BRANDED VARIANTS

Steven M. Shugan

University of Chicago

I. ABSTRACT

The Marketing literature recognizes the importance of nationally branded products. Since the middle ages, buyers have used brands to help infer brand quality. Now, the nature of this branding has changed. Private labels baring the name of national retailers dominate many markets. However, small local retailers are often unable to support their own private labels. Consequently, these retailers have turned to branded variants. The branded variant is a branded item which is not directly comparable to other items with the same brand name. Branded variants reduce retail competition because they make direct price comparisons by consumers more difficult. This paper argues that it is in the best interests of both manufacturers and retailers to offer branded variants.

II. INTRODUCTION

This paper begins with a interpretative history of branding. We review the history of national branding as discussed in the marketing literature. However, we also attempt to interpret the development of branding so that we can better understand the nature and evolution of branding. We consider the impact of branding on consumers, manufacturers and retailers. We argue that branding was not needed until buyers began to make frequent transactions with the same sellers. We also argue that the nature of branding changed when technological advances precipitated national manufacturing who became far larger than retailers. At that point, national branding created severe retail price competition. Branded variants were created to solve this problem. Branded variants influence many marketing activities including private labeling, the creation of generics, product innovation, tele marketing, globalization of markets, high technology marketing and market modeling.

III. NATIONAL BRANDING

A. Advantages of National Branding for Consumers

Branding began in the Middle Ages when each producer had to mark his good so that poor quality goods could be traced back to the guilty producer (McCarthy 1981, p. 291). Levitt (1966) notes that this same reason forced branding on the Soviet economy when low quality 17-inch TV sets manufactured at one factory caused a decrease in the sales of high quality 17-inch TV sets manufactured at other factories. The Soviet's solution was to mark products with a factory number so that consumers and central planners could identify the production source. Hence, the branding allows consumers to spend less time evaluating the product's quality.

Before branding existed, trading dominated most markets. For many products, a lengthy buyer inspection and evaluation was often required if the buyer wanted to determine the true quality of the product. In the fifteenth century -- when pelts of fur were exchanged for farm commodities -- both the fur trapper and the farmer needed to evaluate the quality of each other's products. This was a costly under-taking for both the traders because durability and uniformity of quality can be difficult to assess. Many trades were unique occasions where neither trader expected to make future transactions with the other trader. Hence, traders had little incentive to establish goodwill for future transactions.

In the mid-eighteenth century, however, when general stores replaced trading posts (Pintel and Diamond, 1983, p. 4), the retail institution began. Customers of these general stores began to buy many of their products from the same retail institution. This practice often lowered buyer transaction costs because the customer began to depend partially on the retailer to grade and sort merchandise by quality. Unlike isolated trades, buyers would make frequent transactions with the same retailer, who had the incentive to establish goodwill within the community of potential buyers. Buyer loyalty became associated with the retailer as the retailer became responsible for
isuring levels and consistency of quality. Many buyers were willing to pay for this inspection and evaluation functions because it lowered their transaction costs. Retailers could often perform the inspectin and evaluation functions more efficiently than buyers.

A. Advantages of National Branding for Manufacturers

After the Civil War, changes in technology and the structure of the economy caused the number of large manufacturers to grow. In addition, national advertising media began to develop (Kotler, 1983). These changes made it more economical to manufacture a large quantity of some products, distribute these products nationally and use national media for advertising the products. For some product categories, manufacturers could now provide inspection and evaluation more efficiently than the retailer because changes in technology allowed manufacturers to perform quality control at a lower cost than the retailer. These economies lead to national brands. National brands began with early brands such as Borden's Condensed Milk, Quaker Oats, Vaseline and Ivory Soap (Kotler, 1983). As national distribution became common, the growth of brand names became more dramatic (Kotler, 1983) and highly mobile buyers depended less on specific retailers.

During national branding's growth period the burden of inspection and evaluation partially shifted from retailers to manufacturers. The buyer could purchase a given brand at many different locations and the brand name could often be used as a surrogate measure of brand quality regardless of the purchase location. As the grading function partially shifted to manufacturers, buyer loyalty also partially shifted from retailers to manufacturers. Kotler (1984, p. 484) notes that "branding gives the seller the opportunity to attract a loyal and profitable set of customers". This set of buyers was profitable because, for many product categories, the premium that the market was willing to pay for decreasing buyer inspection and evaluation costs was greater than the manufacturer's quality control cost. Manufacturer branding decreased inspection and evaluation costs because, for many products, buyers could now evaluate a national brand once and partially depend on the manufacturer to insure the same quality levels for future purchases. Those buyers who liked a brand could continue to purchase that brand and not incur future inspection and evaluation costs for that brand. This gave many manufacturer's who offered consistent product quality the incentive to brand. Hence, manufacturers soon found that for almost any product they could gain from branding. It is not surprising, therefore, that "branding has grown so strong that today hardly anything goes unbranded" (Kotler 1984, p. 482).

B. Disadvantages of National Branding for Retailers

Manufacturer branding did provide some benefits for retailers. For example, retailers did enjoy the benefits of the national advertising conducted by the manufacturer. This more efficient advertising helped reduce the retailers own advertising costs. Unfortunately, branding had some undesirable side effects. Not only did branding help buyers evaluate product quality across time, but branding also helped buyers evaluate product quality across different retail outlets. With branding, buyers could often make quick and easy price comparisons across retail outlets. Although national branding helped product differentiation among manufacturers, the same national branding decreased the differentiation between retailers. As a consequence, national branding created “fierce price competition and produced insufficient [retail] margins” (Havenga 1973, p. 169).

In addition to fierce price competition, there were other disadvantages of national branding for retailers. First, retailers sought the same differentiation sought by manufacturers. Retail outlets often attempted to attract customers by offering a unique merchandise assortment. Retailers stressed their uniqueness by informing potential customers that they offered product alternatives not offered by competitive retailers. Many retailers believed that buyers would be willing to pay an added sum to obtain this added variety when looking for their ideal product. However, when retailers offered the same national brands, the relative uniqueness of the retailers diminished.

Legal restrictions created another disadvantage for retailers. When a manufacturer sold the same product to several retailers in the same geographic area, legal restrictions often prevented many agreements involving price and service discrimination. The Clayton Act, the Robinson-Patman Act and other antitrust regulation prevented certain types of mutually desirable agreements between a manufacturer and a retailer.

Although it appears that many of the disadvantages of national branding for retailers are actually advantages for manufacturers, this is not always true. However, close examination reveals that increased retail competition can lower total channel profits. Manufacturers have the incentive to increase total channel profits because added profits can always be divided between the manufacturer and the retailer (e.g., see Jeuland and Shugan 1983). Moreover, retailers often have the option of refraining from the stocking of branded items carried by other local retailers. As Havenga (1973,
p. 169) notes, "the result is that the manufacturer loses outlets for his brand and that the goodwill toward the brand name as well as the image of the firm suffers. The differential advantage of the product itself may thus be minimized and possibly also the total differential advantage that the manufacturer acquired through the specific image surrounding him." Havenga argues that this was an important motivation for resale price maintenance.

IV. PRIVATE LABELS

A. The Genesis of Private Labels

When retail price maintenance failed, both manufacturers and retailers sought other methods of maintaining prices and profits. Some manufacturers offered their products for exclusive distribution in each geographic area. Many retailers became specialty retailers who carried many products not offered at other retail outlets in the same geographic area. However, with the introduction of early chain organizations and large-scale retailing in the latter part of the nineteenth century another solution became possible. Manufacturers began to produce products for retailers which were labeled with the retailer's name and the private label was born. "A private label is one that bears either the store's label or the resident buying office's name (Pintel and Diamond 1977 p. 145)." These private labels had names unique to the retailer.

For many very large or national retailers, private labeling had many of the same advantages as national branding. Buyers could lower inspection costs by making one single evaluation of the product. However, private labeling made direct price comparisons more difficult. As Pintel and Diamond (1977, p. 163) note:

"It is only when a customer can find the same item, exact in every detail and carrying the same label in two stores that prices can logically be compared. If the items are dissimilar, the higher-priced item can always be claimed to be of better quality and worth more. It is for this reason that the use of private labels is becoming increasingly important."

Of course, buyers could still compare items with different private labels. However, this shopping activity was more costly because more effort was required than mere price comparisons. Buyers had to make quality comparisons in order to identify the best buy. Hence, buyers, who wanted to shop across outlets, would need to remember prices, product features and other product options as they shopped across retail outlets.

The burden of inspection and evaluation partially shifted back to large retailers. Pintel (1977) notes that retail economies associated with private labels often lower buyer costs. Moreover, buyers can choose among a wider assortment of products at each outlet.

B. The Growth of Private Labels

Of course, there was a cost associated with customizing the product for each retailer. Even if the customization only involved repackaging the product, some added fixed cost was required. The adverse effect of this fixed cost could only be overcome when the fixed cost was spread over a sufficiently large quantity of the product. This was possible with the arrival of early chain stores and large-scale retailing. At that time, the private label market became sufficiently large to support customized products. Early chain organizations such as J. C. Penney Co., A & P food stores and F. W. Woolworth Co. could provide sufficient distribution to be the sole buyer of a customized product. Added retailers could support private labels when, in the late 1930's, they expanded their size and scope to become supermarkets. These retailers carried numerous branded foodstuffs and other miscellaneous branded items such as toys, drugs and clothing (Pintel and Diamond, 1980, p. 5). Supermarkets emphasized expanded product and product category assortment with the luxury of one stop shopping. Buyers were motivated to buy many items at one supermarket rather than shopping across different outlets for the same item. Finally, in the early 1970's, some supermarkets evolved into the giant discount operations of today. Discounters offered limited service in exchange for lower prices on numerous branded items. These discount operations frequently performed little or no grading. They concentrated on high volume and low margins.

Today, many retailers are of a sufficient size to support the advertising and promotion required by a private label product. The relative growth of these retailers has had an important impact on economies of operation and has partially shifted the burden of inspection and evaluation back to the retailer from the manufacturer. The rise of large national chain stores continues to shift the evaluation and inspection functions for many product categories back to the retailer. Private
labels help retailers assume a more important role in product grading, help retailers differentiate their product and help increase the profits of the entire distribution system. This fact is confirmed by the National Commission on Food Marketing which found that private label merchandise could be sold at significantly lower prices and still generate the same dollar margins as comparable national brands (Dalrymple and Thompson, 1969, p. 248). Hence, as large national chains continue to grow, the number of private labels also continue to grow. Food stores, which offer numerous manufacturer brands, may be the last remnant of the world of the late nineteenth century. Today, most large retailers carry numerous private labels. For example, consider Table 1. This table illustrates the extent of private labeling among the large retailers Sears, J. C. Penney and Montgomery Ward by noting the large percentage of private labels found in their catalogs.

<table>
<thead>
<tr>
<th>Retail Outlet</th>
<th>Total Pages in Catalog</th>
<th>Pages With Manufacturers Brands</th>
<th>Percent Pages with Manufacturer Brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sears</td>
<td>1520</td>
<td>175</td>
<td>11.5 %</td>
</tr>
<tr>
<td>J.C. Penney</td>
<td>1555</td>
<td>320</td>
<td>20.6 %</td>
</tr>
<tr>
<td>Montgomery Wards</td>
<td>1007</td>
<td>219</td>
<td>21.7 %</td>
</tr>
</tbody>
</table>

Table 1: Comparison of Retail Catalogs

Even among grocery stores, private labeling is extensive. A National Commission on Food Marketing study (Dalrymple and Thompson, 1969, p. 248), found that private label sales accounted for 48 percent of the grocery store sales. However, private labels have made far greater inroads among non-grocery products. Perhaps one reason for this phenomenon is the relatively large size of the suppliers to grocery stores as compared to the suppliers to non-grocery stores. Table 2 lists the seven largest producers of grocery store products while Table 3 lists the seven largest grocery stores.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company Name</th>
<th>Assets</th>
<th>Employees</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Procter&amp;Gamble</td>
<td>7,510,000</td>
<td>64,500</td>
<td>11,994,000</td>
</tr>
<tr>
<td>2</td>
<td>R.J. Reynolds</td>
<td>10,355,000</td>
<td>99,860</td>
<td>10,906,000</td>
</tr>
<tr>
<td>3</td>
<td>Dart and Kraft</td>
<td>5,133,800</td>
<td>79,933</td>
<td>9,974,400</td>
</tr>
<tr>
<td>4</td>
<td>Philip Morris</td>
<td>9,691,900</td>
<td>72,000</td>
<td>9,101,600</td>
</tr>
<tr>
<td>5</td>
<td>Beatrice Foods</td>
<td>4,743,901</td>
<td>80,300</td>
<td>9,023,520</td>
</tr>
<tr>
<td>6</td>
<td>General Foods</td>
<td>3,860,737</td>
<td>64,000</td>
<td>8,351,140</td>
</tr>
<tr>
<td>7</td>
<td>Pepsi Co.</td>
<td>4,197,470</td>
<td>133,000</td>
<td>7,498,998</td>
</tr>
</tbody>
</table>

Source: Fortune, May 2, 1983

Table 2: Large Consumer Products Manufacturers

We see that unlike the producers of grocery store products, the producers of non-grocery products are much smaller in size than the department stores which sell non-grocery products. For example, one of Sears Roebuck's largest suppliers is Whirlpool, which manufactures many of Sears appliances. However, Whirlpool's 1982 sales of $2,271,305 were only 8.3% of Sears' sales while Whirlpool assets of $1,261,642 were only 3.6% of Sears' assets. Finally, Whirlpool's 18,949 employees represent only 5.6% of Sears' employees.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company Name</th>
<th>Assets</th>
<th>Employees</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kroger</td>
<td>2,405,290</td>
<td>127,271</td>
<td>11,266,520</td>
</tr>
<tr>
<td>2</td>
<td>Great Atlantic &amp; Pacific Tea</td>
<td>1,308,983</td>
<td>60,000</td>
<td>6,989,529</td>
</tr>
<tr>
<td>3</td>
<td>Winn-Dixie</td>
<td>924,776</td>
<td>63,000</td>
<td>6,200,167</td>
</tr>
<tr>
<td>4</td>
<td>Southland</td>
<td>1,677,791</td>
<td>49,660</td>
<td>5,693,636</td>
</tr>
<tr>
<td>5</td>
<td>Jewel Company</td>
<td>1,379,871</td>
<td>36,922</td>
<td>5,107,614</td>
</tr>
<tr>
<td>6</td>
<td>Albertson's</td>
<td>709,847</td>
<td>30,300</td>
<td>3,480,570</td>
</tr>
<tr>
<td>7</td>
<td>Super. General</td>
<td>363,777</td>
<td>30,000</td>
<td>2,999,379</td>
</tr>
</tbody>
</table>

Source: Fortune, July 12, 1982
### Table 3: Largest Grocery Stores

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company Name</th>
<th>Assets</th>
<th>Employees</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sears Roebuck</td>
<td>34,509,400</td>
<td>337,400</td>
<td>27,357,400</td>
</tr>
<tr>
<td>2</td>
<td>Safeway Stores</td>
<td>3,690,404</td>
<td>157,411</td>
<td>16,580,318</td>
</tr>
<tr>
<td>3</td>
<td>K Mart</td>
<td>6,673,004</td>
<td>280,000</td>
<td>16,527,012</td>
</tr>
<tr>
<td>4</td>
<td>J. C. Penney</td>
<td>6,216,000</td>
<td>187,000</td>
<td>12,860,169</td>
</tr>
<tr>
<td>5</td>
<td>F. W. Woolworth</td>
<td>3,141,965</td>
<td>139,800</td>
<td>7,223,241</td>
</tr>
<tr>
<td>6</td>
<td>Lucky Stores</td>
<td>1,524,444</td>
<td>66,000</td>
<td>7,201,404</td>
</tr>
<tr>
<td>7</td>
<td>Federated Department Stores</td>
<td>4,096,877</td>
<td>120,800</td>
<td>7,067,673</td>
</tr>
</tbody>
</table>

Source: *Fortune*, July 12, 1982

### Table 4: Largest Department Stores

C. The Advantages of Private Labels

Hence, large retailers have made extensive use of private labels. But the effect on manufacturers is not necessarily bad. Manufacturers also gain from decreased retail competition. Private labeling provides retailers with the incentive both to adapt the product to local buyer wants and to support the product after sale. If the product required a great deal of service at the point-of-sale, the retailer would desire some exclusivity before the retailer would be willing to provide that service. This is a traditional explanation of why manufacturers desire to keep retail prices high (Telser 1960).

In addition, as Pintel and Diamond (1977 p. 145) explain "by joining a buying office, small individual orders can be consolidated into large orders. To obtain large orders, manufacturers will gladly produce merchandise to specification and affix private labels."

D. The Disadvantages of Private Labels

Despite the numerous advantages of private labels, there remain good reasons why manufacturer brands continue to exist. One important problem associated with private labeling is the necessity of a minimum volume. There are often large fixed costs associated with establishing a private label. Unless the label commands sufficient volume, economies in distribution, advertising and manufacturing favor the national brand. Even Kroger, the world's largest supermarket chain, which has 33 manufacturing plants and a huge fleet of trucks which can deliver goods to retail stores with tremendous efficiency, manufactures only fast-moving commodity items such as dairy goods, peanut butter, sugar and canned goods (*Fortune*, Feb. 1983, p. 76). A & P food stores had severe problems at their Horsehads food processing plant when some private labelled products had insufficient volume (*Fortune*, Nov. 1, 1982). Private label brands lose much of their attractiveness when they compete with national brands which enjoy both scale economies in production and scale economies in marketing. Private labels, therefore, are not the solution for small or local retailers. Many small retail outlets may be forced to carry only national brands.

E. Selective Distribution as An Alternative to Private Labels

Stern and El-Ansary (1982) note that some manufacturers limit, within a defined geographic area, the number of outlets which carry their products. Examples include "televisions sets (e.g., Zenith, RCA), mattresses (e.g., Simmons), cosmetics (e.g., Revlon, Estee Lauder), industrial supplies (e.g., Norton Abrasives) and clothing (e.g., Arrow shirts)." Through selective distribution, i.e., by limiting the number of retail outlets which carry the manufacturer's brands (Stern and El-Ansary 1982), manufacturers can achieve a degree of exclusivity for their product. Selective distribution helps discourage direct price competition by forcing retailers to carry brands not carried by competitive retailers. Hence, selective distribution achieves a similar outcome as private labeling. To compare selectively distributed brands across retail outlets, buyers either have to make both price and quality comparisons across different brand names or travel farther geographic distances to make price comparisons for the same brand.

As a consequence, selective distribution can have many advantages over intensive distribution. Stern and El-Ansary (1982) note that despite the obvious increase in short-term sales resulting from intensive distribution, selective distribution often prevents national brands being used as "leaders" to draw traffic. Selective distribution also encourages higher levels of retail
service and more retail support in marketing flows. In fact, intensive distribution might naturally disintegrate as retailers seek differentiation. Stern and El-Ansary (1982, p. 226) give the following example:

"... when W. T. Grant, a major retail chain, was attempting to avoid bankruptcy in 1975, it decided to drop the lines of major appliances that it was carrying because margins had been competed away on them. While this move did not save Grant's, it did at least permit the chain to concentrate on more profitable lines. Other retailers are having similar problems in selling major appliances at a profit, given the extent of discounting on these items."

Unfortunately, as selective distribution approaches exclusive distribution sales volume eventually falls. In particular, for many convenience goods, availability is their most important attribute and a lack of sufficient distribution can significantly decrease both short and long term sales. As sales decline, manufacturers often lose economies in production and per unit production costs increase. However, there is a method of exclusive distribution which often avoids the loss of production economies. It is possible for manufacturers to only partially unbrand their brands.

V. BRANDED VARIANTS

A. What Are Branded Variants?

We found that although national branding identifies products with their manufacturers, it also makes products easily comparable. Complete unbranding makes products less comparable, but it causes products to lose their identity with their manufacturers. Selective distribution decreases comparability and retains national identity but we found that selective distribution often produces insufficient volume which causes inefficiencies in production and distribution. However, there is an alternative to selective distribution. It is possible to make products less comparable and still cause a product to be associated with the manufacturer. It is possible to only partially unbrand a product and create what we call a branded variant. Branded variants are nationally branded products which assume non-equivalent forms across retail outlets. Manufacturers create branded variants by making special variants of their nationally branded products for different retailers and encouraging retailers within the same region not to carry the same variants of the product. Like private labels branded variants are exclusively sold by the retailer. Like nationally branded products, branded variants still retain the identity of the manufacturer. Branded variants may be created with changes in color, design, flavor, options, style, stain, motif, features and layout. For example, although most wrist watches carry national brands such as Seiko, Armitron, Elgin or Timex, for each national brand many different variants exist. The same brand of watch may come with different bands, have different chimes and have a variety of special features. The same brand of watches may be digital, be analog, have large hands, have small hands, have luminous hands, have a sub-second hand, have no hands, be water resistant to 300 feet, be battery powered, have a calendar, have a daily alarm, and so on. For another example, consider portable stereos. Most portable stereos have national brand names such as Sony, Panasonic, Sanyo and Toshiba. Yet, again, portable stereos come in a wide assortment of variants. Speaker size varies, total weight varies, the number of speakers vary and a large number of features vary. Portable stereos can have cue/review features, recording, pausing, auto-stopping, headphone jacks, balance controls, tone controls, battery indicator lights, built-in condenser mics, variable monitors, treble controls, graphic equalizers, auto level controls, built-in AFC on FM, record mute, Dolby noise reduction, digital tape counters and so on. Branded variants can be found in many other product categories such as air treatment devices (air cleaners, dehumidifiers, etc.), clocks (alarm, kitchen wall, etc.), compact appliances, cookware and bakeware, home laundry (clothes dryers, wringers, spinners, etc.), home security devices, home electrics (televisions, phonographs, radios, etc.), kitchen appliances (dishwashers, ranges, refrigerators, etc.), kitchen electrics (blenders, food processors, fry pans, etc.), major appliances (air conditioners, water heaters, etc.), outdoor products (barbecue grills, power mowers, etc.), and personal care products (hair dryers, massagers, shavers, etc.). In many product categories manufacturers create so many variants of their national brands that even if retailers randomly selected products from the manufacturer's product mix, few retailers would carry identical products. Hence, by carrying a wide assortment of variants all carrying the same brand name, manufacturers can partially unbrand a product and obtain many of the advantages of intensive distribution while still allowing retail outlets to carry exclusive products.

Although branded variants have the exclusivity of private labels, branded variants differ from private labels in several ways. Branded variants retain the manufacturer's brand name and do
not necessarily assume the name of the retailer\textsuperscript{1}. Unlike most private labels, branded variants have national recognition. Moreover, the same branded variants can be sold by retailers in different geographic locations. This advantage of the branded variant allows both production and distribution economies not always enjoyed by private labels. Moreover, the branded variant enjoys the national manufacturer advertising and promotion. Hence, branded variants do differ from private labels. Branded variants have the original purpose of brands found in the Middle Ages -- not to standardize items but to trace poor quality items to the guilty producer.

Branded variation also differs from national branding. Like private labels, branded variation allows retailers to carry customized products so that product features are sufficiently different to discourage mere price comparisons. The brand name is no longer the unifying standard by which products can be compared. Consequently, branded variants lose some of their national identity and, like private labels, become unbranded. For example, national advertising can no longer describe one item, company salespeople must carry literature on a variety of variants and service personnel must be familiar with many options. Hence, branded variants are similar to customized private labels. With these customized products, manufacturers move toward total unbranding. Branded variants, therefore, can become the private label of the small retailer whose volume does not justify a authentic private label. In addition, branded variants can also enable a large retailer to carry exclusive items even though these items have insufficient volume to justify the retailer's private label.

B. The Genesis of Branded Variants

Some manufacturers may create branded variants by intent while other manufacturers may create branded variants by chance. For example, a luggage manufacturer may produce numerous suit cases and market each suit case under the manufacturer's name. The suit cases may vary in design, color, options (e.g., type of lock, wheels), weight and interior. All retailers may have the opportunity to carry this manufacturer's suit cases yet retailers within a specific geographic area may still be given an exclusive on one design. In this example, branded variation is explicitly implemented by exclusive distribution. Now consider a clothing manufacturer who produces many different styles of a shirt and markets each style under the same name. Retailers within the same geographic region may select exclusive subsets of shirts from the manufacturer's line. Consequently, each competitive retailer offers a unique assortment of the same nationally branded shirt. As the shirt manufacturer increases the breadth of its line, added sales occur because added retailers are seeking shirts not carried by competitive retailers. In this case, the branded variation is implicitly implemented by the buying policy of the retailers. Furthermore, some manufacturers may create branded variants merely because past production of more variants led to past increases in sales.

Hence, the strategy of allowing competitive distributors to carry different variants of the same national brand may not have been deliberate. Manufacturers may have found that new variants of their existing products sold well and, therefore, the manufacturers decided to carry a wide variety of variants. Eventually, as the number of variants offered by the manufacturer increases, the motivation for the retailer to carry all of the manufacturer's variants diminishes. As the number of variants increases further, each retailer carries a smaller and smaller percentage of the total available variants. Eventually, if retailers randomly choose which variants to carry, the number of variants carried by competitive retailers will diminish. Retailers, of course, want to avoid carrying the same variants and, therefore, the percent of identical items carried by competitive retailers decreases faster than would be predicted by the random selection of available variants. Whether deliberate or not, the consequence of a large product line is the ability of retailers to carry different items.

The process of modernizing products each year can inadvertently create branded variants. Minor improvements can lead to new product variations in such mature product categories as steam irons, vacuum cleaners, bedroom sheets and stereo turntables. Each year, new modified brands appear which are adopted by some retailers while other retailers sell the discontinued variants at lower prices. In some cases, these modifications are annual and variants are distinctly dated, e.g., 1979, 1980, 1981. Consequently, retailers can again carry different dated variations of the same brand. For example, new car dealerships and used car dealerships not only differ on the age of their products, but also on other characteristics of the automobiles. In the fashion industry, constant minor product modifications take place each year. Consequently, several retailers might carry the same product but at different points of time. One retailer might carry the latest fashions while

\textsuperscript{1}In some cases, branded variants carry both the name of the manufacturer and the retailer. For example, one shirt label reads "Baskin by Hathaway".
another retailer might carry older fashions already abandoned by the former retailer. Although both retailers carry designer clothing with the same manufacturer brand name, the retailers carry few identical items.

C. Advantages of Branded Variants for Retailers

Branded variants can be attractive to both small and large retailers. With branded variants, small retailers can carry sufficiently different forms of national brands that these brands act like private labels. These retailers have a greater incentive to support branded variants than national brands. Small retailers can use branded variants as larger retailers use private labels.

Branded variants also enable large full-service retailers to compete with low-service discount outlets even when both outlets carry the same brand. Most low-service discount outlets carry a limited assortment and encourage volume with low margins. When the manufacturer offers many variants of the same brand to both types of outlets, the full-service retailer can choose variants of the product not carried by the discounter. As a consequence, it is more difficult for buyers to obtain service from the full-service retailer while purchasing the product from the discounter. Customers of the discounter are less likely to attempt returns and repairs at the full-service retailer.

D. Advantages of Branded Variants for Manufacturers

The manufacturer gains in several ways from offering numerous variants. First, decreases in retail competition often lead to higher channel profits. With higher total channel profits, some profit division will make all channel members more profitable. Second, more retailers might agree to sell the manufacturer's brand if they could obtain variants of that brand not carried by competitive retailers. The result is a wider distribution for the manufacturer's brand. Third, a retailer may be willing to provide added retail support for the manufacturer's brand if the retailer knew it would be the only retailer to carry the item (Telser 1960). Forth, branded variants often allow channel members to circumvent the spirit of the Robinson-Patman Act. It is possible for the manufacturer to negotiate different prices with different retailers because the different retailers are technically buying different products. This ability to price discriminate can lead to channel coordination (Jeuland and Shugan 1983). In sum, branded variants give manufacturers some of the advantages of intensive distribution.

A. Retailers Can Also Create Branded Variants

We have seen that manufacturers can create branded variants by offering national brands in many different sizes, models or other variations. One study of retail prices (Shugan 1983) found that retailers can also created branded variants. For example, retailers may combine the products of several national manufacturers into a unique package. One retailer packaged a camera from one manufacturer with: a camera case, a zoom lens from another manufacturer and a camera guide from still another manufacturer. The kit was a unique variant only offered by that retailer. Yet all of the components of the kit were nationally branded. The study also found that even for standardized items such as camera film can be modified by retailers. One retailer sold nationally branded film by the box, another retailer sold a package of the same film which included different speed film, while still another retailer packaged the same film with a store coupon good for film developing. Creative strategies can create variants. But manufacturers usually create variants more efficiently than retailers.

VI. THE IMPLICATIONS OF BRANDED VARIANTS

A. Private Labels

Private labels are precursors of branded variants. They appear in the product life cycle directly before branded variants. Early in the life cycle, products have very little distribution and few retailers carry the product. If successful, product sales grow and more retailers adopt the product. Soon many retailers in the same geographic territory adopt the product and fierce price competition occurs. The large retailers gradually drop manufacturer brands and substitute private labels. As private labels reduce the share of the national brands and leave small retailers without comparable labels, manufacturers are driven toward branded variants. We see this pattern emerging in the personal computer market where one large retail distributor, Computerland, has just announced its own private label brand. Our analysis would predict that soon, smaller distributors will begin to carry branded variants.

B. Generics

"Generics are unbranded, plainly packaged, less-expensive versions of common products in
supermarkets” (Kotler 1983). Generics have been portrayed as a boon for consumers. It is said that
consumers can buy a product without paying for its national advertising. Some authors (Lambert,
Doering, Goldstein, McCormick, 1980) have suggested that education programs be used to help low
income-education consumers switch to generic prescription drugs. Early forecasts concerning
generics predicted that retail competition would force retailers to carry these lower priced
unbranded products and generics would cut into the profits of higher-priced brands (Gelb 1980).
As one author asks (Kotler 1983), “Why pay 30 percent more for a branded item when its quality is
not noticeably different from that of its generic cousin?”

But even when competitive retailers carry identical generics, some uninformed consumers
may still be unable to make direct price comparisons. Unless the consumer again assumes the task
of product inspection, the consumer must depend on the retailer to insure a minimum level of
quality for the retailer's generics. Direct price comparison across retailers are, therefore, more
difficult. Perhaps, generics are more of a boon for retailers than consumers.

C. Product Innovation

Nearly every marketing textbook provides numerous reasons for manufacturers to innovate.
These reasons range from the need for diversification to the need to satisfy constantly changing
consumer needs. However, a different and more compelling reason exists. The channel structure
itself provides an enormous incentive for a manufacturer to constantly produce minor improve-
ments, updates or other modifications of existing brands. These improvements not only strengthen
the manufacturer's position relative to competitive manufacturers, but these improvements also
strengthen the manufacturer's position in the channel. The production of a wide variety of
variations or branded variants allows, and often forces, retailers to carry different subsets of the
manufacturer's total product line. Hence, constant product modification actually lessens retail
competition as long as consumers perceive the branded variation as real. With less retail
competition, channels are both more profitable and more responsive to the manufacturer's products.

D. Tele-marketing

Much recent discussion concerns the topic of direct marketing by telephone and direct
marketing through computer ordering. Many authors (e.g., see Rosenberg and Hirschman 1980,
Bartlett 1981) predict that eventually consumers will be able to sit at a computer terminal in the
comfort of their homes and obtain information about available products. These consumers will first
obtain product prices along with product specifications. This information could be used to locate
the retail outlet with the lowest price. Soon, however, the computer terminal in the consumer's
living room would make shopping even easier. Shopping would become extraordinarily easy as
direct distribution would allow consumers to procure a product at the touch of a finger. Retailers
would become extinct and replaced by a computer terminals.

This world of the future will never come to be. The computer revolution will only hasten
the trend toward branded variants. As computer technology makes price comparisons across
retailers more efficient, retailers will quickly adopt variants of national brands not carried by their
immediate competitors. Consequently, computerized information systems will only be able to
supply a limited number of retail prices and those prices may not show substantial variation.
Moreover, except for a limited number of homogenous products, direct distribution to the consumer
from terminals will also become impractical. The phenomena of tele-distribution will be no
different than existing direct marketing. Each tele-distributor will carry branded variations not
offered by competitive tele-distributors. As private labels dominate mail order catalogs, branded
variants will dominate computer data bases.

E. Globalization of Markets

As advancing technology decreases global communication and distribution costs, the scope
of corporations continue to increase. Many products which were only distributed locally are now
being distributed either across the nation or across the world. These changes force both the
marketing and production functions to consider launching, marketing and producing each product
in numerous markets. Although the increasing scope of marketing and production activities often
leads to increasing complexity, it can also provide the opportunity for increased production
economies of scale. As the market size increases, production volume increases and the marginal
cost of producing many products decrease. Hence, the marginal cost of producing branded variants
also decreases and it becomes more profitable to produce branded variants. Globalization of
markets allows a branded variant to be sold in numerous geographic regions while still being
exclusively distributed in each geographic region.
F. High Tech marketing and other growth industries

The product life cycle concept tells us that product sales gradually increase as the product approaches maturity. Only a few distributors will adopt a new product and, therefore, it is likely that the distribution of a new product will be exclusive whether by manufacturer intent or not. Hence, early in the product life cycle, the need for branded variants is limited. However, if the product is successful and sales continue to grow, more outlets will soon adopt the brand. At this point, the need for branded variation increases. At the same time, the increased production of the brand provides economies of scale which lower the production costs associated with branded variants. Hence, branded variants are often a phenomena of mature rather than new products.

In rapidly growing areas such as high technology, early growth causes continuous product modifications. These modifications lead to natural product variants as different distributors carry different states of the product. Some distributors will specialize in the cutting edge and carry only the most modern variants. Other distributors will carry older more established models. While still other distributors will carry the technologically obsolete. As long as buyers are of different levels of sophistication, all of these retailers will exist in harmony.

However, as the market matures, the heterogeneous needs of the buyers will become more homogenous. Major technological advances in the product will become minor modifications and the product of five years ago will begin to look like the product of today. As last year's automobiles only differ slightly from this year's models, last year's printers, plotters and computers may soon look like this year's models. When that point is reached, private labels and branded variants begin to permeate the market. Branded variants are a signal that a growth industry is becoming mature.

Until recently, high-tech products have shown little branded variation. For example, manufacturers of both computer software and computer hardware were often associated with only a few complementary products and these products were offered in an undifferentiated form by many retailers. But as this industry matures, we see the same developments as many other industries. Private labels are now appearing. Soon manufacturers must offer specialized models to allow small retailers to compete with the larger distributor's private labels.

G. Market Modelling

The world of the late nineteenth century has been studied in great depth. It is a world of manufacturers where manufacturers create new products, manufacture existing products and develop marketing strategies. It is a world of manufacturer competition where manufacturers differentiate their products in order to develop their own markets and avoid direct competition with other manufacturers who might offer the same product. It is also a world of severe retailer competition where retailers do not enjoy the same protection from product differentiation enjoyed by manufacturers. If a retailer chooses to sell a manufacturer's brand at a higher price than a competitive outlet, that retailer would surely lose its more price sensitive customers. Given the freedom of buyers to shop, any buyer who is sufficiently ambitious and determined, can seek out and find the lowest price for any given brand.

Although many mathematical models describe this world of the late nineteenth century, few mathematical models represent the world of the late twentieth century where large retailers dominate the market. These retailers offer many private labels and numerous branded variants. As a consequence, models of the late nineteenth century may not describe many phenomena found in today's markets. For example, branded variants may have changed buyer behavior. Buyers may now choose outlets before choosing brand names. Branded variants existence may have changed channel relationships between manufacturers and retailers. The branded variants existence may also have changed the nature of new product introduction and, hence, the product mix in the market.

H. The Future of Branded Variants

The extent to which branded variation is possible depends on the manufacturing cost of branded variants. This cost depends on how easily genuine variants can be produced which are perceived as different among most consumers. Artificial variation, created by merely re-labeling the product, may have limited success compared with actual variation in product characteristics. Hence, branded variation can create significant increases in production costs. For some product categories these costs can be prohibitive. For example, for books, records, seasonings and similar products, branded variant creation is difficult. It would become extremely costly to customize a book for each retailer. When genuine variation is relatively expensive to produce, either exclusive distribution or private labels may be more desirable.

Note that the cost of producing variation depends both the physical production costs associated with manufacturing and consumer expertise in assessing product quality. Not only are
these factors likely to vary across product categories, but these factors are also likely to vary with the life of the product, the level of advertising, the relative costs of different raw materials, the manufacturer's learning curve and consumer taste heterogeneity.

VII. SUMMARY AND CONCLUSIONS

We have argued that lessening retail price competition can be in both the manufacturer's and retailer's self interests. We found that the existence of nationally branded products are often contrary to these interests. Brand names were historically introduced to insure a minimum level of workmanship. Gradually, mass production allowed consumers to use brand names as an aid for price comparisons. Branding allowed consumers to make direct price comparisons on identical items across retail outlets. Private labels make direct price comparisons more difficult. Private labelled products, therefore, offer an excellent alternative for large retailers who have sufficient volume to support their own private brands. Most chain stores have selected that alternative for their higher volume items. Smaller retailers, however, may not find the private label alternative feasible. Fortunately, these retailers do have an alternative.

With manufacturer help, these retailers can partially unbrand their products. Manufacturers can insure workmanship while still reducing the worth of brand names for price comparisons. Manufacturers can modify their brands and make numerous variants of the same brand. Retailers can, then, select different variants of the brand which are generally not carried by other retailers in the same geographic region. These branded variants diminish the buyer's ability to use the brand name for price comparisons within the competitive geographic region. Yet branded variants retain the other brand characteristics. Branded variants still provide the producer's name which is responsible for the product's quality. Moreover, branded variants are nationally distributed and, therefore, enjoy the same economies in production as branded items.

VIII. REFERENCES


