

Private Labels in Orange Juice: In What Should We Think?

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1. Introduction

Private labels are perhaps one of the most discussed issues and of major impact on retailers' activities nowadays. Frequently decisions food industries and retailers have to face regarding private labels. It has been an important tool for the distributor in a very competitive sector and has played different roles for the food industry, coming from threats to opportunities.

The private labels are the brands developed and managed by distributors (retailers, wholesalers, foodservice). Retailers stamp their brands on products and sell them to final consumers. (Machado Filho et. al., 1996; Toledo et al. , 1997)

The relationship between the Food Industry, more particularly, between the Orange Juice Industry and the Retailers was discussed by Pavan et al. (2002) which brought the retailers' main criteria for buying decision and buying behavior. Among the the authors' conclusions, are the non-cooperative behavior with the Orange Juice and the bargaining for margins (where the powerful hypermarkets and supermarkets charge taxes to include the orange juice in their product line).

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This dispute for profit margins and not the development of any cooperation can be seen by the Transaction Cost Economy theory (Zylbersztajn, 1995). It is important to say as a starting point, that because the product being discussed is not sufficiently differentiated and do not motivate the parties involved in the transaction to make any high asset specific investments, they players in this transaction do not tend to develop any interdependency and cooperation, even being repeatable transaction at most. (Williamson, 1985; Azevedo, 1996; Farina et al., 1997). Moreover, there is no balance in negotiation power, as the buying power of the largest retailers is relatively higher when compared to the Oranje Juice Industry, mainly the smaller ones (El-Ansary. & Stern, 1972; Neves, 1999).

On the other hand, a retailers' private label is a high asset specificity item (investments in branding and image) (Collins 2002; Johanson, 2001), and it motivates the parties' interdependence - in this case between the Orange Juice Industry and the Retailer. (Williamson, 1985;Lassar & Kerr, 1996). As commented by Collins (2002), the value and integrity of a retailers' private label are determined partially by the activities of the Food Industry involved in the production of this product.

At this point, it becomes important to analyse how the production of a private label product can change the relationship between the Food Industry and the distributor, bringing new aspects to be considered.

Some numbers to highlight the growing importance of this category: In European Countries, private label products overcome US\$ 250 billions in 1997 and around US\$ 305 billions in 2000. It has grown at an annual rate of 7% in all Europe since 1990. The

same happens in the United States, where in some retail chains private labels represent over 30% of the product mix (Nielsen). Several authors studied private labels (ACNielsen, 2000; Richard, 2000; Laaksonen, 1994; Winninghan, 1999).

In some countries, for instance Switzerland, the share of private labels at retail has reached over 50% of total sales, followed by the United Kingdom with 37%, Canada, Holland, and United States with 25%, 23% and 15%, respectively. Latin American countries are at an average under 5% of total sales, showing the potential for private label growth in the region. The percentage of private label sales within product categories is higher in food and beverage than other product's categories. When compared in terms of total food sales in the world, the private labels have 16% % (Nielsen, 1999; Malta; 1999; Morita; 1998; Gonzalis, 1998; Lazzarini, 1999; Háfiez, 2000; Kiderman et al. 1997; Sternquist, 1998).

2. Objectives

The objective of this article is to discuss the main brand decisions and to elect some important aspects to be considered in a relationship to supply orange juice to a retailer's private label. Conclusions and the references are showed at the end.

3. Method

The methods used to do this research were a bibliographic search in branding decisions, private labels, transaction cost economy and marketing channels.

Also, group discussions/workshops (qualitative and exploratory) research with executives from the food and beverage companies and retailers⁴ were made in order to raise the main factors considered when adopting this strategy in a. (Malhotra, 2001).

4. Major Brand Decisions

The aim of this topic is to localize the private label decision within the main brand decisions that can be taken by a supplier. Some brand definitions, trying to show their role in the general marketing strategy, are commented as well. It must be understood the function and the potential power of a brand to be understood its value, mainly in a private label strategy (Rafiq, 1999).

A brand according to the *American Marketing Association* is a name, term, sign, symbol or a combination of all, that proposes to differentiate products or services of a particular firm. Essentially, a brand means a promise of delivering a product with a known package of characteristics, benefits, and services to the buyers. Several marketing authors can be references to this subject (Ettel et al 1997; Berman, 1996; Rafiq, 1999; among others) It has the function of reducing the transaction cost for the consumer and to facilitate the process, since it identifies the product and its characteristics, reducing uncertainties (Farina et al. 1997).

Kotler (2000) says that a brand is a symbol even more complex. It communicates the product attributes and benefits, values and the culture of the manufacturer and it can be close to the personality of the buyer. Finally, a brand suggests other characteristics of the product user, being possible to draft a profile of a known brand's consumer.

⁴ These workshops were done during MBA classes with executives.

The great challenge for a brand is to develop a group of ideas in a way that it will not be just a name but rather, a real meaningful brand. The major brand decisions according to Kotler (2000) are 5 groups of sequential questions, which try to make a summary of the main aspects that a company needs to think when deciding on branding (table 01).

Table 1: Main Brand Decisions

<p>Brand Decision Should a brand be created for the product?</p>	<p>A brand may not exist and the product would be a generic one, generally cheaper. Instead, creating a brand means to invest in packaging, labeling, registration, communication, and also be exposed to the image risk. However, the advantages for the company are: easier product identification, legal protection, opportunity for loyalty and profits, possibility for market segmentation, and finally the opportunity to build a good image in the market.</p>
<p>Brand Sponsorship Who should sponsor the brand, the manufacturer, distributor or a licensed brand?</p>	<p>This is the main objective of this article and is discussed in the next topic.</p>
<p>Brand Name Which brand names must be stamped on the product?</p>	<p>An individual brand means an independent product with no risk to the image of the company if it fails, but on the other hand, the product takes no benefit from corporate image, if it exists. A global brand allows a lower development and promotional cost and should be used mostly when the product line is not too diversified. A family brand can be used when there are products with different quality standards or positioning under the same umbrella (a wider corporate brand). Finally the company can associate its brand to the individual brand's product, exploring its good image and creating an individual appeal.</p>
<p>Brand Strategy</p>	<p>Product line extension: where the company introduces different versions in the same product category, with the same brand with new attributes like taste, color, size, and others. Brand extension: This means using the same brand to other product category, exploring the brand image acquired with the original product category. Multibrand: Launching new brands in the same category to explore different segments and combat competitors. New brands: When a company want to go to a new business and identify that its actual brand is not appropriate to the new one. Brand combination: Two or more brands can be combined in the same product in a special offer.</p>
<p>Brand repositioning</p>	<p>Repositioning means create another meaning in the mind of the consumer that differentiates the product from a new competitor that has launched a product close to the firm's offer.</p>

Source: Adapted by the authors from Kotler (2000), page 396.

After these considerations of major brand decisions, the next topic will discuss one of the decisions in brand sponsorship and name, regarding the use of private labels

(wholesalers or retailers brands). It is important to say that this discussions are present in marketing channels literature, and for more information, the work of Stern et al (1996), Rosembloon (1999), Berman (1996), among others can be useful.

5. Private Labels: Points of Possible Advantages for Food Industry (Orange Juice Producers) and Retailers

When thinking of producing orange juice to a retailer, a producer may think of the possible advantages that this activity could bring to his business. At the other side, the retailer does the same. As discussed at the introduction, the relationship changes and new aspects emerge.

Table 2 is a summary of the discussions/workshops with food businesses and retailers to raise the possible advantages that the private labels could bring to the companies involved, the manufacturer and the distributor. The authors also enriched the table with considerations from specialized literature referenced at the end and private projects.

Table 02: Point of Possible Advantages for the Orange Juice Producer and the Retailer in a Relationship of Private Label.

POSSIBLE ADVANTAGES FOR THE ORANGE JUICE PRODUCER TO ESTABLISH THIS RELATIONSHIP	POSSIBLE ADVANTAGES FOR THE RETAILER TO ESTABLISH THIS RELATIONSHIP
<ul style="list-style-type: none"> • Communication is done by the retailer: possible lower communication (advertising/product promotion) costs for industry; • Possibility to increase sales and obtain scale gains: higher occupation of the factory capacity and improvement at the inputs buying volume enhancing negotiation power with suppliers; • A larger space occupied in the retailer shelves (this happens when there are two brands from the same factory - the original company brand and the private label); • Possible liberation of products sold in consignment (a request usually done by retailers to food industry); • Could be easier to obtain credit and funding by Banks, since future sales are guaranteed by the private label supply contract; • Product mix: possibilities of alternative product line with different prices and positioning; • Normally these are products without technological innovation. Hardly new products are launched as private labels; • Possible improvement in the relationship with the retailer, receiving better shelf-spaces, without paying slotting allowances and other retailers taxes; • Consumers and distributors recognize the company quality (being that particular retailer's supplier of the private label brand works as a quality certification); • A possible lower physical distribution cost; • Promoters are not needed at the point of sale; • A possible lower market share for the main company's brand at the store, but a higher market share for the factory (since now it has two brands coming from the factory at the shelves). • The industry gets experience, and further can supply other retailers, even other industries. • As the retailing sector becomes more global, there is the opportunity to be the global supplier for the category, in this case, of orange juice. • A final and practical reason to study this proposal is that if one industry does not occupy this space, a competitor will occupy. 	<ul style="list-style-type: none"> • First we need to understand several current formats: brand with the name of the retail chain; retail brand, but with other name and retailer stamp on the product. Each one will show advantages and disadvantages, that will not be discussed here; • Vertical chain coordination – have production without production assets; • Possible stocks reductions since these products will be managed by the industry; • Higher bargaining power to negotiate with other suppliers given by the flexibility of private label's price positioning. • Possibility to develop store loyalty (identification in the mind of the consumer, once he will be always seeing the brand at home or at other place); • Possible higher margins; • Increase in pressure for shelf-space disputes once one part of this limited space is filled with its own products reducing space for other companies to share; • Store's product line gets wider; • It has to have careful quality monitoring because the brand image (the name of the retailer) can be damaged in case of problems.

Source: Authors, based on discussions with executives.

6 - Conclusions

Branding is a fascinating issue in marketing. As seen at the tables 01 and 02 to create a powerful brand is a manner to differentiate the product. For the consumer a brand facilitates the decision buying process, indicating the quality of the product. Since retailers are recognized and in some cases very admired by consumers, why not to extend their brands to the products sold in the stores? Private labels today are a major concern in marketing. How can the food industry fight against these giants?

Private labels increased competition in the orange juice market and enhanced retail's bargaining power. Market leaders are threatened by the increasing private label sales even within premium segments, and the second or third brands in the market are threatened at the other side by cheaper private label juices. What rests to the juice industry? More concentration? Maybe with segmentation techniques a food industry can explore the benefits of its own brand and get those advantages of supplying to a retailer's private label. The article provides some points of consideration.

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