

## Assortment Policy of Retail Trade Networks - Private Label Creation

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**Abstract:** This article deals with the relevance of private label creation by trade organizations, defines differences between a private label and original labels and their structure of price formation. The sequence and the scheme of label creation are proposed. On closer investigation of the further mechanism of private label development there was revealed the benefit for the producer of the goods and the trade network in case of their cooperation during the process of private label creation.

**Key words:** Private label • Trade networks • Assortment policy

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### INTRODUCTION

Trade is an important industry of the national economy which is determined by macroeconomic indicators of social and economic development of Russia. It is characterized by development of the industry and agricultural sector and by indicators of foreign economic activity of the country.

Development and introduction of private label's products in the retail trade network is rather actual and perspective business development direction, enhancing consumers' loyalty through cost reduction and quality improvement. In the XXI century retail trade enterprises started to develop and implement private labels in the economic activity of the entity to increase turnover and profit.

Foreign scientists and specialists are pioneers in the sphere of development and implementation of private labels. N. Kumar [1, 2] and L.K. Scheer and J. B. E. Steenkamp [3] proved the necessity of cooperation of production companies of original goods with trade organizations, which implement private labels domestically. H. Charmasson [4] defined the method of generating of private label names, thereby made a contribution to naming development as a part of marketing strategy. J.N. Kapferer [5] defined development trends of brand management in network shops' and their labels' activity.

Some Russian scientists devoted a number of research works to studying private labels. E.L. Golovleva [6] defined main stages of private label creation and studied their life cycle, contemplated structures of her own private labels and the sequential algorithm of their development and implementation in the economic activity. M. Yanenko [7] proposed theoretical and methodological aspects of label development, defined main processes of private label creation and features of control of private labels' strategy in trade networks. O.A. Sharapova [8] defined a number of factors which influence consumers' behavior in regard to a private label and proposed the concept of their positioning. D.A. Shloyda [9] revealed main aspects of labels promotion on the market with similar goods.

### MATERIAL AND METHODS

Following methods were used in this research paper: market and cost pricing methods, bench marketing, historic analysis of private label creation in foreign companies, field studies in Czech, German, Austrian, Hungarian and Russian trade networks (2012-2013). The works of following authors were used as a theoretical base for the research along with the above mentioned authors: A.V. Plotnikov and M.S. Oborin [10] and foreign scientists: R. Batra and I. Sinha [11], S. Burton, D.R. Lichtenstein, R.G. Netemeyer and J.A. Garretson [12], N.

M. Fong, D. I. Simester and E. T. Anderson [13], R. Saeed, R. N. Lodhi, A. Rauf, M.I. Rana, Z. Mahmood and M. Ahmad [14], M. B. Ward, J. P. Shimshack, J. M. Perloff and J. M. Harris [15], G. Walsh and V. W. Mitchell [16], P. Wu, G. Y. Y. Yeh and C. R. Hsiao [17].

## RESULTS AND DISCUSSION

The difference between private labels and original labels is that private labels belong to a retailer - trade network - penultimate unit of handover of the goods where a consumer is the last one. Original label is producer's property.

Let us compare original label price structure and private label price structure. Original label price (P (original label)) can be measured by addition of its components:

$$P(\text{original label}) = C + AC + PS + GA + REE + RES \quad (1)$$

where

- C = Product cost,
- AC = Administrative costs,
- PS = Producer's surplus,
- GA = Global advertising and promotion cost,
- REE' = Retail enterprises' expenditure;
- RES = Retail enterprises' surplus.

Private label price (P (private label)) can be measured by addition of its components:

$$P(\text{Private label}) = C + AC + PS + LA + REE + RES \quad (2)$$

LA - local advertising cost while  $GA > LA$ ;

This expense amount constitutes the final price of the goods distributed in retail points of sale. In this case the expense on global advertising of an original brand and the expense on local advertising of a local brand, private label, are nonidentically equal. The small part of budget is expended on the local brand advertising (for packaging, as standard costs, for advertising on a selling floor). Large sums are expended on the original brand advertising (TV, radio, newspapers, magazines, Internet, co-marketing, BTL, billboards, involvement of celebrities, product placement, etc.). A consumer spends considerable part of facilities for advertising campaigns of the global original goods. Consumers will save enough money to satisfy their further demands due to private label development and promoting.

Fig. 1 represents that an original label passes three stages to achieve its target (excluding transportation and storage): producer, wholesale trade, retail sales; the target is a consumer. A private label passes two stages: production and retail sales; the target is a consumer. Private labels at the entrance into the market do not pass the wholesale unit as general distribution of the goods. Wholesale companies' turnover will decrease in case of dynamic development of private labels.

Stability of trade network brand is the base for private label implementation, thus, it is possible to approve that the brand of a private label directly depends on the brand of a trade network. It is necessary to analyze stability of the brand for consumer loyalty before starting of a private label.

**History:** Generic labels, such as "Sugar", "Starch", appeared in Japan in the 1990th [18]. Private labels found the application in the "Ramstor" and "Perekrestok" supermarkets in Russia in 2001.

The sequence of private label creation is shown in Fig. 2.

It is necessary to increase floor spaces of shops and to enhance trade network logistics execution system for creation of a private label. These circumstances are necessary for sale of a large number of goods because usually producing and implementation of private labels in large volumes is most profitable. Cost value and the final price of the made commodity unit directly depends on lot size.

Essentially registration of a private label is difficult process and is registration of a trademark. Federal Institute of Industrial Property affiliated with the Russian Agency for Patents and Trademarks can perform registration of Russian trademarks. The sequence of creation of a trademark is represented in schemes (Fig. 3, Fig. 4)

It is necessary to start implementation of the private label in the trade company with "anonymous" goods. After successful experience it is time to use other opportunities - implementation of the private label of the trade network. The essence of this approach to implementation of the algorithm is in gradual transition from simple to difficult, from general to particular.

Many production companies offer «turn-key private label» on the commodity market. Emergence of these commercial offers is caused by increase in demand from trade networks. Production companies also feel potential financial benefit. The principles of work consist in the following: the idea which includes the project, the recipe

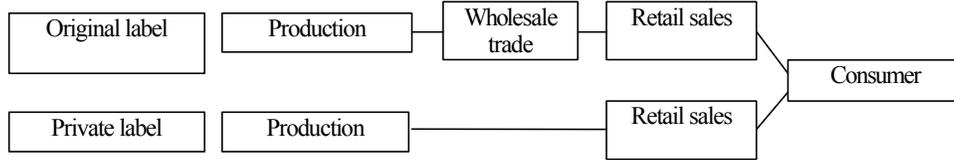


Fig. 1: Milestone difference between original and private labels

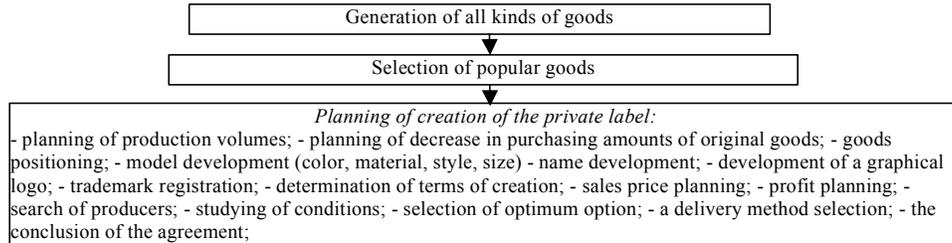


Fig. 2: General sequence of private label creation

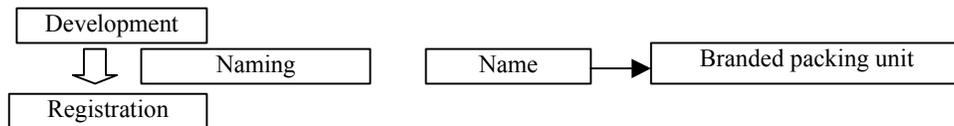


Fig. 3: Scheme of trademark creation

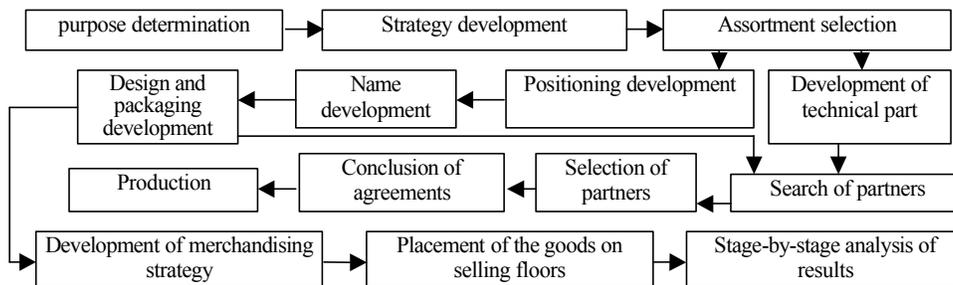


Fig. 4: Scheme of private label creation

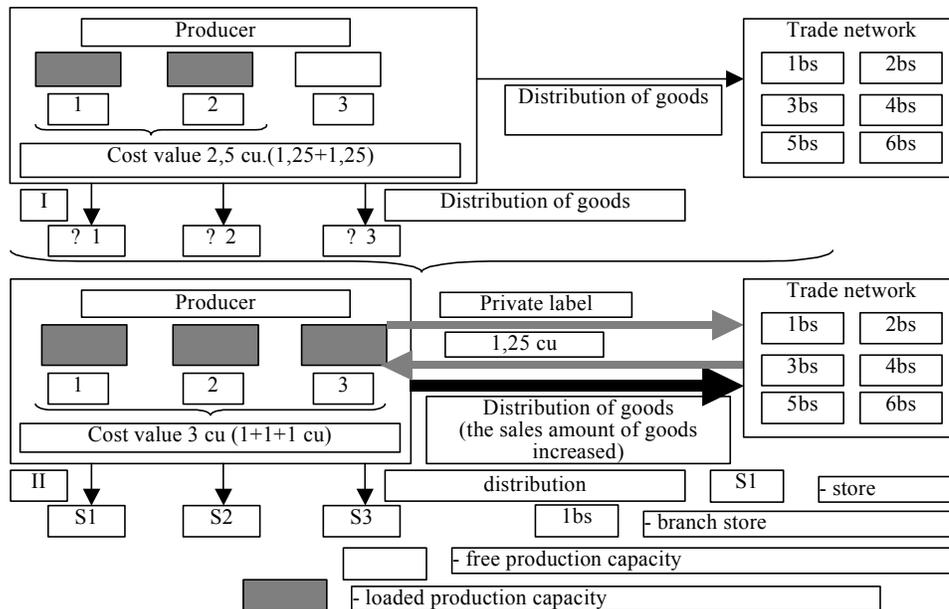


Fig. 5: Advantages of cooperation of the producer with the trade network in case of private label creation

(for food shops and HoReCa segment) belongs to the customer of the private label (Fig. 5). Production capacities (usually free, not involved) belong to the contractor. The contractor of the main product can implement creation of packaging, or the customer can address to other company. The production company fulfills the potential by production of the goods on own production capacities. In the absence of the necessary packaging equipment the production company carries out the analysis of partner companies about production of necessary packaging (reveals possibilities of production, temporary and material conditions) and signs the agreement.

The production company has two or three production capacities loaded in the first period. Cost value of two loaded capacities is 2, 5 cu. The made goods are distributed in several stores independent from each other and in the trade network. The production company does not make a private label for the trade network in the first period.

The production company by means of the acquired communications expands sales channels for own original products in the second period. Since all production capacities are used cost value decreases and the trade network receives 1, 25 cu (1 cu. covers cost value, production company benefits 0, 25 cu) for the rendered work. Due to cooperation cost value of made original products will decrease by 0, 5 cu and will constitute 2 cu. The company gains 0, 25 cu considering profit on the transaction with the retailer. Putting the earned profit on the retailer (0, 25 cu) in cost value, the production company will spend  $2 - 0, 25 = 1, 75$  cu for cost value (on 0, 75 cu less, than in the first period). Finally, this transaction will be rather profitable to keep communications. Decrease in cost value of the producer's original goods results in decreasing of the final price, therefore the end consumer benefits. By means of a private label, the production company of original goods shall increase the expenditure item for promotion of goods.

Let us determine a merchandising organization and an organization of dealers for distribution of private labels. Probably, there are preconditions to the conclusion of agreements with dealers on delivery of private labels to a wide range of consumers out of own trade network. There can be difficulties of quality control and control of the prohibition on sale of overdue goods in the process of implementation of private labels of foodstuff. There are problems concerning merchandising in different sales points.

Private labels during the process of implementation out of own trade networks cannot sustain the competition of known brands of original goods. Probably, a series of nonfoods which do not depend on expiration dates, for example clothes, will be suitable for expansion of sales channels. Consequently, this type of goods is more adapted for implementation out of own trade network. In this situation there can be difficulties concerning recognition of the local brand and methods of its sale by means of merchandising. A considerable advantage is the price of goods which by default does not include the price of an advertising campaign, but includes income amount of the company, the owner of the private label. It is necessary to adhere to a profitability minimum for more successful strategy.

It is necessary to dispose implementation of the private label out of own trade networks as far from the local territorial district as possible, in other municipal areas, regions where there is no retail trade network of the private label.

The modern fast-growing institution of public catering cannot be in operation without private label strategy implementation. The most widespread foodstuff in institutions of public catering among private labels is draft beer. For this purpose a manager of an average cafe needs to sign the agreement on delivery of beer and to sell it under the name of own cafe.

It should be noted also that institutions of public catering practice "free" additional food (salt, pepper, sugar, ketchup, mayonnaise, sour cream, etc.) under the private label. Consequently, "free" additional products cannot belong to the private trade label because in this context there is no trade essence, specifying certain "free of charge basis" and offering an open access to products for clients. It means that this category of products belongs not to the private trade label, but to the private label (without the use of the word "trade").

The most optimum sales method of private trade labels are vending machines, located on selling floors, where a consumer himself, without the assistance of selling assistants and a "persuasive" merchandising chooses the goods

## **CONCLUSION**

Private labels were widely adopted in foreign trade networks and are taking root successfully in the Russian retail. Retail networks and producers of original label goods are involved in the process of private label creation. When producers understand the relevance of

change of production strategy, there will be a keen interest in cooperation with trade networks for private trade label creation. The potential production of plants will be involved on full capacity and stoppage in production will be reduced. The perfect competition of the market mechanism will right the balance between production of original label goods and creation of private labels customized for retail trade networks. The result is that consumer demand will be satisfied.

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