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Private Label as a vehicle for innovation

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Abstract

The development of private label is well advanced in the UK retail market, especially within the grocery sector. Retailers, such as Tesco and Sainsbury's, target the mass market with a wide range of private labels, for price sensitive customers to socially and environmentally sensitive customers. This development is related to the need for retailers in a highly capital concentrated market, such as the UK, to differentiate themselves from other retailers. UK retailers develop premium private label in order to provide the customer's wide choice and to escape the commoditization of products. However, while some of this new product innovation is driven by suppliers, some retailers take a more direct involvement in private label development. It is important to identify the difference in approach between customer driven innovation and supplier driven innovation, as these have major implications for premium and niche lifestyle private label development for the individual retailers and the market as a whole. Our case study demonstrates that lifestyle private label performs an important role as a vehicle for incremental innovation.

Introduction

Consumers are always looking for value for money and have a heightened sensitivity towards retail prices during economic downturns. According to an IGD report, 28% of British shoppers claim to have made changes to their grocery shopping in order to save money specifically due to the recent recession; furthermore 31% of shoppers expect to make changes if the economy worsens. This British trend is broadly similar across three other Western European countries, France, Spain, and Germany, where the same survey was carried out. Additionally 31% of shoppers in the survey among these four markets switched more of their shopping to private label products, while 5% purchased more branded products (IGD 2009a).

Without a doubt, private labels receive further attention in response to the pressure on price. Private label products are developed in many countries not only as a low price product but also as a premium product range. In the United Kingdom, the penetration of private labels is exceptionally well developed and accounts for approximately 47% of the total grocery market (Source: Homescan data, The Nielsen Company, 2010). According to the same methodology, five countries within Europe now have private label concentration of over 40%. These include large and small countries: Switzerland, Germany, Spain and Slovakia, with Austria soon to join them on current trends (AC Nielsen, 2010). However, there are differences in terms of private label between these countries as hard discount formats dominate in some markets, such as Germany, while others are dominated by supermarket and hypermarket formats, such as the UK. Such differences in format are often the result of different planning and competition regimes rather than cultural differences. Where this situation is combined with the permission to build large out-of-town stores, such as in the UK, then retailers have developed a wide range of private label offerings, and these private labels have increasingly become managed in a similar way to that of a manufacturer managing their branded product. This is reflected by the

fact that many private label managers within the retail organisation have previously worked for one of the large branded manufacturers.

Private label offers retailers the chance to innovate their own products, their sales methods, merchandising and their supply chains, as well as providing competing products to the branded manufacturers. Retailers require a good relationship with private label manufacturers if they want to gain a competitive advantage through private labels. Therefore, the intensive competition among retailers has shown up as a competition among supply chains, and innovation will often occur throughout this competitive environment. Most previous studies considering such retailer-supplier relationships investigated private label as a cost-conscious or efficiency-minded issue, for example through the case of Aldi and its suppliers.

However, the competition among UK retailers does not only appear as price competition. The intensive competition has caused widespread reaction of the players in the supply chain. UK large grocery retailers, especially Tesco and Sainsbury's, enhance the interface with the consumer as well as focusing on the price of products. In order to fulfil customer satisfaction, they gather customer data, which is not just transaction data, and analyse the customer's behaviour through their loyalty cards. Meanwhile, retailers manage their product categories first in terms of creating customer value and then secondly in terms of cost reduction, which leads to some interesting retail innovations.

Thus UK retailers are leading the path of development of private label, and are a suitable subject for a study of private label development. Our research focuses on the mass market grocery retailers offering a variety of private labels and branded products to a wide range of customer segments. Hard discounter formats are therefore excluded in this paper, as they focus on cost efficiency and price sensitive customers. Through the UK grocery retailers, we examine

how private label development is managed, and how innovation is managed within the retailers. Then we clarify the role of private label as vehicle for innovation.

The development of private labels

As Kumar N. and J. E. M. Steenkamp(2007) described the history of private labels with the United States retailer in mind. Private labels started as cheap and inferior products only in the basic, functional, low-involvement categories, which were called generics. Retailers offered lower income and price sensitive customers a purchase option, and as a result enabled them not only to make great profits but also to expand their customer base. Private labels were developed as price competitive products against branded ones including copycat store brands. However, they did not help differentiate the store against other retailers, since every major retailer had an equivalent private label. Therefore, since the 1990s, some retailers have been emphasizing quality over price on private label products, and developed premium private labels, to escape this commoditization.

Then store brand differentiation in turn leads to greater customer loyalty toward the retailer (Kumar N. and J. E. M. Steenkamp, 2007), although it is said that heavy private label buyers tend to be loyal to price savings and private labels in general, not to the private label of any particular chain (Ailawadi, K. L., K. Pauwels, and J.E. M. Steenkamp, 2008). In addition, retailers have a benefit such as customer feedback besides their merchandise, as well as store loyalty (Hoch, S.J. and S. Banerji, 1993; Hoch, S.J., 1996).

Kumar and Steenkamp have also broken premium private brands into two types; one is premium-lite store brands, which is equal or better quality and cheaper products against branded products such as Ahold's products, and the other is premium price store brands, which

is sometimes more expensive than manufacturer brands and may be superior in quality such as Tesco Finest. Therefore, by introducing these store brands, the retailer differentiates itself from other chains and potentially leads to greater customer loyalty toward the retailer.

Most retailers in the UK grocery market have premium private label as well as affordable and value products. For example, Tesco has a Tesco Finest, Sainsbury's premium private label range is called Taste the Difference, and that of Marks & Spencer's is Per Una for its clothing. Private label products of these retailers represent up to 50% of sales. All have a large and developing non-food range, as well as wide range of food products. For example, Sainsbury's have almost 13,000 products in their private label ranges. Their architecture of private labels is based on three key ranges, namely good (Basic), better (Sainsbury's own label), best (Taste the Difference). In addition they have some niche sub brands such as 'Organics' and 'Be Good to Yourself'. In the case of a can of tomatoes, the major branded product costs 99 pence, Sainsbury's Basic product is 33 pence, Sainsbury's standard private label product is 59 pence, its premium private label, Taste the Difference, is 85 pence, and Organics is 69 pence. In this category, Sainsbury's entire product range is cheaper than the manufacturer's branded product.

The relationship with manufacturers

For retailers it is important that they can build a good relationship with manufacturers in order to develop competitive products. Most of the preceding studies considered this issue focusing on the retailer-manufacturer relationship that might result in increased performance or reduced total cost (S. Bowlby, J. Foord and C. Tillsley, 1992; Corsten, D and N. Kumar, 2005). One of the primary and most practical objectives of the relationship is to lower the total cost in their chain (Cannon, J.P. and C. Homburg, 2001). So previous studies discussed how large retailers developed a relationship with manufacturers, and how innovation occurred within the

supply chain. Meanwhile manufacturers could be found to be better off supplying the private labels. For example, a high quality manufacturer will satisfy the relationship only if the retailer positions it as a premium private label, although retailer's profits are highest (Gomez-Arias F. T. and L. Bello-Acebron, 2008). Hence retailers need to make a proper relationship with suppliers to reduce their total cost and increase their performance.

Advanced information technology such as employed in Efficient Consumer Response (ECR) promoted relationship activities, whereas this was not wholly necessary for the development of private labels. Both large retailers and suppliers can benefit from some of the economies of scale and fulfil consumer demand from an ECR relationship (Kumar N., 1996; Corsten D. and N. Kumar, 2003; 2005). During the 1980s, private labels in the UK were developed with the ability of the retailers to control distribution through the information technology and centralized logistics management (Huge, A, 1997). More recently, a key development is the ability of a small number of large grocery retailers to control detailed information at the customer level (E. Ogbonna and B. Wilkinson, 1998).

Thus, as Huge A. (1997) pointed out, retailers were bound up in issues of power within their supply chains to execute private label strategy effectively¹. And Kumar N. (1996) indicated that by developing trust, retailers and manufacturers could generate greater value to customers at the lowest possible cost. He also mentioned that, what really distinguishes trusting from distrusting relationships is the ability of the parties to make a leap of faith. However, we

¹ There was once a widespread concept in marketing channel. Stern, L.W. and A.I. El-Ansary (1982) referred to the vertical marketing system, which is similar to recent retailer-manufacturer relationship in terms of gaining systematic economies. They added power was defined as "the ability of one channel member to get another channel member to do what the latter would not otherwise have done" and "the more highly dependent B is on A, the more power A has over B". Power could become the marketing tool for the channel leader to control their marketing channel.

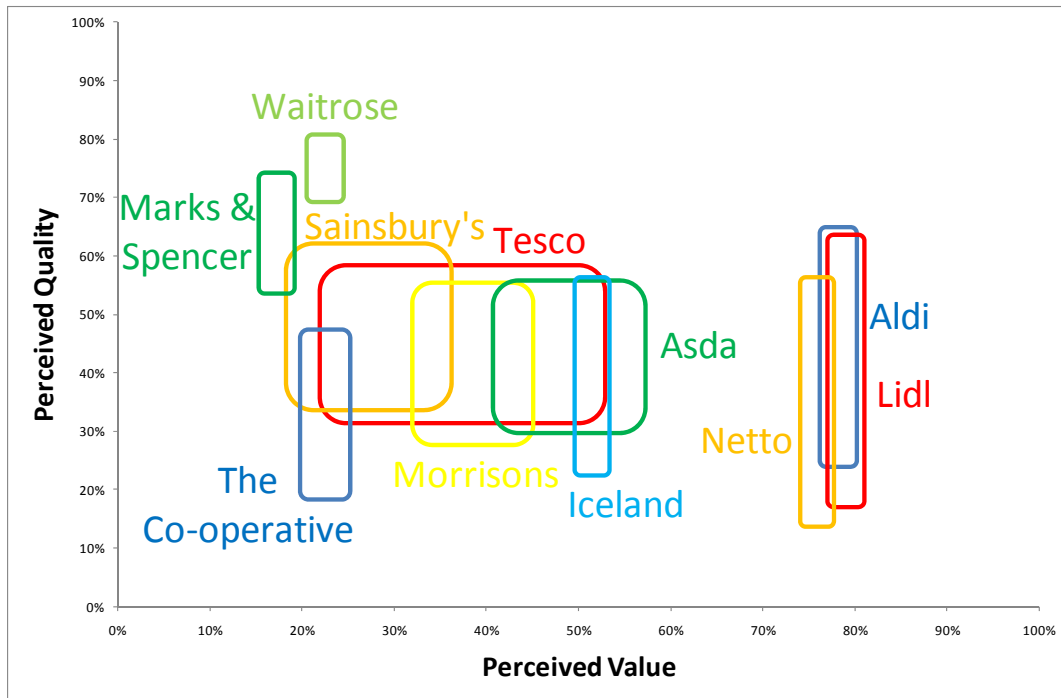
recognise that power is still crucial point to understand retailer-manufacturer relationship from many studies of Wal-Mart and its supplier's relationship (Bloom P.N. and V. G. Perry, 2001; Burt, S. and L. Sparks, 2001; Mottner, S. and S. Smith, 2009). Furthermore, Narasimhan, R. et al. (2009) emphasized that for understanding supply chain activities in the lock-in situations between retailers and suppliers, social exchange theory, inclusive of power, dependence, and justice, could provide substantial insight. Thus it is important for retailers not only to gain power to take advantage but to wield power effectively within their relationship.

High capital concentration

In the UK market, as retailers have grown more powerful relative to the manufacturers, private labels have further developed. It is related to highly capital concentration of UK retailers. Tesco, Asda (Wal-Mart), Sainsbury's and Morrisons are the four largest grocery retailers, with market shares of 31.7%, 16.6%, 16.1%, and 11.3% respectively. This accounts for a total market share for the Big 4 of over 75% (Source: TNS Worldpanel data, December 2009), and is very high capital concentration compared to other large market such as US and Japan. Furthermore the major players continue to grow both in absolute volumes and market share within the UK, while Asda (Wal-Mart) and Tesco are also growing internationally.

There are currently seven large grocery retailers in the UK, namely Asda (Wal-Mart), The Co-Operative Group, Marks & Spencer, Morrisons, Sainsbury's, Tesco and Waitrose. While the price-quality balance positioning between the major retailers does vary, the UK grocery market can be split into 4 main groups: discounters, mass market, upmarket and others. The following diagram summarises the market positioning of the UK grocery retailers. The size of the shape reflects market share, while the perceived quality and perceived price positioning is based on the annual survey by consumer magazine (Which, 2008).

Table 1: UK Retailers perceived market positioning



Source: derived from Which? Consumer Satisfaction Poll data, 2008

The discounters, which are Aldi, Lidl, and Netto, have private labels for price conscious consumers who are happy with a limited choice of product in a small, local store. Marks & Spencer is one of the pioneers to introduce private labels, and is only just beginning to introduce a few manufacturer brands. Waitrose also heavily rely on private label product aimed at the upmarket consumer. However, UK retailers are characterised by the “big 4” supermarkets of Tesco, Asda, Sainsbury’s and Morrisons. All of these players offer a wide range of choice for mass market, from budget driven items, through mainstream manufacturer brands, to upmarket alternatives, as well as a range of niche ideas focused around health or children, for example. In other words, the introduction of private label product allows for a wider range of

product to be offered.

The UK grocery retail market continues to be very competitive despite the high level of concentration. As the recent Competition Commission (2008) report into UK Grocery retailing states, “We found that, in many important respects, competition in the UK groceries industry is effective and delivers good outcomes for consumers.” However, two caveats were also identified. Firstly on the demand side, it was noted that grocery retailing is a local not national activity, thus where there was little local choice of retailer, and barriers to competition, particularly through property planning controls, then competition is not effective. However, this only occurred in a relatively small number of specific instances, and was portrayed as a micro-economic issue local to the particular area. On the supply side, the Commission found a more macro concern, “Second, we found that the transfer of excessive risk and unexpected costs by grocery retailers to their suppliers through various supply chain practices if unchecked will have an adverse effect on investment and innovation in the supply chain, and ultimately on consumers.”

This has potentially a far bigger impact on long-term trends, as “investment” and “innovation” are by their very nature long-term issues. More importantly, since the grocery retailers in the UK have among the highest levels of private label penetration in the world, then the issue of investment and innovation within the supply chain by suppliers is even more crucial. Conversely, some retailers attempt to shift the balance of their dependence on manufacturers by involving the private labels heavily (Ganesan, S. et al., 2009). Thus, retail power and the high penetration of private labels have promoted further the high level of capital concentration.

While the UK grocery market continues to be very competitive, the major players continue to grow sales and market share at the expense of smaller players. Tesco and Wal-Mart are also

growing internationally. As a result of capital concentration, retailers can use more buying power to take advantage of economies of scale. With this increase in power, they have organized private labels' product process, controlled their distribution, and eroded the market share of branded manufacturers' products. In addition, this increased concentration has led to increasing social and environmental pressures on the retailers, and the response has often been through the introduction of further private label product: more healthy food, gluten free, less salt, less sugar, no GM ingredients and so on.

Private label collaboration and innovation

As retail concentration leads to expand private label merchandise, retailers such as in the UK, require more involvement in new product development. In the midst of advanced private label, the obligation for product development of private labels and brand management falls firmly on the retailer's shoulders (Hoch S.J., 1996). In addition, the competition between branded products and private label is stronger than that among branded products, which in turn is stronger than the competition among private labels (Wedel, M and J. Zhang, 2004). Retailers wish to develop a competitive product in order to lessen the reliance on branded manufacturers and improve customer loyalty. This is not achievable without the co-operation of the private label manufacturer.

The example of collaboration between Seven Eleven Japan and Kirin Brewery, Matsuo and Ogawa analyzed (2007), provided an interesting insight into new product development, although this was an exclusive product and initially sold only in Seven Eleven Japan, it is not private label. This chilled beer's development has only been realized through the relationship between the manufacturer who can deliver to keep the beer yeast alive throughout the supply chain and the retailer who has the store operations to be able to sell the product within the life

of the yeast. They must be the best partners to generate product innovation, and Seven Eleven Japan has a history of finding a seed for new products, including private labels.

In that sense, large retailers are in the position to act as innovation hubs within their supply chains (Hristov, L., 2007). Therefore retailers strive to provide the assortment, consisting of what customers want. Some of the previous studies find that assortments have a greater effect than prices on store decisions, although generally we are apt to suppose that shoppers uniformly prefer lower prices and shorter travel distances (Briesch, R.A., P. K. Chintagunta, and E.J. Fox, 2009). And the retailer's merchandise is very important to secure the full choice of customers for the high capital concentration in the UK, because their competition will become heavily and concentrate on the price with only branded products. That is why the penetration of private label is developed in the UK, and private label become a significant strategy for UK grocery retailers to differentiate others.

This contrasts strongly with cost oriented private label that retailers dictated only to their specifications. So we examine the premium private labels for generating some product innovations². Therefore our object of this paper is not a rigid classification of innovations, but to understand how private label development is linked to innovations within the cooperation with manufacturers. As it is difficult to clarify this picture through investigating the macro economic conditions, our approach is based on the practical strategies with some in-depth interviews of large grocery retailers. Finally, this paper will clarify how UK retailers contribute to the high penetration of private label through their product innovation.

² As much literature discusses, there are equivocal type of innovations in retailers; that are visible or invisible, incremental or radical, decision process or output led, etc (Berry L. L. and S. K. Lampo, 2000; Fornari D. et al, 2009; Ganesan S, et al, 2009). Then, we categorize retail innovations in this paper as product innovation and process innovation, and mainly examine product innovation of retailers, focusing on private labels.

The development of private label - the case of Sainsbury's

Private label has evolved to sub brands, such as fair trade, organic, British foods, animal welfare, and so on. As mentioned above, the development of sub brand has advanced in the UK market, because of highly capital concentration and increasing social and environmental pressures. These focus on particular consumer segments beyond existing product categories, and so they embed such concepts into the products. For instance, Sainsbury's developed the brand category named 'Freefrom' which targets the customer with food allergies and intolerances. These products are made without wheat and gluten, and some of the range is dairy free. The range is complemented with branded product with similar characteristics.

Sainsbury's has originally a strong customer base who often cook and buy a lot of fresh fruits and vegetables, compared with the other major grocery retailers. Consumer research has revealed that 46% of UK consumers prefer eating in to eating out. 52% of people view their home cooking as 'healthy'. 43% of people associate their home cooking with quality. (YouGov, Eating and Drinking, 2009).

Additionally in the last few years people are cooking more frequently than before in the UK. Firstly the customer is sensitive about the traceability of their foods and has a desire to eat more healthily. Secondly they try to save money and expect a greater benefit of cooking from raw ingredients. This leads to increased sales in basic ingredients (Sainsbury's Basic range sales up 60% during 2008/09), with evidence of greater home cooking through the purchase of ingredients rather than ready meals, such as cuts of meat for pies. This is further emphasized by the Sainsbury's advertisements involving Jamie Oliver (a TV chef) that show quick recipes for home cooking. For example, sales of salmon fillets rose 175% over the year following an advertising campaign that featured this fish. So it is an important strategy for Sainsbury's to

provide attractive fresh meats, fruits and vegetables, as well as accompanying private label ranges.

In this circumstance, Sainsbury's found that, using their customer data from Nectar card, Freefrom customer's value to them is quite considerable. Their Freefrom brand is a small sub brand, and its turnover is 12.5 million pounds, compared with their Be Good to Yourself health brand's worth of about 170 million pounds per year. However, Freefrom customers are frequent, very loyal customers, and big spenders, thereof high proportion of platinum and gold customers rather than wine shoppers. If they lost the top 5% of these customers, they would lose 110 million pound worth a year of sales. As these customers have an absolute unequivocal need, the impact of this category has a crucial role. Nevertheless, Freefrom category was not enough to satisfy these customers, in terms of tasty and freshness. Therefore Sainsbury's has started to review Freefrom segment.

Sainsbury was a first retailer into free from category and first launched private label version 'Freefrom' in 2002 further to manufacture's products. Freefrom was supported by the customers with some allergies from the beginning, although all the other retailers had followed at once. Approximately 70% of the customers have been medically diagnosed or diagnosed themselves. In addition, it has been sort of fashion for celebrities to cut out wheat and dairy in the US and UK. Even this trend, customer data have shown only 10% of Freefrom shoppers buy from both ambient and frozen foods, because they prefer fresh products. Then Sainsbury's decided to improve and develop the products, and relaunch their Freefrom brand on the 21th February 2010, in order to provide better choice and tasty free from products.

In the Food Allergy and Intolerance week beginning 24th January, they have developed 52 new and improved private label and branded lines. To coincide with this week, they carry out

sales promotions both ambient new private label lines and frozen products. Moreover, they provide 64 new branded lines and 26 new private label lines at Freefrom category on the day of relaunched. This is a big challenge for the new product development at Sainsbury's. Because even their core private label range, 'Basics', launched 150 new products into their range in 2009, it is obvious that this small brand tried to lock in their loyal customers with new lines for Freefrom.

Sainsbury's have developed the new private label aggressively with their suppliers. Whereas they outsource the risk of innovation to their 2,500 suppliers, they have an advantage in innovation. For instance, in the case of Freefrom product, Sainsbury's would go to their four different suppliers and say that 'this is the product we want to make and here is the specification of this'. As these suppliers are very competitive, within a couple weeks they will come back with ideas. Then Sainsbury's will choose one supplier of them. In this way, they have expanded their assortment of private labels.

Sainsbury's tend to cooperate with small suppliers, especially on these specific products, because small suppliers have niche skills and can respond quickly to changing situations. It would appear in UK, although Chandy, R.K. and G.J. Tellis(2000) pointed out that small firms and outsiders account for many more innovations in the US than they do in other countries. Thus the incumbent's curse is less prevalent in Western Europe than in the US. However, Sainsbury's have innovated freshness and tasty of products for Freefrom with small manufacturers.

Such changes can be made more quickly in private label product than in the branded product due to the lack of negotiation required between a single retailer and their private label manufacturer rather than many retailers with a branded manufacturer. Manufacturers need

to think the effect on other products or efficiency in their factory and make some adjustments, when they take on the production of private labels. In contrast, small manufacturers who have no established brands are focusing on just production of private label, and they do not need to think their brand image or effect on other products. That is why retailers should move on to the growing their private label, with smaller manufacturers.

Therefore Sainsbury's top 30 selling lines in Freefrom category are supplied by 15 suppliers, and some of them supply only one product. Many of them have set up a small line manufacturing. Because they have got an allergy themselves or someone in their family does, they are specialist of allergy free food. Sainsbury's have given them enough business that they do not need to take their offer elsewhere. In some cases, Sainsbury's do lock them in three to six months exclusively deal and then it has to open to everyone for them to be able to sustain their factory. Furthermore there is a legal requirement in the UK as what you can declare as being free from. It has to have less than 200 parts per million of wheat or gluten upon analysis at the moment. So anyone can make something without wheat, but, not many people can make the products to be a free from manufacturing standard. With five key suppliers, Sainsbury's have instigated a compelling supply base strategy, and work very closely. Their product technologists are expected to be spending 30-40% of their time in factories. They try to keep long term relationship to innovate their own products.

For example, Sainsbury's need to provide tasty Freefrom products as well as meeting the quality standards to anchor their loyal customer's mind. They are selling fresh bread with gluten, wheat, and dairy free since June 2009 in cooperation with small private label manufacturer. The customers have had to eat unpleasant bread for a long time. Sainsbury's launch fresh bread at the Freefrom sales shelf, and have created a beautiful fixture with gorgeous food photography to find easier. Then these products make the store a destination of

customers. As a result, the Freefrom category has been developed from one of the small sub brands relating to allergy free food into a key category for Sainsbury's, in order to regain the top market position in the UK. In this way, Sainsbury's sub brand, namely Freefrom, becomes a vehicle for the innovation, in other words, Freefrom is driven by developing a customer segment rather than developing a product or product category. Freefrom is a lifestyle private label that brings in new customers to the store.

Retailers exploit their customer data to develop the private label

Freefrom is a really good example to develop their private label using their customer data. If Sainsbury's just looked at sales of Freefrom category, they would be unaware of the importance of this category and they would not innovate to these products. Their customer data from Nectar card showed various customers' behaviours. Nectar card make possible to analyse not only basic data such as name, address, phone number, email address, household composition, car ownership, shopping behaviour, but also customer's each baskets. Customer data point out that Freefrom has potentials to become huge business and show Sainsbury's the way to do.

Not surprisingly, their ability of getting the data is completely different from that of developing new products. Nonetheless, Sainsbury's customer data is outstanding, and not same as a transaction data of many retailers. These data showed them individual customer's behaviours, and Groupe Aeroplan which operate UK's leading Nectar card analyse the data. Then Sainsbury's could find some distinctive behaviour of Freefrom shoppers. And data would enable Sainsbury's to make the smarter new product development.

Tesco's Clubcard is also well-known for the loyalty card. With Clubcard, Tesco can mass-customise to suit the needs of all types of customers, of all tastes, and incomes and ages

(Humby et. al, 2007). Tesco want to know from their 'Clubcard' that how many customers and what type of customers is shopping in a particular place, how many customers they have lost, and what they need to do to regain them. The Tesco model is based not on crude averages but individual particularities. Rather than forcing a profile onto households using generalised data from their distinctive actions of customers and creates genuine like-minded groups of customers sharing similar tastes and activity from real purchase choices they make. (Humby et. al, 2007)

Then Dunnhumby which operates Clubcard could find out something new about customer's behaviour. For example, the urban myth of data analysis that some shopping baskets could contain both beer and nappies, implied that these would be the normal choices of new fathers shopping for the two essentials in their new lives. In reality, analysis usually highlights common knowledge, and not incredibly surprising facts. However, analysis does present quantitative factual evidence to prove or disprove such issues, rather just settle for more qualitative opinion-based findings.

Tesco and Sainsbury's can get the qualitative individual data from their loyalty cards. They do not exploit their customer card as a discount card. Sir Terry Leahy who is CEO of Tesco has always emphasised that Clubcard does not create loyalty by itself; it creates a medium that allow Tesco to say 'thank you' to customers for their loyalty in proportion to how much of that loyalty Tesco has earned (Humby, 2007). Therefore data analysis is very important for their scheme, and Dunnhumby is indispensable presence to analyse Tesco's customer data. Sainsbury's also get these customer data from their 'Nectar' card and Groupe Aeroplan analyse 13.3 million customer's baskets. Their elaborate data collection and analysis reduce their mismatching, enable them to develop new private labels, and attract customers to their shops. The relaunch of Freefrom is one of the typical innovation processes.

These customer data is not limited to using the new product development. Sainsbury's also exploit their data to cultivate customers. Using the Nectar card, Sainsbury's know who bought this range of products in the last six months. And then they send these customers DM to tell what is coming, because they know these customers are receptive to these DM than not segmented customers. 15% of customers react to these mailings According to our interview with (Source: Groupe Aeroplan). As a result of the activities such as online DM and providing Freefrom leaflet, after the Food Allergy and Intolerance Week, the entire category has raised 35% of sales, and increased 1.8% of market share.

Tesco also use these customer data into the promotion as well as product development. If we go to the big Tesco store, there will be a couple of thousand products on promotion. Dunnhamby firstly understand where those promotions are effective and where they are not effective, using their customer data. If they are not effective, promotions are just costly. So Tesco is getting much more involved in trying to say these are promotions that suits for customers. For example, through changing the price stickers, Tesco tend to meet the demand of price sensitive customers. Thus Tesco has a philosophy about loyalty, which is that loyalty's about Tesco being loyal to customers not customers being loyal to Tesco, based on their customer data.

Conclusion

Private label was originally developed as a low price product. At this level of development, the private label strategy of grocery retailers is no different to that of hard discounters. Grocery retailers such as Sainsbury's and Tesco in the highly competitive UK market, however, could not stay at this point of development. These retailers need to differentiate their merchandise from others and to meet their customer's demand focused on issues other than price. So, they began to develop premium private label and then evolved further into sub brands based on

customer lifestyles. These niche, lifestyle sub brands extend across product categories, rather than the traditional expansion of sub brands within a product categories. This is a fundamentally different approach to private label development.

It should be noted that not every grocery retailer could take the same strategy as Sainsbury's. This relates to their positioning but some retailers are just looking for suppliers who can reduce the cost of manufacturing. Cost is a crucial matter for the interface between suppliers, in order to offer an alternative to the branded products of manufactures. Retailers are not involved in new product development in this circumstance. They just search for suppliers who can produce affordable and valued products compared to the relevant branded products.

For example, both Asda-Walmart and Sainsbury's have a large selection of private label products, however, Asda-Walmart do not focus on private label product development, but on the package technology. Thus, new products for Asda are primarily developed by suppliers and then are required to pass the Asda brand panel for quality. Therefore Asda encourage suppliers to drive product innovation, and then Asda focus on choosing private label products that enhance their offer, and reflect the likely demand of their target customers. Note that through this approach Asda still provide premium and niche private label products, as well as the traditional low price items.

We demonstrate through the case study of Sainsbury's that there is another way of developing private labels, although both can be successful within their target market; ASDA compete mainly on price, while Sainsbury's competition is generally more upmarket. Thus, Sainsbury's have a development framework for introducing new innovative products and services. This comprises of 5 main stages: definition of strategy, physical development of concept, detailed analysis of concept, scale for production, monitor sales and production against targets.

With their direct involvement in new product development, Sainsbury's want to own such opportunities, and so private label works as an important vehicle for innovation.

Consequently, we can classify retailer's private label development into two categories: customer driven innovation and supplier driven innovation. The former is like Sainsbury's where the focus is on searching customer needs (often through customer data) and then matching suppliers who can meet those needs. The latter is like Asda where the focus is on searching suppliers for new possibilities and then deciding whether these may match customer needs.

Finally, we emphasize that within a competitive market, such as the UK, these two differing approaches may have similar results as one retailer reacts to another. However, in an uncompetitive market, supplier driven innovation tends to focus on the value, low cost segment rather than develop private label further into premium and niche lifestyle brands. This is a result of the high capital concentration and high penetration of private labels within the UK market, as well as related macro market conditions such as planning regulations, and market features, such as the use of loyalty card data. Further research is required to fully understand these macro conditions, as well as the switching criteria between the customer driven and supplier driven approaches.

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