

# The Growth and Prospects of Private Label Brands in Indian Retail Industry

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## ABSTRACT

As immense changes are taking place in retail sector, and the shift from unorganized to organized retailing is growing, private labels though in its nascent stage, have a very bright future. The trend of private label brands is fast catching up among the Indian retailers. In future, there is great scope for development for private labels as their share in India is only 6 per cent currently as compared to 19 per cent and 39 per cent in the US and UK, respectively. This research paper aims highlights and analyses specifically to the growth and prospects of private label brands in Indian retail industry.

## Introduction

Store brands or private label brands are brands owned, controlled, and sold exclusively by a retailer (Baltas, 1997). According to the Private Label Manufacturers' Association (PLMA), Private labels encompass all merchandise sold under a retailer's brand. That brand can be the retailer's own name or a name created exclusively by that retailer. Private label products are typically manufactured or provided by one company for offer under another company's brand. In retail world it usually means a manufacturer (which can be the retailer itself) making products exclusively for a retailer, which are to be sold under retailer's own brand name.

Private label brands were first introduced over 100 years ago in a few product categories, now available all product categories in developed western countries. Growth of organized retail

chain in India has also led to growth of private label brands in India. Indian economy has seen average growth rate of more than seven percent since 1994, putting purchasing power in hands of customer. Though, initial growth of private label brands in India has been limited to certain categories like grocery and apparel, it is slowly expanding into other categories as well. The Indian retail market is the fifth largest retail destination globally and has been considered the most attractive emerging market for investment. Overall, the Indian retail market is growing at 30% annually, with the organized segment, which currently accounts for around 9% of the Indian retail market, registering above average growth of 30% (Report on Indian retail industry by Cygnus, 2010). Thus, with growth of organized retail in India, the private label brands are also expected to grow.

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## Objectives

This study should deal with the following objectives

1. To study the Growth of Private Label Brands in Indian Retail Industry
2. To analyze the future of Private Label Brands in Indian Retail Industry

## Growth of Private Label Brands in Indian Retail Industry

With the growing retail sector, private labels or store brands are a rising phenomenon in the Indian organized retail market. Though shoppers have been migrating toward private labels long before the economic slowdown started, the slowdown has significantly increased the pace of this shift, thus favorably affecting the private label sales of almost all large retailers like Reliance Retail, Aditya Birla Retail, Infiniti Retail, Pantaloon Retail and Shoppers Stop.

The private label phenomenon in Indian and global context is as discussed on the following paragraph.

### A. Global Scenario

The world private label market is estimated to be US\$ 1,780 billion growing at 6 per cent p.a. vis-a-vis national brands which are growing at 2-3 percent p.a. For each US\$ 100 spent by consumers globally, US\$ 17 is spent on private labels. Retailers like Wal-Mart, Tesco and Sainsbury have successfully launched private labels across all price points from value to premium and have more than 40 per cent of their sales coming from private labels. Some of the successful private label examples are:

Wal - Mart's private label 'George' is one of the highest selling apparel brands in the US.

Aldi, the German deep discounter has more than 90 per cent of its sales coming from private labels. Some of its private labels sell more than any national brand in Germany, e.g., Aldi's private label 'Tandil' is one of the largest selling washing powders in Germany.

### B. Indian Scenario

As compared to the global scenario, in emerging markets like India the private label market is still at a nascent stage. Though the share is still less than an estimated 7-8 per cent (US\$ 1.4-1.6 billion) of organized retail sales, it is growing fast. Growth is primarily driven by:

- i. Increasing strength of modern trade
- ii. Relatively lesser brand loyalty and high 'value' loyalty amongst Indian consumers
- iii. Foray of private label products into new categories, largely those that are becoming increasingly commoditized (dry groceries, oils processed foods, basic apparel, home furnishings, small electrical, etc.) and the new emerging categories where brand strength is relatively much lower.
- iv. India's largest retail company Future Group has 12 apparel, 4 FMCG and 2 household product private labels in its formats Big Bazaar, Food Bazaar and Pantaloons. Besides these it also has many other private labels across categories and formats.
- v. Aditya Birla's private labels cover 7 brands and many products and variants in categories like cereals, processed foods, detergents and other products. It is also planning to launch its private labels in milk and dairy products.
- vi. Tata Croma has plans for 100+ private labels across categories like personal care equipment, laptops, small appliances, etc.

- vii. Reliance Fresh sells staples and food items under Reliance Select and Reliance Value brands. It has recently launched Dairy Pure, in the liquid milk segment. Reliance also sells a number of private labels in other categories like apparel, through its various other formats.
- viii. Shoppers Stop has around 10 private labels, the prominent ones being Stop, Kashish and Life.

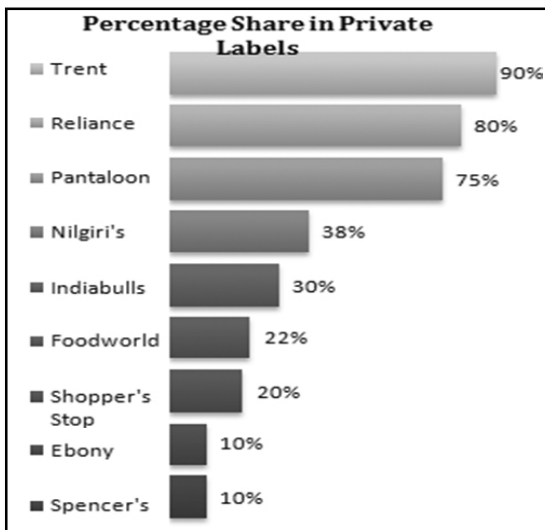
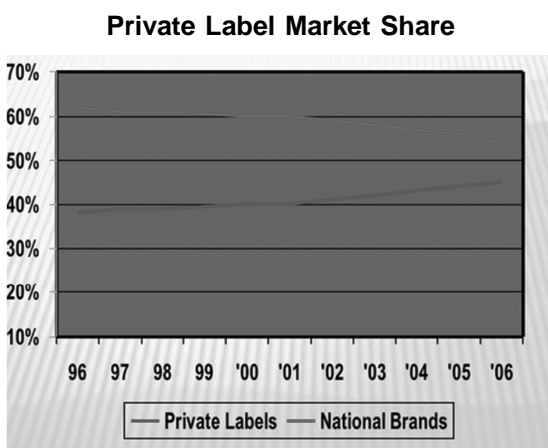


Figure-1



Graph-1

## Prospects of Private Label Brands

- i. As immense changes are taking place in retail sector, and the shift from unorganized to organized retailing is growing, private labels though in its nascent stage, have a very bright future.
- ii. According to a study conducted by A.C. Neilson (2005) on private labels in India, it was found that 56% of the respondents believed that private labels are good alternatives to national brands. The study also highlighted that 62% of the respondents feel that private labels are good value for money.
- iii. Apart from launching range of products, additional efforts are immensely increasing for promoting the private labels of retail outlets which includes in store advertisements, additional discounts on private label purchase, making exchange schemes available on private labels in comparison with national brands and additional visual merchandising for store brands. This clearly depicts that the retailers want to grow with the growth of their private label business.
- iv. Private label growth is in its price: Private label products are usually priced 15% to 40% lower than branded products (Stern; El-Ansary; Coughlan, 1996) which clearly portrays the growth of private labels in a developing country like India.
- v. Country's leading retailers like Future Group, Aditya Birla Retail Reliance Retail and Hyper city are having ambitious plans on private label brands across food and non-food sectors.

## Advantages of Private Label Brands

- i. Higher gross margin earning for retailers
- ii. Better bargaining power while negotiating with national brand manufacturer specially in the price line and credit policies
- iii. Enhanced Store Image
- iv. Lesser promotion cost due to in store advertising which adds up the margin for the retailer
- v. Gives the retailer freedom to schedule his own marketing plan and makes changes when required.
- vi. Customers may get quality products with affordable cost.

## Conclusion

The present trend of Private Label Brands is fast catching up among the Indian retailers as it poses a win-win solution for retailers and customers in the current retail environment.

In the coming years, there is great scope for development for Private Label Brands as their share in India is only 6 percent currently, as compared to 19 percent and 39 percent in the US and UK respectively.

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