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Global private-label convergence: Fact or fiction?

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Citation

Global Private Label Convergence: Fact or Fiction?

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Abstract This study considers a set of 67 countries to study whether PLs shares converge globally and if so to what long-run level PL shares in 60 product categories are expected to converge. The authors draw upon the economic convergence literature to establish an empirical specification that measures long-run PL share differentials relative to a stabilized reference country. As such, they use the notion of β-convergence, taking place when countries with an initially lower PL level grow faster than countries already closer to a common steady state.

Keywords Private labels • Convergence models • International marketing

Private labels (PLs) are increasingly recognized as a worldwide threat to brands (see, e.g., Gielens 2012; Meza and Sudhir 2010; Sethuraman 2009; Sethuraman and Raju 2013; Steenkamp et al. 2010). Within the CPG market, PLs have already reached a global value share of 16.5 % (Nielsen 2014). Given the sheer size of many CPG categories and the relatively high share of PLs, it is no surprise that many brand manufacturers consider PLs to be their top competitor. However, to what extent is this worldwide PL threat substantiated? First, so far most PL studies tend to be based on the same set of (developed) 'usual suspects', including the likes of Germany, France, the UK and the US, where PL shares may easily amount to over 30 %. Still, such numbers hide considerable global diversity. Second, substantial growth differences exist. There is a clear divide in terms of PL development

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between Western Europe, and North America on the one hand, and many developing countries, which typically have value shares of 5 % or less, on the other hand. In many Western-European and North-American countries PL shares have stabilized, and no longer experience any noticeable growth. In contrast, substantial growth rates are, observed in most Eastern European, Latin, and Asian countries.

Combined, these insights raise some interesting questions. Given these differences in current PL shares, observed ceilings and growth rates, will all countries catch up with leading PL countries, thereby justifying brand manufacturers' fears? Knowing whether lagging countries will catch up, and especially what level they are likely to achieve, is of high strategic relevance. More and more, brand manufacturers are looking into strategic, long-run solutions and changes that move beyond the typical spectrum of innovation and branding (see e.g. Kumar and Steenkamp 2007; Steenkamp and Geyskens 2013), the typical weapons proposed to fight PLs and are increasingly refocusing themselves towards developing economies. Markets where the current PL differential will largely persist will obviously be more attractive than markets where the current difference will mostly disappear.

So far, the extant literature has not been able to resolve this international convergence debate. Existing studies mainly focused on factors explaining historically-observed (i.e. past) differences, and therefore had a backward-looking perspective. Moreover, few studies have explicitly recognized cross-country differences in PL success, or when taking an international perspective, a very limited set of developed countries was considered. In addition, the two PL studies (Steenkamp et al. 2010; Steenkamp and Geyskens 2013) with a more explicit global scope assumed a steady-state setting. Because of the mainly cross-sectional nature of their data, a long-run equilibrium is de facto assumed (Baum 2006) and ignores that the situation may change in years to come.

Our paper adds to the existing PL literature in a number of ways. First, we consider a set of 67 countries to study whether PLs shares converge globally and if so to what long-run level PL shares in 60 product categories are expected to converge. In so doing, we take a forward-looking perspective. Specifically, we draw upon the economic convergence literature (cf. Cecchetti et al. 2002; Goldberg and Verboven 2005) to establish an empirical specification that measures long-run PL share differentials relative to a stabilized reference country. As such, we make use of the notion of β-convergence, which takes place when countries with an initially lower PL level grow faster than countries already closer to a common steady state. This causes the distance between the series to become smaller over time until the respective growth rates become equal. In statistical terms, β-convergence requires any remaining share differences to be mean-reverting or stationary (Lau 2010), so that idiosyncratic (country-specific) shocks only have temporary effects on the PL share in country A relative to a reference country B. Without stationarity, idiosyncratic shocks have a continuing impact, and lead to diverging growth paths (Dekimpe and Hanssens 1995). Because of this underlying stationarity requirement, convergence can be formally tested in a unit-root framework. We subsequently assess to what extent these long-run share differentials are associated with systematic cross-country and/or cross-category long-run

differences in market structure and marketing conduct of both national-brand manufacturers and retailers. We again do not focus on the historical (past) level of these drivers, but explicitly account for their expected (future) evolution. Finally, as indicated before, much of the existing PL literature is centered on developed markets. Given the global coverage of our data, with longitudinal data on 60 different countries from five different continents, we considerably expand the geographic scope of the empirical insights.

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