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PRIVATE BRAND IN THE POSITIONING STRATEGIES OF FMCG RETAILERS IN POLAND

Summary

The aim of this paper is to determine the crucial role of private brands in the successful retail positioning of FMCG in Poland. Porter's view of positioning as a source of competitive advantage is discussed and examples of successful positioning of retailers are given. Then, a comparison between the development of private brands in Western Europe and Poland is made which led to the conclusion that these two processes are similar. An analysis of private brand development has shown that it was stimulated by a competitive situation and retailers' desire to differentiate from the rivals.

Introduction

Private brands (PLs, own brands, own labels) emerged in the early twentieth century as an expression of the rising countervailing power of retailing in the distribution channel and hence are an important competitive weapon for retailers as well for wholesalers. This instrument is used to position a retailer's offer in terms of price or other characteristics: quality, source of origin, and the like.

In Poland an increasing share of private brand is noticeable; particularly they are growing in the FMCG market, where fierce competition among global foreign chains has been forcing them to change strategies. The aim of the paper

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is not to analyze the dynamic of the private label growth but to show how private brands (their positioning) reflect the changes in the competitive strategies of the leaders of the FMCG market in Poland.³

Positioning as a source of retailer competitive advantage

Positioning is one of the crucial concepts not only in general management theory but also in marketing theory. In management theory it was introduced by Porter who indicated it as the essence of strategy. The idea of strategic positioning is to perform activities differently than rivals do, and this differentiation should be valuable to consumers. Porter indicates three distinct sources of strategic positioning (which are not mutually exclusive and often overlap):

1. Variety of consumer needs – it is about finding consumers which are not served well enough and serving most or all needs of this particular group.
2. Consumer accessibility – segmenting consumers who are accessible in different ways. Access can be a function of customer geography or customer scale.
3. Variety of a company's product or services – when a company can best produce a particular product or services using a distinctive set of activities.

These strategies could be also identified in retailing. Porter describes the strategy of IKEA as an example of successful strategic positioning on the basis of the variety of consumer needs. This retailer targets young furniture buyers who want style at low cost. As far as a strategy based on consumer accessibility is concerned a good example is Wal-Mart. Wal-Mart, now the biggest retailer in the world, built his position targeting consumers in small cities and in this way avoiding direct competition with rivals operating in big cities. As far as the variety of a company's product or services is concerned the new retail formats, when introduced to markets, could be the examples. The new retail formats include the following kinds of institutions: department stores, supermarkets, discount stores and hypermarkets. The companies introducing them got the short term competitive advantage and in most cases they were not able to sustain it due to competitors coping of the strategy.

The new possibilities occurred with the development of own brands, which are among the marketing tools necessary for successful strategy implementation. The basic definition of own brands, provided by Morris (1979) is that they are a “consumer product produced by or on behalf of distributors and sold under the

³ In the paper the examples of retailers selling deli are also discussed.

distributor's own name or trademark through the distributor's own outlet".⁴ The competitive strategy should be communicated to the consumers in the form of a marketing strategy.

From a marketing point of view, positioning is about influencing the awareness of potential customers, defining and using means in order to place the product's brand in the minds of potential clients.⁵ Positioning results in a one-of-a-kind image. As far as retailing is concerned, Levi and Weitz claimed that positioning is designing and implementing a mix of instruments in retail (retail-mix) in order to create an image of the retailer in the buyers' minds in comparison to the competition.⁶ An image can be defined as an overall attitude to the store stemming from the perception of importance for the buyer store attributes.⁷ According to Samli, developing a marketing strategy with no regard for the created image is very likely to fail. The enterprise must set aims in the market position categories, choose a desired image and establish ways of achieving it.⁸

By own brand the retailer could differentiate from the competitors in the way they have problems with coping the strategy. This was the case of M&S, Benetton and other apparel retailers in the early stages of their development. Private brands contributed to the success of IKEA and other category killers. Retailers which had not introduced them like Toys'R'Us faced problems with sustain the advantage.

Own brand became also crucial for FMCG retailers. Tesco own branding began in 1924 when J. Cohen bought a shipment of tea from T.E. Stockwell and labeled it Tesco (3 initials of the supplier's name and two of his surname). At that time own brands gave the retailer an opportunity to introduce their own price policy and compete successfully with regard to price. The products were cheap and wrapped in white paper making them more visible. In the early 80s, there was a shift in market power in the distribution channel from manufactures to retailers resulting in the growth of own branding. But this power has not always been translated into a truly coordinated marketing function. Many

⁴ S. Burt, *Strategic role of retail brands in British grocery retailing*, "European Journal of Marketing" 2000, Vol. 34(8), p. 875–890.

⁵ Ph. Kotler, *Marketing*, Wyd. Rebis, Poznań 2005, p. 309–310.

⁶ D. Devlin, G. Birtwistle, N. Macedo, *Food retail positioning strategy: a means-end chain analysis*, "British Food Journal" 2003, Vol. 105, No. 9, p. 654–655.

⁷ W.O. Bearden, *Determinant attributes of store patronage down town versus outlying shopping centers*, "Journal of Retailing" 1997, Vol. 53, No. 2, p. 15–22.

⁸ A.C. Samli, *Retail marketing strategy, planning, implementation and control*, Quorum Books, New York 1989, p. 7.

retailers have employed marketing tools without necessarily adopting an integrative and strategic approach into their activities.⁹ Their main goal was to increase profits.

Retailers have become more and more powerful and have tailored their strategies to the changes in consumer needs and increasing competition. This is reflected by the evolution of own brands see table 1.

Table 1

The evolution of own brands

	1 st generation	2 ed generation	3 rd generation	4 th generation
Type of brand	– generic, – no name, – brand free, – unbranded.	– quasi-brand, – own label.	– own brand	– extended own brand, i.e. segmented own brands
Strategy	generic	cheapest price	me-too	value-added
Objective	– increase margins, – provide choice in pricing.	– increase margins, – reduce manufacturers power by setting the entry price, – provide better value product.	– enhance category margins, – expand product assortment, – build retailers' image among consumers.	– increase and retain the client base, – enhance category margins, – improve image further, – differentiation.
Product	basic and functional products	one-off staple lines with a large volume	big category products	– image forming product groups, – large number of product with small volume (niche).
Technology	simple production process and basic technology lagging behind market leader	technology still lagging behind market leaders	close to market leader	innovative technology
Quality/image	lower quality and inferior image compared to the manufacturers' brand	– medium quality but still perceived as lower than leading manufacturers' brands, – secondary brand alongside the manufacturers' brand.	comparable to the brand leaders	– same or better than brand leader, – innovative and different product from brand leaders.
Approximate pricing	20% or more below the brand leader	10–20% below	5–10% below	equal or higher than known brand

⁹ O. Omar, *Retail marketing*, Financial Times Management, London 1999, p. 3.

Consumers' motivation to buy	price is the main criterion for buying	price is still important	both quality and price, i.e. value for money	better and unique products
Supplier	national, not specialized	national, partly specializing for own brand manufacturing	national, mostly specializing for own brand manufacturing	international, manufacturing mostly own brands

Source: H. Laaksonen, J. Reynolds, *Own brands in food retailing across Europe*, "Journal of Brand Management" 1994, Vol. 2, No. 1, pp. 37–46.

First generation of own brands was introduced as a symptom of growing interdependency retailers from producers and they were designed to increase the price competitiveness of retailers, so often they did not have any name and the quality was low. As the time was passing, and the orientation of retailers has been changing from production orientation towards marketing orientation, also the quality of own brands has been improving as well as the assortment of own brand products. So the next generation included own label products, having the name of the retailer, because on their label it was clearly stated that they were „produced for”. In the next stage the own brand having the name of the retailer on the label were introduced. The quality of those products was comparable with the quality of their branded substitutes. They were successful because the favorable relation value for money, which encouraged consumers to buy them. The development of a market segmentation strategy was followed by the introduction of own brands targeting different market segments. They included premium private labels – often innovative and unique products.

Nowadays along with the purpose of increasing revenue and profits, own brands have also other tasks:

- retailer differentiation from competitors,
- the development of the long term relationships with the consumers.

The role of own brand products in retailer product differentiation is indicated by P. McGoldrick.¹⁰ It became the source of competitive advantage of non food retailers: Benetton, IKEA, M&S as well as food retailers: Sainsbury, Tesco and Aldi. However, own brand meant also that retailers had to take over many marketing activities carried out by producers for the branded products, as e.g. market research, new product planning, and production control. Many retailers like, e.g. Sainsbury or IKEA, take over a part of producer risk, by participating in the implementation of new technologies or the extension of

¹⁰ *Ibidem*, s. 3.

production capacity.¹¹

Evolution of own brands in Poland as a result of changes in retail strategies

In Poland the process of introducing own brands in the FMCG market started from the foreign chains of hypermarkets and discount stores. Their development (as far as the number of product and their positioning is concerned) was stimulated by the market development (tab. 2).

Table 2

Maturation stages of FMCG retail in Poland's market economy

Period	Market structure	Market orientation	
		Companies' orientation	Own brand policy
1989–1995 (early post-socialist transition)	The old system of state-owned firms and cooperatives collapsed; market fragmentation occurred	Learning new business practices fit for the emerging market economy	Few own brands
1995–2004 (late post-socialist transition)	Introduction of the new retail formats; beginning of concentration and integration	Production and selling concept	Generic own brands Value for money own brands
2004–2010 (EU membership)	Growing integration and concentration in retail	Marketing orientation	Own brands addressed to the particular market segments
2010 and now	Market saturation, supermarket/hypermarket chains, discounters, co-existing with numerous small and medium-sized stores, many of which work under franchising	Strategic marketing, social marketing	Own brands addressed to "health and wellness" segment

Source: devised by the author.

At the beginning of the changes in Polish FMCG retail market retail brands were uncommon. Although, the biggest retail chain – cooperative Spolem – had its own production works the company was not aware of the notion and significance of private brands, so did not promote them.

¹¹ T. MacNeary, *Strategy for Success: J. Sainsbury*, in: *Retailers on Retailing. Lessons from the School of Experience*, Arthur Andersen 1994, s. 45–59.

The development of private brands started in the mid 90s of XX century. At that time, they were introduced primarily to increase price competitiveness. One of the market leaders was the French Group Casino operating hypermarkets Géant and discount stores Leader Price. The own brand Leader Price included more than 1600 products, satisfying all basic consumer needs.¹² In spite of the fact that they were delivered by well-known companies like Star Food, Materne, Hoop, or Wawel – and the branded products were also available on the shelves (their price was about 30% higher than the own brand substitutes) – many consumers had doubts about their quality.

Tesco, which, by the end of XX century, started to be very active in the Polish market, developing not only supermarket chains but also hypermarkets, introduced its own brand line of product called Tesco-Korzystny Zakup. They were meant to compete on price (as it was suggested by the name) and included more than 300 non food and food items: detergents, cosmetics, clothing, eggs, drinks and sausages.¹³ The packaging design distinguished them from the manufacture's offer.

Own brand products have contributed a lot to the development of discount chain Biedronka, which, in late 90s was taken over by the Portuguese operator Jeronimo Martins. The own brand products assortment was planned on the basis of market research, which identified the most popular product categories, and of these the most frequently purchased goods in the most popular versions and flavors.¹⁴ Their standard packaging was meant to facilitate consumer choice and supplier operations as well as to reduce costs. Final assortment included 900 items; most of them were produced for Biedronka by well-known Polish companies like Mlekovita, Sokolów, Agros, Hoop, Mokate and Malme.

At the first stage of own brand development process in Poland (1995–2004) they were generic and value for money private brands, introduced by mass merchandisers. Those mass merchandisers positioned themselves as cost-competitive and they used their own brands to create an image of low prices. It is evidenced by the results of the studies which showed that in Poland the differences between private brand products and their branded substitutes reached 50%, whereas for example in Germany it was about 45%, in Portugal –

¹² G. Śmigielska, *Perspektywy rozwoju marek handlowych na tle procesów koncentracji w handlu detalicznym*, in: *Przedsiębiorstwo partnerskie*, Materiały konferencyjne Kazimierz Dolny, Szkoła Główna Handlowa, Warszawa 2002, p. 491–499.

¹³ *Więcej produktów Tesco*, „Supermarket Polska” 2001, nr 8.

¹⁴ I. Kokoszka, P. Karnaszewski, *Satyra na bożą krówkę*, „Forbes” 2006, nr 7, *Wiadomości Gospodarcze i Finansowe na Forbes pl*, <http://www.forbes.pl/forbes/2006/06/29/044>.

39%, and in Austria 36%.¹⁵ Unfortunately, consumers had a lot of doubts as far as the quality of those goods was concerned. It was the result of mistakes made by retailers during the introduction stage, which may include: lack of reliable market research, focus on prices and not taking into account consumer expectations about product quality and the design of the packing.¹⁶

Since the middle of the last decade Polish FMCG retail has been characterized by increased competition and market saturation (primary by hypermarket format). This has resulted in changes mass merchandiser positioning which started to stress not only the low prices but also the wide range of products, high quality of products and services and so on. This process was also stimulated by the success of the chains targeting upper market segments like delicatessen Alma or Piotr i Paweł. At the same time, the share of the private brands in total sales increased, but predominantly there were third and fourth generation brands. In the period of 2006–2008 there was a significant growth of own brands positioned in the medium and upper price segment; for example Tesco offered 2000 items in 2006 whereas in the beginning of 2008 it was about 7000 items. At the same time, the number of E. Leclerc products signed as Wiodąca Marka (leading brand) more than doubled. Carrefour, besides the own brands Carrefour and Champion positioned in the lower and middle price segment (which included groceries, alcohol, drugstore and perfumery, household items, and the others) introduced own brand products with the quality label (FQC).¹⁷ An assortment of Carrefour premium products includes the items signed Bio, Reflets de France and Selection. Tesco has offered premium products – Tesco Finest since 2007. In 2008 this line included 170 items, mainly non-food Real, besides the own brand TiP – positioned as a „cheap and reliable”, has also products signed by Real Quality.

By the end of the last decade an assortment of leading hypermarket chains in Poland included own brands targeting different market segments. That means that they evolve from production and selling orientation towards marketing orientation, and they position not only on price but also on the other attributes like quality and wide assortment to satisfy different consumer needs. At that time, also the discount chains started to stress quality e.g. in 2006 prestigious Product of the Year Award received up to 3 products manufactured for

¹⁵ M+M Planet Retail 2003.

¹⁶ J. Pindakiewicz, *Marki dystrybutorów w tworzeniu wartości dla klientów*, w: *Rola handlu w tworzeniu wartości dla klienta*, red. J. Szumilak, Fundacja Uniwersytetu Ekonomicznego w Krakowie, Kraków 2007.

¹⁷ Produkty marki własnej Carrefour, www.carrefour.pl.

Biedronka: yogurt FruVita, cheese Światowid and frozen fillets Złota Rybka.¹⁸

Retailer strategies of own brand positioning contribute also to the development of new relationships in distribution channels. Because retailers put their own standards and requirements on the manufacturing process the relationships between them and the producers are strengthened. On the other hand own brand become a threat to the producers of well-known branded products; very often they do not want to cooperate (a good example is Coca Cola). They are replaced by small companies which produce only for retailers, and cooperate with many chains, also foreign. Manufactures are threatened by the rapid development of private brands in almost every market segment. Their concerns may be mitigated by the chains' strategies towards suppliers, taking into account the CSR idea, which also fits to the consumer expectations. Consumers, would like not only buy own branded product from retailers they know, but also they want to know where the products are from, how they were manufactured, if they were produced and transported without violating the law and rules of ethics.

Contemporary, the changes in competitive situation and consumer expectations have resulted in implementing Corporate Social Responsibility (CSR) standards, social marketing concept and strategic thinking in retail sector. These tendencies are reflected in own brand policies. Leading chains have introduced more and more own high quality own brand products and product positioned in the niches, e.g. organic food, which includes also low calorie products. For example, Tesco's own brand "Organic" currently includes 38 items. They have typical packaging features and labels, so that the clients can easily recognize them. The sign of ecological farming is displayed on labels. Some Tesco and Carrefour outlets lease some space to Symbio Polska for "ecological islands", in which ecological products are displayed. Currently on the label it is only possible to find information for which retailer the product was produced, less frequently about the producer and almost not at all about the country of origin of ingredients and conditions of manufacturing. Giving that this information is more and more important for consumers, new opportunities for positioning arise. Some companies have already noticed them, for example, Intermarche includes information about calorie and nutrition content on the labels.

A very unusual situation is taking place in Poland as far as discount stores

¹⁸ www.biedronka.pl (21.04.2012).

are concerned. Leading chains Biedronka and Lidl stress quality; Lidl has even changed its slogan from “Lidl is cheap” for “Lidl appreciate the quality” and “Wise choice”. Both chains invest a lot in advertising companies and with relations with suppliers. The result of these activities is visible; Lidl’s own brand of sausages Pikok is one of the most well-known and appreciated brands in the Polish meat market. Lidl also introduced, in 2010, a new line of low calorie products called Linessa.¹⁹ This has increased the choice of sausages, milk and flower products, sweets and beverages. In cereals, the original own brand Lidl Vitella has been introduced. This chain also offers ecological products and informs consumers about their qualities.

This process of improving own brand quality by discount stores could have a crucial impact on own brand perception; the share of own brands in discount stores is up to 85% and they generate 66% of total sales.²⁰

While the chains of mass retailers introduce product lines addressed to the higher segments of the market, the chains offering initially delicatessen are trying to respond to the conditions of the recession and the decline in the purchasing power of consumers by repositioning its offer downward, which is also reflected in the policy of its own brand.

Cheap own brands have been introduced by the Alma delicatessen chain; its original positioning has been supported by the own brand “Krakowski Kredens”, positioned very high. The new brand, “Food & Joy” is advertised with the slogan “Quality you want at the prices you expect” and “Taste the Life.” Products in this line are available at very attractive prices, contrasting with the previous line of the price bid. Advertisements appeared in newspapers, women and culinary magazines.

Final remarks

The evolution of own brands on the FMCG market in Poland has been similar to that taking place in the Western countries, except that the time-span has been shorter. This process has been driven by companies seeking strategies to maintain competitive advantage resulting from the introduction of new trading formats. The main stimuli has been competition increasing in retailers’ format which has forced retailers to repositioning “up” and in this way differentiate form competitors. This process started from hypermarkets which

¹⁹ *Lidl rozwija ofertę produktów light*, <http://www.dlahandlu.pl/handel-wielkopowierzchniowy/wiadomosci/lidl-rozwija-oferte-produktow-light,10474.html>.

²⁰ P. Ciosek, *Marki własne w Polsce*, http://www.trademarketer.pl/index.php?option=com_content&view=article&id=60:marki-wasne-w-polsce&catid=46:private-label.

developed very fast in late 90s. and first saturated the market. Nowadays it occurs in discount and supermarket chains which compete for the biggest market share. The repositioning has been supported by own brand product strategies. As a result, leading mass merchandisers retail chains now offer brands for different market segments, ranging from generic and value for money brands to premium private brands.

Because own brands are crucial for successful retailer positioning, their image is very important. If the image does not reflect competitive positioning the retailer must use marketing tools to change it. Such a process has been facing Tesco in Poland as far as brand Tesco Value is concerned.²¹ As a result of market research which showed that consumers have doubts about the quality of this brand the retailer in 2012 year decided to change the name and the design of the packaging of these products. These changes have been supported by an advertising campaign.

MARKI WŁASNE W STRATEGIACH POZYCJONOWANIA DETALISTÓW FMCG W POLSCE

Streszczenie

Celem artykułu jest udowodnienie kluczowej roli marek własnych w wyróżniającym pozycjonowaniu detalistów na rynku FMCG. Przedstawiono teorię wyróżniającego pozycjonowania jako źródła przewagi konkurencyjnej wraz z przykładami z handlu detalicznego. Porównanie procesu rozwoju marek własnych w Europie Zachodniej i w Polsce doprowadziło do wniosku, że procesy te przebiegają z dużym podobieństwem. Analiza rozwoju marek własnych w Polsce pokazała, że był on stymulowany przez sytuację konkurencyjną i dążenie detalistów do wyróżnienia się od rywali rynkowych.

Słowa kluczowe: marka własna, detalista, FMCG, pozycjonowanie

Tłumaczenie Grażyna Śmięgińska, Magdalena Stefańska

²¹ *Klienci Tesco wstydzieli się kupować produkty Tesco. Czy nowa marka własna to zmieni.*
http://pieniadze.gazeta.pl/Gospodarka/1,125292,12560892,Klienci_Tesco_wstydzieli_sie_kupowac_produkty_Tesco_.html.