Private Label Networks in Central and Eastern Europe: Towards a Cooperative Approach

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Abstract

Whether called generics, house brands or private labels, these branded products not owned by manufacturers have been around for more than 150 years. While big international retail giants such as Proctor and Gamble are the top distributors of private labels, numerous smaller stores have followed suit in order to offer their own unique products in categories such as milk, frozen vegetables, paper products and vitamins, accounting for more than 25% of sales worldwide (PLMA 2005). This paper takes an exploratory approach and considers the area of private brands utilising a network theoretical perspective. By opening the idea of the network to a traditionally consumer behaviour orientated area of marketing practice, it allows a fresh approach to be considered, particularly with a focus on private label penetration in countries such as Hungary, Romania, the Czech Republic and Slovakia. Thus revealing insights not previously explored by consumer behaviour research.
Introduction

Private labels can be defined as all merchandise sold under a retailer's brand (PLMA 2005). This brand can encompass a retailer's own brand, such as Banana Republic or Sainsbury, or can be a name created by a retailer, such as Tesco’s Wholefoods range and Speciality Selected at Aldi.

Traditionally, private labels have been an area of great interest to large multinational companies such as Proctor and Gamble and Tesco’s as it allowed these firms to operate both family and individual branding strategies targeting a large number of consumers at various price points without ‘damaging’ their core brand identity. However, more recently smaller scale operations and retail chains have become interested in private label development and entered the market offering their own range of private label products. This has enabled these smaller firms to begin to differentiate themselves from their competitors by offering a more unique line of products for their customers, with a longer-term goal of utilising these private label products as a way of developing customer loyalty.

This paper addresses two key areas of this private label development. Firstly it details the penetration of private labels, looking particularly at the rapidly growing new markets of Slovakia, Romania, Hungary and the Czech Republic. The focus then switches to addressing the newly emerging cooperation aspect of the private label network in Central and Eastern Europe. This analysis identifies and maps the actors, resources and activities that are involved in the network, while beginning to explore the interactions that are occurring between the different actors and how that is leading towards a degree of cooperation between firms.

The paper concludes with some managerial implications for firms that are looking at moving into this private label network as well as those already involved and identifies a range of future research opportunities in this newly developing area.

Literature Summary

Historical Overview

Private labels are not a new concept, however academic interest in them has been a more recent phenomenon, with the majority of the literature having been written since 1990. Academic work in this area has been very much in the business-to-consumer (B2C) area, and focuses on two clear literature streams, one that investigates consumer characteristics and the other, which has a greater emphasis on brand issues.

The consumer behaviour literature has focussed on issues such as factors influencing purchase behaviour (Batra and Sinha 2000) and consumer characteristic variables such as price and value consciousness, perceived price variation, and consumer innovativeness (Byoungho and Suh 2005; Jonas and Roosen 2005).

Key features of the branding literature include the importance of customer loyalty (Harvey, Rothe and Lucas 1998; De Wulf et al 2005) and market share and price as a determinant for cross category variation in brand selection (Hoch and Banerji 1993, Putsis and Cotterill 1999, Cotterill and Putsis 2000).

Figure 1 provides a summary of private label development to this point.
Regardless of whether the literature has a consumer or brand focus, of interest is its approach. The way that these authors have looked at the issue of private labels is by making comparisons and looking at the interactions between private label and national brands, particularly the impact that private label penetration is having on national brands and the marketplace as a whole. The problem with investigating private labels utilising this type of comparison approach is that it limits what can be learned about private labels. The data that is generated results from its comparison with something else—in this case the national brand, rather than from a direct investigation of the private label as an entity in itself.

Now that the notion of the private label has been grounded in the academic literature, it is important to consider what is still lacking in the private label discussion. The literature to date has not explained in any great depth why the development of private labels has increased dramatically in the last 10-15 years. In the late 1980’s and early 1990’s, the development of the private label was a product of circumstance. Economic downturn and recession caused consumers to focus more on the price of products in the market and private labels often represented acceptable levels of quality at reasonable prices (Sethuraman and Mittlestaedt 1992, Harvey, Rothe and Lucas 1998). Since then, competition has played a key role in the continued development of private labels as there are strong incentives for retailers to sell their own brands as the horizontal competition amongst larger retailers becomes more significant (Galizzi, Venturini and Boccaletti 1997).

Whether not deemed sufficiently important or not relevant, the logical next step from this consumer behaviour and branding analysis has not been taken. That next step being to embark on an investigation of the business-to-business (B2B) relationships that are being developed in the private label network, particularly given the commentary in some of the more recent literature about the increasing competition in the marketplace and the initiatives that many companies are developing in order to keep pace with the rapid development in this area (Byoungho and Suh 2005; Jonas and Roosen 2005).

*From B2C to B2B*

In more recent years as companies have looked to increase development in private labels, particularly in Europe, certain actors within industry networks have been finding it increasingly more difficult to compete. Actor groups such as small-scale suppliers and manufacturers are being dominated by large-scale retail operations such as Tesco’s, Safeway and ASDA that ensure their private brands receive greater attention in their own retail outlets (Anderson, Day and Rangan 1997; Hogarth-Scott 1999). This reflects the huge
shift in power from the traditional manufacturer powerbase to that of the modern retailer as illustrated in Figure 2.

Figure 2: The Dynamic Environment of Brands

As a result there is an emerging trend in some Western European markets of smaller companies within the network looking to cooperate with larger organisations rather than compete with them, therefore ensuring a degree of certainty in their business network and the opportunity to develop longer term relationships in these supplier-retailer relationships (Harvey, Rothe and Lucas 1998). This provides an opportunity to investigate these emerging trends of cooperation and relationship development utilising aspects of the IMP framework.

There are a number of aspects of the broader IMP framework that are of interest, such as the IMP interaction model (IMP Group 1982) as it applies to buyer-seller relationships, like those that exist in the private label context. However, what is of particular interest in this research is to explore the notion of collaborating/partnering as a way of gaining access to resources with the purpose of exploiting them (Hallen, Johanson, and Nazeem Seyed-Mohamed 1991; Turnbull, Ford and Cunningham 1996). This is reflected in what the smaller actors in the private label network are attempting to do by entering into these cooperative relationships.

The limited amount of literature to date on the B2B side of private labels provides a basis from which to launch this network theoretical analysis. In the work undertaken in the area of industrial brand management (Rosenbroijer 1995, 2001; Shipley and Howard 1993), authors have investigated the impact of a brand as a resource and the extent to which a national or private label brand has an advantage in this context. What emerges from this research is the idea that from a brand perspective opportunities and relationship development were constrained by the actors control of resources and their ability to exercise power or limit dependence (Rosenbroijer 2001). These results are consistent with what would be expected in this situation as issues of power, dependence, resources, actors and connectedness are all tenets of the business network dialogue (Ford 1990; Häkansson and Snehota 1995, IMP Group 1982). The limitation of this work is that this literature only refers to private and producer brands themselves, rather than looking at the wider network.
What is of interest in the wider industry network is the degree of interdependence between the firms involved in the private label industry, particularly as a means of illustrating the extent of the network that exists around the actors. It can also provide information as to the depth of ties between firms as well as the relationships that are developing between these various groups within the industry (Ford 1990; Powell 1998; Turnbull, Ford and Cunningham 1996).

Opening the network...new markets, new challenges

In addition to the opening up of the network by incorporating a more traditional business-to-consumer (B2C) topic area such as private labels, there is also an opportunity to combine this with a cultural aspect and investigate the rapidly developing areas of Central and Eastern Europe. Since 2000, Europe in particular has seen dramatic geographic development with 10 new member states ascending to the European Union (EU). This has resulted in a number of new markets becoming more 'open and available' to actors involved in the private label network. This has not however been reflected in the recent literature in this area, which has continued to focus on traditional branding and consumer behaviour issues (De Wulf et al 2005, Jonas and Roosen 2005) and more established markets (Byoungho and Suh 2005).

This creates an opportunity to not only utilise a network theoretical approach to investigate the private label network, but to do so in the rapidly developing region of Central and Eastern Europe. Industry commentary (e.g. PLMA 2005) indicates that countries such as Hungary, Romania, Slovakia and the Czech Republic are experiencing considerable growth and development in the food and grocery sectors. This suggests that firms are moving into the area and establishing themselves in the marketplace. What becomes of particular interest is to investigate whether companies that are moving into these Central and Eastern European regions are applying their new cooperative mindset into their emerging business-to-business (B2B) relationships, or is the market being dominated by the supermarkets, hypermarkets and retail chains dominating Western European markets?

The gap therefore exists between what private label suppliers and retailers are doing in their more traditional western European markets, versus what they are doing in the newly developing Central and Eastern European markets. This can be formulated into a broad research problem, to gain an understanding of how companies that are pursuing private label development in Central and Eastern Europe are seeking to cooperate and develop relationships with other companies operating in the industry. Particularly looking at the experiences and opinions regarding the linkages that are developing and emerging between producers, consumers and retailers.

Methodology

This study is very much a first step in beginning to understand networks in the areas of private labels. This is reflected in the decisions that have been made with regards to methodology with the choice of overall method being closely related to the phenomena of interest under investigation. It is also important at this point to consider the link between the research process, questions raised and the theoretical perspective and epistemological assumptions underlying the research. The methodological choice itself forms an important function in its ability to link the choice of methodology to particular outcomes, providing specific grounding for a study’s logic and criteria, and offering direction on the process of data collection and analysis (Arminio and Hultgren 2002, Patton 1998).

The interpretive and constructionist nature of this area of interest suggests the adoption of a primarily qualitative approach (Arminio and Hultgren 2002, Lincoln and Guba 2000). This is further evidenced by the nature of the specific research questions, which ask the researcher to gather information that is very detailed and reflects the language of the participants, combined with an exploration of new information that requires the formulation of novel ideas (Trochim 2002). Therefore to enable this explanatory and descriptive research to take place a mixture of primary and secondary data was chosen. This decision was taken to ensure that the research outcomes would not only address the questions under investigation but ultimately result in an inductive process, which leads to and allows a refinement of theory (Yin 1994) that is crucial in areas where theory development is rapidly occurring. This use of primary and secondary
data is also important for the subject itself, as it reflects the diverse range of products utilising private labels in Central and Eastern European markets. In addition, utilising existing data greatly facilitates a wider coverage of the key issues.

The primary data gathered consisted of a series of semi-structured interviews and panel discussions with senior managers (key informants) from nine business entities operating in the food industry and trade sector. Semi-structured interviews were chosen to enable the researchers to have flexibility within the interview setting to pursue various avenues of discussion relevant to the topic under investigation while ensuring that key themes were answered by all of the research participants. This is consistent with the descriptive and explanatory investigative themes that were being employed as part of the data collection process. In order to produce the necessary themes and findings that communicate a deeper appreciation of the phenomena of interest the Miles and Huberman (1994) approach was adopted. The multiple case study analysis, especially partially and conceptually ordered displays, enabled the unstructured data to be converted into meaningful analysis.

Secondary data was also utilised to supplement the rich, textural data gathered through the key informant interviews. Access to the Private Label Manufactures Association (PLMA) database was used to provide statistical information on the position of a number of private labels in the global food market, particularly in Eastern European markets such as Slovakia, Romania, Hungary and the Czech Republic. Other sources of secondary data included work undertaken by GFK Group, and Incoma Research. The addition of secondary data aids in the verification of the research due to the ability to triangulate the data through primary and secondary sources. Thus going some way in ensuring an acceptable level of internal and external validity (Creswell 1994, Denzin and Lincoln 2000).

Results and Discussion

Private Label Development in Central and Eastern Europe

Analysis of the secondary data showed that since 2000 private label market share in countries such as Hungary, the Czech Republic, Slovakia and Poland has increased by between 60 and 150 percent (PLMA 2005, GFK 2005). Part of the reason for this is the push of Western European companies wanting to take advantage of new growth opportunities by moving into these developing economies. This is evidenced by the private label origin data provided by the PLMA, which shows that products from Western EU countries account for 61% of the food products and 49% of the non food products being sold under private labels in this region (PLMA 2005). For example private labels are already well established in Slovakia with 62% of shoppers saying that they bought private labels on a regular basis. This figure increases to 75% in the Czech Republic (PLMA 2005). The penetration rate is lower in Poland and is still very low in Romania (13%) and the Ukraine (11%), mainly due to the lack of western retailers in these countries.

The data confirmed that the rapid increase in private label penetration into Central and Eastern Europe was due to the growth of western retailers in the region (GFK 2005). The region has seen a recent shift with a number of large-scale producers entering the market, such as discount hypermarket operator Kaufland and supermarket Lidl. The reason for these producers entering the market was to specifically target lower income groups such as retired people, large families and those from rural areas, which are prevalent across many parts of Central and Eastern Europe. In anticipation of this trend continuing a number of the smaller firms have developed clear cooperative strategies so that they can position themselves as potential partners for these large retailers.

Notwithstanding this, it is interesting to note that the majority of shoppers in Central and Eastern Europe are still more likely to use their local store than a larger hypermarket to purchase their grocery items. This is a reflection of the lack of these types of stores in many parts of Central and Eastern Europe, rather than a consumer preference against the larger chain stores.
Towards a Cooperative Approach

What emerged strongly in the primary data results was the immense complexity in this industry. There are a large number of actors groups that are involved in the wider industry network, and these actors groups can be broken down further. For example the results allowed the producers actor group to be classified into one of three categories: Large Scale producers that produce both private and their own labels, Small and Medium Scale producers specialised in certain product lines and private label production and Localised producers who are wholesalers and retailers using private labels in their own wholesale and retail chain. The findings illustrate a series of key actors operating within the network. What the complexity issue does cloud is the interactions and relationships that occur between the various actors. Thus it was necessary to return to the core research question, which asked about the nature of the cooperation between actors in the network, particularly producers, consumers and retailers.

With that in mind, Figure 3 is the representation of that particular aspect of the network. Broadly an actor, resource and activities framework (Håkansson and Snehota 1995) was adopted to generate a map or picture (Henneberg, Mouzas and Naudé 2006) of the cooperation aspect of the private label industry network in the Central and Eastern European region. The key actors that were identified as being involved in the ‘cooperative exchange’ were producers, customers, distributors and the private label owner (which could be anyone from a single business person to a large multinational corporation).

Figure 3: Cooperation and Communication Flows in the Private Label Industry Network

From the process of mapping these actors emerged the importance that the activities and resources played in the levels of cooperation occurring. This became particularly evident when looking at how smaller retailers and manufacturing firms were negotiating with larger, more dominant firms. Retailers for example are very heavily involved in a range of marketing activities and were offering those as a value added aspect of their business when cooperating with others in the network. In contrast producers were in some cases relying on their size, capacity and specialisation skills as ways that their partners can benefit by entering into an arrangement with them.
Of interest in the representation of this cooperative network is the central position of the private label product itself. One very interesting finding from the discussion with participants was the sense that for the majority of those involved, the focus of their cooperation was always with the product in mind. Relationship development, profitability and market expansion were all mentioned but no matter what the situation, the resulting private label product seemed to be the most important factor under consideration. Therefore in Figure 3 it is positioned as the central ‘hub’ or axis that the whole industry operates around, which is similar to the idea of a network organisation or strategic net (Achrol 1997; Muller 2005), however in this case the central hub is a the private label itself rather than a firm or organisation.

This also relates nicely to the interactions that are taking place within this network representation. The findings suggested that there were a range of interactions going on between actors in the private label network. Given the cooperation focus of this research the dominant type of interaction discussed was communication flows, which is what is shown in Figure 3. In reality the majority of these communication flows are in both directions, however the one-way arrows reflect the dominant flow (greater than 70%) of communication between the actors, resources and activities. More work needs to be done to explore these relationships in greater detail to be really confident of the nature and differing levels of exchange that are occurring.

The results showed that the reasons why companies have moved into Central and Eastern European markets with private labels were varied. Some firms identified that it was due to under utilised production capabilities, others discussed insufficient output of other manufacturers branded products and some felt that their current position in the market was unstable. Overall however consensus emerged that becoming part of the private label network offered the opportunity to connect producer know-how with a strong retail brand, thus enabling these new inter-firm partnerships to compete strongly in this new market which is particularly important for smaller players in the market.

Managerial Implications and Future Research

Clearly private label penetration into Central and Eastern Europe will continue. With that continuation the size, complexity and degree of cooperation and interaction between actors in the private label network will increase. The opening of Central and Eastern European markets has seen the private label network grow and develop with new actors groups such as localised, small and medium and large scale producers able to be identified. It has also enabled a cooperative framework to be mapped, looking at the impact of development and expansion of the private label network in countries such as Slovakia, the Czech Republic, Hungary and Romania. This representation helped illustrate to smaller firms involved in the private label, of the importance process of the need to operate in a market that historically has been dominated by large-scale manufacturers and retailers.

The research suggests that these firms have understood this importance to the extent that some have embarked upon providing value added services for potential partners, such as marketing services. This process will see many in the private label network seek interactions and form associations that will be integrative and collaborative and offer mutual benefits for all participants involved.

From a managerial perspective, it is important for individual firms to make their company visible, either because you are a local firm already established in the market or you are a new firm moving into the market and may benefit from local knowledge and assistance. As demonstrated by the results there is benefit in having the ongoing goal of pursuing successful cooperation in the network in order to maximise opportunities that are available.

Future research can address a number of issues; in particular more research is needed into the interactions that are occurring between the various actor groups in the network. Also due to the rapid development, longitudinal study would provide benefit and aid in the confirmation and continued understanding of the private label network. There are also research opportunities to look at specific aspects of the network such as decision-making processes regarding new product development and
private labels, the process of negotiation between the producers and the buyer/retailers and the process of private label producers searching for new partners.

Inter-organisational interactions are strategic, multifaceted and cooperative. They reflect ideas of power, dependence, commitment and trust and play an important role in the establishment and development of a new network, particularly in dynamic and changing environments such as the private label industry in Central and Eastern Europe.

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