

Private Labels in Lebanon

An Empirical Assessment

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Abstract

When you walk into the supermarkets today, you find the bays and displays occupied with the known national brands that you see aggressively advertised. You also notice an increasingly occupied space for Private Labels, whose sales are flourishing across all product categories. “Private label products or services are typically those manufactured or provided by one company for offer under another company's brand.” Private labels are usually priced lower than national brands and tend to offer higher profit margins for retailers; this has contributed to the growth of private labels to represent around half of sales in some product categories.

Private labels were perceived as only targeting price-sensitive consumers, and that the higher income shoppers, who consider quality as their primary concern, would always favor national brands. Nowadays, private labels themselves are competing on quality, thus creating a big challenge for brand managers of national brands to develop action plans to retaliate. In some categories, marketers of major national or manufacturer brands attempted to decrease cost and reduce prices in order to trim down the saving advantage of private labels. In other categories with high brand equity, prices were raised to highlight a quality advantage for the national brand over the private label. Marketers increased investments in Research and Development to maintain a competitive edge over lagging competitors. In some cases, they increased the advertising and promotions budgets or introduced discount fighters or even supplied private label makers (Keller, 2002).

Private label brands were traditionally regarded as generic products that competed with their national brand counterparts through a price-value proposition. They often carried the stigma of inferior quality – given their lower price compared to national brands – and therefore inspired less trust and confidence at the consumer level. Private labels were thought of as the products sold exclusively to price-conscious shoppers. Shoppers who had higher income and who were concerned about quality would select the national brand over the private.

Yet, over time, private labels grew and flourished, to the extent of accounting for around half of total sales in some product categories, providing consumers with lower priced options for

what was often a low involvement purchase decision. In parallel, retailers continued to push private label products into various categories as they provided high profit margins with little to no marketing effort.

The introduction of private labels goes back the first half of the twentieth century. Private labels witnessed many ups and downs. In the 1950's, private labels fell out of favor following competitive pressure from large packaged-goods companies. During the recession of the 1970s, many low cost, basic quality goods appealed to consumers. However with the economic upswing of the 1980's, many consumers shifted back to national or manufacturer's brands. In the early 1990's private labels captured 13% of total supermarket sales revenue in the US, representing sales worth almost \$50 billion. In Germany, private label sales rose from 13% in 1982 to 23% in 1990 (Hoch and Raju, 1998).

In a study on *The Power of Private Labels 2005*, AC Nielsen reported that across the 38 countries and 80 product categories studied, private label sales accounted for 17% share. The highest share was witnessed in Europe, where Switzerland came first with private label recording 45% share of market. Eight of the top 10 ranked countries in private labels market share are in Europe (AC Nielsen Global Services, 2005a). One of the key drivers of private labels success in Europe is the scale and size of the retailers. The growth of private labels is reported to be directly related to the retailers' consolidation and concentration (a measurement of the market share held by the top five retailers in a given country) (Brady et al., 2003).

In view of tougher economic conditions, consumers are showing an increasing inclination for "value" products: good quality at affordable prices. They want a balance between quality and price. This provides opportunities for both national brands, which historically had the edge on quality, and for private label goods, which had the edge on price. As both the real and perceived quality of private label products appreciates, a growing number of customers are likely to choose them. AC Nielsen Global Online Consumer Opinion revealed that around 66% of global consumers consider private label brands as good alternative to other brands (AC Nielsen Global Services, 2005b).

The phenomenon of private labels has transcended the borders of the developed world, and found fertile grounds in the economies and societies of the developing countries. In its 2005 global study, AC Nielsen reported that the emerging markets of developing countries experienced the largest growth rate for private labels with 11% growth (AC Nielsen Global Services, 2005a). This paper attempts to study the phenomenon of private labels in a developing country of the Middle East region: Lebanon. We take a consumer behavior perspective in trying to shed a light on the factors that influence consumer choice of Private Labels versus National Brands in a fast-moving-consumer-good market (the facial tissue product category). We selected facial tissues since, traditionally, private labels have been quite successful in the facial tissues market and in its more general Paper, Plastics, and Wraps product category. From 1998 until 2003, Paper, Plastic and Wraps had the highest share of private labels worldwide compared to other product categories. It was ranked second in 2005, with 31% category share. Private labels held a 24% share of the facial tissues market (AC Nielsen Global Services, 2005a).

Over the past ten years, Lebanon has been witnessing the emergence of conventional supermarkets, aligning with the worldwide trend towards smaller number of retailers controlling a larger percentage of the market. The list of those supermarkets includes international and regional power names such as Spinneys, Casino-Géant, Monoprix, and TSC. Those supermarkets are self service food stores, offering groceries, meat, produce and limited non-food items. They are large, low cost, low margin, high volume stores, which have the resources to develop successful private label programs.

In our attempt to study the consumer perception and attitude towards private labels in Lebanon, we first review the history of private labels and provide an overview of the global private label phenomenon, private label market share, growth per region and per product category, and summarize the benefits they provide to consumers, retailers and manufacturers. We then focus on the Lebanese market, and offer a brief synopsis of the shopping environment relevant to private labels. We introduce the major conventional supermarkets along with their respective store brands strategies and market facts. We follow that with a word about our selected product category of research – the facial tissues market – and present facts and figures about market size, key players and perspectives on consumer behavior as it relates to consumers choice criteria. We present our theoretical foundations and review several empirical studies as we develop our research questions and hypotheses. Essentially, we are interested to know:

- What is the level of awareness of Lebanese consumers about Private Labels?
- What is the penetration level of Private Labels within Lebanese consumer's purchases?
- What are the determinants of consumer's attitudes towards Private Labels and what are the factors affecting consumer's choice between a private label and a national brand?
- How do consumers perceive or position Private Labels in comparison to their equivalent of National brands in terms of quality and value for money?
- Is there a correlation between demographics and Private Label purchasing?
- Does branding affect the consumer's assessment of quality?

The research design was composed of a descriptive part and an experimental part on a sample of 120 respondents, all being active shoppers at supermarkets and having average to high influence in the shopping experience. The main findings of the study were as follows:

- Lebanese consumers have high awareness that the supermarket they shop at has its own Private Label.
- Private Labels have high penetration rate within the purchases of Lebanese consumers. Paper, Plastics and Wraps, Canned Food and Beans, and home care products all translate well into Private Label lines.
- Affordable price is the main drive for purchasing Private Labels
- Lebanese consumers have high level of satisfaction from the quality and value for money offered by the Private Labels.
- A high percentage of consumers agree on the good quality offering of Private Labels, but still believe that National Brands offer better quality.
- A high percentage of non-buyers said they would consider buying private labels in the future.

The paper ends with a series of managerial implications derived from the empirical findings.

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