

“Brand Building and Innovating: The Best Way to Stay Alive”

AUTHORS	Renee Kim
ARTICLE INFO	Renee Kim (2006). Brand Building and Innovating: The Best Way to Stay Alive. <i>Innovative Marketing</i> , 2(4)
RELEASED ON	Monday, 11 December 2006
JOURNAL	"Innovative Marketing "
FOUNDER	LLC “Consulting Publishing Company “Business Perspectives”



NUMBER OF REFERENCES

0



NUMBER OF FIGURES

0



NUMBER OF TABLES

0

© The author(s) 2026. This publication is an open access article.

BRAND BUILDING AND INNOVATING: THE BEST WAY TO STAY ALIVE

Renee Kim*

Abstract

Established reputation of brand through effective advertising and superior quality supported by continuous innovation are used to be two distinct features of national brand products. However, retailers have elevated their private label (PL) quality (Hoch, 1996; Dunne and Narasimhan, 1999; Winningham, 1999; Apelbaum et al., 2003) and consequently PLs have gained greater market shares and pose to be a major threat to National Brand (NB) manufacturers. Hoch's six strategic options for NBs illustrate how NB manufacturers can respond strategically against PL depending on circumstance. Among these six options, first option – new product innovation – appears to be the most effective way to defend NB's long-term position in fiercely competitive market, while other options entail some limitations. Fiji Water case example is presented in this paper to show how Fiji Water has managed to differentiate its product from 400 other brands currently available in the US market with its unique branding strategy. Assessment of previous research and Fiji Water case study suggest that National Brands should continue to consolidate its brand image and to pursue continuous new product innovation, in order to differentiate its position from PL and to sustain customer loyalty. Continuous new product innovation is necessary for NB to maintain its superior quality perception by consumers. This is key to invoke consumers' willingness to pay premium for the additional value (superior quality) embedded in NB products. NB manufacturers need to address emerging consumer trend and shift in taste and preference in their product development process.

Key words: Private Label, National Brand, Fiji Water, Brand-management, New product innovation.

Introduction

Branding is a key element in food marketing as food products are becoming more heavily branded. For example, the share of all US food sales that were branded increased from 7 to 19% in the period of 1987-1997 (Baker et al., 2006). Brands are information signals about a product, a group of products, or a firm that distinguish the product from others. The benefits of branding include improved market segmentation, increased consumer loyalty, increased repeat business, ease of new product introduction, and improved corporate image (Beierlein & Woolverton, 1991). For branded product, the share of retailers' own-label brands (i.e. private label) has increased significantly. For the US, retailers' private label holds a market share of 15% by value and 19% by volume (Ward et al., 2002). The expansion of PL appears to be driven by factors like increased retailer concentration, retailers' aim for higher profits, and the fact that retailers are becoming more proficient at managing store brands as part of their retail format (Dahr and Hoch, 1997; Messinger and Narasimhan, 1995). With current demographics guaranteeing low growth in consumer spending on food and packaged goods far into the next century, PL can be a formidable force in an already highly competitive grocery environment (Hoch, 1996).

Many retailers have integrated upstream by launching "store", "private", or "house" brands/labels, which are generally priced lower than nationally advertised brands while offering lower to equivalent quality (Connor & Peterson, 1997; Hinlopen & Martin, 1977). Retailers charge higher prices for the national brands purchased by "advertising attracted" consumers, while optimizing profits

* University of Manitoba, Canada.

from “lower price” oriented consumers with private labels (Wolinsky, 1987). Thus, PL allows to price-discriminate across two segments (price shopper vs. brand shopper).

Recently, retailers reposition private label (PL) products positions from a low price/lower quality alternative to equivalent quality alternative, improving their profitability and store brand equity and image. In other words, PL has gone “upmarket” by narrowing the quality difference between NB and PL (Dunne and Narashimhan, 1999). Quality-equivalent PLs are physically equivalent to national brand (NB) and are often produced by the same manufacturers. A recent survey study for the Private Label Manufacturers Association (PLMA) shows that 60% of respondents believe that PL products are the same as NB in overall quality of the products, taste, availability, freshness, guarantees of satisfaction, clarity of labeling, and the quality of packaging among other attributes (Soberman and Parker, 2006).

PL products are increasingly becoming competitive in their attractiveness to consumers and to retailers and pose a serious challenge for NB manufactures. It is imperative for NB manufacturers to develop their brand and marketing strategy that accounts for private labels. The objective of this paper is to assess competition between national brands and private label, particularly in food marketing channels and to examine strategies of NB manufacturers against PL to protect their market position.

The paper starts with background on NB vs. PL competition; economic impacts of private labels, marketing of private labels, competitive advantages of national brands. Following section discusses strategic options of brand manufacturers, which are introduced by Hoch (1996) and studied by many other researchers (Quelch and Harding, 1996; Mills, 1999; Kim and Parker, 1999; Ailawadi and Harlam, 2004; Sayman et al., 2002; Verhoef et al., 2002). Hoch’s (1996) paper is selected as the basis of discussion and findings from other studies which are incorporated in the discussion. Subsequently, a case of Fiji bottled water branding management is presented as an example. Finally the paper ends with a discussion and marketing implications.

Background

Economic Impact of Private Labels

PL has enabled the mass retail industry to increase product variety offered to consumers and restored the balance of power between retailers and the manufacturers of leading brands (Bontems et al., 1999; Caprice, 2000). Soberman and Parker (2006) state that existence of PL can increase the profitability of a national brand manufacturer even when the volume and share of national brand decline, as the launch of private labels stimulates price increase of national brands.

Quelch and Harding (1996), on the other hand, suggest that PL competition remains a serious threat to national brands as it takes away market shares and sales volume of NB. Currently PLs account for 15% of all retail sales, with food garnering the greatest share, at 19% (Reyes, 2006). PL sales are growing at a faster pace than that of NB products: PL sales up 64% versus 30% for NB between 1997 and 2005 (ACNielsen, 2006).

For retailers, PL allows them to obtain higher margins due to lower costs of production and marketing support and retailers can extract a larger share of branded manufacturers’ rents by intensifying competition on the shelf (Collins and Burt, 2006).

Marketing of Private Labels

PL is used to be considered to have inferior quality compared to NB and presented as a value option for price shopper. Many retailers improved marketing of PL, introducing high quality PL, targeting on upscale market segment and directly competing with NB. Interbrand (2006) states that private labels are used to be only about price, but now they come up in quality while staying about 30% below national brand prices, and PLs are forging unique niche brands with extensive packaging improvement and advertising.

The strategic use of PL by retailers has continued to evolve, becoming more sophisticated with greater use of market segmentation, and now it is common to find three different “core” PL seg-

ments (generic, standard, premium) and other “specialist” segments (e.g. organic, health eating) merchandised in the same store (Collin and Bert, 2006). In other words, retailers are using PL products to achieve a differentiated position in the market and to increase market power through branding of store name. Thus, “The firm (i.e. retailer) has become the brand” (Sparks, 1997) and “store loyalty replaces brand loyalty” (Gruen et al., 2002).

Other than lower price, PL has advantages in other aspects such as shelf space. It is in the retailer’s power to decide on the placement of NB and PL on store shelves and this prerogative puts considerable power in the retailer’s hands as shelf placement has significant impact on sales of product (Steiner, 2004). PLs are extensively developed and concentrated in larger retail chains in Europe and Canada due to the pioneering efforts of retailers such as Sainsbury and Tesco (UK), Carrefour (France) and Loblaw’s (Canada) to offer high quality PL (Soberman and Parker, 2006).

Strategic Options for National Brand Manufacturers (NB)

Hoch (1996) states that NB should not think of PL as just another low-priced, inferior national brand competitor – a significant portion of PL are purchased by educated consumers who usually are less influenced by price than the rest of the general public. These educated consumers may be better informed about the relative quality of PL compared to NB.

Another factor that complicates NB’s strategic position is that PL is both competitor and customer as some NB manufacturers are supplying their products to retailer as PL. Competition among NB manufacturers is a zero sum game in which one player’s gain is another player’s loss in terms of market share. However, if a NB is supplying both NB product and PL to a retailer, gain in NB sales at the expense of PL may cause the retailer to take hostile reaction against the NB supplier. In the following section, six strategic options for NB manufacturers against PL are presented that take into account the NB’s unique dual position of being supplier and competitor to PL.

Hoch’s (1996) Six Strategic Options for NB Manufacturers

Figure 1 shows six strategic options for NB based on two dimensions: quality and price.

As National Brand (NB) advances its quality and raises price, it will be positioned further away (left, upward) from Private Label (PL) on this map. As PL advances its quality and raises its image, it can also move upward and left, narrowing the distance with NB.

1. Increase distance from private label through offering “new and improved”;
2. Increase distance from private label through offering “more for the money”;
3. Reduce the price gap;
4. Formulate a me-too strategy by introducing a value-flanker;
5. Wait and do nothing; and
6. Produce (premium) private labels.

The first option appears to be the most effective way to defend NB’s long-term position in the market against PL. This option suggests gaining competitive advantage over PL through *innovation*, introducing “*new and improved*”, which allows increase both in quality and price (Hoch, 1996; Quelch and Harding, 1996; Mills, 1999). Continuous product improvement and development through innovation are necessary for NB products to maintain its superior quality perception by consumers. This is key to invoke consumers’ willingness to pay premium for the additional value (superior quality) embedded in NB products. NB manufacturers need to address emerging consumer trend and shift in taste and preference in their product development process.

For example, consumer’s interest in health and wellness has increased substantially for past decade and key beverage categories’ NB manufacturers delivered against these trends with innovative products and benefited from increased pricing and sales growth; sport drinks and bottled water posted double-digit growth at 25.1% and 16.5%, respectively for the period of 2004-2005; the perceived health benefits of sport drinks and water combined with innovative flavors and packaging moved these categories into the fastest growing categories overall (Beverage Industry, 2006).

The second option – offering “*more for the money*” – is to maintain current price while giving the consumer additional value. Quality and quality consistency are found to be two major determinants for consumers’ choice behavior and the retailers’ and PL manufacturers’ abilities to provide quality comparable to NB are key to the rivalry between NB and PL (Hoch, 1996). This implies that any improved quality for NB would be perceived as more value for consumers at the same price.

NB can also invoke perception of “new or improved” quality by extensive advertising and this is NB’s advantage over PL (Quelch and Harding, 1996; Kim and Parker, 1999). Many retailers have limited resources for comprehensive corporate branding program as they need to rely on internal funds, and retailers are inclined to invest in marketing PL only when it provides sufficiently high return. This suggests that PL often perform better in large categories that give higher profit margin for retailers. NB manufacturers have much larger resources of branding management and have a comprehensive operation of branding, packaging, producing and advertising, thus NB can selectively focus on categories in which PL are not investing sufficiently and pre-empt the category with extensive advertising and build strong brand image and customer loyalty.

Another important factor that affects consumer’s perception of quality is level of visibility in terms of packaging design, color, size and shape of product. NB manufacturers need to differentiate appearance of NB product to be perceived as superior to PL.

Third option is to *reduce the price gap* between NB and PL (Hoch 1996; Quelch and Harding, 1996). Hoch (1996) points out that this is not a worthwhile short-term investment for NB. The price gap was found to have statistically significant effect on the sales and profit for both NB and PL; a smaller gap increased unit sales of NB relative to PL, while a large gap had the opposite effect, and PL was twice more sensitive to the gap compared to NB (Dreze et al., 1994).

The problem with reducing the price gap for NB is difficulty in getting the retailers to reduce price gaps, as retailers would make more category profit with larger price gaps. This strategy could harm the firm’s relationship with the retailer, as one directly attacks PL’s core benefits (Verhoef et al., 2002).

Fourth option is to formulate a “*Me Too*” strategy. NB can imitate PL product by producing lower priced, lower quality product (i.e. *value flanker*) to crowd out the PL or limit the PL’s viability to move upscale (Hoch, 1996; Quelch and Harding, 1996; Mills, 1999). This strategy maps NB in Figure 1 closer to PL, which is the opposite of strategy option 1. The extra variety acts as a barrier to entry, simply because market share is carved up into smaller pieces (Hoch and Banjeri, 1993).

Hoch (1996) lists a few advantages of this strategy; allows NB to preserve premium image while avoiding excessive price competition; provides an outlet for utilizing excess manufacturing capacity of NB. However, by using this strategy, the flanker can cannibalize sales of premium NB, especially if the quality gap between NB and PL is dismal. This can be an expensive strategy for NB as it would be hard to get shelf space from the retailers. The flanker brand must be able to distinguish itself from the regular PL to generate premium to cover marketing and distribution costs without diluting the flagship NB (Hoch, 1996).

Fifth option is to *wait and do nothing*. Strategic reactions to PL require substantive and long-term commitment, which cannot be easily reversed. If the market is characterized by high volatility or cyclity, NB may want to wait and see what happens to PL’s development in the brand’s category (Waarts and Wierenga, 2000). However, this strategy is likely to lead to decreasing profit and losing market share by NB as PL quality continues to get higher (Sayman et al., 2002; Ailawadi and Harlam, 2004).

The last option is to *produce regular or premium private labels*. There are three motives for PL production by NB manufacturer (Dunne and Narashimhan, 1999).

1. Economic motives;
2. Relationship motives;
3. Competitive motives.

Regarding the first motive, NB manufacturers have excess manufacturing capacity and use this to produce PL, which could increase overall corporate margin and operating efficiency. The second motive addresses improvement in the relationship with retailer by creating a win-win situation and long-term relationship. By producing PL, a NB manufacturer can increase sales and market share away from competitors (third motive). Verhoef et al. (2002) point out, however, that PL production can involve several risks, such as loss of power and the danger of the product category becoming a commodity.

Limitation of Hoch's Six Strategic Options

Although aforementioned six strategic options for National Brand manufacturers are studied and agreed by several researchers, Wu and Wang (2005) address concern regarding assumptions built into these strategic options. Wu and Wang state that these options fail to consider competition or the implicit collaboration between NBs, as though there was only one NB in the market. There could be possible collusion among NBs to defend their market shares from possible encroachments by a PL (Lal, 1990) or an NB can join the game and supply the retailer with a PL as a substitute for its own brand, in which case the supply of the PL functions as a strategic role. Wu and Wang propose to frame the NB and PL interaction in the broader competitive environment using game theory, including interactions with another national brand competitor and the common retailer.

Case of Fiji Bottled Water

In this section, success story of Fiji Water is presented as a case showing how to establish high-end brand image in highly competitive bottled water sector. At large, the bottled water industry is divided into two categories, a low-end water and a high-end water segment. Bottled water can be very difficult to make money if it is positioned as a low-end commodity product (Beverage world, 2006).

Fiji Water has challenged Evian and Volvic in upscale, imported bottled water segment, and its initial launching of Fiji Water in US market was highly successful. Fiji Water is now the second selling product in the US market among imported still water brands after five years (Lincolne, 2002). Fiji Water has managed to differentiate its product from 400 other brands currently available in the US market with unique product positioning, innovative packaging, premium pricing, effective distribution and image creating publicity.

First, its taste seems to be Fiji Water's main competitive advantage, and second, its purity, stemming from the fact that the source of water is a virgin, unpolluted eco-system in Fiji Island, located 1500 km away from any industrial area (McMaster and Nowak, 2003). This unique story of its source of water attracts customer loyalty in the way the French mountain source of Evian attracts Evian drinkers.

Fiji Water has utilized the power of packaging to its benefits with unique label with Pacific image and see-through waterfall, which is considered to convey premium image (Christy 2001, p. 34). Fiji Water priced its product higher than most other major established bottled-water brand names. Fiji Water uses exclusively Coca cola Amatil to distribute its products in the US market to consolidate its position in retail shelf space and also supply to many high-end restaurants and fast-food outlets.

Fiji Water has done very little formal or paid advertising to build a brand image, yet succeeded to receive high level of publicity through trade magazines and through movies with Hollywood celebrities. It also became a favorite at the fine dining tables of some of New York's better restaurants and hotels. Fiji Water's selective marketing strategy promoting the exclusive nature of the product has been successful in penetrating high-end still water brand market.

Conclusion

Hoch's six strategic options for NBs illustrate how NB manufacturers can respond strategically against PL depending on circumstance. Among six options, first option – new product innovation

– appears to be the most effective way to defend NB's long-term position in fiercely competitive market, while other options show some limitations.

When a National Brand product is not supported by continuous stream of innovations, the product becomes a target to be copied by other manufacturers and copied products are supplied as private label alternatives, becoming commodity and rendering the retailers' built-in distribution a valuable resource (Hoch, 1996). True product innovation is one of the strongest competitive weapons against PL in the manufacturer's arsenal and a major innovation by NB manufacturer leaves the category's PLs in the unfortunate position of imitating yesterday's favorites (Steiner, 2004). Therefore, it is crucial that national brand manufacturers maintain their innovativeness and R&D on the edge of product development progress.

Also, NBs should keep in minds that it is necessary condition to consolidate its brand image to justify the brand tax and differentiate its position. Brands enable NB manufacturers to provide consumers with clear information about their products and to sustain consumers' perceived quality. Branding management help manufacturers to build a positive reputation and to win the loyalty of consumers. Ultimately, consumer loyalty is the key factor that determines success of NB products in highly competitive retail environment. It is an index of producers' or retailers' market power. Therefore, it is critical that NBs continue to invest in their brand building.

Brand advertising is essential part of national brand management and recent research has confirmed that NB advertising expenditures and PL market share continue to be inversely correlated (Hoch and Benerji, 1993; Dhar and Hoch, 1997; Scott and Zettelmeyer, 2001). Successful advertising causes NB to be carried by virtually all retailers in the category and can create huge sales for the manufacturer that the resultant scale economies can offset at least a major part of the advertising expenses (Steiner, 2004).

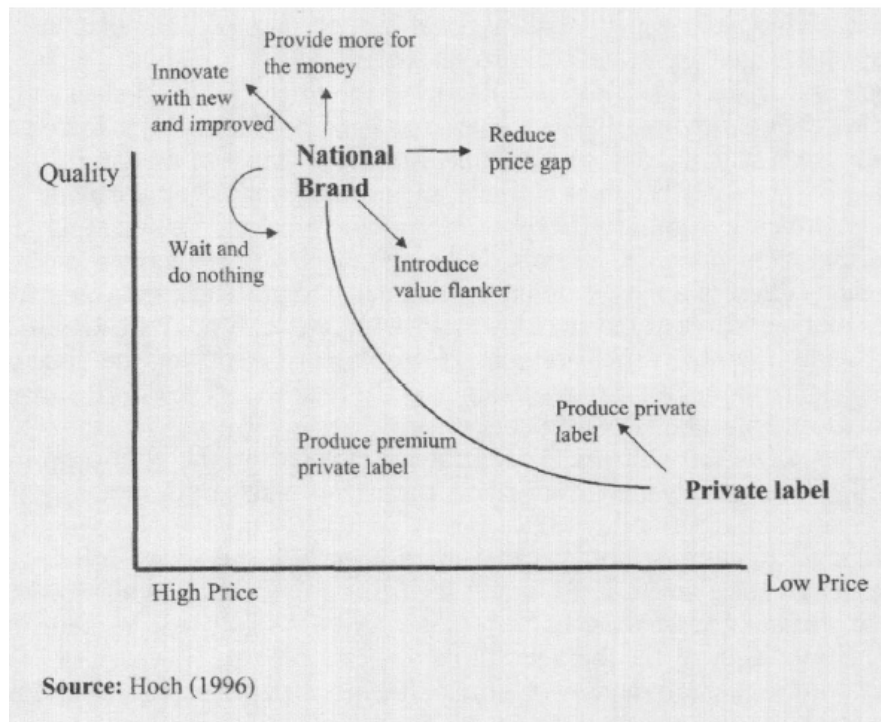


Fig. 1. Strategic Options for the National Brand

References

1. Ailawadi K.L. and B. Harlam (2004). An empirical analysis of the determinants of retail margins: the role of store-brand share. *Journal of Marketing*, 68 (1), 147-165.
2. Apelbaum E., E. Gerstner and P.A. Naik. (2003). The effect of expert quality evaluations vs. brand name on price premiums. *The journal of product and brand management*, 12 (2/3), 154-165.
3. Baker D., Baltzer, I.K. and Moller, A.S. (2006). Branding Behavior in the Danish Food Industry. *Agribusiness*, Vol. 22 (1), 31-49.
4. Beierlein, J.G. & Woolverton, M.W. (1991). *Agribusiness marketing: The management perspective*. Englewood cliffs, NJ: prentice-Hall.
5. Beverage Industry (2006). Channel Changes, *Beverage Industry*; Apr 2006: 97, 4.
6. Beverage world (2006). Water floats on luxury and prestige, Feb 15, 2006: 125.
7. Brand Week (1998). Fiji Water Touts Source Quality in 1st Campaign. *Brandweek*; Jul 20, 1998: 39.
8. Convenience Store Decisions (2005). Go with the Flow: Bottled Water. *Convenience Store Decisions*: 2005; 16.7. p. 60.
9. Christy, N. (2001). Age of enlightenment. *Beverage Aisle*, August 2001.
10. Collin A. and Bert S. (2006). Private Brands, Governance, and Relational Exchange within Retailers-Manufacturer Relationships: Evidence from Irish Food Manufacturers Supplying the Irish and British Grocery Markets. *Agribusiness*, Vol. 22 (1), 1-20.
11. Connor, J.M. & Peterson, E.B. (1997). Market-structure determinants of national brand-private label price differences of manufactured food products: Reply. *Journal of Industrial Economics*, 40 (2), 157-171.
12. Dhar, S.K. and S.J. Hoch (1997). Why store brand penetration varies by retailer, *Marketing Science*, 16, 208-277.
13. Dreze X., S.J. Hoch, and M.E. Purk (1994). Shelf Management and Space Elasticity. *Journal of Retailing*, 70, 301-326.
14. Dunne, D. & Narashimhan, C. (1999, May-June, 3-8). The new appeal of private labels. *Harvard Business Review*.
15. Gruen, T., Corsten, D. & Bharadwaj, S. (2002). Retail out of stock: A worldwide examination of extent, causes, and consumer responses. Unpublished manuscript, Emory University, Atlanta, GA.
16. Hinloopen, J. & Martein, S. (1977). Market-Structure determinants of national brand-private label price differences of manufactured food products: comment. *Journal of industrial Economics*, 24 (2), 236-247.
17. Hoch S.J. (1996). How Should National Brands Think About Private Labels? *Sloan Management Review*, Winter 1996; 37, 2, 89-102.
18. Hoch, S.J. and Banerji, S. (1993). When do private label succeed? *Sloan Management Review*, Vol. 34, No. 4, 57-67.
19. Kim, Namwon and P.M. Parker (1999). Collusive conduct in private label markets. *International Journal of Research in Marketing*, 16 (2), 143-155.
20. Lal, R. (1990). Price Promotions: limiting competitive encroachment. *Marketing Science*, 9 (Summer), 247-262.
21. Mills, D.E. (1999). Private labels and manufacturer counterstrategies. *European review of agricultural economics*, 26, 125-145.
22. Messinger, P.R. and Narashimhan, C.H. (1995). Has power shifted in the grocery channel? *Marketing Science*, Vol. 14, No. 2, 189-223.
23. Quelch, J.A. & Harding, D. (1996, Jan-Feb.). Brand versus private labels: Fighting to win. *Harvard Business Review*, 99-109.
24. Reyes Sonia (2006). Saving Private Labels. *Brandweek*; May 8, 2006; 47, 19.
25. Richard DiPaolo (2005). Private label, National brand or Private "I". *Maintenance Supplies*; Nov 2005; 50, 8.
26. Sayman, S., S J. Hoch and J.S. Raju (2002). Positioning of Store Brands. *Marketing Science*, 21 (4), 378-397.

27. Scott M. and F. Zettlemeyer (2000, April). The Strategic positioning of store brands in retailer-manufacturer bargaining. Paper presented at the FTC, Bureau of Economics, FTC September 28, 2000.
28. Soberman, D.A. & Parker P.M. (2006). The Economics of quality-equivalent store brands. *Intern. J. of Research in Marketing*, 23 (2006), 125-139.
29. Sparks, L. (1997). From Cocoa-Colonization to copy-cotting: the Cott Corporation and retailer brand soft drinks in the UK and the US. *Agribusiness*, 13 (2), 153-168.
30. Steiner, R.L. (1985). Nature of vertical restraints. *The Antitrust Bulletin*, 30, 143-197.
31. Steiner, R.L. (2004). The Nature and Benefits of National Brands/Private Label Competition. *Review of Industrial Organization*, 24, 105-127.
32. Ward, M.B., Shimshack, J.B., Perloof, J.M., & Harris, M.J. (2002). Effects of the private label invasion in food industries. *American Journal of Agri. Economics*, 84*(4), 961-973.
33. Wolinsky, A. (1987). Brand names and price discrimination. *Journal of Industrial Economics*, 35 (3), 255-268.
34. Waarts, E. and Wierenga, B. (2000). Explaining competitors' reactions to new product introductions: the roles of event characteristics, managerial interpretation, and competitive context. *Marketing Letters*, Vol. 11, No. 1, 67-80.
35. Wu C. and Wang C.J. (2005). A positive theory of private label: a strategic role of private label in a duopoly national-brand market. *Marketing letters*, 16(2), 143-161.