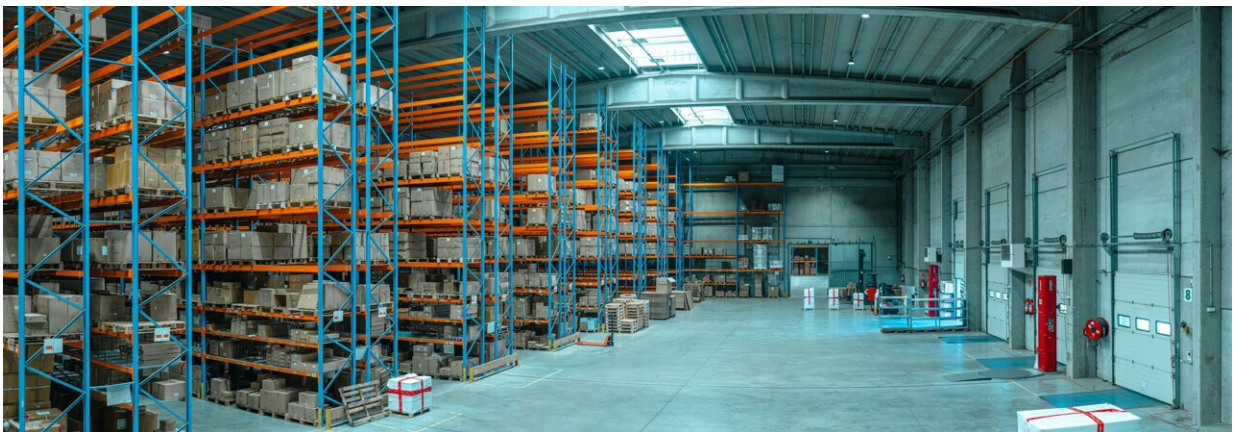


Should national brand manufacturers enter the intensely competitive private label business?

November 8 2023



Credit: Unsplash/CC0 Public Domain

Researchers from McGill University, Dartmouth College, and Universidad de Salamanca published a new *Journal of Marketing* study that explores the complex trade-offs in dual branding.

The study is titled "[Dual Branding by National Brand Manufacturers: Drivers and Outcomes](#)" and is authored by Yu Ma, Kusum L. Ailawadi, Mercedes Martos-Partal, and Óscar González-Benito.

A [2023 report](#) by the consumer research company Attest found that

89.4% of adults in the U.S. are currently either "very likely" or "somewhat likely" to shop around for the best deals on food and beverage products.

In [another 2023 survey from Attest](#), 71% of consumers said they were likely to switch food and beverage brands to save money and 80% believed brands conveniently cite inflation to justify price hikes.

As a result, shoppers are moving away from large national brands toward private labels. According to a [survey by The Food Industry Association](#), 40% of shoppers said they had purchased more private labels since 2020, with [30% of these shoppers citing](#) higher grocery prices as the reason.

Some national brand manufacturers also produce private labels, and with such growth, the practice is likely to become even more commonplace. However, it has been largely unexplored because the supply of private labels—and to whom they are supplied—is a well-kept secret.

The study explores the complex trade-offs involved in dual branding, that is, the supply of private-label products by manufacturers of national brands. The researchers identify private label suppliers to six of the largest grocery retailers in Spain across over 260 product categories and combine that information with purchase data from a national household panel. They then explore the factors that drive dual branding and its effect on the national brands of dual branders.

Results show that more than 70% of private label suppliers to these retailers supply both national and private label brands. The research team says that "in the majority of cases, dual branders supply private labels in categories where they have their own national brands; however, almost a third of the time, their private label categories are closely related to, but not the same as, the categories in which they have national brands. For example, consider a private label in beauty creams and a national brand

in body milk. Or a private label in toast sticks and a national brand in cookies."

How does supplying private labels help (or hurt) national brand manufacturers?

Private label supply is not limited to fringe national brand manufacturers; the strongest driver of private label supply is manufacturers with a large national brand business. Manufacturers of premium and innovative national brands supply private labels, especially to a retailer whose private label is not heavily discounted.

Also, the more a manufacturer depends on a retailer for its national brand revenue—and the more intense the competition it faces on that retailer's shelf—the more likely it is to supply the retailer's private label. In other words, manufacturers see private label supply as a way to exploit scale and try to gain influence with retailers to benefit their national brands.

Does this quest for influence actually work out? The answer, according to the study, is "yes"—with qualifiers. First, when a [manufacturer](#) starts supplying private labels to a retailer, its national brands enjoy a significant increase in relative distribution depth at that retailer. More items belonging to the brand are stocked, increasing its visibility at the point of purchase. This boost is even more pronounced for manufacturers that previously experienced declining distribution depth and faced higher competitive intensity. In effect, supplying private labels benefits national brands.

On the flip side, despite the increase in relative distribution depth, the researchers find no corresponding boost in the relative share of dual branders' national brands at the retailer. As they explain, "This may seem

odd, but it is important to remember that increasing distribution depth is under the control of the retailer, but an increase in sales is up to consumers."

In sum, while supplying private labels can be a strategic move, it is not a cure-all for struggling national brands. Shelf space is a valuable resource for grocery retailers, most of whose business is still in physical stores. No retailer will continue to expand shelf space for a brand that lacks sufficient consumer demand.

Lessons for manufacturers

The study offers two important lessons for manufacturers:

1. Manufacturers should supply private labels if they can succeed in that business as efficient and flexible producers at scale. Those with weak national brands may be better off migrating completely into private-label production.
2. Manufacturers that are considering supplying private labels in periods of excess capacity should look before they leap. They may assume they can get out of the private label business whenever they want, but terminating an arrangement with a retailer hurts their national brand distribution depth as much as starting one benefits it.

As national [brand](#) manufacturers navigate the private label landscape, this research will help them decide whether to enter this intensely competitive business. It will also help them build competitive intelligence into the private [label](#) decisions of their channel counterparts and competitors.

More information: Yu Ma et al, EXPRESS: Dual Branding by National Brand Manufacturers: Drivers and Outcomes, *Journal of*

Marketing (2023). [DOI: 10.1177/00222429231196575](https://doi.org/10.1177/00222429231196575)

Provided by American Marketing Association

Citation: Should national brand manufacturers enter the intensely competitive private label business? (2023, November 8) retrieved 28 April 2024 from <https://phys.org/news/2023-11-national-brand-intensely-competitive-private.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.