Positioning of Store Brands

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We examine the retailer’s store brand positioning problem. Our game-theoretic model helps us identify a set of conditions under which the optimal strategy for the retailer is to position the store brand as close as possible to the stronger national brand. In three empirical studies, we examined whether market data are consistent with some of the implications of our model. In the first study, using observational data from two US supermarket chains, we found that store brands are more likely to target stronger national brands. Our second study estimated cross-price effects in 19 product categories, and found that only in categories with high-quality store brands, store brand and the leading national brand compete more intensely with each other than with the secondary national brand. In a third product perception study, we found that although explicit targeting by store brands influenced consumer perceptions of physical similarity, it had no influence on consumers’ perceptions of overall or product quality similarity. While it appears that retailers do follow a positioning strategy consistent with our model, it changes buying behavior in the intended fashion only if the store brand offers quality comparable to the leading national brands.

(Store Brands; Private Labels; Positioning; Retailing; Game Theory; Competition)

1. Positioning of Store Brands
Store brands or private labels are created and controlled by retailers. In aggregate they constitute about 20% of unit sales and are among the top three brands in 70% of supermarket product categories (IRI 1998). Although ignored in the past, recent research has improved our understanding of how store brands compete with national brands (e.g., Cotterill et al. 2000, Hoch 1996, Kadiyali et al. 1998, Sudhir 2000). We study store brand (SB) and national brand (NB) competition by considering the positioning strategy of SBs. As is true for any brand, positioning of the SB can exert an important influence on its performance. Unlike manufacturers of NBs, however, the downstream retailer has a different objective function. Whereas NB manufacturers position their products to maximize profits from their own products, the retailer focuses on maximizing profits from the entire product category, including profits from the SB and NBs (Hoch and Lodish 1998). We model how the retailer should position the SB to maximize category profits within the context of a category with two NBs, one of which is stronger. Positioning is operationalized as the per-