must be able to answer the customers' questions because there is no trust in the brand without this step.
- The intrinsic value and flavour of the product: 'healthy' food must be not only of excellent quality, but tasty too, otherwise there will not be a second purchase of the product.
- Product recommendation: it is important from the shop assistants too, but more important from opinion leaders or from friends, colleagues.

To sum up what has been said, we can state that by distributing health protective store brand products the chains of stores make it possible for customers to have an easy access to basic food products, which are beneficial for their health at a favourable price.

It is highly important to inform the customers and to display useful information on the product packaging, which is easy to understand for the layman too.

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