BECOMING A PRIVATE LABEL SUPPLIER: OPPORTUNITIES AND CHALLENGES

AS OPORTUNIDADES E OS DESAFIOS DE SE TORNAR UM FORNECEDOR DE MARCAS PRÓPRIAS

Marcos Hideyuki Yokoyama (Instituto Federal de São Paulo) marcoshy@ifsp.edu.br
Andrea Lago da Silva (Universidade Federal de São Carlos) deialago@ufscar.br
Éderson Luiz Piato (Universidade Federal de São Carlos) piato@ufscar.br


Abstract
The private label strategy has been adopted by retailers who seek a competitive advantage through the commercialization of products sold under their brand names. The adoption of such strategy has created new demands for suppliers, who need to reevaluate their manufacturing structure in order to decide whether they should manufacture such products. In Brazil, we can notice an evolution on the concept of private labels, whereby retailers worked to eliminate the image of cheap products by placing an emphasis on quality products and standardized packaging. More recently, consumers have gradually accepted the idea of premium, exclusive and top quality private labels that are not necessarily cheaper. The main purpose of this qualitative study is to explore the benefits for Brazilian manufacturers to provide private label products. Our objective is to understand why some manufacturers decide to become private label suppliers and how this benefits them. Thus, in order to explore the opportunities and challenges of private label suppliers, we classified six Brazilian manufacturers from the food industry according to their strategic motivations and other manufacturing aspects. As main findings, we can state that the adoption of private label strategy improved the suppliers’ manufacturing abilities, mainly because they are audited by retailers. Thus, manufacturers have gone through a learning process as they qualify as private label suppliers. The constant audits made by retailers generated the need to change the business vision, as well as improvements on management techniques and production process. From these changes, it became possible to offer products with superior quality and achieve a
greater recognition and credibility in the market. Moreover, manufacturers are willing to deliver innovative products to private label market, which allows retailers to achieve consumer loyalty through product innovation and exclusivity. To achieve such stage, manufacturers must develop innovation capabilities to create unique, top quality premium products in collaboration with retailers. Furthermore, retailers have recently brought new demands for service at the point of sale, such as shelf reposition and joint participation in marketing campaigns. Manufacturers complained that retailers were trying to commercialize and negotiate private labels as a common manufacturer brand. Such behavior has generated problems on strategic interactions, which may result in disruptions in the supply of private labels products. In short, we concluded that manufacturers stand in different stages of private label evolution to meet retailers’ needs. Therefore, the adoption of the private label strategy improved suppliers’ manufacturing abilities and, recently, has brought demands for innovation and service.

**Key-words**: Private Label; Stage of Evolution; Manufacturer; Food Supplier.

**Resumo**

A estratégia de marcas próprias tem sido adotada por varejistas que buscam vantagem competitiva por meio da comercialização de produtos que recebem suas marcas. A adoção de tal estratégia tem criado novas demandas para os fornecedores, que precisam reavaliar sua estrutura de produção para decidir se devem fabricar tais produtos. No Brasil, podemos notar uma evolução no conceito de marcas próprias, em que os varejistas buscam eliminar a imagem de produtos baratos e colocar ênfase na qualidade. Mais recentemente, os consumidores têm gradualmente aceitado a ideia de marcas próprias premium, exclusivas e de qualidade superior, que não sejam necessariamente mais baratas. O principal objetivo deste estudo qualitativo é explorar os benefícios para fabricantes brasileiros em fornecer produtos de marcas próprias. A finalidade é entender por que alguns fabricantes decidem se tornar fornecedores de marca própria e como isso os beneficia. Assim, a fim de explorar as oportunidades e os desafios dos fornecedores de marcas próprias, seis fabricantes brasileiros do setor de alimentos foram classificados de acordo com suas motivações estratégicas e outros aspectos de fabricação. Como principais conclusões, pode-se afirmar que a adoção da estratégia de marcas próprias tem melhorado a habilidade de fabricação dos fornecedores, principalmente porque estes são auditados pelos varejistas. Assim, os fabricantes passam por um processo de aprendizagem conforme se qualificam como fornecedores de marcas próprias.
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As constantes auditorias feitas por varejistas criam a necessidade de mudar a visão de negócio, bem como de melhorar as técnicas de gestão e processos de produção. A partir dessas mudanças, tornou-se possível oferecer produtos de qualidade superior e alcançar maior reconhecimento e credibilidade no mercado. Além disso, os fabricantes estão dispostos a oferecer produtos inovadores ao mercado de marca próprias, permitindo aos varejistas fidelizar seus consumidores através de inovação e exclusividade. Para atingir tal estágio, os fabricantes devem desenvolver habilidades de inovação para criar produtos únicos e de qualidade. Além disso, os varejistas têm trazido recentemente novas demandas de serviço no ponto de venda, como a reposição de prateleira e a participação conjunta em campanhas de marketing. Os fabricantes têm se queixado que os varejistas estão tentando comercializar e negociar as marcas próprias como uma marca de fabricante comum. Tal comportamento tem gerado problemas estratégicos, que podem resultar em rupturas no fornecimento. Em suma, concluímos que os fabricantes estão em diferentes estágios de evolução de marcas próprias para atender às necessidades dos varejistas. Portanto, a adoção da estratégia de marcas próprias tem melhorado as habilidades de fabricação dos fornecedores e, recentemente, criado demandas por inovação e serviço.

Palavra-chave: Marca própria; estágio de evolução, fabricante, fornecedor de alimento.

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1. Introduction

Retailers have adopted the private label strategy in order to gain competitive advantage through the commercialization of products with their brand names. Private labels were first adopted in the 70's in Europe and in the United States, following the consolidation of the retail industry. At that time, retailers started expanding internationally and changed from mom-and-pop stores (small, independent, family-owned business) to global players.

In Brazil, in the 70’s, the private label initiatives comprised generic and low quality products (commodities “with no brand names”, sold in plain packages). They only began to be treated as a strategy in the 90’s, after the opening of the economy and the stabilization of the local currency. After that, we can notice an evolution on the concept of private labels, whereby retailers worked to eliminate the image of cheap products by placing an emphasis on quality products and standardized packaging (AAKER, 1998; SHOCKER; SRIVASTAVA;
RUEKERT, 1994; BURT, 2000; OLIVEIRA; MACHADO, 2003; BORGES; CUNHA, 2004; STEINER, 2004; LEPSCH et al., 2005; OLIVEIRA, 2005; PEETERS et al., 2006).

More recently, Conn (2005) states that customers have gradually accepted the idea of retailers developing premium, exclusive and top quality brands that are not necessarily cheaper than regular ones. According to this author, the continuity and success of private labels depend on investment in innovation, and, most of all, on the appeal of exclusivity. Laaksonen (1994) suggests the existence of four generations of private labels, when taking into consideration variables such as product characteristics, brand, strategy, objectives, production technology, price/quality and consumers’ purchasing motivation.

As pointed out in the 17th ACNielsen Private Label Study, a growing trend of this market can be noticed in Brazil. It grew by 18% in number of available products over a period of two years, reaching 56,500 goods in 2011. This market achieved a participation of 4.9% in terms of sales and 6.5% in terms of volume in 2011. However, private labels in Brazil are still far from achieving the same level of integration when compared to countries like Switzerland, the United Kingdom and Spain, where they had a market share of 48%, 42% and 38% respectively (ACNIELSEN, 2011).

The evolution of the private label strategy has created a new demand for suppliers, meaning they need to reevaluate their production structure and decide whether to manufacture and supply such products to retailers. Considering this context, Herstein and Jaffe (2007) argue that retailers worldwide are adopting marketing efforts and increasing competition with local suppliers to ensure that private labels are no longer exclusive to developed countries. According to these authors, the supply of private label products in countries like Germany, Spain, France, Holland and Sweden is provided by leading companies or enterprises specialized in this market. Conversely, in countries like Hungary, South Africa, Croatia, Poland and Thailand, 75% to 80% of the products are supplied by local manufacturers who do not possess recognizable brands. From this perspective, private labels are important for the competitive survival of middle-sized and small manufacturing companies, as they provide an opportunity for such companies to thrive in markets in which they were not active (SPINELLI; GIRALDI, 2004; LEPSCH et al., 2005).

Given such background, we set out to address the following question: “What are the benefits for Brazilian manufacturers to provide private label products?” Our objective is to understand why some manufacturers decide to become private label suppliers and how it aggregates benefits to them. Thus, in order to explore the opportunities and challenges for
private label suppliers, we classified six Brazilian food manufacturers according to their strategic motivations and other manufacturing aspects.

The section that follows presents the literature review of private label strategy and the relationship with manufacturers. Then, we present the research method. The results section presents our findings from the case studies and highlights the stage of evolution of Brazilian private label suppliers. The conclusive section encompasses managerial implications, limitations and suggestions for future research.

2. Literature Review

The literature review is a critical step in building a theoretical foundation to sustain the various stages of the research. Therefore, we believe it is necessary to consider the relevant literature with a systematic and reconstructive approach (DEMO, 2000). This section presents the main studies so far, pointing out the theoretical basis that will guide the article.

2.1 Private Label: Strategic Issues and Stages of Evolution

A private label is a brand that is owned or controlled through contract rights by a retailer or buyer organization and that is solely sold at their own establishments (COUGHLAN et al, 2002; KUMAR; STEENKAMP, 2008). Although the manufacturers are responsible for producing private label items, the product property and right of use are transferred to retailers, who are responsible for managing the products’ life cycle (BOWERSOX; COOPER, 1992).

As a historical overview, Kumar and Steenkamp (2008) explain that although some retailers were already selling private label products in the beginning of the century, the orientation to the relation quality/price was given only with the consolidation of the retail sector. Private labels were strategically used in Europe and the United States just in the 70's when retailers began to expand internationally.

Investing in private labels seemed to be an interesting way to offer variety with a broader price range to customers. Thus, retailers started to invest in elaborated private labels which were similar to market leading brands, with standardized packaging, and in collaboration with large manufacturers. In short, private labels started to focus on quality, marketing support and substantial cost advantages (AAKER, 1998, LEPSCH et al., 2005). Recent data from the United Kingdom and Australia show that currently private label market presents low rates of rejection. On average, only about 8% of British and 20% of Australians
actively reject private labels due to a perception of low quality (NENYCZ-THIEL; ROMANIUK, 2011).

According to Laaksonen (1994), private labels can be divided in four generations. Although the considered aspects can overlap and companies and/or countries have not developed all the generations in the same sequence, this classification can bring great contributions to the study of private label strategies.

Chart 1 was based on the research of Laaksonen (1994) and complemented with the work of Senhoras (2003) and Kumar and Steenkamp (2008). In the first generation, private labels are characterized as generic products with low prices, lower quality, inferior image and no specialized suppliers. These features were also present in Brazil at the beginning of private label supply in the 70’s. Starting from the second generation, concern about quality levels and retailer’s brand starts to appear. However, the focus remains on products with lower prices when compared to leading brands.

In the third generation, both quality and price are close to the leading brands. In this stage, they adopt the strategy of following the market leaders (the so called ‘me-too’). The competition takes place in terms of value, price and quality. As explained by Peeters et al. (2006), private label strategies adopted by Brazilians retailers are in a transition period, because they are seeking to get rid of the image of cheap products without quality. Batra and Sinha (2000) emphasize that information about product ingredients and manufacturing quality, as well as seals of approval and third-party endorsements helps to reduce consumers’ hesitation about the product they will experience.

Still on this issue, Lepsch et al. (2005) argue that although Brazilian consumers reject private labels for quality issues, companies involved in production, distribution and marketing of private label products are devoting themselves to change such image. These companies are working on the implementation of control criteria such evaluation of suppliers’ manufacturing and commercial conditions, samples testing and internal quality control.
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<table>
<thead>
<tr>
<th>Type of brand</th>
<th>Generic, no name, brand free, unbranded</th>
<th>“quasi-brand”, private label</th>
<th>Private label</th>
<th>Extended private label, segmented private label</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>Generics</td>
<td>Cheapest price</td>
<td>Me too</td>
<td>Value-added</td>
</tr>
<tr>
<td>Objective</td>
<td>Increase margins, provide choice in pricing</td>
<td>Increase margins, reduce manufacturers’ power, provide better value product (quality/price)</td>
<td>Enhance category margins, expand product assortment, build retailer’s image among consumers</td>
<td>Increase and retain the client base, enhance category margins, improve retailer’s image, differentiation</td>
</tr>
<tr>
<td>Product</td>
<td>Basic and functional products</td>
<td>One-off staple lines with a large volume</td>
<td>Big category products, with strong brand leader</td>
<td>Image-forming product groups, large number of products with small volume, new products</td>
</tr>
<tr>
<td>Technology</td>
<td>Simple production process and basic technology lagging behind market leader</td>
<td>Technology still lagging behind market leaders</td>
<td>Close to the brand leader</td>
<td>Innovative technology</td>
</tr>
<tr>
<td>Quality / image</td>
<td>Lower quality and inferior image compared to the manufacturers’ brand</td>
<td>Medium quality but still perceived as lower than leading manufacturers’ brand</td>
<td>Comparable to the brand leaders</td>
<td>Same or better than brand leader, innovative and different products from brand leaders</td>
</tr>
<tr>
<td>Price Levels</td>
<td>20% or more below the brand leader</td>
<td>10 to 20% below</td>
<td>5 to 10% below</td>
<td>Equal or higher than known brand</td>
</tr>
<tr>
<td>Consumers motivation to buy</td>
<td>Price is the main criterion for buying</td>
<td>Price is still important</td>
<td>Both quality and price, value for money</td>
<td>Better and unique products</td>
</tr>
<tr>
<td>Supplier</td>
<td>National, not specialized</td>
<td>National, partly specializing to private label manufacturing</td>
<td>National, mostly specializing for private label manufacturing</td>
<td>International, manufacturing mostly private labels</td>
</tr>
<tr>
<td>New Product Develop</td>
<td>None</td>
<td>Little effort; consider the relation of cost-benefit</td>
<td>Reverse engineering, with manufacturers adopting techniques close to brand leader</td>
<td>Considerable effort to develop better products</td>
</tr>
<tr>
<td>Packaging</td>
<td>Cheap and minimal</td>
<td>Cost-efficiency</td>
<td>Close as possible to the leading brand</td>
<td>Exclusive; source of differentiation</td>
</tr>
</tbody>
</table>

Chart 1. The evolution of private labels.
Source: adapted from Laaksonen (1994); Senhoras (2003); Kumar and Steenkamp (2008).

In the fourth generation, the objective is to improve retailer’s image through product differentiation. The strategy is to offer value-added products with innovative technology and specialized suppliers - all to develop a sense of exclusivity to consumers. Huang and Huddleston (2009) argue that the development of premium brands enables retailers to achieve consumer loyalty and superior financial results. For this, they must develop customer participation, innovation skills and brand equity. In this sense, Diallo (2012) states that
Brazilian retailers should make efforts on store image, price-image and perceived risk to increase consumers’ buying intention.

Brazilian retailers are targeting their brands according to the value they intend to generate. They can pursue low-cost strategy, offer products at affordable price with perceived quality or include product innovation and exclusivity (SHONO et al., 2007). As retailers evolve in the adoption of private label, it is noteworthy that such changes cannot be made independently. The private label strategy depends intensely on the retailers’ relationship with their source of supply (ROSENBRÖIJER, 2001). The collaboration from suppliers is fundamental to provide products with the expected quality, price and image. Thus, the next section presents the strategic options that manufacturers can implement in response to such initiatives.

2.2 Manufacturers and Private Label Strategy

The adoption of private labels has brought serious challenges for the industrial sector because retailers have the option to change providers if they do not reach an agreement on price and specifications. Thus, some manufacturers have learned to coexist as suppliers of major retailers and become strongly dependent on them (McGOLDRICK, 2005).

When private labels compete in the same category of manufacturer brand products, companies that have powerful brands can refuse to supply such items. These are the cases in which the company prefers to maintain the strength of their brands in order not to produce any product that might dilute their brand image and jeopardize their market positions (SPINELLI; GIRALDI, 2004). Toillier (2003) explains that some leading manufacturers are taking commercial and marketing actions in order to regain the market share that private labels have taken. In this context, Boyle and Lathrop (2013) state that suppliers should continue to accentuate the quality aspect of manufacturer brands in their marketing communications because there is still a predominant perception that price premiums for manufacturer brand are justified.

In response to retailers, Hoch (1996) presents some strategic options that manufacturers can take to improve their competitive position. In some cases, manufacturer can maintain the current prices and offer some additional value to the customer, such as environmental packaging or compact bottles. Manufacturers can also improve quality in existing categories or create entirely new groups to compete with private labels. Olson (2012) states that manufacturers need to ensure that customers receive superior taste, durability,
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convenience and variety from the manufacturer brand so that they can easily experience the difference if they buy a private label product. If the manufacturer brand is clearly superior to the competing private label, the less satisfactory experience will lead consumers back to the manufacturer brand for subsequent purchases.

Companies that follow these strategies must invest in quality and innovation capabilities (VERHOEF et al., 2002). Firms from the food market have to make greater effort to respond to a dynamic environment with constantly changing demands, with necessity of periodically reviewing the strategy of new product development (GEHLHAR et al., 2009).

As another option, manufacturers can decide to produce private labels and pursue two options: (1) produce both the manufacturer brand and the private label product; or (2) focus exclusively on producing private labels (BAILY et al., 2000; KUMAR; STEENKAMP, 2008). Thus, they can manufacture private label at a substantially lower cost, since it becomes possible to dilute cost of marketing, distribution, advertising, and sales promotion. Or, alternatively, manufacturers may produce premium private label, with the objective of bringing new alternatives to consumers who seek high quality products (HOCH, 1996).

Recent quantitative studies are using mathematical models to demonstrate what conditions make the manufacturing of private label products feasible (GOMÉZ; RUBIO, 2008, GOMEZ-ARIAS; BELLO-ACEBRON, 2008, TARZIJÁN, 2007). Among the variables used in such studies, we can point out the perception of quality by consumers; costs for a manufacturer to start producing private labels; retail concentration level; market share of manufacturer brand; industry degree of innovation; and production capacity. Besides such factors, Gomez-Arias and Bello-Acebron (2008) suggest that the strategic interaction between manufacturers and retailers should be considered the most important item to take into consideration when deciding for the production of private labels.

Within this context, Oubiña et al. (2006) claim that leading companies enter the private label market to improve the bargaining position and to control the private label, while non-leader manufacturers enter the market to remain in the distribution channel and increase their market share. Thus, these authors suggest that the production of private label by leading manufacturers is related to strategic reasons, while production by non-leaders is related to survival need.

3. Research Method
In the context of manufacturing management, the use of quantitative methods presents difficulties regarding the development of a research design capable of accommodating the complexities evident at the strategic making level (BEACH, et al., 2001). Manufacturing management is an applied discipline that requires the direct observation of the phenomenon being studied in order to fully capture the complexity of phenomena (CRAIGHEAD; MEREDITH, 2008).

By exploring qualitative studies in Brazilian academic journals, Roman, Marchi and Erdmann (2013) concluded that Brazilian researchers were frequently adopting the case study method when addressing manufacturing strategic issues. According to these authors, case studies allow researchers to deeply understand the phenomena, explore underdeveloped areas or themes and build theory from empirical reality. Thus, we performed a case-based research to explore the manufacturing side of private label market through a direct contact with the phenomena under study.

A semi-structured questionnaire was developed based on literature review. Applying such questionnaire, we collected data from 6 (six) food manufacturers through personal interviews. We choose to interview people who were directly involved with private label products, in an attempt to collect the company position about this market. Respondents were asked to describe their experiences, attitudes and opinions about the manufacturing and commercialization of such products. The interviews were conducted in Portuguese between September 2009 and February 2010. These in-depth interviews were conducted face-to-face lasting 1.5 to 2.5 hours, digitally recorded and transcribed.

According to Yin (2005), the logic of sampling does not apply to the case study method because it does not have to evaluate the incidence of phenomena. Companies were selected based on secondary data, that is, information collected from private label associations, newspapers and specialized magazines. This helped us to choose organizations that best fit the aims of this article.

Goméz and Benito (2008) state that private label suppliers make decisions according to the product, market share and positioning strategy. In order to define the research target, we considered the results from the 14th Annual Private Label Study (ACNIELSEN, 2008). According to this study, the 10 private label product categories with the highest revenues in Brazil comprise 30% of the total amount of sales. Out of these ten categories, nine are made up of food products, which attest the importance of this category to the study of private labels.
The companies were selected based on the following criteria: suppliers that dedicate exclusively to private label; suppliers that produce private labels and have a manufacturer brand; and suppliers of private labels with a representative manufacturer brand. To define the representativeness of manufacturer's brands, we considered the size of the market share to be the best criteria. We contacted companies by email and telephone to schedule interviews with 2 manufacturers of each group. In total, we had to contact 13 food companies until six case studies were fully achieved. As requested by the interviewees, the names of the companies were kept anonymous and will not be disclosed (figure 1).

Data analysis was performed qualitatively, in which procedures adopted by the companies were compared with the literature. The construction of an explanation is the result of an iterative process, in which the interpretation of previous theories may be reviewed (YIN, 2005).

Lewis and Ritchie (2003) state that reliability in qualitative studies may be achieved by internal checks on the quality of the data and interpretations. The triangulation method is a means of testing out arguments from different angles. Being open to different ways of seeing, constructing meanings and acknowledging divergence enables researchers to pursue interpretations further and deepen understanding that can portray a valid picture (SIMONS, 2009). Whenever possible, we interviewed more than one person from the same organization, so that we could confirm the obtained information and add new findings. We also used multiple sources of evidence, which include visits to the factory, materials provided by the companies (folders, information published in press) or obtained from secondary sources (corporate websites, newspapers, magazines, private label association). The objective was to explore different views and representations of the subject in order to identify perspectives that revealed the dynamics of the problem under consideration (BAUER; GASKELL, 2002).
3.1 Research Context

The case studies were performed in six companies from the food industry which produce potato chips, homemade-like pasta, yogurt, frozen food, panettone (a sweet bread loaf enjoyed for Christmas), chocolate Easter eggs and açaí berry in the bowl (a typical Brazilian dish made of mashed frozen açaí berries from the Amazonian region). Chart 2 presents the main characteristics of the studied companies.

<table>
<thead>
<tr>
<th>Product Line</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>potato chips</td>
<td>homemade-like pasta</td>
<td>yogurt</td>
<td>frozen food</td>
<td>panettone &amp; Easter eggs</td>
<td>açaí berries in the bowl</td>
</tr>
<tr>
<td>N. of employees</td>
<td>100</td>
<td>80</td>
<td>50</td>
<td>200</td>
<td>200</td>
<td>180</td>
</tr>
<tr>
<td>Interview with</td>
<td>Owner &amp; Production Manager</td>
<td>Commercial Manager &amp; Quality Manager</td>
<td>Owner</td>
<td>Private Label Manager</td>
<td>Commercial Manager</td>
<td>Commercial Manager &amp; Operations Manager</td>
</tr>
<tr>
<td>% volume of private label</td>
<td>98%</td>
<td>90%</td>
<td>60%</td>
<td>60%</td>
<td>Less than 50%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Chart 2. Suppliers presentation

The interview at company A was conducted with the owner and the production manager, both of whom allowed us to visit the manufacturing facilities. Company B was represented by the sales manager and the quality manager, who also showed us the production line. The owner of company C showed us the new installations of the company and the packaging process. Company D was the only company to have a specific manager for private label products, whereas company E was represented by the commercial manager. In company F, we succeeded to interview the commercial manager and the operations manager.

The volume of private label products commercialized by suppliers A and B, correspond to 98% and 90% of their total production volume, respectively. This accounts for their classification as companies that are exclusively dedicated to the private label market. Suppliers C and D commercialize 60% of their production to private label market, which led us to consider them as manufacturers with simultaneous production of private label and manufacturer's brand.

Suppliers E and F commercialize, respectively, less than 50% and 3% of their production volume in the private label market. Supplier E's manufacturer's brand is the second bestseller in the domestic market of panettone and fifth in the market of Easter eggs. Supplier
E is considered the leading provider of private label products in these segments. Supplier F produces açai berries for the private label market and its manufacturer's brand is the leader in sales in the Brazilian market. These characteristics classified them as companies that present simultaneous production of private labels and representative manufacturer's brands.

4. Results

4.1 Strategic Motivation

To analyze the strategic aspects, we first asked the manufacturers about the motivations to supply private label products. They mentioned lack of commercial orientation to develop a manufacturer brand, low entry barriers, existence of idle capacity, reduction of fixed costs, gain of scale, cash flow increment, expansion, profitability growth, and the desire to diversify the businesses and improve trading conditions for the manufacturer brand. Therefore, suppliers A, B, C and D found, through private label, the chance to enter the market and expand their businesses, as we can see from the comments from supplier A and C, respectively:

“Before entering the private label market, we tried to develop a manufacturer brand, but we faced difficulties competing with the established ones.”, “When we started to supply private labels, we had only 1 fermentation tank with idle capacity. Nowadays, we increased our capacity by 8 times and sometimes we have to work 2 shifts in a day.”

Besides, suppliers A and C recognize that private labels may bring significant gains on management techniques, production process and quality assurance. Supplier A explains that retailers' audits require them to be continuously improving the production techniques. Below, we present a comment from supplier C:

“To become a private label supplier, we had to learn a lot about quality systems. From the moment we were audited, we started to understand, document and trace all the production process. This also brought gains for our manufacturer brand.”

Suppliers E and F, on the other hand, use private label to enhance commercial conditions for manufacturer brands and achieve manufacturing gains, as supplier E’s commercial manager states:

“The main reason to supply private label is to meet customer needs and develop better commercial conditions for the manufacturer
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brand.”, “Sometimes, the volume of private label products required by retailers justifies new investments on the production line”.

Regarding the criteria used to decide whether or not to supply private label, all the manufacturers cited the volume of sales as an important issue, mainly due to the scale of production and minimum batch to print the package. The excerpt below belongs to Supplier C’s owner:

“Volume of sales is the first thing to be evaluated, especially because of the costs to print and stock the products’ package. You have to think that each customer has different packages for each size and each flavor. If you don’t have a satisfying volume of sale, you may keep the package stocked for years”.

Moreover, managers cited aspects such as the profitability ratios, customers’ commercial situation and private label recognition. On this aspect, supplier F was the only to have a process to evaluate customers in terms of product image and price. This evaluation has the objective of correctly associating the manufacturer brand with the retailer positioning strategy. Supplier B and C analyze the retailer logistic structure so that deliveries are made only to distribution centers. Thus, manufacturers may use retailers’ logistic structure without making great investments, as we can see from supplier B’s commercial manager:

“We check the retailer’s logistic structure because we don’t have capacity to deliver the product to each store”, “…through private labels, retailer became a distributor center which permit us to reach a large number of stores with a great volume of sale”.

Some companies reported that retailers are asking for joint marketing activities and are trying to negotiate private label as a common manufacturer brand. This change of view was cited as a disadvantage because the factors that make the commercialization of private labels feasible diminish from the moment that same conditions are required for both markets. Thus, managers reported that, in some retailers, the objectives of private label department are misaligned with those of the commercial department, as we can see from supplier A’s observation:

“…they are treating us like a common supplier and started to ask for commercial discounts and make comparison with initiatives from the leading brands …”

4.2 Manufacturing Aspects
To address their manufacturing aspects, we investigated the differences between the product specifications, costs for package development, new products development, and exclusivity, as shown in chart 3.

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product Specification</strong></td>
<td>Almost the same, with possibility to differentiate the aroma</td>
<td>Main product is the same, but can develop new products</td>
<td>Identical for manufacturer brand and private label</td>
<td>Exclusive specification for each customer</td>
<td>Main product is the same, but can develop new products</td>
<td>Identical for manufacturer brand and private label</td>
</tr>
<tr>
<td><strong>Cost of package development</strong></td>
<td>Supplier</td>
<td>Supplier</td>
<td>Supplier</td>
<td>Supplier</td>
<td>Customer</td>
<td>Customer</td>
</tr>
<tr>
<td><strong>Possibility to develop new products</strong></td>
<td>Just for new aroma</td>
<td>Yes</td>
<td>Just for new flavor</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>Developed goods can be exclusive to retailers?</strong></td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

Chart 3. Manufacturing characteristics.

On the differences in product specification, suppliers C and F offer the exact same product for private label and manufacturer brand, while suppliers B and E seek to offer the same specification for major retailers but are flexible to develop new ones. Supplier A offers the option to differentiate the aroma, since it is the final stage of its industrial processing. Supplier D is the only one that offers recipe exclusivity for each customer.

Companies seek to maintain the same product specification in order to achieve economy of scale and better use of production batches. Manufacturers seek to maintain the similarity along the production processes in an attempt to ensure greater efficiency. Thus, they may supply similar products or change the process only in its final phase. It is worth noting that product flexibility may result in extra machine adjustments and smaller batches size, which precludes either dilution of costs or scale gains.

Regarding the packaging, retailers usually require suppliers to pay the cost of advertising agencies, with the exception of those with representative manufacturer brands. In addition, Suppliers A and D have contractual clauses to protect themselves from risk of supplying disruption. Supplier A forces its customer to purchase the average consumption of the last three months, while supplier D obligates its customers to pay for the printed packages or continue purchasing the product until the stock depletes, as confirmed by the manager:
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“There is a contractual clause that obligates customers to keep buying the products until the end of package stock or they have to compensate us for the loss”.

Regarding the development of new products, suppliers A and C contact their aroma and fruit flavor providers for new type development when requested by customers. Suppliers B and D may perform minor adjustments according to the economic and industrial viability. Supplier E may offer full development of new products with the possibility of adopting new technologies and manufacturing facilities. In general, suppliers are responsible for the costs of development, while the client just makes sensorial tests and approves the final product, as stated by supplier B:

“The development of new products involves the search for raw material, development of samples and tests with the customer. All costs are paid by us…”

Supplier F is the only to not perform new product development for private label market. According to the commercial manager, the launching should be made first for the manufacturer brand, so that the exclusivity of the product and sales growth are linked to its brand from the start:

“The innovations should be launched first for manufacturer brand and then for private labels. I don’t want consumers to think that I am copying from private labels.”

All companies, except for supplier F, have the flexibility to develop new products, either by creating an innovative item, or by changing recipes or flavors. Regarding newly developed products, supplier D offers exclusivity for each recipe, while supplier E offers product exclusivity through contract rights, in which the product cannot be negotiated with other companies, as mentioned by its commercial manager:

“We use contracts of exclusivity for a specific period in which we cannot sell the product to other customers or to the manufacturer brand. In general, these contracts persist for 1 or 2 years.”

One can notice that, independently of the initial criteria used to select the cases, suppliers possess distinct motives that led them to supply private labels, besides different manufacturing characteristics.
5. Conclusions

The present paper aims to discuss the benefits for Brazilian manufacturers to provide private label products. Therefore, we classified the manufactures in different stages of evolution so that we could explore the opportunities and challenges of each group. We used the proposition of Laaksonen (1994), Senhoras (2003) and Kumar and Steenkamp (2008) on the development of private label to assess the suppliers’ stage of evolution. Although such proposal was not geared specifically for suppliers, we believe that such classification may contribute to the study of private label strategy. According to the strategic motivations and the manufacturing aspects, we classified the six private label suppliers between the second and the fourth generation.

Suppliers A and C were classified in the second generation of private label, since they offer products with medium quality and follow the strategy of lower prices (LAAKSONEN, 1994, SENHORAS, 2003, KUMAR; STEENKAMP, 2008). Although supplier C offers the exact same product for the manufacturer brand and the private label market, it is important to note that the manufacturer brand targets low-cost market. Since both companies offer just the option of developing new aroma or flavor, we can argue that they make little effort for new product development (KUMAR; STEENKAMP, 2008).

Companies of the second generation have the challenge of achieving economy of scale and better use production batches to ensure the increase of productivity, reduction of losses and better absorption of capacity. Although these manufacturers have concerns about product cost, they are not introducing a value flanker to crowd out the private label or preemptively limit the private label’s viability to move-up scale (HOCH, 1996). Thus, they entered in the private label market with a lucrative business in terms of plant operations.

Suppliers B and D were classified in the third generation, because they have technology and quality close to the leading brands and help to expand retailers’ product assortment (LAAKSONEN, 1994, SENHORAS, 2003, KUMAR; STEENKAMP, 2008). In this case, Supplier B offer flexibility to develop new products because it does not use automated equipment and depends on intensive labor, which simplifies adjustments in the production process. On the other hand, Supplier D offers exclusivity of specification, with the possibility of developing new recipes in accordance with the customer’s need. Such characteristics help them to use reverse engineering and get products with similar quality of leading brands (KUMAR; STEENKAMP, 2008).
Their challenge is to manage the increasing number of product mix, as they can offer many possibilities of product development. This means that manufacturers have to control a larger number of raw material, packages and finished goods, by using better techniques for production and planning control.

Supplier E was classified as fourth generation because it makes considerable effort to develop new items and offers exclusive products through contract clauses (LAAKSONEN, 1994, SENHORAS, 2003, KUMAR; STEENKAMP, 2008). This allows retail’s differentiation through innovative products by associating the private label with the retailer image (VERHOEF et al., 2002, CONN, 2005, GEHLHAR et al., 2009). Moreover, Supplier E operates in the foreign market and is considered as an expert in private label market (LAAKSONEN, 1994).

Supplier F was classified in a transition stage between the second and third generation because it makes no effort to develop new products (second generation) but offers an identical product for private label through the same quality at a lower price (third generation) (LAAKSONEN, 1994, SENHORAS, 2003, KUMAR; STEENKAMP, 2008).

Figure 2 shows the classification of each company according to the stage of private label evolution. As we can see, there is no specific pattern of classification despite the initial proposal to divide suppliers according to the degree of dedication to private label and manufacturer brands’ representativeness. We could find differences and similarities on their strategic motivation and production characteristics regardless of the group they were previously allocated.
5.1 Managerial Implications

Results of our investigation have implications for management practice. First, it was possible to verify the stage of evolution of some Brazilian private label suppliers. None of the companies were classified in the first generation, which confirms the improvement on product quality, manufacturing process and image within the final consumers (LEPSCH et al., 2005, PEETERS et al., 2006). Companies are constantly audited by retailers to ensure consumer food safety, work safety and social and environmental responsibility (BATRA; SINHA, 2000). This requirement is related to retailers’ image among consumers, which cannot be harmed by the sale of low quality products (COUGHLAN, 2002; OLIVEIRA, 2005).

Besides, we observed that manufacturers have gone through a learning process as they were qualified as private label suppliers. The constant audits made by retailers generated the need to change the business vision, as well as improvements on management techniques and production process. From these changes, it became possible to offer products with superior quality and achieve a greater recognition and credibility in the market.

In other words, companies that invest in private label get incentives to improve their manufacturing abilities in terms of process and technology and thus can transfer these abilities to other customers or to the manufacturer brand. This seems to be an important benefit for small and medium manufactures, because it enables them to enter in a highly competitive market that they would probably not enter only with their manufacturer brand.

The literature presents studies exploring the strategic options that manufacturer brands may adopt to protect from private labels (HOCH, 1996, VERHOEF et al., 2002, TOILLIER,
2003, GEHLHAR, 2009, OLSON, 2012, BOYLE; LATHROP, 2013). As a result of the private labels’ evolution in the Brazilian market, the majority of the interviewed suppliers does not take any action against private label and has a positive image of it. Most suppliers, excluding supplier F, asserted that the manufactured products can be commercialized as private labels without any kind of prior restriction. One justification would be that manufacturers want to supply to as many retailers as possible. Dawes and Nenycz-Thiel (2013) showed that private label products are competing more intensely with other private labels than with manufacturer brands, as consumers are likely to buy private labels independently of the retailer. The case of supplier F is in accordance with Olson (2012), in which the manufacturer wants to ensure that customers receive superior variety from the manufacturer brand so that they can easily experience the difference if they buy the private label.

Some manufacturers indicated that retailers were trying to commercialize and negotiate private labels as a common manufacturer brand. This change has increased demands for service at the point of sale, which includes shelf reposition and joint participation in marketing campaigns. According to the manufacturers, this new dynamic goes against the private label market specificities, which allows for the commercialization of products of good quality with prices lower than leading brand. This change of behavior has generated problems on strategic interactions, which may result in disruptions in the supply of private labels products (GOMEZ-ARIA; BELLO-ACEBRON, 2008).

As a general conclusion, we can state that food manufacturers adopt specific strategies to attend the diversity of demands that come from retailers. This variety of demands is in accordance with Shono et al. (2007), who argued that Brazilian retailers are using different positioning strategies to differentiate their private labels.

Conn (2005) and Huang and Huddleston (2009) state that retailers are trying to achieve consumer loyalty through private label innovation and exclusivity. Accordingly, we could observe manufacturers inclined to deliver innovative products to private label market, with possibility of establishing contract of exclusivity. Thus, we can assert that, in some cases, Brazilian manufacturers are adjusting their strategy to help retailers to approach the fourth stage of evolution and increase consumers’ intention to buy private labels (DIALLO, 2012). To achieve such stage, manufacturers must develop innovation capabilities to create unique, top quality and premium products in collaboration with retailers. In the food industry, we can assert that strategy of new products must be periodically reviewed through the development of
new recipes, flavors or aromas (GEHLHAR et al., 2009). However, if retailers intend to create entirely new categories or subcategories of products, manufacturers should invest on innovative technology.

Even without statistical evidence or generalization, this study provided some indications on the characteristics of Brazilian private label suppliers. We faced difficulties in finding companies with a recognized manufacturer brand even with data from the Brazilian Association of Private Labels and Outsourcing (ABMAPRO) and consulting the package of products sold in the retail stores. Moreover, according to the gathered information, the supply for private label market is still restricted by small and medium enterprises that generally do not have leading brands with national recognition. This feature supports the research of Herstein and Jaffe (2007), that argue that the supply in emerging countries are made by local suppliers that do not have strong or recognized brands.

5.2 Limitations and Suggestions for Future Research

Some difficulties were encountered, resulting in limitations that should be considered. First, the case study method has some limitations inherent in its very nature. The utilization of personal interview as an information source has the bias of the interviewee and the researcher. This bias involves the fact that managers may not want to disclose some information in order to not compromise the company’s interest. Besides, the investigator may not understand the answers, which can cause distortion in the analysis.

For future research, we recommend conducting a comparative study with suppliers from other countries with greater participation of private label. Such study may lead to better understanding of Brazilian companies and can provide recommendations through the best practices adopted overseas. Another suggestion would be the development of studies with firms that are not from the food industry to compare their stage of evolution. Donmoyer (1990) affirms that case study research may be used to expand and enrich the repertoire of constructions available to practitioners and others. Thus, the results presented in this study may be used as hypotheses to be tested in further researches (SCAPENS, 1990, LEWIS; RITCHIE, 2003). Quantitative studies with representative samples may be needed to reach the correct degree of generalization.
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References


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