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WIN-WIN STRATEGIES AT DISCOUNT STORES

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ABSTRACT

An important development that contributes to store brands' growing success in the grocery market is the increasing number of discount stores that sell predominantly own, private-label brands. To fight private labels, manufacturers of national brands feel increasingly compelled to develop better trade relations with discounters. Some discounters, for their part, are looking for opportunities to differentiate themselves, and to move beyond a pure price-based competition, by extending their assortment with attractive national brands. In this study, we determine what factors drive national-brand success at discount stores, and lead to positive outcomes for *both* the manufacturer and the discounter.

Keywords: Discount retailing, branded goods, performance

1. INTRODUCTION

Due to an increasing saturation in their home market, Western retailers have become involved in a fierce market-share battle, from which the discount format emerges as one of the few formats that manages to consistently grow. In 2002, for example, all regular German grocery retailers experienced a considerable sales drop (some by up to 10%), while leading discount chains as Aldi and Lidl grew by up to 15% (IGD Research, 2002). Not surprisingly, this success has led to a considerable expansion of the discount format across other European markets as well. Aldi and Lidl, which largely pioneered the concept, have entered foreign markets (each now operates thousands of outlets in more than ten countries). Several new discount chains have also emerged, such as Dia in France, Netto in Denmark, Rema 1000 in Norway, and Mercadona in Spain. In almost all instances, they successfully captured market share from 'mainstream' retailers, and now occupy a considerable market position (Bachl, 2003). In the US, large discount stores like Wal-Mart have dominated the retail scene for many years (Coughlan et al., 2001). Recently, several other, even more price-aggressive, chains like Dollar General, Family Dollar, and Save-A-Lot witnessed rapid growth in the US market (Adamy, 2005).

Discount chains distinguish themselves from more traditional retailers by their unrelenting focus on very competitive prices, their heavy reliance on own brands, and by offering a smaller number of SKUs per category (Aggarwal, 2003). To offer lower prices, they typically use a simplified, 'no-frills', store format with limited promotional and merchandising activity, and few new product efforts (M+M Planet Retail, 2005a). Their growing success is a major source of concern to national-brand manufacturers. First, their continued growth puts increasing pressure on traditional retailers to operate more efficiently, which they partly try to achieve by putting more demands on their suppliers (Bloom & Perry, 2001). As a consequence, national-brand (NB)

manufacturers complain about worsening trade conditions with their traditional clients (M+M Planet Retail, 2005a), increasingly fear to get delisted, and face more difficulties in getting their new offers on the shelves (Bloom, Gundlach & Cannon, 2003). Second, and even more threatening, is that the growing success of discounters contributes to a further, quasi-unobstructed, private-label (PL) growth. Indeed, discounters sell predominantly own brands, and de-emphasize national-brand offerings in their assortment. Aldi, which already accounted for 16.7% of the German grocery retail market in 2003, even relies almost exclusively on its own store brands (Bachl, 2003).

Manufacturers understandably deplore that they are largely excluded from this increasingly popular retail format, and therefore try to develop trade relationships with these discounters. Indeed, encouraging discounters to carry more manufacturer brands and deeper assortments may be an effective way to keep PLs in check (Dhar & Hoch, 1997).

For their part, several discounters have developed an interest in adding NB offerings to their assortment. At present, price tends to be the dominant determinant of store choice for discount shoppers. This makes incumbent discounters' market position vulnerable when even more efficient discount competitors enter the market. As their density increases, discounters are looking for opportunities to differentiate themselves from one another, thereby moving beyond pure price-based competition (M+M Planet Retail, 2005a). One important avenue to build stronger store loyalty and create a sustainable competitive advantage is to add attractive NBs to the assortment (Costjens & Lal, 2000; Dhar & Hoch, 1997). This strategy has resulted in the emergence of two key types of discount operators: *hard* or limited-line discounters like Aldi that offer almost exclusively PLs, and *soft* or extended-line discounters (such as Lidl) that include a limited set of, often leading, branded items in their assortment (Aggarwal, 2003).

Having a balanced offering of both PLs and NBs may enhance that discounter's performance, as NBs are known to be major traffic builders (Ailawadi & Harlam, 2004; Ailawadi, Neslin & Gedenk, 2001). The managerial relevance of this situation is nicely illustrated by a recent article in the popular press, showing the lure of NBs for discounters to which even Aldi appears to be no longer immune:

“According to reports in *Lebensmittel Zeitung*, Aldi is in talks with Ferrero about the sale of Ferrero confectioneries at its stores as Germany's leading discounter is planning to win over customers from its biggest rival Lidl, which in addition to its private label ranges also sells a wide choice of manufacturers' branded products. Currently, Aldi's product range is made up of private labels almost exclusively.” (M+M Planet Retail, 2005b).

In sum, both channel parties have a growing interest in collaborating with each other. In so doing, they may be able to move their traditional competitive relationship into a mutually more beneficial form of co-opetition (Brandenburger & Nalebuff, 1996; Kumar, Scheer & Steenkamp, 1995).

While intuitively appealing, this may not be easy to implement. First, manufacturers' and discounters' interests are not necessarily aligned. Manufacturers' performance is mostly assessed in terms of their ability to acquire share over competing brands at the store, while discounters, like other retailers, evaluate performance primarily in terms of total-category demand (Bayus & Putsis, 1999; Raju, 1992).

Second, for many years, manufacturers have been losing share to PLs, which has made them their most threatening competitor (Steiner, 2004). These arguments hold for most retailers; yet, discounters tend to rely even more on their private label than traditional chains. Third, both parties have limited experience in dealing with one another. While previous experience and/or research has resulted in many insights on how NBs can be successfully traded at conventional retailers (see e.g. the extensive literature stream on the Dominicks' database in, e.g., Pauwels & Srinivasan, 2004, or Ailawadi, Kopalle & Neslin, 2005), some of these practices may be less appropriate when working with discounters. As indicated before, discounters have a strong price focus, which forces

them to use a more simplified store format with narrow assortments, limited promotional and merchandising activities, and fewer new-product introductions. Manufacturer practices favored by mainstream or traditional retailers, with their strong focus on heavy marketing activities, attractive store layout, extended services, and seemingly unlimited assortment variety, may therefore be less appealing to discounters.

In this study, we attempt to partially fill this gap by examining how NBs can be traded successfully through the discount channel, and achieve positive performance for *both* manufacturer and discounter, resulting in a win-win situation. As such, our study differs from previous research along two key dimensions. First, while earlier studies focused on conventional retail formats, we consider the success of national brands with *discounters*. In spite of its growing importance and the uniqueness of its store concept, the discount format has received limited, if any, attention in the academic marketing literature. Second, unlike previous research which studied how national brands and private labels compete in a fierce market-share battle, we consider how both channel partners can create a *mutually beneficial* win-win situation. Specifically, we study the market-share evolution of over 400 branded goods sold through six discount stores in three major European countries. Their (joint) performance is related to a number of drivers of win-win performance. Based on the analysis, we recommend to set NB prices significantly higher than those of the discounter's PLs, but to still charge a lower price for them than regular retailers typically do. Brand success is also greater when manufacturers engage in brand innovations, and invest in attractive, well-designed, outer cases which the discounter can put unpacked in its store.

2. DRIVERS OF BRAND SUCCESS AT DISCOUNT STORES

Manufacturers are primarily interested in the performance of their own brands, which is mostly assessed relative to competing brands at the store (e.g. Blattberg & Wisniewski, 1989). Once on

the shelves, brands compete for consumers' attention and money, and it is in the manufacturer's best interest that consumers select his brand over competing alternatives offered by the store. A branded good will therefore improve manufacturer performance if it succeeds in increasing its relative attractiveness in the discounter's assortment. *Discounters*, for their part, evaluate brand success in terms of the contribution to total category performance, and their main objective is to improve the attractiveness across all brands within a category (e.g. Basuroy, Mantrala & Walters, 2001; Chintagunta, 2002). Thus, a branded product is considered of value to the discounter if it contributes to a more favorable category assortment perception.

As such, a NB generates a win-win situation for manufacturer and discounter alike if it increases its sales at the discounter while, in this process, it also generates additional category demand for the discounter. Building on the win-win concept, we identify a set of pricing and product characteristics that may influence brand success at discount stores. The *pricing* factors are (i) the within-store price gap between the NB and the discounter's PL, (ii) the between-store price gap between the price of the NB at mainstream retailers vis-à-vis its price at the discounter in question, and (iii) the absolute price level of the NB. The NB *product* factors concern (i) the type of outer-case boxes used, (ii) the innovativeness of the NB, and (iii) the NB's intrinsic strength.

For each driver, we discuss to what extent it may (i) influence the *category's attractiveness* at the store to improve the discounter's performance, and (ii) affect the national brand's *relative attractiveness* within the category to improve the manufacturer's performance.

Pricing factors

Within-store price gap. Consumers typically assess the acceptability of a brand's price by comparing it to some standard or reference, such as other prices listed in the store (Rajendran & Tellis, 1994). Given a discounter's focus on its store brand, the private label's price can be an important external reference against which the national-brand price is evaluated. A higher-priced

NB is more likely to improve the overall attractiveness of the discounter's assortment, as this may signal superior or additional benefits (Bronnenberg & Wathieu, 1996). This will result in less direct competition, since the NB caters to a different market segment than the discounter's PL, viz., quality-focused versus value-oriented consumers. In contrast, closer substitutes with similar prices are less likely to improve category attractiveness, as consumers are largely indifferent in choosing either offering (Bell, Chiang & Padmanabhan, 1999), resulting in larger cross-price effects (Sethuraman, Srinivasan & Kim, 1999). Hence, larger NB-PL price differences are expected to generate more incremental category demand, which benefits the discounter. Moreover, a higher-priced national brand will clearly stand out against the discounter's no-frills PL, so that incremental category demand is likely to accrue to the national brand, improving manufacturer performance. We therefore hypothesize:

H1: A larger price gap between national brand and private label is more likely to result in a win-win situation.

Between-store price gap. A retailer's price image is one of the key drivers for shoppers to select a particular store format (Rhee & Bell, 2002). As discounters are known to compete aggressively on price, consumers expect prices of a given NB to be lower at the discount store than at mainstream retailers (Bell & Lattin, 1998). When the between-store price gap increases, it becomes more beneficial to buy them at the discounter rather than at the more expensive mainstream retailer. Therefore, shoppers at mainstream retailers may switch stores (increased store traffic), while also consumers that shop across different stores (the so-called cherry-pickers) may now find it more attractive to buy the brand at the discounter (Hoch & Lodish, 1998).

H2: A larger price gap for the national brand between mainstream retailers and the discounter is more likely to result in a win-win situation.

National-brand absolute price level. Apart from the aforementioned relative price effects, also the absolute price level may affect brand performance at discount stores. In particular, the “one-dollar” concept, where prices of a substantial fraction (or all) of the assortment are set at a level below or equal to \$1, has become popular with many US retailers (M+M Planet Retail, 2005a).¹ The success of one-currency prices can be explained by consumers’ psychological evaluation of prices, where certain round prices (like ‘1’) can form a psychological barrier that is used as a heuristic by consumers in their buying decision (Gedenk & Sattler, 1999). Specifically, prices set equal to or below this level can induce consumers to underestimate prices, or they may signal a favorable price ‘discount’ which increases consumers’ propensity to buy. As discounters are expected to attract predominantly price-sensitive shoppers, they may benefit even more from the psychological processing of prices by their clients. Thus, this pricing strategy for NBs at discounters is expected to generate more brand sales, which may improve both brand and category performance.

H3: A national brand with an absolute price level that does not exceed one is more likely to result in a win-win situation.

NB product characteristics

National-brand outer-case design. The boxes in which products are shipped from the manufacturer plant to the retailer are commonly referred to as ‘outer cases’. While regular retailers use them only for transportation, they may serve an important marketing purpose at discount stores. Indeed, to keep product-handling cost and shelf-replenishment time low, discounters often request easy-to-handle outer cases that can be put directly on the shelf. Richardson, Jain & Dick (1996) show that consumers make extensive use of packaging and labeling in evaluating brands. By presenting the NB in an attractive outer case, consumers are likely to perceive substantial quality differences in favor of this brand, which will obviously benefit the NB at the store.

Moreover, an attractive NB outer-case box can make the entire category more salient, as it stands out in an otherwise plain and dull store environment. Therefore, presenting NBs in a nicely-designed outer case is more likely to improve not just its own attractiveness, but to also raise category demand.

H4: The presence of an attractive national-brand outer case is more likely to result in a win-win situation.

National-brand innovativeness. Because of their heavy reliance on keeping prices low, discounters are typically not engaged in expensive new-product activities, and score poorly on innovativeness (Steiner, 2004). Moreover, there is a tendency for PLs in general to be followers or ‘me-too’ brands (Hoch & Banerji, 1993). Against this background, a highly-innovative NB will clearly stand out in a PL-dominated assortment, and the perceived distance with existing offerings will be higher. As such, an innovative brand may improve its relative position in the assortment (Nowlis & Simonson, 1996). However, innovative NBs are also more likely to generate additional category demand, as they can make the discount store more attractive to the relatively untapped consumer segment that values innovativeness (Gielens & Steenkamp, 2004). Indeed, brand innovativeness carries over to the evaluation of the assortment as a whole, which may raise primary demand (Mason, 1990).

H5: An innovative national brand is more likely to result in a win-win situation.

National-brand intrinsic strength. In a similar vein, the addition of a leading, high-quality NB is expected to improve the discounter’s perceived assortment quality and variety, as it will stand out more against an otherwise PL-dominated assortment. More diversity helps to better meet consumers’ heterogeneous tastes, which can raise total category sales by attracting new shopper to the store with a high preference for leading, qualitative brands, and appealing to an untapped

market potential of discount shoppers previously less satisfied with established offerings (Dhar, Hoch & Kumar, 2001).

H6: A leading national brand is more likely to result in a win-win situation.

Control variables

Several control variables are included, related to the degree of competition between NBs in the category (Drèze, Hoch & Purk, 1994), the discounter's strategic store-brand focus in the category (Dhar & Hoch, 1997), and the broad type of category in question- food versus non-food (Dhar, Hoch & Kumar, 2001), as well as five store dummies (Dhar & Hoch, 1997). Controlling for these variables provides for a stronger test of our hypotheses.

3. METHOD

The aggregate performance evolution from 2001 to 2002 of 443 NB cases was provided by Europanel, an international data provider owned by the global market research agencies GfK and TNS. These brands were sold through six major soft discount chains, located in three large European countries: Germany, Spain, and the UK. Consumer packaged good (CPG) companies regard Germany and Spain as two key European markets with respect to discounters. Germany is by far the largest discount market in Europe. Discounter share is rapidly increasing in Spain, which is also the home of Mercadona, one of the most successful and fastest growing soft discounters in Europe (IGD Research 2002). While discounters still occupy a lower share in total grocery sales in the UK, this format experiences tremendous growth in an otherwise stagnant market.²

In Germany, we study NB success at the country's two largest soft discounters, Lidl and Penny, where PLs account in both instances for over 60% of total grocery sales. The Spanish discount chains, Dia and Mercadona, are not only the country's largest discounters, but also the

two most important Spanish grocery retailers. Both rely heavily on PL brands (>50%). Mercadona is a particularly interesting case as it increased its PL share from about 3% in 1997 to 51% in 2002, while its market share increased from 3.5 to 12.6% over the same period. The UK discounters are Asda and KwikSave. Asda, since 1999 a wholly-owned subsidiary of the US chain Wal-Mart, is seen as one of the most price-aggressive grocery retailers in the UK, and is especially known for a strong emphasis on its PL program. PL sales represent over half of total grocery sales at both Asda and Kwiksave (M+M Planet Retail, 2005a).

The NB cases were provided by local divisions of Europanel in Germany (106), Spain (125), and the UK (212), covering a wide range of CPG categories, including breakfast cereal, yoghurt drink, dental floss, air fresheners, frozen vegetables, cat and dog treats, and sanitary cleaners, among others.³ For each case, Europanel provided the following performance information: (i) the change in brand share within the discounter, and (ii) the change in total category share commanded by that discounter.⁴ Market-share information was used rather than absolute sales or profits, as market shares (i) implicitly control for changes in total market demand, on which firms themselves have generally little impact (e.g. growth/decline caused by economic conditions); (ii) are a better predictor of the effectiveness of managerial decisions, since they are ‘relative’ to decisions of competing firms; and (iii) are easier to derive than brand profitability (Dhar, Hoch & Kumar, 2001). We focus on *changes* in their respective shares, as most managers seek profitable long-run growth for their products and services (Nijs et al., 2001). Moreover, a positive evolution in performance for both the manufacturer and the discounter makes it more likely that their collaboration is continued. For manufacturers, growing their brand share at the store is a key strategic objective that will allow them to occupy a more favorable position at the chain, and is likely to result in higher future cash flows (Varadarajan, 1983).

The discounter's total category share reflects its share in total (national) market sales. The evolution in category share is evaluated against the evolution in the discounter's market share across all categories. We consider a situation a win-scenario for the discounter when the category growth exceeds the growth in overall store performance. This is especially relevant for discounters that grow across most, if not all, categories. A conceptually similar "correction" was applied in Dhar, Hoch and Kumar (2001), where a 'Category Development Index' was calculated as the ratio of retailers' share in a particular category relative to their total market share across all categories.

Combining both performance measures is not straightforward, as they reflect two different dimensions of performance (at the brand versus category level), and even more so when controlling for overall store growth when evaluating category-level performance. Therefore, we decided to classify NBs according to whether or not they exceed the performance thresholds (described above) for *both* the manufacturer and discounter. More specifically, a NB is considered a win-win brand if (i) *it is able to grow its share relative to competing brands at that chain; while (ii) it is able to grow the discounter's share in total category sales at a faster rate than the discounter's average category growth*. Else, the brand is not considered a win-win brand. Note, however, that even though such a dichotomous classification offers a useful way to combine both performance criteria, it comes at the expense of some information loss in terms of the extent to which manufacturers, respectively, discounters benefit from the brand.

To analyze the impact from the hypothesized drivers and control variables discussed in Section 1, additional consumer panel data were obtained in combination with two other data sources, i.c. store checks and expert judgments based on qualitative surveys. Details on their operationalization can be found in measurement Appendix A. Table 1 summarizes the relevant descriptive statistics on each of our variables.

---- TABLE 1 about here ----

Table 1 shows that the branded goods included in this study exhibit substantial variation in absolute and relative prices, brand strength, brand innovativeness as well as the control variables. Based on our performance criteria, out of 443 cases analyzed, 108 cases (24%) were classified as win-win brands, which illustrates that it is indeed possible for manufacturer's and discounter's performance objectives to be aligned.

Given our objective to test factors underlying the probability that a NB case is either a win-win brand or not, our dependent variable is dichotomous. Therefore, a probit model is used to link this binary dependent variable to the set of drivers advanced in Section 1, as formalized:

$$(1) \quad \Pr(WIN - WIN) = 1 - \Phi(-X' \beta) = \Phi(X' \beta),$$

with X being the vector of independent variables in the model, β denoting the vector of associated parameter coefficients informing on the direction and significance of each variable in X , and Φ the cumulative distribution function of the standard normal distribution. As the NB cases were sampled from 6 different discount stores, a fixed-effects correction was used to account for potential store differences.

4. RESULTS

The probit model was able to significantly explain the difference between win-win brands versus others (likelihood ratio $\chi^2(8)=18.55$; p -value=0.02). An overview of our key findings can be found in Table 2.⁵

---- TABLE 2 about here ----

H1 stated that a larger price gap between national brand and private label is more likely to result in a win-win situation. Consistent with this hypothesis, we found that the within-store price gap is a significant positive predictor of NB success at discounters ($\beta=0.401$; $p<0.01$).⁶ Thus, a larger price difference between the NB and the store's PL improves NB performance for both the manufacturer

and the discounter. H2, in turn, stated that a larger price gap for NBs between mainstream retailers and the discounter is more likely to result in a win-win situation. Also this hypothesis was supported ($\beta = 0.710$; $p=0.04$). According to H3, a national brand with an absolute price level that does not exceed one currency is more likely to result in a win-win situation. Although the effect was in the expected direction, it failed to reach statistical significance ($\beta = 0.169$; $p=0.15$).

In H4, we considered the impact of using attractive outer cases for the NB in a plain discount environment. Attractive outer cases were indeed found to be an effective marketing instrument when selling NBs through the discount channel.⁷ The dummy variable associated with NBs sold at the store in attractive, nicely-designed outer-cases was positive and significant ($\beta = 0.528$; $p=0.07$). Note, however, that presenting the NB in a plain outer-case box, or simply putting a brand claim on it, is insufficient to improve its performance ($p>0.10$ in both instances). H5 postulated that innovative NBs are more likely to result in a win-win situation. Our results supported this hypothesis. Compared to less-innovative NBs, innovative NBs were found more successful at the discounter ($\beta = 0.390$; $p<0.01$). Finally, we expected in H6 that leading NBs sold at discount stores are more successful. However, our findings indicate that this is not necessarily the case, as the parameter associated with NB strength failed to reach statistical significance ($\beta = 0.108$; $p=0.42$). Thus, H6 is not supported.

5. DISCUSSION

The successful development of discount stores combined with their de-emphasis of NBs, has become a major concern to branded-goods manufacturers. Accordingly, they feel increasingly compelled to develop (stronger) trade relations with discounters, as this allows them to benefit from these discounters' rapidly growing market position, and offers the possibility to slow down overall private-label growth. Well-known discounters like Lidl, Mercadona, and KwikSave have

extended their assortment with attractive NB offerings as a strategy to differentiate themselves from other discounters, and to build stronger and more sustainable consumer relations, thereby moving beyond a pure price-based competition. In trading NBs through the discount channel, it is critical to establish a win-win situation for both partners. If the manufacturer is able to benefit from selling its NB, but only at the expense of the discounter's own (store or other) brands without contributing to its overall category performance, there is a considerable risk that the collaboration will be discontinued. Indeed, if the manufacturer is unable to offer discounters the aspired performance benefits, there is a chance that the latter will switch to a competing manufacturer that will take over its scarce slots on the shelf. In sum, given the limited number of NB positions and the considerable number of potential branded candidates, it is in the manufacturer's best interest to understand which brands to bring to the store, and how to support them in order to create a win-win situation.

In this study, information on over 400 NBs sold at six major discount chains in 3 countries was collected, and we evaluated their contribution to the performance objectives of both channel members. We found that almost one quarter (24%) of all branded goods in the sample were considered successful for both partners. Earlier research has predominantly assessed how manufacturers (retailers) can gain at the expense of the other (see e.g. Sethuraman, Srinivasan & Kim, 1999; Steenkamp & Dekimpe, 1997). We show that *both* channel members can improve their performance, creating a more sustainable win-win situation.

This study provides new insights into the impact of both price- and product-oriented factors that increase the likelihood of a win-win situation. Discounters and manufacturers both benefit from a large price difference between the NB and the discounters' PL variant. At present, managers seem to be aware of this, since the average within-store price ratio between the NB and the PLs offered at the discounter is 2.04 (see Table 1). A large price gap signals that the NB and the

discounter's PL are not mere substitutes, but rather that both brands are targeted at different consumer segments or purchase occasions. This result extends established findings by Dhar and Hoch (1997). They found that larger price differentials exert an important positive influence on store-brand performance. We show that this strategy simultaneously benefits the manufacturer.

The NB price charged by discounters is usually very similar to the price charged by other retailers, as reflected in an average between-store price ratio of 1.04 (see Table 1). It appears that discounters are maximizing the within-store price gap (as their private labels are usually lower priced than the private labels of mainstream retailers) and try to manage their price image using their private labels. Discounters may be missing an opportunity here. NBs play a key role in consumers' evaluation of the price image of a store, and we find that a larger price gap for the NB between mainstream retailers and the discounter results more often in a win-win situation.

We find no evidence for the efficacy of the popular one-dollar concept for NBs at discounters. However, our finding that absolute price level does not limit a NB's ability to perform well is important for discounters who prefer larger package sizes, in which case the absolute price level can become quite substantial.

As discounters operate in a simplified, no-frills store environment where not much merchandising and promotional activity is used, a NB's ability to stand out and attract consumers' attention at discount stores is more limited. Yet, discounters often do not unpack the outer-case boxes when displaying products in their store, as this reduces costs (see Table 1: 41% of NBs were unpacked in an outer-case box). Based on our results, we recommend that manufacturers invest in creating attractive, nicely-designed outer-case boxes for their NBs shipped to discounters, and simultaneously advise discounters to present these NBs in their shop in these well-designed outer-cases. Thus far, few manufacturers implement this box as a marketing tool: only 14% (6% of 41%) of the outer cases presented in the shop were nicely-decorated and designed attractively. Note,

however, that a simple brand claim on the box is not sufficient to improve NB performance. Given that discounters make extensive use of outer-case boxes, while not many manufacturers are currently taking full advantage of its marketing opportunities, this is an important new finding that is likely to improve NB performance at the discount channel.

When deciding which NBs to sell at discount chains, it is advisable to add innovative NBs. Over half of the NBs in our sample (56%) were involved in product innovations in the past three years (see Table 1). Manufacturers are encouraged to invest in brand innovations for their offerings at the discounter. These results generalize earlier studies on NB performance at regular retailers, where new product activities have been recognized as one of the strongest weapons in the manufacturers' arsenal to compete with other brands at the shop floor (Steiner, 2004). Innovative brands not only stand out more in a discounter's low-innovative (PL-dominated) assortment, they can also enhance the attractiveness of the entire category. Finally, it is not necessary to pick only the more popular NBs. Less popular, but perhaps more targeted, branded goods can be sold successfully at the discount store. These may also cause less cannibalization from the brands' traditional outlets.

In sum, even though manufacturers, at present, have only limited influence on how discounters carry out their operations, they may increasingly do so, provided they are able to demonstrate the mutual benefits of their recommendations (IGD Research, 2002). The current study results in a number of interesting new insights when trading NBs through discount stores, and offers empirical support for the success potential of several discount-specific strategies.

Yet, there are still several aspects that need further study. First, because of data limitations, we could only study share growth between two consecutive years. It would obviously be useful to consider this evolution over multiple years, and incorporate the extent of performance growth for both parties over a longer time period. Second, we considered aggregate performance data. More

detailed insights could be obtained based on individual-level data, as this would allow to infer what consumer segments are more or less sensitive to the drivers identified. Future research might also investigate NBs' contribution to profitability as opposed to market share. This is especially relevant when consumers switch between brands that have a different contribution to total category profitability. Another fruitful research direction is the broader impact of NB additions across different retailers, including discounters. In this respect, traditional retailers are especially concerned that the sales realized through discounters do not come from new users. Well-known national brands which already have a broad distribution coverage risk that discount sales cannibalize their other, more established, retail channels. This may cause detrimental channel conflicts. Still, in informal discussions with several major CPG manufacturers (who own many of the NBs analyzed in the present study), managers emphasized that they can no longer afford to refrain from entering the discount channel. Since discounters' share in total grocery sales continues to grow at the expense of more traditional retailers, manufacturers would lose an increasing number of shoppers who have made the switch to the discount channel. Besides, there is an imminent danger that competing manufacturers would pre-empt them in occupying the scarce positions available for national brands on the discounters' shelves. As such, manufacturers become increasingly eager to get their products into the discounters' assortment, making it ever more important to know how to make this exchange a win-win proposition. Finally, one may want to consider the performance implications when national brands get delisted from the discounter's assortment.

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Table 1: Summary statistics

Variable	Source	Measurement unit	Mean (St. Dev.)
National-brand performance (win-win or not)	Consumer panel	0-1	24%
National-brand price	Consumer panel		
Within-store price gap		ratio	2.04 (1.49) ^a
Between-store price gap		ratio	1.04 (0.20) ^a
Low absolute price level (≤ 1)		0-1	24%
National-brand outer-case design	Store check	0-1	
Nicely-designed outer case			6%
Brand claim only outer case			23%
Plain outer case			12%
No outer case in the store			59%
National-brand innovativeness	Expert judges	0-1	56%
National-brand intrinsic strength	Consumer panel	%	14% (16)
National-brand competition	Store checks + consumer panel	#	7 (6)
Discounter's store-brand focus	Consumer panel	%	41% (27)
Food category indicator	Expert judges	0-1	73%
Discounter indicator	Consumer panel	0-1	
Penny			12%
Lidl			12%
Dia			14%
Mercadona			14%
Asda			32%
KwikSave			16%

^a To better interpret the price variables, we report the price ratios prior to their log-transform.

Table 2: Parameter estimates

<i>Variable</i>	<i>Coefficient^d</i>
Within-store price gap (H1)	0.401^a
Between-store price gap (H2)	0.710^b
Low absolute price level (H3)	0.169
Nicely-designed outer case (H4) ^c	0.528^c
Brand claim only outer case	0.195
Plain outer case	-0.149
National-brand innovativeness (H5)	0.390^a
National-brand intrinsic strength (H6)	0.108
National-brand competition	0.004
Discounter's store-brand focus	0.059
Food category indicator	0.458^a
Lidl	0.505^c
Mercadona	0.299
Dia	0.317
Asda	0.425
KwikSave	0.358
Intercept	-1.987^a
N = 443	$\chi^2(8)=18.55^b$

^a: $p < 0.01$; ^b: $p < 0.05$; ^c: $p < 0.10$;

^d: p -values are one-tailed for directional effects (H1–H6), and two-tailed otherwise (control variables and fixed effects);

^e: due to missing observations for this variable, the corresponding estimate is based on a limited dataset of 329 observations.

APPENDIX A – VARIABLE MEASUREMENT

Within-store price gap. All retail price information was obtained from 2002 consumer panel data. In line with Nijs et al. (2001), average unit prices are derived by dividing total annual value sales by the corresponding volume sales. The price gap between the manufacturer brand and its most important competing PL at the store is defined as the ratio of the NB price to the PL price (on equivalent units). This is conceptually similar to the operationalization by Dhar & Hoch (1997). Since this approach tends to skew the variable distribution (values below 1 are restricted to a range between 0 and 1, while values above 1 have no upper limit), we follow common econometric practice and use the log-transformation of this ratio in our analysis (Ruppert & Aldershof, 1989). In the few instances where multiple PLs are carried by the discounter, the store brand that occupies the largest shelf space in the store was chosen as benchmark.

Between-store price gap. In a similar way, the between-store price gap reflects the price difference of the NB between the mainstream retailers and the discounter in question. It is quantified by the (logarithm of the) ratio of the average, market-share-weighted, NB price charged at regular retailers to the NB price charged by the discounter.

Low absolute price level. Prices are expressed in local currencies (pounds in the UK, euros in Germany and Spain). Following Rao & McLaughlin (1989), an indicator variable is used to determine whether NB prices are higher or lower than €1 or £1.

National-brand outer-case design. Data on NB outer cases were obtained through store checks, and refer to the boxes that contain the NB in our sample. To operationalize the attractiveness of the outer case, four classes were distinguished: (i) no outer case available, (ii) plain outer-case box, (iii) outer case with only a brand claim, and (iv) a nicely-designed outer-case box. Based on this coding, three dummy variables were created that were set equal to 1 if the outer case belonged to a

particular class, and 0 otherwise. During store checks, information could be traced for 329 branded goods in our data.

National-brand innovativeness. Expert judges at Europanel assessed the degree of NB innovativeness (see Steenkamp & Gielens, 2003 for similar expert assessments). They were asked to indicate for each NB whether it had been involved in innovative activities (e.g., added a new ingredient, or improved its effectiveness) over the past three years. Information on NB innovativeness was subsequently coded by a dummy variable, obtaining a value of 1 if the NB was involved in new product innovations during that period, and 0 otherwise.

National-brand intrinsic strength. Following Gielens and Steenkamp (2004), NB intrinsic strength is operationalized through the brand's market share. This information was derived from consumer panel data. To avoid potential endogeneity problems, 2001 (rather than 2002) data were used to construct this measure.

National-brand competition. Following Raju, Sethuraman and Dhar (1995) and Steenkamp and Gielens (2003), national brand competition at the discounter was operationalized as the number of competing brands present on the discounter's shelves. For Germany and Spain, this information was gathered by means of store checks. For the UK cases, consumer panel data were used to derive this information.

Discounter's store-brand focus. In line with earlier studies (Dhar, Hoch & Kumar, 2001), PL focus or PL success in the category is quantified as the share of the store brand with the discounter. Again, to avoid potential endogeneity problems, 2001 data were used.

Category-type indicator. A category dummy variable is used to differentiate food (1) from non-food (0) categories.

Discounter indicator. Finally, a fixed-effects correction is made for store differences by means of five discounter-specific dummy variables.

¹ While 99-endings were very popular in the past, pricing supermarket articles below or exactly at 1 is a more recent phenomenon popularized by discounters like Dollar General and Family Dollar. It has recently been expanded to several other retailers, including Albertsons, that introduced a ‘dollar-zone’ in their outlets (M+M Planet Retail, 2005a).

² In 2002, UK discounters were able to grow their total sales by 15% (M+M Planet Retail, 2005a).

³ The various cases were selected by local data providers prior to them receiving any information on the respective covariates we would consider in our model, which limits potential sample-selection bias. Moreover, the categories involved in our study are representative for the operations of that discounter, as the average category share of the cases in our sample closely resembles the total market share of that chain obtained in the respective countries. The average category share at Lidl, for instance, as derived from our sample information in 2002, was 7.5%, which is close to the national market share of Lidl in Germany that same year of 7.4%. The corresponding sample category shares for the other discounters were, respectively, 3.5% at Penny, 13.9% at Mercadona, 14.0% at Dia, 12.6% at Asda, and 3.2% at KwikSave, while national market shares across all categories sold by that chain amounted to 3.6% (Penny), 13.8% (Mercadona), 11.7% (Dia), 12.7% (Asda), and 2.8% (KwikSave).

⁴ All market shares in this study represent value shares as opposed to volume shares.

⁵ The likelihood-ratio test compares the full model with 13 predictors with the fixed-effects-only model that includes only 5 store indicators, resulting in 8 degrees of freedom.

⁶ Unless noted otherwise, all reported *p*-values are one-sided.

⁷ Note that, due to missing observations, the parameter estimates associated with the outer-case dummies are obtained from a reduced data sample of 329 observations. In estimating this model, the findings on all other covariates remain substantively the same.