How can different brand strategies lead to retailers’ success? Comparing Manufacturers brand for Coca-cola and Private Brand for Costco

Fu-Ling Hu, Hsing Wu College, Taipei, Taiwan
Chao Chao Chuang, Hsing Wu College, Taipei, Taiwan

ABSTRACT

Manufacturers brands are merchandise produced and marketed by a merchant. The manufacturers develop the products and create an image for the brand. Some successful companies have strong manufacturers brands, such as IBM, Nokia, McDonald’s and Microsoft. They spend much money creating, promoting and building loyalty to their brand name. On the other hand, some successful retailers develop private brands with their own name on it, like Costco, Wal-Mart and JCPenny. Recently, because the size of retail has increased, private brands started to have particular importance by creating unique identities among retailers. The paper shows the manufacturers brands have competitive advantage in product quality and innovation, integrating marketing communication strategy. The private brands have favorable shelf space display and membership marketing. The different marketing strategies are taken to acquire their respective success.

Introduction

Today, more and more companies are willing to invest money in building strong brands because branding offers many benefits for both firms and consumers. First, brand names help customers recognize products that might attract them. As consumers’ lives become more rushed, brand names simplify consumer’s decision making and reduce purchasing risk (Kotler & Keller, 2006). Second, brands also represent a signal about product quality and functions to the customers. Consumers often learn about brands through past purchase experiences, word of mouth from friends, or from other media, so they can identify which brands satisfy their needs and which ones do not.

From the company’s point of view, brands perform many valuable functions. First, brand names and trademarks are both important intellectual properties for a company, which protect unique product features from being copied by competitors. Next, brand loyalty provides predictability and security of demand for the firm and creates barriers to impede other competitors to enter the market (Solomon, Marshall, & Stuart, 2000). In general, brand loyal customers are willing to pay a higher price for desired brands. Furthermore, brands are enormously valuable pieces of legal property that can influence consumer behavior, and provide the security of sustaining future revenues to their owner (Bymer, 1991). Thus, building and managing brands awareness and loyalty are perhaps a marketer’s most important tasks.

Some successful companies have strong manufacturers brands, such as IBM, Nokia, McDonald’s and Microsoft. They spend much money creating, promoting and building loyalty to their brand name. On the other hand, some successful retailers develop private brands with their own name on it, like Costco, Wal-Mart and JCPenny. The purpose of the paper is to review manufacturers brands versus private brands and compare how their different marketing strategies lead to success.

Manufacturers Brands and Private Brands

Manufacturers brands, also known as national brands, are merchandise produced and marketed by a merchant. The manufacturers develop the products and create an image for the brand. Some manufacturers use an umbrella or family-branding marketing strategy.
Strong manufacturer brands help store image and bring traffic flow. Loyal consumers of manufacturer brands usually know what to expect from the merchandise and feel comfortable with them. But manufacturer brands generally have lower gross margins than private brands. These lower gross margins are because of the manufacturer taking on the cost of promoting the brand and increasing competition among the retailers selling the brands (Levy & Weitz, 2004).

Private brands are merchandise developed by a retailer. Besides the products are bought and found only from that retailer. The retailers, not the manufacturers, take responsibility for promoting the brand. Recently, because the size of retail has increased, private brands started to have particular importance by creating unique identities among retailers. Most retailers successfully mix manufacturer brands with their own private brands to satisfy customers’ various needs. Private brands products now make up an average of 20 percent of U.S. sales in supermarkets and mass merchandisers. Private brands are present most in consumer packaged goods categories (Kumar & Steenkamp, 2008). Marketing specialists forecast that private brands will account for roughly 30 percent of grocery sales within five years—especially because big supermarkets continue to consolidate. Many retailers and distributors like Staples and Victoria’s Secret have a large percentage of private brands.

Carrying manufacturer brands brings some benefits to the retailers. First, heavy advertisement to the customers by the manufacturers like P&G helps build consumer’s loyalty. Brand loyalty is a highly desirable goal for most marketers. Over half the users, in particular product categories such as cigarette, toothpaste, detergent, and medicine consumers often have brand loyalty (Peter & Olson, 2005). Then, famous manufacturer brands like Burberry can attract new consumers and increase the retailer’s reputation. Finally, many manufacturers provide quick delivery, making the retailers possess less stock. (Lamb, Hair, & McDaniel, 2004).

On the other hand, there are some advantages for retailers to sell private brands products. The retailers usually earn much profit on their own brands. Next, retailers that sell private brands don’t have the restrictions on display, promotion, or price that frequently hinder their marketing strategies. The major retailers like Walmart carrying private brands also have more power over manufacturing, quality control and delivery of the goods (Levy & Weitz, 2004).

**Competition between Manufacturer Brands and Private Brands**

**Price**

Price reduction in private brands is the most obvious tool to compete with manufacturer brands. By cutting price, private brands can take market share from manufacturer brands and have higher yield. (Dhar and Hoch 1997) Private-label products now generate more than $1 trillion sales. Evidence shows price reduction may cause harm to private brands, because many customers connect a low price with inferior quality. (Borden, N. 1942)

**Shelf Space**

The retailer can decide how to place manufacturer brands and its own label brands on the store shelves for normal sale and during promotional periods. The right makes private brands to get preferred position on the shelf space (Hosh, S.J., Montgomery and Park, 2002). For manufacturers, favorable shelf space is more difficult to get because of the reservation for private label products.

**Quality and Innovation**

Retailers should endeavor to improve product quality for customers to accept private brands increasingly. The research found private brands market share were greatest where its quality compared to manufacturer brands was competitive (Hoch & Banerji, 1993). However, retailers do not have economies of scale to employ excellent R&D employees, so they always imitate the successful merchandise introduced by the manufacturers (Robert L. Steiner, 2002). There are several instances of innovations by manufacturers brands and the competitive copy of private brands. In 1973, Clairol’s Herbal Essence shampoo was soon faced with private brands imitation competition.
A Successful Company with Strong Manufacturers Brands

The Coca-Cola Company has convincingly demonstrated its ability to the global markets; its success is as a result of thinking globally and acting locally (Keegan, 2002). The company is adept at adopting sales promotion, distribution, and customer service efforts to local needs. Coke has become a billion-dollar-plus brand in six markets outside the United States: Brazil, Germany, Great Britain, Japan, Mexico, and Spain (Keegan & Green, 2005). Coca-Cola has enjoyed its brand equity for many decades.

Strong brand equity

Brand equity refers to the value of company and brand names. (Lamb, Hair, & McDaniel, 2004). Brands have higher brand equity to the extent they have higher brand awareness, perceived quality, and brand loyalty (Kotler & Armstrong, 2004). A brand with strong brand equity can bring a company’s considerable profits. According to an estimate, Coca-Cola’s brand equity is $69.9 billion in 2001 (Keegan & Green, 2005). Coca with high brand equity enjoys a high level of consumer brand awareness, and loyalty. Coca-Cola’s brand can help it leverage its brand name by introducing new products to existing product line, such as Diet-Coke, Coca Zero.

Integrating marketing communication strategy

Coca-Cola often integrates and coordinates its many communication channels such as mass media advertising, personal selling, sales promotion, public relations, and direct marketing strategy to deliver a clear, consistent, and compelling message about their brands and its products. Integrated marketing communications help Coca-Cola produce better communications consistency and greater sales impact. However, soft drink marketing is characterized by heavy investment in consumer advertising and promotion. On average, the Coca-Cola Company spends roughly $2 billion a year worldwide on marketing campaigns (The Coca-Cola Co., 2007).

Strong branding and advertising on global markets

With a strong brand name, Coca-Cola can quickly market its products to the world. Coca-Cola has been stepping up its Olympic activation through its status as an official sponsor (Murphy, 2007). In addition, Coca-Cola has elevated Hispanics form its sixth priority to second after teens (Kerin & Peterson, 2004). Coca-Cola had spent an estimated $18.7 million to the Hispanic market since 2001 (Kerin & Peterson, 2004). Furthermore, Fanta became a global phenomenon with 70 flavors in 188 countries, and the soft drink is popular in Latin American markets where flavored sodas are the norm (Coca-Cola, 2007). Coke relies on similar positioning and marketing in all countries; it projects a global image of fun, good time, and enjoyment. The product types or tastes may vary to suit local tastes. For example, Coke increased the sweetness of its beverages in the Middle East where consumers prefer a sweeter drink. In the United States, "The Coke Side of Life" is aimed at increasing sales of its core carbonated soft drink brands in the U.S. market. Past slogans included "Life Tastes Good," "Coca-Cola: Enjoy" and "Always Coca-Cola" (Coca-Cola, 2006). In China, "Fanta is an antidote to everyday pressures of Chinese youth" (Keegan & Green, 2005, p. 449). The Coca-Cola Company often utilizes slice-of-life and fantasy executions, usually injected with an element of fun or humor.

A Successful Company with Private Branding Strategy

In recent years, an increasing number of wholesalers and retailers have created their own brands, such as Costco's store brand, Kirkland Signature. Private brands products now make up an average of 25 percent of purchases in the U.S. and approximately for 45 percent in Europe. A private brand not only can increase store brand awareness, but also intensify store image. If retailers have their own private brands, they possibly have more power over manufacturing, quality control, and delivery of the goods (Levy & Weitz, 2004). Costco's Kirkland Signature private label products are not very familiar to the public, but the private label has been recognized in its membership customers. Kirkland Signature is becoming a Costco private brand in its
own right, and Costco currently carries 330 private label items, which account for 15 percent of their total sales (Costco Wholesale, 2006). Costco plans to increase the number of Kirkland Signature items and hopes to drive Kirkland Signature sales to 25 percent of their total in the future. Now Costco is the second-largest general merchandise retailer in the U.S. Costco’s related sales has increased by more than 25 percent in 2006, to more than $8.3 billion (Costco Wholesale, 2006).

**Direct mail marketing strategy**

Costco generally limit marketing and promotional activities to new warehouse openings, and they occasionally use direct mail marketing to prospective new members (Costco Wholesale, 2006). These practices lead Costco to have lower marketing costs as compared to other competitors. Costco uses marketing teams to contact businesses directly to build connections within regions that have potential wholesale members. These contacts are supported by direct mailings during the period immediately prior to opening.

**Word-of-mouth and coupon booklets marketing**

After a membership base is established in an area, most new memberships result from word-of-mouth advertising (Costco Wholesale, 2006). Doing an excellent job of delivering value to members, Costco does not incline to spend money on other advertising activities, such as television, radio, magazines, and newspaper, because the best type of advertising for Costco is word-of-mouth by the members. Periodically, Costco sends its members coupon booklets to promote manufacture’s brands and its store brand.

**Membership marketing**

By offering an extra two percent rewards, Costco encourages the gold star card member to upgrade to executive membership, which costs fifty dollars more annually to enjoy this program. Membership marketing not only brings Costco considerable revenues annually, but also increases customer’s loyalty to the store.

**Lower price, limit selection, and higher quality**

Costco’s operating strategy is to offer products to their members with lower prices than other retailing channels, and offers a wide variety of product categories, with only limited national or private brands within each category. This practice enables Costco to produce high sales volumes and rapid inventory turnover.

**High sales volume and rapid inventory turnover**

Costco has rapid inventory turnover, as it uses a combination of volume purchasing, efficient distribution, and self-service warehouse facilities. All the above strategies allow Costco to operate profitably at significantly higher gross margins than other wholesalers, mass merchandisers, and supermarkets.

Numerous retailers and wholesalers today have their private store brands, but they do not attempt to adopt a strong branding strategy. Examples of these businesses include Wal-Mart, Target, and Costco. Some factors may explain its strategy. Continuing with the example of Costco, first, customer’s loyalty is built on the relationship with Costco store, not on a particular product or brand, so it is not needed to do advertising for all commodities. Next, without national advertising, the less marketing cost leads a private brand to generate a larger profit than on national brands. In addition, Costco’s strategy is to attract customers to shop in their stores and to provide a wide range of brands and products to satisfy customer’s different needs. Thus, if Costco overemphasizes its store brand, it will cause conflicts with other product manufacturers. Then it might lose the opportunity to sell some popular manufacturer brands, particularly the manufactures has strong bargain power in the markets such as P&G’s Tide versus Kirkland Signature’s detergent. After all, the major job of Costco is to carry diverse brands, to satisfy customer’s various needs, and to increase their sales profits. Thereby, Costco does not need to adopt a strong brand to challenge itself.
Conclusion

Heavy advertisement to the customer by manufacturers such as Coca-Cola helps create brand loyalty. In addition, famous manufacturer brands can help store image, bring traffic flow and increase the dealer's reputation.

Coca-Cola accounts for the most soft drink sales with approximately $24 billion in 2006. Coca-Cola's success includes many key elements (Coca Cola, 2006). First, Coco-Cola stresses the use of advertising to build up a long-term brand image for its products and company. The company also uses integrated marketing communication strategy to portray the brand, keep the brand fresh in the minds of current consumers without betraying the core values. Being the sponsors of NASCAR and the NBA respectively, Coke and Sprite advertise heavily during the sports seasons. (Jennifer Korolishin, 2005) Second, by building up brand loyalty of customers, top-selling brand Coke Classic was ranked as the best selling cola in 2006 (Beverage Digest, 2007). Besides diet products grow quickly at this moment, the company also pushes Diet Coke significantly. Third, with strong manufacturer brands, Coca-Cola can manage its products and brands, design global communications strategies, and occasionally redefine and reposition its brands for suiting to both global and local segments. Fourth, with up to 69 billion brand asset, Coca is able to leverage its brand equity to develop more innovative products to the markets and establish a long-term relationship with its customers.

Contrary to Coca-Cola's use of strong brand marketing, offering private brands brings a few advantages to retailers. In addition to making more profits, exclusive strong private brand increases store loyalty like Costco. Furthermore, if the brands are with high quality and stylish, they can improve store image. Costco's success can be attributed to four factors. First, the company highly relies on its database marketing. Costco retrieves customer's information via their computer databases and send their members coupon booklets periodically. Costco often offers an in-store instant price reduction in different product categories to stimulate sales. Email marketing is also another important tool to reach their current and potential customers. Costco emphasizes short-term price reductions strategy, thus encouraging consumers to shop frequently. Second, rather than convincing consumers like Coke by using traditional advertising media (e.g., TV advertising, newspaper, and radio) to build up consumer's brand loyalty, Costco uses membership marketing strategy to build relationships with their customers and offers cash rebate by encouraging the use of executive membership card for getting a two percent extra rewards. This is very effective to connect with its members, to maintain and increase its sales. Third, without strong brands, Costco carries with 330 private label items, Kirkland Signature items that enables Costco to reduce its stock cost and extra advertising cost, so they can offer a lower average market price to shift other brands consumers to buy their private brand. Fourth, high sales volumes per warehouse allow Costco to leverage its efficient operating structure and make the company operate with the low cost in retail industry, and it has increased Costco total sales growth more than $200 million.

Implications

Briefly, if the product categories are controlled by strong manufacturer brands, customers can easily compare price across stores upon products they know to be identical. Many customers will change stores for the particular brand, patronizing another retailer if the previous retailer does not offer the particular brand or price it competitively. If customers have strong manufacture brand loyalty, they will be reluctant to change brands within the stores. For example, customers may be passionate about national brands such as Procter & Gamble, while national brands still have an edge in the customers’ mind. This will reduce retailers’ margins when they negotiate with the manufacturers and allow manufacturers’ brand to raise prices without retailers’ support.

On the contrary, in product categories, which manufacturer brands are without customers’ loyalty, retailers may have high substitution elasticity. If the manufacturers increase their price above their competitors, retailers are able to buy a similar brand from other alternative manufacturers easily and don’t worry about losing sales in the category. This is because most customers are willing to change brands within
the store, making their purchases from the brands the retailers offer.

Price differential is another important issue between national brand and store brand. To counter the increasing popularity of private brands, manufacturer brands proceed aggressive price promotion to increase their market share. The customers, who link brand’s price with its quality, or think of themselves as smart shoppers, are more probably attracted by price saving when manufacturer brands promote their products. By price cuts, manufacturer brands draw sales away and hurt private brands sales.

At the same time, private label brands may acquire sales by continuously improving consumers’ perceptions of quality. The negative perception of private brands quality is the major drawback to hinder sales increase. Upgrading the substantial quality of the merchandise, improving the packaging, reinforcing innovation are different efforts to improve quality perceptions of private brands. Retailers should demonstrate that lower prices of private brands are not connected with poor quality. In improving quality perceptions, retailers should also strengthen various promotion and packaging skills. (Judith A. Dan Fisher. & Scott Burton. 2002)

Take Costco for example. Costco’s operating strategy is to offer products to their members with lower prices and higher quality than other retailing channels. Besides, Costco offers a wide variety of product categories, with only limited national or private brands within each category. This practice enables Costco to produce high sales volumes and rapid inventory turnover.

The process of purchasing goods is not all analytical. Shoppers’ attitudes toward national brands and private labels are influenced by many factors. There are many issues that retailers must deal with strategically. Retailers must decide their branding strategy. Should they purchase famous manufacturer’s brands to what extent? Or should they create private brands with their own label on it as their goal? The issue that private brands should account for what percentage deserves further research. Therefore, future study is needed to investigate what percentage of private brands will have the most significant effect on retailers’ profits. The attempt should be made for retailers to set up the best branding strategy.

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Chao Chao Chuang is a Full-time Instructor at Hsing Wu College, where he teaches courses such as Commercial, Business Correspondence, Secretarial English, Management, and Investment. He has taught at National Taipei College of Business and performed as a marketing assistant for the New York Life Insurance Corporation. He holds a Bachelor's degree in Insurance from Tamkang University, Taiwan, and an M.S. degree, major in Management from Polytechnic University, New York, U.S.A.