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THE EMPIRICAL ANALYSIS OF PRIVATE LABEL BRANDING IN HUNGARY WITH SPECIAL ATTENTION TO UTILITARIAN AND HEDONISTIC PRODUCTS

Doctoral (PhD) thesis

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1. Aims and hypotheses

Retailers went global and grew very powerful. They have turned their names into brands, and by their store brands, became a very dominant player of global sales. Manufacturers, because of their growth constraint, spent more and more of their budgets on short term oriented sales promotions, instead of long term oriented brand building activities. This tendency permited private labels and retailers to dominate manufacturer brands, and as a result, today we can find private label offerings in electonics, financial services, software, clothing etc.

This is why the author found this topic especially interesting, to examine *how much the Hungarian consumer's purchasing behavior differs from the European one*, and whether based on this *it is possible to form optimal branding strategies for different categories and retailer types.*

The aims of the author considering the above mentioned were as follows:

- □ To examine, how much private label definitions in the literature cover the new tendencies and development of store brands. Based on the results the goal was to review these definitons by incorporating the new development trends.
- □ To research what the Hungarian consumer perceives as private label, and how it may effect its purchasing decision making process and attitude.
- □ To describe the Hungarian private label consumer and model its brand choice process.
- □ To introduce the advantages and disadvantages of the different private label branding strategies, and their application possibilities to the Hungarian market.
- □ To decide whether there is a difference between branding startegies of utilitarian and hedonistic products. And to analyse if a possible optimal strategy can be formed considering the Hungarian consumer habits.
- □ To justify the existance of trend focused private label subbrands by defining which ones would be the most accepted by Hungarian consumers. Therefore based on consumer attitude, the development directions for these subbrand categories may be defined.
- □ To analyse how much strategic herding exists in the retailer food business in Hungary and what possible effects it may have on the future of private labels in this market.

- □ But the most important goal of the dissertation is to fill a hole in the Hungarian literature in this field by summarizing private label branding strategies and their relations to other elements of the marketing mix.

The hypotheses of the dissertation were formed based on the secondary research:

In connection with general consumer attitude towards private labels:

H.1. The Hungarian consumer considers only those brands private labels which bare the name of the retailer.

H.1.1. They perceive brands sold by discount stores as national brands.

In connection with consumer preferences towards brands in different product categories:

H.2. Hungarian consumers prefer stores with private label and national brand selection the most.

H.3.1. *At utilitarian products* the optimal branding strategy is to use umbrella branding versus own (phantasy) labels.

H.3.2. *At hedonistic products* the optimal branding strategy is to use the retailer's name maximum as a supporting brand, but better to use own labels.

H.3.3 In hedonistic product categories consumers prefer national brands over private labels.

H.4. *Trend focused private labels* have to be considered as a seperate group beside utilitarian and hedonistic product categories.

H.4.1. There is higher consumer loyalty in private label categories focusing on health.

H.4.2. From trend focused private labels Hungarian consumers would prefer to purchase *Hungarian* Fair Trade products the most.

In connection with the analysis of private label branding behaviour in the Hungarian market:

H.5.1. Retailers also copy each others' positioning startegies, therefore these strategies are not the tools of *differentiation and identification* any more.

H.5.2. Because of the strategic herding, positioning strategies cannot be differentiated by discounters and hipermarkets any more.

2. Content, methodology and reasoning of the research

The two most important retailer models have been chosen for the analysis of the research in Hungary: hypermarkets and discounters. Tesco and Spar for the hypermarkets, as only these two groups had significant private label activity at the time of the start of the reserach in Hungary. At these retailers there was sophisticated private label branding along with many trend focused private labels. For the discounters the two significant German discount chains: Aldi and Lidl have been chosen for the research.

- For the analysis and presentation of customer behavior, consumer attitude, and private label branding stra
- tegies in general **exploratory and descriptive methods** have been used with **non comperative scaling techniques (Likert scale).**

The author used empirical **quantitative and qualitative methods** to prove or to reject the hypothesis within the frame of the primary research.

- The aim of the *focus group interviews* was to better understand coherences between consumer attitude towards private labels and their branding strategies. As it was important that participants know private labels, and do not only buy national brands, they have been conditionally selected based on the specification given by the definition of the private label consumer. The two group interviews have been conducted in the period of November and December 2009 with 20 people altogether.

- Participants in the *survey* have been selected by random considering age and schooling segmentation. The questionnaires were filled out at five Hungarian Universities: in Dunaújváros, Sopron, Szombathely, Budapest and Pécs. *584* students have filled it out in the period of September and December 2009.

3. Research results

The most important goal of the dissertation was to summarize the international private label related branding literature in Hungarian. Therefore the thesis covers the most relevant areas of marketing management, and summarizes the results of international and Hungarian researches conducted in this field.

Below I would like to review once more **the theses of the dissertation and their possible applications in practice.**

T.1. The Hungarian customer considers only those brands as private labels, which bare the name of the retailer on the product.

This thesis verifies that looking from the customers point of view, and not from a marketing professional's one, based on my broader definition of private labels, customers consider only those store brands as private labels, which bare the name of the retailer on the packaging, thus private labels using own labelling strategy will not suffer from prejudice existing towards store brands in Hungary.

T.2. Customers consider discount brands as national brands, because of the „own label" branding strategy used.

This thesis is very important regarding Hungary, because while in Europe customers are perfectly aware of the discount brands being private labels, in Hungary they think that they are unknown national brands, and are willing to try them more than the umbrella branded ones. At the same time the restricted offer of discount brands does not allow the brand focused Hungarian customer to make the complete shopping trip at the discount stores, so hypermarkets' private labels are still very important, and their brand management shall focus on building the retailer's name.

T.3. Hungarian customers prefer shops selling national and private label brands as well.

Brand variety is very important for the customer to decide where to go shopping at all. Hungarian customers like national brands, but at the same time want quality to be cheap as well. They like stores where national brands and private labels are offered. Moreover, today's customers still prefer national brands over private labels, so by keeping enough known national brands, hypermarkets can balance the fact, that their store brands are considered private labels while those of the discounters' are not. Nevertheless discounters are opening up to a more softer business model, and started introducing more national brands into their portfolio to close this gap.

T.4. In the case of utilitarian products, customers prefer store branded private labels, as it gives them guarantee in contrast to own labelled products.

From a branding prospective in the case of utilitarian products it is important to offer a three tier private label selection (when umbrella branding is used); because customers prefer to know that the shop takes guarantee for its products. In the case of a hypermarkets it is vital, if their retailer name has good image, as the customer will buy its products over other own labelled products in the shop. Discount shoppers will try out products because of their good price-value ratio, as the perceived risk in this category is relatively low.

T.5. In the case of hedonistic products most customers stick to their favourite national brands, but if they choose to buy private labels, they also prefer store branded labels.

In the case of hedonistic products consumers search for promotions, because they want their favourite national brands as cheap as possible. Interestingly in case of hypermarkets they prefer store branded products over own labelled ones, because they cannot decide if they are private labels or not. In Hungary, unlike in Britain, people would not buy store branded private label products as a gift, even if they know it is very good. At the same time in discount stores they would buy gifts as well, as they are considered unknown (at Aldi and Lidl as German) national brands, and there is no possibility to compare them with leading national brands.

T.6. Trend focused private labels have to be considered as a separate category beside hedonistic and utilitarian product categories.

Niche products would belong to this category. It is a separate category on one hand because also utilitarian products such as bio milk, and hedonistic products such as Fair Trade coffee belong here, on the other hand they require a completely different marketing approach. These products do not need multitier branding, as they serve niche markets where competition is not price oriented and is mainly between national brands and private labels. Customer's buying decision is made based on trust and therefore the image of the retailer is significant. Research and development gets much more emphasis compared to hedonistic and utilitarian product development, where copycating is the main focus.

T.7. In the category of private labels with health claims loyalty towards national brands is greater except towards chilled healthy ready meals.

The primary research proved, that health related food decisions are made based on trust, which has not yet been developed towards private labels in Hungary. Therefore at such products they buy national brands, and do not switch even at considerable price advantages. Chilled healthy ready meals also belong to this category, but customers do not consider them so much „healthy", so if there is a special offer or the price-value ratio is good, they are happy to try private labels as well.

T.8. From the trend focused private labels the Hungarian customers most of all would prefer a Hungarian Fair Trade private label brand.

Fair Trade products have been introduced only lately in Hungary, but the above thesis indicates the direction which the Hungarian customers' social responsibility concern favours the most: the Hungarian producer. Fair Trade is mostly oriented to products produced in developing countries, but the situation in Hungary during the past years has made this trend a considerable option for Hungarian producers as well. Customers have agreed to support such initiatives if a private label would focus on Hungarian producers only. Such store brand does not exist in Hungary yet, only trademark protection for Hungarian products. This thesis supports the development of such private labels in Hungary.

T.9. Retailers follow strategic herding behaviour and copy each others' positioning strategies, therefore these strategies are not the tools of differentiation and identification anymore.

The research has proved that retailers copy the elements of each other's positioning strategies, not just benchmark the key success factors. But such behaviour confuses customers and instead of differentiation it leads to convergence. This trend in other industries was already proved doubtful, because offering the same to everybody leads to industry profit drop. No different it is with private labels, so hypermarkets should focus on building their retailer names, not on introducing fancier labelled store brand categories. Discounters should keep their focus on the balance of offering national and private labels at a ratio preferred by customers.

3.1. New scientific results

Private label branding startegies request a different view than that of the national brands. Certainly it is possible to draw paralels, but it must be considered that possibilities emerging from retail activity broadens the branding spectrum. Therefore *the author dedicates her work not only to the professionals* in the field, but also to those young graduates, who will be working at one of the big retailers, where private label branding became a strategic activity.

Below the author summarises the new scientific results of the dissertation:

1. The dissertation summarizes the results of international and Hungarian researches of several fields in private label branding, and thus a **private label marketing management book in Hungarian** was born, which topic was missing in the Hungarian marketing related literature.

2. Private label growth has reached the point where its definiton has to consider future possibilities as well. The author **redefined private label** based on the new results revealed by the research.

3. As a new result of the empirical analysis **optimal private label branding strategies** for the Hungarian market **have been formed seperately for utilitarian and hedonistic products,** as consumer's willingness to purchase was significantly different in these two categories. It is an important result, because Hungarian consumer behavior is different to the European one, therefore marketing strategies have to be taylor-made for this market.

4. Trend focused private labels are common abroad, but rare in Hungary. Based on the research results, those **trend focused products have been defined,** which are more **likely to be accepted by the Hungarian consumer** as private labels.

5. The author made a new model to visualize coherences between private label strategies, as literature provided only tables for the different approaches. Figure 1. (see chapter 4. Conclusions and recommendations) visualizes the coherence between quality, price, the „good-better-best" private label strategy used by hypermarkets, and the role of

value-innovator brands adopted by discounters. In the figure also trend focused brands can be found, as these brands will generate growth in the future, and therefore their categorization based on consumer behavior is essential.

6. It is a new result, that **strategic herding** behavior exists also in Hungary within the retail sector. It is vital to accept this tendency, as in practice, in researches targeting national brands and private labels, one should include the **competition between private labels** as well.

4. Conclusions and suggestions

The dissertation covers some of the most important fields of marketing management, but keeping the main goals in sight, it focuses on branding. Therefore the research used the definitions of private label provided by the literature as a starting point. The conclusion based on the results can be drawn, that definitions that emphasise only the fact, that private labels are those products which are traded, sold and can be found only at a given retailer is not sufficient any more. Their importance underlines the necessity to provide a new definition which integrates the future tendencies as well. Thus the author suggests the following **definition for private labels:**

> *Private labels are those brands that are owned, financed and managed by the retailer. Mostly they are sold at the retailer's own shops, but they can also be licenced to other retailers. The private label brand name can be the store's name (store brand) or a phantasy name (own label) given by the retailer.*

The author would like to clear up the misconception about private label consumers in general by using the literature. The consumers of private label products used to be low income customers at the beginning, but it is proven that these products today have a much wider and upper scale customer base than even 20 years ago. So the private label consumer could be described as below:

*It is valid for **private label consumers**, that they are educated, have middle income, are price sensitive, but not brand oriented consumers. Good quality is important to them, so beside the good price they expect high quality as well.*

The empirical analysis revealed the difference between the Hungarian and the European consumer attitude. The Tesco Gazdaságos brand was the first strongly communicated private label in Hungary. Its bad quality, and continuous presence in food scandals weakened the image and reliability of private labels in general. This fact had strong effect on realizing successful private label strategies, because the average Hungarian consumer has prejudice towards private labels. Therefore it was imporatnt to clarify which brands are considered private labels by the Hungarian consumer. Today all four basic private label categories can be found also in Hungary. Besides value and copycat brands, more and more premium lite products emerge. As a result of the growth of the discount sector, the offer of value innovator brands have also risen. The research shows that **consumers only consider those brands as private labels which bare the name/logo of the retailer and those that are sold by discounters do not**. It explains the fact, that *discounter brands are considered unknown manufacturer brands, even though they sell almost only private labels.* Consumers like to try them, as their packaging is nice, there is a good price-value ratio, and they are without „prejudice". European consumers know exactly that at Lidl and Aldi they buy private labels, but they also find them reliable and trustworthy, and the same attitude is valid for hypermarket private labels as well. So the **discount branding startegy has a great advantage in Hungary, as these own labels are considered unknown, but still manufacturer brands**. At the same time the change in consumer behavior forces discounters to overview their business model and to introduce more and more manufacturer brands and fresh produce in their portfolio.

Spar adopted **umbrella branding**. It started the introduction of its private labels by copycat brands instead of the value category, thus securing the positioning of its private labels. It makes continuous efforts to strengthen its Spar brand name, and its image, and as a result the participants of the primary research gave the best quality rating to its brands. Tesco invested heavily into marketing communication to recover the image of the Tesco brand, so as a result its copycat brand was rated better by the participants. As a conclusion, in case of umbrella branding **the image and reliability of the retailer's name is essential**.

The results of the research show that the optimal branding strategy differs for utilitarian and hedonistic products. **In case of utilitarian products consumers prefer private labels branded by the name of the retailer**, as this way quality is guaranteed and risks are lowered. Therefore for these products it is important to define the private label **sortiment based on price**, because it influences consumer decision making. The three-tier private label sortiment provides the highest profit as well, because customers do not consider the cheapest, and the most expensive (generally the manufacturer brands) products, but rather prefer the mid category.

In case of hedonistic products consumers prefer manufacturer brands the most. Thus in this case the optimal strategy is, if private labels are introduced in the **premium lite and copycat categories by substantial price advantge**. Moreover the focus should be on manufacturer brands in promotion to drag consumers into the shop, where in-store promotion tools can be used to influence customer buying decisions.

In case of **value-innovator discount brands** the business model is given, and own labels are used. In Hungary discounters have a special advantage: their brands **are not considered private labels,** but unknown manufacturer brands. As a result the prejudice towards private labels does not apply to these brands, so consumers try them more often. In spite of this, the **narrow product sortiment and limited selection of manufacturer brands** have their disadvantages for Hungarian customers, who like known manufacturer brands, especially in hedonistic product categories. So today one-stop shopping is not possible at discount stores.

The trend focused product category should be handeled as a separate category besides utilitarian and hedonistic product categories. The analysis of the research outlined those trend focused categories which would be accepted by the Hungarian consumers as private label. The following trend focused product groups can make it, *as private labels*, *to the „preferred brands" category defined by the consumer during his/her decision making process:*

- Hungarian Fair Trade products
- Fair Trade products
- Social responsibility oriented products
- Chilled ealthy ready meals

In the following trend focused product categories, - because of the trust based consumer attitude-, *most of the consumers would only buy manufacturer brands,* therefore their introduction as private label brands suggest little success as of today:

- Functional products: eg. chronical diseases
- Products for kids
- „Free from" products: eg. glutene free
- Health oriented products eg: low cholesterine
- Bioproducts

The willingness to buy private label is the lowest in the functional, „free from" and „for kids" categories. The Hungarian consumer does not trust retailers so much, that in such high risk food categories they would rely on retalier brands, while the average European customer would. *At the same time in case of chilled healthy ready meals and fair trade product categories the willingness is much higher.*

Based on these results, the conclusion can be drawn, that trend focused private labels should not be categorized from the retailers point of view, but from customer behavior point of view. So Figure 1. should be modified based on the above primary research result as follows:

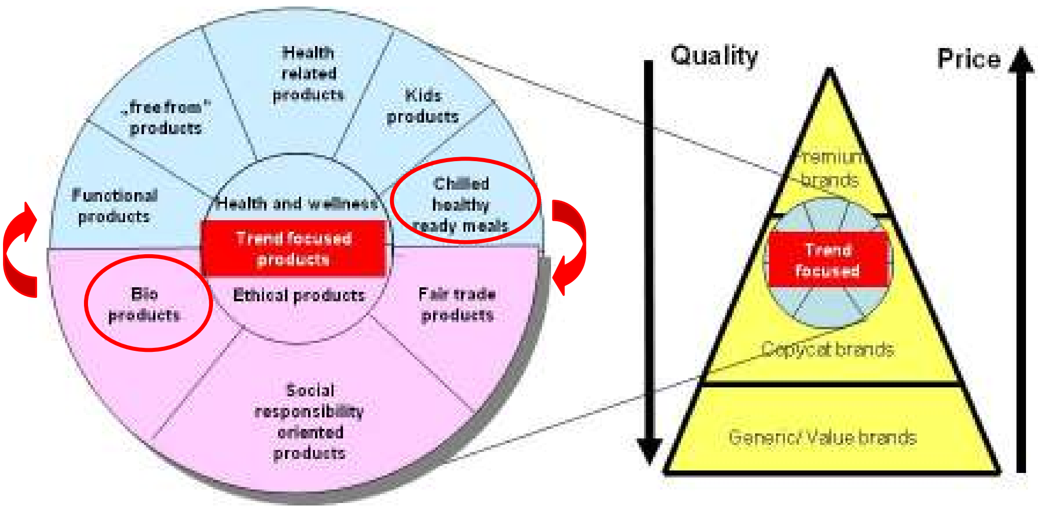

Figure 1: Recategorization of trend focused private labels based on consumer attitude

In the original categorization by the literature chilled healthy ready meals belonged to the health and wellness category, but based on consumer attitude they should be in the ethical product category. Bio products are considered more risky by consumers, so they prefer manufacturer brands more, although less than in the case of functional or kids products. So this product group should be a part of the health and wellness category instead of the ethical one. This categorization is vital from a strategical point of view, because the competition in the health and wellness category is mainly against manufacturer brands, who lay big emphasis on brand building, and price is less of a decision making factor. So in these categories the retailer should also build its brand image, and should only introduce such products, if its brand name has a good image. The Spar Group has already launched the „free from" private label brand, which was supported by the preferable association with its good retailer image. The ethical product category builds on social responsibility, and thus builds also the image of the retailer. Purchasing does not especially depend on quality (which is a must) and packaging, but people only choose these products to feel better. In case of helathy ready made chilled food – eg. Michelin star restaurant chef's food- because there is no manufacturer's version of the product. So in this case the author suggests to the retailer to **focus on the reliable procurement for these private labels.**

One of the most important result of the primary research is, that the increasing patriotism towards Hungarian products has been proved. Results unmistakeably indicate that **the direction of the development of private labels should be the introduction of a *Hungarian Fair Trade* private label line.** The „protection" of Hungarian producers is stronger than the prejudice towards private labels, and most consumers would even prefer these products over big manufacturer brands. Considering pricing, consumers are willing to pay the most out of the private labels for this line, 22% would even pay higher prices than for the manufacturer's product.

Strategical herding behavior also exists in the Hungarian retailing. Retailers do not only copy manufacturer brands, but at different levels also each others' marketing activities. It can be expected that business models of hypermarkets and discount stores – including product and brand sortiment, pricing- would converge. At the same time copying private label strategies does not secure more success, than if they would follow and strengthen their own strategies. *Today consumers in Hungary are able to differentiate private labels of hypermarkets and discount stores*, but Tesco has already started to introduce its own labelled Tesco Családi product line, which may lead to confused customers in the future. Spar clearly uses umbrella branding, which was proven to be able to lead even to better results than discount branding, if the company invests its resources in the quality of its private labels, and in building the image of its retailer name.

5. The author's publication list in connection with the topic of the dissertation

1. ZITA KELEMEN (2009): *Strategic options of firms considering private label production*, (Regional and Business Studies (Acta Oeconomica), Kaposvár, 2009, vol.1, No.1., http://www.ke.hu/msites/gtk/UserFiles/File/studies/Vol1No1/4Kelemen.pdf)
2. ZITA KELEMEN (2010): *A kereskedelmi láncok marketingkommunikációs stratégiái Magyarországon*, (Marketing and Menedzsment, publication in 2010)
3. ZITA KELEMEN, ZSUZSA NÉMETHNÉ TÖMŐ (2010): *Alternative ways for private label* manufacturing (Nyugat-magyarországi Egyetem, Savaria Egyetemi Központ, Tudományos Közleményei 17., Természet Tudományok XII., Szombathely, 2010)
4. ZITA KELEMEN, ZSUZSA NÉMETHNÉ TÖMŐ (2009): *How do global distributors communicate their brands locally?,* (Erdélyi F. Conference, Kecskemét, September 2009) with presentation
5. ZITA KELEMEN, ZSUZSA NÉMETHNÉ TÖMŐ (2009): *How can branded manufacturers compete with private labels* (Erdélyi F. Conference, Kecskemét, September 2009) with presentation
6. ZITA KELEMEN. (2009): *Márkák-e a saját márkák?*, (Kheopsz Conference, May 2009), with presentation
7. ZITA KELEMEN. (2009): *A kereskedelmi márkázás stratégiai lehetőségei*, (MOK Kiadvány, Kaposvár, August 2009) with presentation
8. ZITA KELEMEN. (2010): *A magyarországi jégkrém gyártók stratégiai lehetőségei*, (Animal welfare, etológia és tartástechnológia, electronic newspaper of Szent István Egyetem, 2010)
9. ZITA KELEMEN. (2010): *A magyar fogyasztói attitűd az előnyalapú saját márkákkal szemben*, (MOK Kiadvány, Budapest, August 2010) with presentation