

Private label brand adoption in South Africa: a qualitative analysis of grocery products using expert opinion

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Keywords

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Abstract

This study considered the adoption of private label brands, with a particular focus on breakfast cereals sold under a retailer's own label, within the South African grocery sector. A panel of twelve corporate and academic experts was assembled and consulted to probe these issues and draw suitable qualitative insights for retailers to improve the inherent quality of their private label merchandise and the marketing thereof. Based on the insights gleaned, a number of conclusions and managerial implications were reached. This study produced results to suggest that packaging is an inadequate feature of PLBs in their current state, suggesting a potential reason for their poor quality perceptions and relative lack of success in the South African market place. Moreover, the study stressed the importance of value, and particularly the effect of price in this equation. Lower prices have served as the basis on which these products have traditionally been sold, yet product quality should not be overlooked as a determinant in the value equation. Moreover, the leverage potential of the store image was also highlighted as a prominent factor to allay such fears and create a 'halo effect' for the brand.

1. Introduction

This study considered the adoption of private label brands, with a particular focus on breakfast cereals sold under a retailer's own label, within the South African grocery sector. Whilst most studies within this field of enquiry have conducted consumer level research, this study considers issues from an industry perspective. To this end, a panel of twelve corporate and academic experts was assembled and consulted to probe these issues and draw suitable qualitative insights for retailers to improve the inherent quality of their private label merchandise and the marketing thereof.

2. Background to the Study

2.1 Brands in the Retail Sector

Brands are omnipresent in both scholarly literature and daily life (Fan, 2005). deChernatony (2001) describes a brand as "an identifiable product, service, person or place, augmented in such a way that the buyer or user perceives relevant, unique, sustainable added values which match their needs most closely" (Mowle & Merrilees, 2005: 221). Weisnewski (2008: 53) refers to a brand as "everything associated with a company, product, service or person - all the attributes, tangible and intangible". These benefits are vital in terms of product and service differentiation and play an important role in building and maintaining consumer loyalty (Weisnewski, 2009; Knox, 2004; Wood, 2000). Weisnewski (2008: 57) succinctly declares that a brand is a powerful ambassador for the company and "rallies your troops and builds a loyal base of customers who also become messengers happy to spread the word and expand your business".

In the retail sector, primarily two forms of brand categories exist – National Brands (NBs) and Private Label Brands (PLBs). The key difference between them lies in the ownership of trademark rights. “Trademark rights of private label brands are held by retailers, while trademark rights of national brands are held by manufacturers” (Olbrich & Grewe, 2009: 937). Thus, PLBs are owned, controlled and marketed by the retailers and NBs are acquired, and resold, from established suppliers.

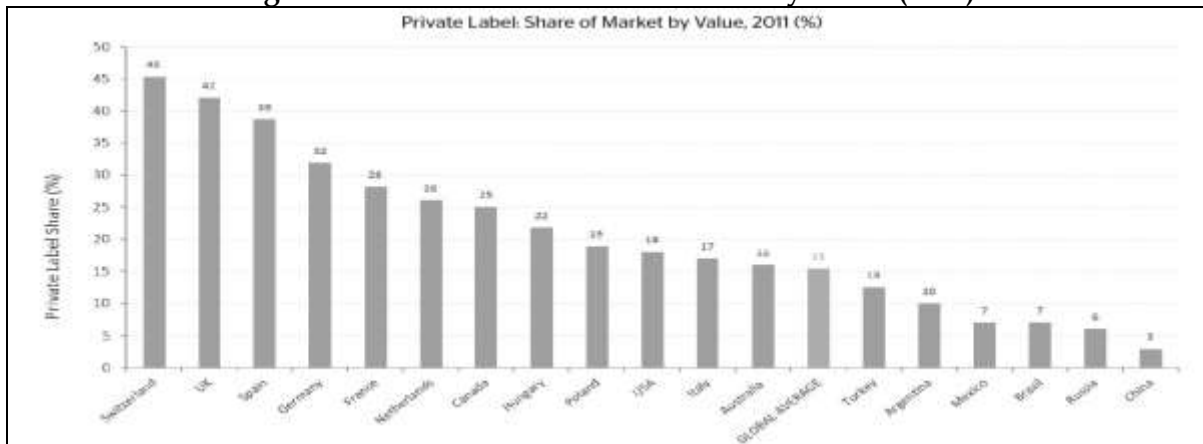
PLBs are generally priced lower due to simple packaging, weak brand recognition and minimal advertising, whilst national brands are priced at a premium due to strict quality controls, aesthetically appealing packaging and widespread advertising (De Wulf *et al*, 2005). As a result, the average consumer perceives NBs to be of superior quality and reliability (Martenson, 2007; De Wulf *et al*, 2005). However, NBs are somewhat limiting for retailers in the sense that they do not differentiate the business from its competitors and restrict the opportunities available for merchandise innovation and customer loyalty retention (Martenson, 2007). PLBs, on the other hand, offer the retailer a raft of advantages. These are discussed below.

First, owing to the modest marketing and supply chain expenses in managing PLBs, retailers are able to sell them at competitive prices while maintaining higher margins than achievable on NBs (Kumar & Steenkamp, 2007; Baltas, 2003; Corstjens *et al*, 1995; Broadbent, 1994). Another invaluable aspect of PLBs is that they strengthen the bargaining power of retailers (Herstein & Jaffe, 2007). An innovative PLB may also serve to breathe fresh life into a category which has become staid, or where competition to a leading NB is sorely needed. Hence, PLBs can provide consumers with a “real brand choice”, thereby increasing customer satisfaction through greater product variety (Huang & Huddleston, 2009: 978). For example, the aforementioned successes are evident in Tesco’s Finest Premier Cru Champagne, which was named the best non-vintage champagne at the 2005 International Wine Challenge (Kumar & Steenkamp, 2007). Lastly, PLBs are store specific and are, hence, not substitutable when switching to a different retail chain. Thus, they avoid direct price competition and enhance store differentiation (Huang & Huddleston, 2009; Herstein & Jaffe, 2007; Zielke & Dobbelstein, 2007; Baltas, 2003).

2.2 A Profile of Private Label Brands

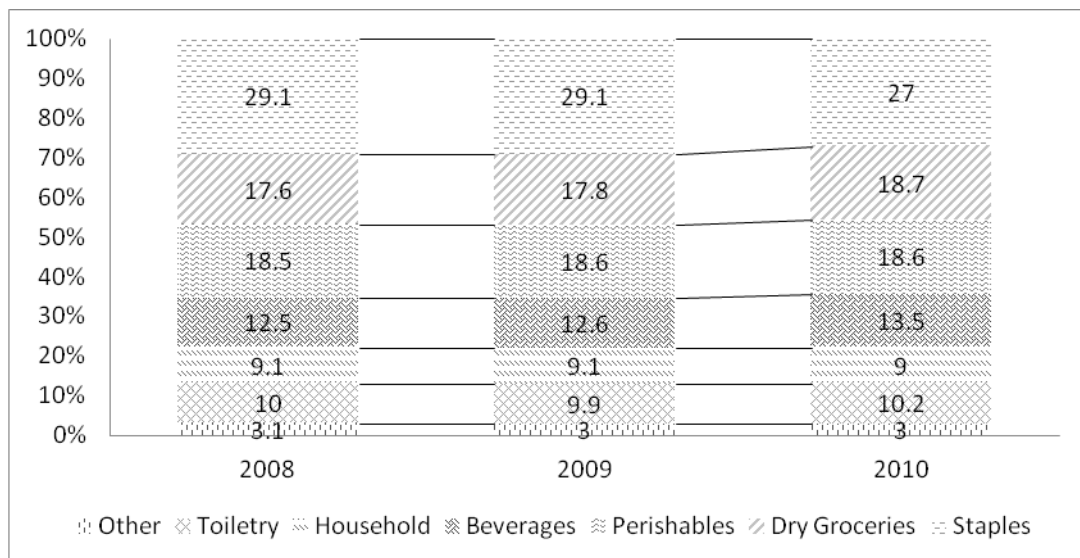
Internationally, PLBs constitute an average of 15 percent of total retail market share, with some European countries (e.g. Switzerland and the United Kingdom) fast approaching a 50/50 split in market share between NBs and PLBs. In contrast, South Africa’s private label penetration rate is a mere 11 percent, similar to that of Turkey and Argentina (Klug & Queck, 2012). The remainder of Africa fares even less favourably. Figure 1.1, on the following page, illustrates the private label market share achieved by a host of countries. It is immediately evident that Western European nations are leading the charge in penetrating their domestic markets with PLBs. Emerging markets such as Turkey, Argentina, Mexico, Brazil, Russia and China experience penetration rates significantly below the global average (15 percent) and are therefore still playing ‘catch up’.

Recent academic research on this subject affirms the above findings. Herstein and Jaffe (2007) found that European and North American markets were fertile grounds for PLBs, achieving some of the highest penetration rates. Nonetheless, emerging markets are experiencing phenomenal growth potential, with growth rates of up to eleven percent recorded, albeit off a low base. This is in stark contrast to developed nations that were seen to have a reasonable growth rate of approximately five percent.

Figure 1: Private Label Share of Market by Value (2011)

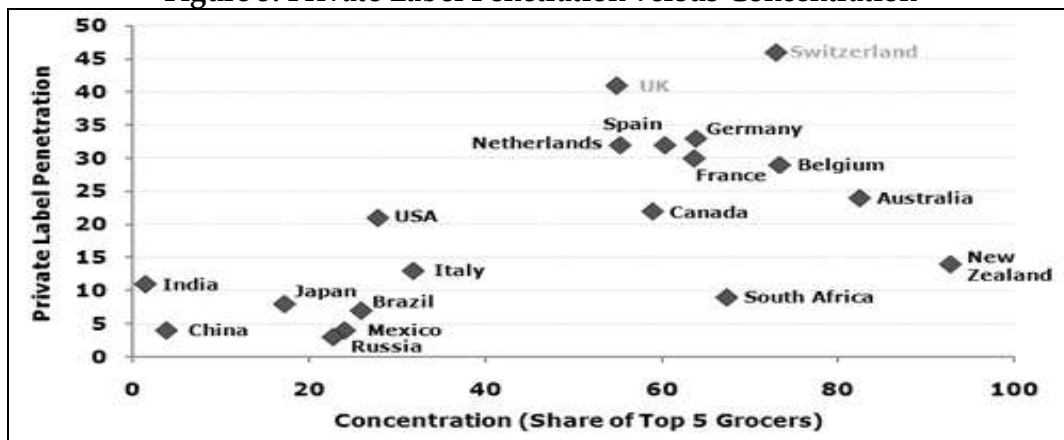
Source: Klug and Queck (2012)

In terms of private label adoption in South Africa, the relative success of different product segments is depicted in Figure 1.2 on the following page. Staples (commodities) comprise the largest segment, followed by dry groceries and perishables. These three segments command the lion's share of the market – approximately two thirds of private label sales. As can be seen, these segments have remained relatively stable over the review period of 2008 to 2010 (Nielsen, 2011).

Figure 2: Consumer Spend on Private Labels (2008–2010)

Source: Nielsen (2011)

Research has established that high retail concentration (essentially an oligopoly scenario in the retail sector) is strongly correlated with the success of PLBs (Nielsen, 2006). Figure 1.3, depicting market research by Planet Retail (2010), bears testimony to this. It may be seen that countries such as the United Kingdom, Switzerland and Germany all enjoy relatively high penetration rates of PLBs. This is positively correlated with the concentration of retail power in the grocery sector. Hence, these results indicate that when a small number of relatively large grocery chains dominate the market, one would expect to see private label penetration receive a stimulus.

Figure 3: Private Label Penetration versus Concentration

Source: Planet Retail (2010)

Yet, in South Africa, despite a high degree of retail concentration held by the five major supermarket chains, PLBs have not achieved the level of success of their global counterparts. This may, in part, be explained by the accessibility factor. In South Africa, lower income groups often do not have direct access to supermarket stores where PLBs are readily available. This leads these consumers to shop at local 'spaza' outlets, similar to convenience stores, but owned by community members and present in the township areas. These stores tend to charge higher prices due to their location, as well as not being able to benefit from larger economies of scale (Klemz et al, 2006). Almost twenty percent of Fast Moving Consumer Goods (FMCG) sales are estimated to occur through this informal sector (Blottnitz, 2007), therefore representing a lost opportunity for private labels. This is in contrast to developed countries, which tend to have a smaller informal sector.

3. Methodology

In order to shed light on the status quo of marketing and adoption of private label brands in South Africa, with a particular emphasis on breakfast cereals of this variety, a series of questions was put to a panel of experts in order to collect qualitative insights to better understand this market segment. The core questions raised in the consultation process are reflected in Table 1 below.

Table 1: Questions posed to Panel Members

Question 1	What is your view on the product development status and value proposition of FMCG private label brands, in general, within South Africa?
Question 2	What is your view on the product development status and value proposition of <u>breakfast cereal</u> private label brands in South Africa?
Question 3	In your opinion, how could private label brands, such as breakfast cereal, be better marketed in South Africa?
Question 4	Are there are particular variables or consumer characteristics that you feel might influence the value proposition or consumption behaviour of private label breakfast cereal in South Africa?

A panel of experts was assembled, consulting of six senior academic staff members of a prestigious university in South Africa, and six members of the local business community with knowledge and experience of private label brands. Their initials and association (academic versus corporate) are reflected below.

- JS(academic)
- GH(academic)
- EB (academic)
- HS (academic)
- JL(academic)
- CM (academic)
- SH (corporate)
- IW (corporate)
- BB (corporate)
- AN (corporate)
- AF (corporate)
- TM(corporate)

The corporate members of the panel included the executive director of a major private label contract manufacturer in South Africa, a retail data analysis and consultancy provider and the category operations manager of a worldwide food producer.

Based on the collective qualitative response of the twelve members listed above, data from the panel was assessed and insights drawn. The question-by-question feedback is synthesised and presented in the findings section below. Thereafter, conclusions and managerial implications are extracted.

3. Findings

3.1 Panel Response to Question One

The first question probed participants' general views on the product development status and value proposition of FMCG private label offerings in South Africa.

Arguably, the most authoritative view was raised by AN, who has engaged in the business development and marketing of both national and private labels over the previous quarter of a century. He asserted:

"I believe that it has made very good progress in the past 5 years, but that it still lags that of Europe, in particular the UK, France and Germany. The improvement over the last couple of years can be seen in the market share gains of Private Label products across a large number of FMCG categories. The improvement is driven by improved quality product, better packaging, improved availability and visibility on supermarket shelves."

A more scholarly-oriented view was advocated by GH:

"In my mind these products were initially developed to reflect a 'better' value proposition based primarily on price and volume advantages. In modern marketing practice I suspect that the use of PLB has moved beyond just transactional factors. Seemingly brands can now be employed to achieve multiple strategic marketing objectives – such as trust in a particular retailer."

These sentiments were echoed throughout the panel. BB, however, pointed to a continuum of product development, drawing a sharp contrast between the mass-market retailer, Shoprite, and Woolworths, positioned at the upper end of the market:

"My perception is that there are private label brand options for most FMCG product categories. On the one end of the spectrum Shoprite private label products have generic packaging but offer excellent value for money, whereas on the other end of the spectrum Woolworths private label products have more sophisticated package design and are priced to suit the premium, less price-sensitive customers they target. My feeling is that different South African retailers have well developed yet different private label brand strategies that are well designed to meet the value expectations of their customers."

AF provided a fascinating insight from his company's independent analysis:

"I have noticed in our data [...] that people often can't distinguish between house brands and non-house brands."

AF substantiated this finding by saying that although private labels have experienced very modest growth and played a relatively small role in the growth strategies of retailers, this appears to be changing with

"more retailers developing their private label brands from something that used to be the 'cheap alternative' to more trusted and even exclusive brands".

He further contended that

"private label brands are likely to continue increasing market shares, especially if products are perceived to be good quality – which seems to be the case".

JS also weighed in on the issue by postulating that the prominence and stature of many NBs puts them in an enviable position to compete with private label alternatives.

He postulated that the

"...hangover from apartheid days when many multinationals pulled out of RSA [Republic of South Africa], fearing that their presence here would impact on brand performance in other countries," has resulted in there being "relatively few national brands available, making them very powerful in terms of their interaction and negotiation with the relatively few major retailers locally."

JS noted that is particularly evident in the breakfast cereal market.

An amalgamated version of these views reflects a competitive landscape with private labels rising in prominence and competing increasingly aggressively with entrenched NBs.

3.2 Panel Response to Question Two

The second question probed participants' general views on the product development status and value proposition of breakfast cereal PLBs in South Africa.

Again, an impression of a dynamic market was created by the participants in response to the second question posed. In this instance, the issue of price was reflected as a highly pertinent factor in the views expressed.

In her personal capacity, CM claimed that she has *"tried new brands of cereal usually to check the quality of the cereal but mostly based on competitive cost"*. Underscoring this notion, GH and BB asserted that retailers are looking for the edge by punting their cereals as a cheaper alternative to NBs. EB appeared to agree with this sentiment through her statement that:

"I would be happy to always buy private label brands if the price differential (between these brands and national brands was substantial enough."

However, she noted this is often not the case, with a tried and trusted NB often priced only slightly above the private label option. For that reason, EB appeared skeptical about the comparative value proposition of private label breakfast cereals.

The notion of cheap manifested itself in various forms. SH noted that most of these products are *"boring"*, particularly due to *"little product differentiation and innovation"*. JL, likewise, noted that:

"The packaging is often a bit bland (picture with white background) which interestingly seems okay for dairy products (I almost exclusively buy PnP label dairy products including yoghurt, milk, butter) but the bland packaging doesn't entice me towards PnP cereals."

AN also took issue with the mediocre packaging from an industry perspective:

"Price is [the] only value proposition for private label. Others such as pack design, innovation and on-shelf availability are poor."

The transformation of breakfast cereal, as a product category in its own right, was placed under the microscope by JS. He reckoned that consumers increasingly see the product in transactional terms:

“The consumption of breakfast cereal has undergone massive change as people’s lifestyles change. Breakfast is no longer a family-sit down affair. People eat on the run, so to speak. Note too, that cooked breakfasts are a thing of the past.”

The panel response to question two paints of picture of under investment in private label breakfast cereals. In this respect, the value proposition is questioned, along with the extrinsic cues such as packaging and in-store enticement. Further to this, JS’s view alludes to the fact that breakfast cereal is becoming a discretionary item, as opposed to staple dietary requirement.

3.3. Panel Response to Question Three

Question three placed the spotlight on how PLBs, such as breakfast cereal, could be better marketed in South Africa.

Responses from participants focused predominantly on improvements in the intrinsic product quality and packaging, as well as the on-shelf appearance of this merchandise.

According to HS

“If PLB’s want to compete with national brands amongst higher income consumers a larger focus could be placed on the source and manufacturing of the products, as well as the quality of the ingredients used.” Furthermore, *“PLB’s could also be less generic in their product offering and start adding extensions and formulations to their products in order to differentiate themselves further from the national brands. E.g. Cornflakes with Berries, or Vanilla Cornflakes, Larger Flake Cornflakes etc (i.e. anything that the national brands are NOT currently doing).”*

SHand BBalso highlighted the need to improve packaging and suggested further means of endorsement and promotion such as punting South African production and consumption (SH: *“local is lekker”*, translated as *“local is really good”*), in addition to in-store tastings to demonstrate product features and provide quality assurance.

TM felt that considerably more needed to be done at an in-store level:

“I think the activity in store could be up weighted. I think what they have done with positioning on shelf next to the market leader is the biggest win for them. However, they have not done much else to drive awareness to their offer at shop shelf. There is no media/communication at shelf highlighting their offer versus the market leader.”

Whilst concurring with the need for in-store attractions and exposure, AF stressed the need for mainstream media exposure. He asserted:

“Considering the vast amount of ‘traditional’ (albeit expensive) advertising that national cereal brands do through television, big billboards and competitions, the options for more extensive marketing are limitless. Store based promotions could also expand the consumer base.”

AN drew together a number of the insights expressed both in this question and elsewhere in the feedback process. His suggestions for retailers were recorded as follows:

- *Improve the appearance and design of private label breakfast cereal packaging to make it more attractive to children (who are heavy users of the product).*
- *Allocate greater shelf space to these products than is currently the case.*
- *Place a strong focus on innovation as private labels are paired against formidable competitors such as Kellogg’s, Bokomo and Jungle Oats.*
- *Strengthen the value proposition across all factors of price, quality, packaging, etc.*
- *There may still be gaps in the category worth exploiting. For example, there is potential to develop and launch a Weetabix lookalike as a private label.*

3.4 Panel Response to Question Four

Question four sought to clarify whether there were any exogenous variables and consumer characteristics, not included in the study, which might influence the consumer's value proposition of, and consumption behavior towards, the merchandise under consideration.

Whilst there was a subtle difference in wording between the two questions, the panel participants referred to the pertinent issues interchangeably. Hence, these were jointly analysed. The respective views are presented below.

The influence of reference groups and peer perceptions were highlighted by SHand GH as noteworthy facets for further enquiry. So too was the distinction between rural and urban consumers. Here, GH added further clarity by stating that

"one may gain new insights by employing a culture measurement to account for within-country diversity".

Thus, in a country as multicultural as South Africa, further strands of research into cultural differences may prove enlightening. Connected to this perspective, BB created a linkage between reference group marketing and the promotion of the merchandise:

"I think reference group marketing / opinion leaders could play a significant role in the promotion of private label brands. Choosing [sic] opinion leaders (aspirational specifically although contractual could work too) relevant to the target audience of the private label brand could go a long way to establishing trust for the private label brand without product trial and without above-the-line spend. Product packaging and in-store promotions (including physical appearances, giveaways and cardboard cut-outs) could be leveraged to promote the endorsement of the private label brand by the opinion leader."

JL and EB both noted that "generational" or "family" influence might have a bearing on how consumers perceive the merchandise. JL added that his children have some sway in determining which cereals are bought for the household. Allied to this viewpoint, the influence of children was also raised by AN, noting that:

"They are the main users and also very strong influencers as to what the mothers must buy. What do children think of Private Label versus branded products? They certainly will look at different value drivers than what mothers do, i.e. packaging on the table."

HS and GH both pointed to the distinction between willingness to buy and actual purchasing behaviour. Here, GH suggested that a lot of research, including this study, has opted in favour of capturing a self-professed intention to buy, rather than observing actual purchasing behaviour. Hence, uncertainty was expressed as to whether the stated intention to acquire the merchandise necessarily translates into an affirmative decision at the point of purchase. This remains a limitation of model-based consumer studies.

HS also drew reference to the notion of social risk, stating that some products that are used in a public environment may be more susceptible to this form of risk than household consumption items. Therefore, in her words,

"willingness to buy may then also possibly be influenced by personal image as well as intended final consumption".

Two further factors were highlighted by TM and EB. TM pointed to the time of the month, suggesting that consumers are likely to favour NBs at month-end after having been paid their salaries, whilst PLBs may benefit from 'top up' purchases throughout the month when funds are not as plentiful. Connected to this, EB suggested that disposable income levels are highly likely to influence shopping patterns and purchase decisions. Owing to these constraints, certain individuals and families may therefore be forced into buying the cheaper brands (typically PLBs) without due consideration of factors such as perceived quality and risk.

3.5 A Visual Summation of Responses from the Panel

A Word Cloud reflecting the amalgamated response from the panel is depicted in Figure 4 below. This graphic highlights frequently used words in the responses from panelists, with the text size directly proportional to the volume of usage encountered within the responses received. As expected, the words *private*, *label* and *brand(s)* featured prominently. Other words such as *market*, *products*, *quality*, *value*, *buy*, *packaging* and *retailers* also featured strongly, although to a slightly lesser degree. Hence, the core issues addressed throughout this thesis surfaced, once again, as prominent factors in the Word Cloud.

Figure 4: A Word Cloud reflecting the Terms derived from the Panel Data



Source: Wordle.net

4. Conclusion & Managerial Implications

This study produced results to suggest that packaging is an inadequate feature of PLBs in their current state, suggesting a potential reason for their poor quality perceptions and relative lack of success in the South African market place. In addition to improving packaging as a countermeasure to these perceptions, in-store initiatives (such as taste tests and enlarged shelf space) were advocated as further remedies. The leverage potential of the store image was also highlighted as a prominent factor to allay such fears and create a 'halo effect' for the brand. Moreover, the study stressed the importance of value, and particularly the effect of price in this equation. Private labels have traditionally relied upon preferential pricing to drive sales. However, the issue of product quality is also rising to the fore. Due to the competitive nature of many product categories, including breakfast cereal, content quality is a key driver of product success or failure in the modern retailing environment. Unfortunately, the inherent product quality of certain private labels is understood to be poor, primarily relying on price to generate sales. This disposition appears unsustainable as competition intensifies.

Finally, within the Word Cloud, a number of terms appeared prominently, reflecting the frequency of these words cited in the insights gleaned from the panel of experts. Apart from the expected words *private*, *label* and *brand(s)*, the words *market*, *products*, *quality*, *value*, *buy*, *packaging* and *retailers* featured prominently. This suggests that offering customer's quality, value and attractive packaging are pivotal in the marketing of private label brands of this variety. Retailers would be advised to heed this advice.

5. Limitations of the Study

This paper profiled the qualitative research component of a study investigating the marketing and adoption of private label brands in South Africa. It is naturally limited by a relatively small sample size (12 respondents), the geographic scope (South Africa) and the type of merchandise considered (Fast Moving Consumer Goods, and specifically breakfast cereals).

Nonetheless, it is hoped that this will shed further insight on a mounting volume of research concerning private label brands in emerging markets.

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