Why Do Local South Korean Market Leaders Supply Retailer Grocery Brands?

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Abstract

This paper examines why many of the leading South Korean brand manufacturers produce retailer brand products within their major product categories. The reasons identified include: pressure from retailers; protection of other national brand product ranges; maintenance or improvements in working relationships; protection of other distribution channels; savings in marketing budgets; diversification of product lines and changing competitive structures. Evidence is also provided of the dynamic nature of decision making relating to retail brand supply across the whole portfolio of brands which the manufacturer offers, rather than in respect of individual product brands or markets which has tended to be the focus of much existing work.

KEYWORDS: Retailer brand supply; response strategy; market leading brands; South Korea

INTRODUCTION

One of the main features of the South Korean retail market since it opened to foreign competition in 1996, has been the emergence and rapid growth of discount or hypermarket retail formats. Additionally, according to Cho (2009), the entry of foreign retailers also stimulated interest in the development of retailer brand product ranges. Unlike in other countries, most of the leading national brand producers in South Korea have chosen to supply private brand products to the leading South Korean retailers. For example, LG which is the leader in the laundry detergent market and Pigeon which holds a similar position in the fabric conditioner market both provide retail brands to E-Mart. This is despite the potential negative impact upon their brand value arising from the legal requirement to disclose the manufacturers name on private brand packaging (Fugate, 1986). For branded manufacturers, the decision to supply a retailer private brand is likely to be considered as a strategic decision, primarily to either gain access to the retailer's shelf-space and\or to maintain good relationships with the retail clients (Kaven and Call, 1967).

Faced with the growth in private brands, Kaven and Call (1967) proposed that there were three general options for manufacturers: (1) become a retailer brand specialist, (2) become involved in supplying retailer brands in part, and (3) vigorously promote their own manufacturer brands, although the feasibility of these options varied by manufacturer. From in-store observations, it would appear that most local Korean market leaders have adopted the second strategy. Alongside their own manufacturer brand products, they have simultaneously cooperated to produce retailer private brands, despite the view of Quelch and Harding (1996) that market leading brands should enhance their own brand asset value, through various marketing activities, rather than supply retailer brand products.

This paper aims to investigate why leading brand manufacturers in the South Korean market have become so involved in producing retailer brand products within their major product categories**.** The paper starts with a literature review focused on the response strategies of manufacturers to retailer brand growth, and then briefly explains the research methodology adopted. The next section analyzes the information gathered through in-depth interviews, in-store observations and company documentation. The final section concludes with some limitations of the current study and suggests future research directions.

EXTERNAL FACTORS INFLUENCING THE RETAILER BRAND PRODUCTION DECISION

Many authors have suggested how manufacturers might react to the growing market penetration of the retailer brand (e.g. Kaven and Call, 1967; Salmon and Cmar, 1987; Glemet and Mira, 1993; Abe, 1995; Hoch, 1996; Quelch and Harding, 1996; Cullen and Whelan, 1997; Parker and Kim, 1997; Ashley, 1998; Dunne and Narasimhan, 1999; Mills, 1999; Verhoef et al., 2002; Karray and Zaccour, 2006; Timmor, 2007). In recent years, Gomez-Arias and Bello-Acebron (2008) identified why market leading manufacturers supply retailer brands, and Gomez and Benito (2008) examined which factors influenced manufacturers when they made the decision about retailer brand production.

Often cited as one of the main external factors for the increasing market share of retailer brands, is the growing level of retail concentration in most markets (e.g. Laaksonen and Reynolds, 1994; Husson and Long, 1994; Nemoto, 1995; Steenkamp and Dekimpe, 1997; Tarzijan, 2004). It is believed that there is a clear relationship between retail concentration and buying power. The higher the level of retail concentration and the stronger the retailer buying power is, the higher the market share of retailer brands.

As noted by many authors (e.g. Puelles, 1995; Quelch and Harding, 1996), the production of retailer brands allows manufacturers to take advantage of excess capacity. Therefore, changes in the economic climate could affect the manufacturers' decision process. Manufacturers with excess capacity might choose to produce retailer brands to overcome recessionary pressures or in response to static markets. Furthermore, customers are likely to become more price-sensitive when faced with recession because of decreased discretionary income. Nandan and Dickinson (1994) found that the sales performance of generic retailer brand products was closely related to economic climate. It is also to be expected that in these types of markets, the marketing activities of leading manufacturer brands would also be under financial pressure. Hoch and Banerji (1993) claimed that national brands were likely to reduce their advertising budgets during recession. A decline in advertising spend tends to decrease consumer brand awareness, with consequences for brand choice and spend. Consequently tight economic conditions might encourage manufacturers to produce retailer brand products.

Compared to the UK and many other western markets, where retailers do not have to disclose the manufacturer's name on retailer brand packaging, South Korean retailers have a legal obligation to do so (Cho, 2009). Although this law makes manufacturers uncomfortable - as consumers are able to see who makes the retail brand - unlike the global brand manufacturers such as P&G and Unilever, many of the South Korean national brand leaders have still chosen to produce retailer brand products. From the customer's point of view, when choosing between a national brand and a retailer brand product made by the same manufacturer, the disclosure of the manufacturers name on the packaging may also cause some confusion. If customers believe that there is no difference between a manufacturer brand and retailer brand product, they are more likely to choose the cheaper retailer brand. Consequently, the legal obligation in South Korea to reveal the product manufacturer could provide a barrier to supplying retailer brands.

Unlike in the past, when customers perceived national brands as providing much better value in terms of product quality than retailer brands, customers have now become aware that retailer brands have moved much closer to manufacturer brand quality standards – and indeed in some markets, the retailers' "premium brand" is often regarded as being of higher quality than the equivalent national brands (e.g. Landler, 1991; Nandan and Dickinson, 1994; Bhasin et al., 1995). The sophisticated product development and marketing skills employed in retailer branding, particularly in the approach to placement on the shelf of retail brand and carefully selected manufacturer brand, have allowed retailers to influence the customer's perception of retailer private brands (Burt, 2000). As the marketing activities of retailers are likely to become more sophisticated and aggressive in the future, manufacturers may need to take steps to try to widen the customer's perception gap between manufacturer and retailer brands, otherwise, the retailer brands will constantly cannibalize manufacturer brand markets. Perversely, however, some attempts by manufacturers to boost sales may be counter-productive in the long run. Declining national brand loyalty may be reinforced by some promotional activities, such as increased couponing, price reductions, and contests within stores (Giges, 1988; Nandan and Dickinson, 1994; Bhasin et al., 1995). As a consequence when considering retailer brand production, manufacturers should carefully consider the impact of any action upon changing customer perceptions of national brands.

RESPONSE STRATEGIES TO RETAILER BRAND GROWTH

Hoch (1996) suggested that manufacturers have five options when faced with retail brand growth: (1) wait and do nothing, (2) increase distance from retailer brands, (3) reduce the price gap, (4) formulate a "me-too" strategy, and (5) make regular or premium retailer brands. Similarly, Mills (1999) stated that manufacturers could respond to retailers by: (1) increasing the quality gap, (2) introducing fighting brands, (3) adopting nonlinear pricing, (4) giving shelf payments and slotting allowances, and (5) issuing manufacturer coupons. These various options can be subsumed within three generic strategies which are:

(1) do not produce retailer brands,

(2) become partly involved in producing retailer brands, and finally

(3) become a 100% retailer brand producer.

It should, however be noted that most considerations in the literature refer to the early incarnations of retail brand development, so the applicability of these options to segmented retailer brand ranges including "premium" retailer brands may be questioned.

In exploring the various responses it has to be remembered that the nature and the characteristics of the products themselves affect the type of response that is possible to execute. Temperature characteristics, shelf life, frequency of purchase and other characteristics all affect the choice of response. Similarly most manufacturers offer several brands and manage a portfolio of brands, often across several product categories, in order to compete with retailer and other manufacturer brands. The scale and scope of these portfolios will also influence the nature of their response to retail brand growth.

Option One: Do not produce retailer brands

If manufacturers choose not to produce retailer brands they are faced with a number of options.

Pursuing an advertising enhancement strategy

Advertising is one of the most important marketing tools used to build brands through improving perceptions of quality, communicating brand associations and establishing customer brand loyalty (Achenbaum, 1989; Lindsay, 1990; Simon and Sullivan, 1993). Several authors have suggested an advertising enhancement strategy as a way to defend against the threat of retailer brands (e.g. Hoch and Banerji, 1993; Abe, 1995; Hoch, 1996; Parker and Kim, 1997; Ashley, 1998; Karray and Zaccour, 2006). Verhoef et al. (2002) demonstrated that manufacturers in the Netherlands used advertising to increase the distance between their brands and retailer brands. Moreover, Ashley (1998) studied the relationship between manufacturer's advertising and retailer brand market share, and found that sales-effective and persuasive advertising was the most effective way to differentiate themselves from competitors and to compete profitably with retailer brands. Other authors (e.g. Comanor and Wilson, 1979; Boulding et al., 1994) also suggest that companies might be able to use advertising to create distance from competitors, thereby avoiding direct competition whilst Parker and Kim (1997) argued that advertising can increase a company's profit by creating differentiation.

However, most authors tend to overlook the ability of manufacturers to increase advertising spend. Even though every manufacturer wants to advertise their brands and products in a variety of media, the cost can be prohibitive. For example in

Cullen and Whelan's finding (1997) market dominant manufacturers advertised heavily with frequent new product line introductions, whilst trapped manufacturers spent their marketing expenditure on promoting their existing products. From a different perspective, de Chernatony (1989) argued that a reduction in advertising spend tends to make customers perceive national manufacturer brands as similar to retailer brands. In other words, advertising is needed to differentiate manufacturer brands from retailer brands.

Increasing the distance from retailer brands

There are many different ways - such as packaging improvement, container development, and quality improvement - to increase the distance (real or perceived) between manufacturer and retailer brands (Hoch, 1996). Quality is one of the most important considerations when consumers make buying decisions. When purchasing retailer brand products, the quality factor has a significant impact on purchasing behaviour (Sethuraman, 1992; Hoch and Banerji, 1993; Dawar and Parker, 1994; Dick et al., 1995; Batra and Sinha, 2000). Furthermore, Dick et al. (1995) stated that consumers who are less likely to purchase retailer brands consider retailer brands to be lower quality products than national brands. Consistent with this argument, Hoch (1996) found that the success of retailer brands depends on their quality. In an effort to win customers from national brands, improvements have been made in the product quality of retailer brands (Steenkamp and Dekimpe, 1997). Thus, many authors encourage manufacturers to develop innovative product quality to differentiate themselves from retailer brands (e.g. Hoch, 1996; Dunne and Narasimhan, 1999; Verhoef et al., 2002).

This option requires manufacturers to allocate more resources to the research and development of new innovative products than to other options. Furthermore, this strategy is closely related to the development of premium retailer brands by retailers. Retailers also realized that innovative product quality improvement is a key factor to growing market share. The focus on improving quality and reducing the perceived quality gap with manufacturer brands has seen retailers improve their procurement processes relating to retailer brands and make considerable efforts to monitor and control retailer brand product quality (Quelch and Harding, 1996).

Introduce fighting brands

To maintain the market position of existing national brands, it has been suggested that manufacturers can counter retail brands by launching fighting brands (Hoch, 1996; Quelch and Harding, 1996; Dunne and Narasimhan, 1999; Mills, 1999). As pointed out by Hoch (1996), the introduction of fighting brands closes the price gap to the price-oriented retailer brands rather than seeking differentiation from them. The main objective of this option, is to avoid direct price competition by creating a different product. Without this approach, current national brands may be faced with pressure to make regular price cuts to compete with retailer brands. Theoretically, the introduction of a fighting brand allows manufacturers to avoid this situation The production of a me-too product similar to retailer brands, that is, a flanker brand enables manufacturers to maximize any excess manufacturing capacity without resorting to retailer brand production (Hoch, 1996). Finally, this option can counter the market share of retailer brands, by preventing the profit erosion of national brands (Quelch and Harding, 1996).

Even though a flanker brand provides a variety of advantages to manufacturers, it is not without risk. When manufacturers pursue this strategy, the production- and marketing-related issues relating to the flanker brand should be fully considered. As noted by Hoch (1996), the fighting brand could actually erode the premium national brand market share, rather than competing with retailer brands. In terms of time and cost, this brand also requires the same management time and costs as a premium brand such as considerations of a market entry fee, advertising budget, slotting allowances etc. As a result, the fighter brand may become an unprofitable trouble maker.

From the retailer's perspective, retailers may not be in favour of fighting brands, as they could be considered as an alternative to their retailer brands. Accordingly, the fighter brand might be dealt unfavourably by retailers. Retailers may avoid allocating shelf space to fighting brands or may not allocate enough shelf space, because they favour their own retailer brands.

Reduce the price gap

Manufacturers can adopt this response relatively easily to compete with first to third generation retailer brands as defined by Laaksonen and Reynolds (1994). Hoch (1996) found that the price gap between national brands and retailer brands significantly influenced the sales volume and profitability of both brands, although Hoch and Banerji (1993) argued that the price gap was not related to retailer brand market share. A small price gap allowed national brands to increase their sales, whereas a large gap favoured retailer brand sales. Sethuraman (1992), Dhar and Hoch (1997), and Ashley (1998) suggest that a significant price gap between leading national brands and retailer brands positively affects retailer brand market share.

However, a significant price reduction for national brand products leads to a lower profit contribution (Quelch and Harding, 1996; Verhoef et al., 2002), and this option might also have a negative impact on customer perceptions of the national brand by decreasing national brand value and bringing leading national brands into direct price competition. Moreover, this option might harm the business relationship between manufacturers and retailers, because it directly attacks retailer brands.

This approach is adopted differently depending on the market position or power of manufacturers. According to Cullen and Whelan (1997), dominant national brands are prone to a premium price policy, rather than reducing regular prices, while trapped brands are more likely to cut prices. This option is more applicable to the second or lower-ranked brands of manufacturers in the marketplace, as these brands are sensitive to price competition. In contrast, leading brands are less sensitive to the price gap (Hoch, 1996). This means that although market leading manufacturers may cut their product prices, there might be no big change in retailer brand performance. Not all national brands, however, enjoy such a premium (Cho, 2009).

Develop other promotional techniques

Other options to attract new customers and keep current customers, include different promotional techniques, such as coupons, in-store contests, specific events, and so on, which avoid direct price competition with retailers. These options are time-limited. Mills (1999) suggested that manufacturers under threat from retailer brands had to develop new innovative promotional techniques to keep their current market power. One example is the issuing of different types of coupons, for example discount coupon or a bonus coupon to be redeemed by customers who are more likely to purchase retailer brands (Quelch and Harding, 1996; Mills, 1999). These coupons avoid direct price competition, and are less harmful to brand reputation in the short term. From the retailer's point of view, these options create costs as they have to establish redemption centres for customers visiting stores with coupons.

If manufacturers hold in-store contests and other promotions for example using brand promoters in-store, the exposure rate of their brands to customers within the stores can increase. Manufacturers need to co-operate with retailers to participate in such activities. Compared to coupon issues, retailers might be in favour of in-store promotions that excite shoppers and add to the shopping experience. In terms of the shopping atmosphere, this might be preferred by retailers, as total sales can rise.

Wait and do nothing

This is the highest risk option. Verhoef et al. (2002) found that those companies which did not adopt a specific response strategy achieved the worst performance. Hoch (1996) argued that because the retailer brand market was volatile and retailer brand production sometimes required manufacturers to invest large sums of money in production processes, manufacturers should not to make quick decisions on how to react. Given the time and US context within which Hoch was writing it might have been difficult for him to envisage the way retailer brand programs have since developed.

For manufacturers with weaker market positions, the "do nothing" option might increase the risk of being delisted, as retailers allocate more selling space to their retailer brands (Suarez, 2005).

Provide additional allowances

This option is driven by the need to keep good working relationships and to strengthen existing ties with retailers. Kelly (1991) and Sullivan (1997) argued that retailers use shelf allowances as an efficient criterion to allocate scarce shelf space to manufacturers. There are a wide variety of allowance in the marketplace, such as shelf allowances, end-cap fees, advertising fees, promotion fees, discounts without selling price cuts, incentives when sales targets agreed by suppliers are achieved, special display fees, and even disposal costs for dead stock, return costs and the like. Currently, retailers officially impose these allowances within contract conditions, subject to rules and regulations derived from legislation to govern retailer-supplier relationships.

By providing these allowances for retailers, manufacturers can discourage retailers from promoting their retailer brand programs according to the profit structure of individual product categories. However, this option requires a significant marketing budget from the manufacturer's perspective. Moreover, how much manufacturers have to pay in allowances is a complicated issue, and is dependent upon negotiation skills. In the same vein, Mills (1999) argued that shelf fees and slotting allowances are not a good way to compete with retailer brands.

Differentiate packaging design, product size or product containers

Differentiated product sizes may discourage consumers from directly comparing prices in one retailer's store with those in another retailers' store. This approach emerged because of price competition amongst retailers using the same brand products with the same product size and the same packaging design.

Manufacturers can apply this option as a differentiation strategy. Given that retailers are more likely to imitate the size, product container and even packaging design of national brand products (Cho, 2009), some differentiation in these elements might allow the national brand to differentiate itself from retailer brands. Although this can be seen as part of the effort to increase the perceptual distance from retailer brands, it is a different form of differentiation, and compared to the quality improvement strategy, might be a relatively efficient way in terms of cost. However, changing product packaging and design, requires investment in marketing budgets to in make customers aware of the new product packages.

Open up a new market

One final option for some manufacturers may be to escape from the market where retailer brands take control and to enter into less competitive markets, where national brands are stronger than retailer brands at regional or national market levels. For the manufacturer trapped between the national brand and retailer brands, rather than producing retailer brands, expansion into other markets may be a good strategy.

This brief review highlighted several options open to manufacturers who do not wish to produce retailer brands. When selecting between these options, the financial investment required, the management time (and costs) needed, and the manufacturers' market position, brand and product portfolio, relationship with retailers and the long term suitability of each strategy should be considered. Additionally, as retailer brand programmes themselves evolve over time, for example with the introduction of premium and segmented retailer brands, the benefits and risks of some of these options might change.

Option Two: Become partially involved in producing retailer brands

Some manufacturers produce retailer brands whilst supplying their manufacturer brand products to retailers at the same time. In case of the first to third generation of retailer brands, whilst the market leading brands might not want to supply these products, other lower-ranked manufacturers might be happy to do so. Hoch (1996) recommended that national brands should only participate in retailer brand production in the case of premium retailer brands.

It is easier for market leaders to opt for this strategy, compared to trapped manufacturers, because retailers know about their quality management skills, and often want them to produce retailer brands. According to Hoch (1996), 30% of the national brand manufacturers he examined were willing to produce retailer brands. At that time, they did not want to supply retailer brands in their leading product categories, but rather in secondary product categories where they did not have their own national brands. For example, Kraft produced retailer brand cooking vegetable oil and 3M supplied film. When national brand manufacturers did supply retailer brands to retailers in their main product categories, these were mainly in commodity categories.

With respect to the motives for producing retailer brands, there are many different arguments, depending on the type of retailer brands being produced by the manufacturer. The objectives of the market leading brands participating in the supply of premium retail brands are different from those of manufacturers supplying other types of retailer brands. When manufacturers supply traditional price-oriented retailer brands, they often have to make large economic sacrifices under retailer pressure. However, as noted by Dunne and Narasimhan (1999), in the case of premium brand production, manufacturers can take relatively higher margins than when producing traditional retailer brands.

One of the most important advantages of adopting this strategy is to develop and cultivate more favourable trading relationships with retailers (e.g. Mangold and Faulds, 1993; Nogales and Suarez, 2005), as seen in Figure 1.

Option Three: Become a 100% retailer brand producer

This option might be suitable for those manufacturers with both weak brand power and limited marketing budgets. These manufacturers are most likely to see their products delisted, as retailers introduce retailer brands into a product category, therefore they may prefer this option in order to remain in the market with reduced marketing costs.

FIGURE 1. Advantages and Disadvantages of Retailer Brand Production

Group	Characteristics
Advantages	• improvement of efficiency of factory operation • spreads fixed costs over higher levels of production • refusal may allow a competitor to enter • potential stepping-stone to business expansion • reduces entry costs for smaller producers • allows brand leaders to control shelf space, market control and profits • maintains a good working relationship with the retailer • discourages newcomers from entering the market • retailers and manufacturers pursue mutual benefits rather than compete • easier acquisition of consumer information • guarantee of a market access • provides a stable profit source if the contract continues, based on profit guarantees

Disadvantages	• profit from production may be short-term • subordination to retailer control may increase • simultaneous management of own brand and retailer brands will be complicated • retailer brands may cannibalize existing brand share • corporate image will be damaged • additional investment may be needed • retailers may pay more attention to the retailer brand rather than the manufacturer brand • if retailers find producers offering better trading terms, the contact may cease and technology and expertise may be transferred • margins are lower • bargaining power for raw materials is lost if retailers change supplier • rebuilding cost of manufacturer brand will be needed, if promotion or advertising has been reduced

Source: Adapted from Euromonitor (1986, 1996); Mangold and Faulds (1993); Glemet and Mira (1993); Samways (1995); Hoch (1996); Quelch and Harding (1996); de Chernatony and McWilliam (1988); Mintel (1998); Kim and Parker (1999); Dunne and Narasimhan (1999); McGoldrick (2002); Nogales and Suarez (2005)

This strategy, it is not without risk. Retailers may seek out alternative manufacturers offering lower production costs and\or improved profit margins. If retailers find an alternative manufacturer, the contact will be terminated. Retailer brand manufacturers have, therefore, to keep a close eye on retailers' requirements, maintain a good working relationship with their retail clients and be willing to respond to and create ideas for new product development.

AIM AND METHODOLOGY

Despite the various options open to manufacturers to help them avoid producing retail brands, many market leaders in South Korea supply retailer brands in their main product categories. This research sought to investigate why these companies decided to supply retailer brands.

A sample of seven national brand manufacturers, covering both the food and non-food sectors, (Figure 2) was chosen to provide cases which would allow the researcher to capture the decision-making processes and identify the context within which the decision to supply retailer brands was made (Kidder, 1982; Eisenhardt, 1989; and Yin, 1994). The selection of firms avoided situations where there is some form of ownership relationship between supplier and retailer. Food and non-food product categories were selected that have a substantial volume of sales and do no have a strong seasonal pattern of sales. These firms provided 16 retailer brands across the product categories investigated, for three leading South Korean retailers. Owing to the sales volume and the extent to which the case companies influence the South Korean consumer market, it was felt that these case companies provided a suitable sample frame for the research. For each company material was collected through in-depth interviews, store observations and company documentation. The in-depth interviews were conducted in seven firms with senior mangers who were responsible for the retailer brand production decision.

FIGURE 2. Manufacturer's Supplying Retailer Brands: Case Companies

Category		Manufacturer	Retailer	Retail Brand name
Food	Confectionary	Lotte	Tesco Korea	Joun
			E-Mart	E-Mart
	Cheese	Seoul	E-Mart	E-Mart
			Lotte Mart	Wiselect
	Smoked ham	Daesang	E-Mart	Save
	Soy sauce	Daesang	E-Mart	E-Mart
	Cooking oil	SajoHaePyo	E-Mart	E-Mart
	Mayonnaise	Daesang	Tesco Korea	Joun
	Ketchup	Daesang	Tesco Korea	Joun
Non-	Laundry detergent	LG	E-Mart	E-Mart

food	Fabric conditioner	Pigeon	E-Mart	E-Mart
	Soap	LG	E-Mart	E-Mart best
	Toothbrush	LG	E-Mart	E-Mart
	Detergent	Yuhan	E-Mart	E-Mart
	Toothpaste	LG	E-Mart	E-Mart
	Nappies	LG	Lotte Mart	Wiselect

FINDINGS

From the case studies, seven distinct motives for supplying retailer brands were identified:

Pressure from retailers

The respondents claimed that E-Mart put considerable pressure on them to produce retailer brands. It was said that the increased market share and buying power of E-Mart allowed the retailer brand buyers to pressure the existing market leaders to become involved in E-Mart's retailer brand programme. This pressure had increased following the success of Tesco Korea and their retailer brand programme. The respondents commented that E-Mart used its position to improve the reputation of the E-Mart retail brands by informing consumers that its retailer brands were produced by the leading manufacturers. A commonly expressed view was:

> *"If we don't supply E-Mart brands, that is, follow E-Mart's requirement, E-Mart will abuse its buying power to delist our second tier or other lower-ranked products. What's important is that E-Mart will be more favourable to our competitors than ever before. Accordingly, we cannot help but follow E-Mart's proposal."* (LG)

Most respondents regarded their E-Mart account as one of their most important. One respondent emphasized that the decision to supply retailer brand was one of the most difficult decisions that the company has made. Within the case companies, the retailer brand supply decision was typically made after considerable debate between the sales and marketing divisions. The core issue was how to deal with the pressure from E-Mart and the other major retailers, not simply in respect of the single product category under consideration, but with the overall business relationship with E-Mart in mind:

> *"When discussing retailer brand supply, our interest is to overcome the pressure from the buying power of E-Mart. If we refused to supply E-Mart brand products, E-Mart would reduce the number of our product facings on their shelves and further, increase the shelf allocation of, and/or promote, second or third tier brands on purpose. Furthermore, E-Mart will not accept new products. Of course, the retailer will delist our second or third ranked products from their shelves. This is one of the most complicated issues for the market leaders"* (Yuhan)

Pressure from E-Mart and the other large retailers was regarded as the most important driver in explaining why many South Korean market leaders also produced retailer brands. The market leaders were typically offered favourable trading terms from E-Mart, like better shelf allocation for their national brands or the delisting of competitors' products, alongside the proposal to produce retailer brands. From the manufacturers' perspective, this trading pressure was a big challenge to maintaining their market positions in Korea. As E-Mart and Tesco Korea have taken more buying power, this pressure has been accepted by the leading national brands. Nonetheless, despite the negative (reactive) undertones, the researcher felt that the respondents were generally satisfied with their decision to supply retailer brands. Although the manufacturers marketing divisions typically highlighted potential side-effects from producing retailer brands, these potential problems had not materialised at the time of the interview:

> *"Considering the Korean business environment, when E-Mart requires manufacturers to produce E-Mart brands, it is difficult to reject"* (Seoul)

This comment emphasises the awareness of the manufacturer of the highly dynamic nature of relationships involving the production of retail brand products.

Protect other national brand product ranges

The case companies produced or supplied retailer brands in many different product categories. For example, LG supplied products to E-Mart in more than twenty categories including laundry detergents, washing-up liquids, and toothpaste - categories in which LG is the market leader. Laundry detergent and toothpaste are regarded as the main product groups within the portfolio of brands manufactured by the company. Despite this, LG still decided to supply E-Mart brands:

> *"We have produced many different product categories. All categories are not the market leaders. We have to think about the whole business. Even though in some categories we have led the Korean market, and their (retail brand) positions within the company are smaller than other total categories in terms of sales volume, we have to accept the suggestion of E-Mart to protect other product categories on the shelves. If we refused E-Mart's proposal, our total market volume would be reduced. As you know, we know that we have to advertise our own products more and allocate more marketing resources to leading brand products to keep and stabilize our leading brand markets"* (LG)

The LG products provided for E-Mart as retailer brands account for less than 1 % of LG's total sales volume. At the expense of the major product categories, LG sought to protect other (weaker) product categories and generate more sales overall. Consequently, retailer brand supply brought LG more benefits, as highlighted by Verhoef et al. (2002). Most suppliers agreed with this view. Furthermore, respondents believed that this sacrifice - supplying retailer brands in the major product categories - encouraged E-Mart to aggressively promote manufacturer brand products, such as second tier brands, in their stores as a way to compensate the suppliers for their losses. Rather than losing their leading brand positions in the market, the retailer brand suppliers felt that they often enjoyed additional benefits, as the retailer brands were usually displayed in the best shelf positions and given favourable distribution (e.g. Weinstein, 1993; Corstjens et al., 1994; Hoch, 1996). Associated with this argument, one respondent pointed out that most retailer brand suppliers have not experienced the problems anticipated by their marketing divisions. It was felt by the respondents that this trend would continue and be accepted by the other market leading manufacturer brands, who have not yet produced retailer brands. In summary, the strategic sacrifice of the leading brands in their main product categories was accepted if it maintained the market position of their second or lower-ranked brands in other product categories. But, there is awareness of the danger that a retailer gives favourable terms initially to encourage the involvement of the manufacturer only for these terms to be tightened when the supply contract is renegotiated.

Maintenance or improvements in working relationships

The decision by Pigeon to supply E-Mart illustrates this point. This company started to produce retailer brand products in 2002 even though the company accounted for more than 70 % of the fabric conditioner market at the time. A senior manger explained the rationale for this move:

> *"It was a shock that the top management decided to produce E-Mart brands in 2002. There was no strong pressure from E-Mart, although E-Mart suggested retailer brand supply. At that time, our working relationship with E-Mart was fantastic. Particularly, the CEO has kept the best trading relationship with the top managements of E-Mart. That is why Pigeon could not refuse E-Mart's proposal"* (Pigeon)

The literature suggests that retailer brand supply provides a clear opportunity for second or third tier manufacturers to maintain good relationships with retailers (e.g. Mangold and Faulds, 1993; Hoch, 1996; Dunne and Narasimhan, 1999; Verhoef et al., 2002; Nogales and Suarez, 2005). However, Pigeon became the first market leader to produce E-Mart brand products. This was a breathtaking decision from a marketing point of view and acted as a catalyst in encouraging other leading brand manufacturers to join the supplier group for E-Mart retailer brands. Following this move, a few other leading brands like Haitai, Crown and Seoul, started to supply retail brands to E-Mart.

The sales performance of E-Mart retailer brands is reported as being lower than expected for most of the suppliers in the study. For example, Pigeon's E-Mart brand products account for less than 5% of Pigeon's total fabric conditioner sales, although in some categories exceed 10% of category sales.. However, since Pigeon started to supply E-Mart brand products, the company size has trebled. Given this rapid growth, Pigeon has consistently maintained good trading relationships with E-Mart. Consequently, many of the local South Korean market leaders have turned their attention to retailer brand supply in order to keep good trading relationships and to expand their business overall.

The decision of the market leaders to supply retailer brands should have a negative impact upon other manufacturers attempting to enter the retailer brand supply market. Some of the case companies have supplied different retailer brands to different retailers. The leading manufacturers who carry second tier brands in some product categories have also experienced competition from retailer brand supply. The motive of maintaining or improving supplier relationships is more likely to be widely accepted by manufacturers, including lower-ranked producers. Most respondents argued that for the market leaders, the major constraint was in persuading the marketing staff within their own company:

> *"Marketing staff can not understand the real business environment. They tend to stick to their bias in which leading brands have to increase brand awareness through advertising spending. Rather than advertising, keeping a good relationship with retailers is the most important business activity. If not, we will be delisted from the shelves"* (Yuhan)

Maintaining good working relationships with large retailers in this way has implications for the market prices charged in other channels in the Korean market. If the major retailers reduce prices in their stores, this could cause major difficulties for the leading brand manufacturers in other channels. Maintaining a good working relationship with retailers through the supply of retailer brands contributes to the management of other channels:

> *"In order to keep market prices in Korea, the role of major retailers is very important. Suddenly, if they cut selling prices to tame national brands, because of bad relationship, the national manufacturers will definitely get into a panic. So, supplying retailer brands allows us to keep a good working relationship with retailers"* (LG)

Protection of other distribution channels

Many authors have argued that the supply of retailer brands could cause long term damage as they may cannibalise the sales of national brand products, and damage relationships with other retailers. However, since Pigeon started to produce E-Mart brands in 2002, and were followed by Daesang in 2001, Yuhan in 2004, LG in 2005, and Seoul in 2007, there has been no major long-term conflict between these suppliers and their other retail customers. A few respondents commented on this theme:

> *"The production of retailer brands was one of the most difficult decisions. Many staff worried about its side-effects. The marketing division was strongly against it. Their arguments focused on the company's future. However, the debate within the company is pointless, because the whole sales performance has become better and better"* (Daesang)

In contrast to previous research the South Korean market brand leaders appear to have benefited from supplying retailer brands. The companies interviewed commonly stated that supplying retailer brands to a major retailer is now widely accepted by other marketing channels. This is why many leading national brands are now involved in retailer brand production. However, there were some trading conflicts at least initially. As pointed out by a few respondents, Tesco Korea and Lotte Mart reacted unfavourably to those market leaders who supplied E-Mart brands. However, this conflict was solved by changing the trading terms, such as also providing retailer brands for them, better discounts, allowances and the like. In addition, because so many national brands started to supply E-Mart, the tension in the marketplace was reduced:

"Indeed, the second and third retailers changed their attitude towards us after they knew it. They used to threaten us with the deletion of less-known products. Over time, however, they started to give up pressure on us, because of the increasing number of market leaders supplying E-Mart brands" (Yuhan)

In contrast to the findings of Gomez and Benito (2008) that manufacturers tended to avoid producing retailer brands, because of the cannibalization of national brand sales, most of the suppliers interviewed stated that there was no difference in terms of market share after the decision to supply. They commented that the E-Mart brands absorbed those customers who bought second or third tier brands, and as national brand prices would sometimes be lower than retailer brand prices, there had been no cannibalisation of sales. The overall sales performance of the market leaders supplying E-Mart brands, had improved throughout all marketing channels, rather than hurting the company's profit structure.

Savings in marketing budgets

Several researchers have highlighted that one of the advantages for manufacturers in supplying retailer brands is the reduction in the overall marketing and development costs of retailer brands (Bell et al., 1997). Some of the respondents also mentioned that as a consequence of supplying retail brands they gained marketing-related information from the retailers, consistent with the Dunne and Narasimhan's findings (1999). This information allowed the market leaders to gain access to real-time market information without the need to spend on market research and helped to shorten the time needed for new product development. In other words, the supply of retailer brands can save marketing costs for both retailer and manufacturer brand products.

The market leaders operate dedicated marketing teams focussed on marketing their own products. Before supplying retailer brands they needed to allocate substantial resources to activities such as market research, advertising, sample tests, etc. to every new product launch:

> *"There is no additional cost when supplying E-Mart brands, except for the changing cost of packaging, in terms of the product development process. Of course, we have to supply them at a lower production cost than our national brands. Given the pure costs of retailer brands, it was cheaper"* (Pigeon)

To supply retailer brand products, the leading brand manufacturers did not need to establish a new production line or increase their marketing budget. Whilst these resources are needed for national brands, as many retailer brands are regarded as copies of national brands they provide the opportunity to recycle the know-how or production capacity of existing national brands. Consequently the marketing costs for retailer brands are significantly reduced. When debating whether to produce retailer brands these financial aspects were often used to support the case:

> *"Marketing staff changed their attitude towards retailer brand supply. Although they still worry about it, they think its advantages outweigh the disadvantages. The supply of retailer brands helped to save marketing budget over the whole product development process"* (LG)

Diversifying product lines

It was clear from the interviews and other documentation that the sales volume of the product categories in which the leading national brands supplied retailer brands, had not grown to dominate the companies business. The case companies each accounted for between 40-75 % of sales within the major categories in which they operated. For example, in case of bleach, Yuhan (who supplies E-Mart brands) had a 75% share of the bleach market, but this product category only accounted for a third of the company's total sales volume. Pigeon exhibits a similar picture in the fabric conditioner market.

The local South Korean market leaders have diversified their business portfolios. Rather than focusing on specific product categories, they have allocated their marketing assets into diverse product categories. Amongst the companies interviewed, there was no case in which a single product category accounts for more than a third of the company's total sales volume. This spread of activity across the business allows the Korean market leaders to join the retailer brand supply market.

One of the most common reasons given by the respondents for deciding to supply retail brands was to grow other product categories in market. Unless the companies could expand their business into foreign markets within their key product categories, their business potential might peak in South Korea. Consequently, the market leaders turned their attention to other product categories through their good working relationships with retailers arising from the supply of retailer brands. An example is the success of Pigeon in the liquid laundry detergent market. Pigeon stated that they could not have entered into this new product category without the help of E-Mart in developing and promoting this new product. Retailer brand production was considered to be a useful lever between the national brand manufacturers and retailers. Some respondents argued that, rather than debating within the company whether to produce retailer brands, the company should think about how to grow and make their business profitable through retailer brand production – retail brand production is an opportunity not just a threat. The global manufacturers (e.g. P&G and Unilever) have refused to supply retailer brands in South Korea and have lost market. The supply of retailer brands is felt to be a reason why the sales volumes of local suppliers have grown:

"Korean market leaders are in favour of supplying retailer brands. However, foreign manufacturers don't want it, because of global standardization. If they do not change their market strategy in Korea, the declining trend of their sales performance might be continued. Look at local national brands! Supplying retailer brands, they've dramatically increased their sales volume. Over the last decade, they grew at least 2 times or 4 times. It's unbelievable" (LG)

The market leaders distribute across a wide range of product categories. As a result, their dependence on retailer brands is lower than might be expected.

Changing competitive structure – excluding competitors

As the number of national brand manufacturers supplying retailer brands increases, the competitive structure of the South Korean market becomes tighter than ever before. The supply of retailer brands has become a preferred way to maintain existing market share. Through better working relationships with the major retailers, the market leaders can compete with each other to gain market share in both their main and other product categories. Companies have exhibited a positive attitude toward retailer brand supply in recent years – notably the second or third tier brand manufacturers who competed to provide retailer brands in the past:

"Recently, it's very difficult to keep our market share. Retailers wield their strong market power to change market structure. Over competitive product categories, keeping market shares is more likely to depend on whether to supply retailer brands. If we don't supply them, the major retailer would encourage our competitors to produce retailer brand products, suggesting

better trading terms. Finally, we would go out of the retailer's shelves, even though enhancing product ads. As for competitive categories, this trend will be continued, because of competitors. As evidence, global brands are declining, because they don't supply retailer brands." (Yuhan)

The changing channel means that the future competitive structure of the market is most likely to be developed by the retailers. Unlike in the past when all that the manufacturers had to do was to beat the competition through their own marketing efforts, the retailers now influence the nature of competition amongst manufacturers. The degree to which the major retailers have put pressure on the market leaders to supply retailer brands is directly related to this changing competitive structure, as noted in the quote above. Changing competitive circumstances have forced the market leaders to produce retailer brands in the major product categories. Given this, it is natural that the global manufacturers who do not supply retailer brands in Korea have faced difficulties. The respondents felt that with the increasing market power of retailers, this trend would continue.

Concerns about the supply of retailer brands

Despite these pressures and motivations one might also consider whether producing retailer brands is a good strategy in the long term from the national brand manufacturer's point of view. Given the legal requirement in South Korea that the manufacturer's name should be declared on the retailer brand package, national brand value could be damaged and the national market leaders might lose their market power and market share in the long term. It is evident that the global manufacturer brands do not produce retailer brands in the South Korean market.

Although their decision to produce retail brand may deliver advantages at present, some interviewees recognised that this strategy could increase the degree of dependence on the retail giants and could even cannibalise the sales of their main branded product categories. As noted by one of interviewees, as retailer brand market share increases, long-term profit might fall, because of lower customer brand loyalty to their national brands:

> *"In the current retail environment, supplying retailer brands is the best option to survive in Korea, although this decision might negatively affect our future profit in the long term. I know the customers who know that our company produces retailer brands might become less loyal to our brands"* (Pigeon)

Despite recognition of the potential long term erosion of loyalty most national brand market leaders accepted this, as the focus was on increasing volume to contribute to company growth.

CONCLUSIONS

This research investigated why the local South Korean leading brand manufacturers decided to supply retailer brands to major retailers. Within the existing literature there is a strong focus on why and how manufacturers should avoid supplying retailer brands, although much of this academic material comes from a specific cultural and time context. In the South Korean market there is a further potential disincentive to retailer brand production, namely the legal requirement to reveal the manufacturer's name on the product.

Despite these existing views, the majority of the leading South Korean national brand manufacturers have elected to manufacture retailer brands alongside their national brands. They claim that this approach provides more benefits than drawbacks. Rather than competing with retailer brands produced by second or third tier manufacturers, retailer brand supply was regarded as the best way to maintain or increase their market share. This supports the views of Chen et al. (2010), who claimed that national brand manufacturers can benefit from supplying retailer brands.

With respect to motives, at the early stage of participation in retailer brand supply it was apparent that the pressure from E-Mart was one of the most important reasons for supplying these products. Nevertheless, even though the national brand manufacturers started to supply E-Mart brands because of this pressure, most soon realized that retailer brand production protected other (non-major) product categories, through improved relationships with retailers; led to little conflict between the major retailers and other channels; and provided savings in marketing budgets. These advantages imply that, rather than regarding the supply of retail brands as a reactive, defensive, strategy, retailer brand production should be considered as a positive option for the national leading brands in Korea.

The findings also suggest that manufacturers look beyond the specific issues associated with individual retail brand products being produced, in order to see retail brand production as part of the wider scope of management of the total brand portfolio. This is a perspective that is seldom addressed in the academic literature but exhibits the complexity of brand management and a more holistic view of retail brand production than is evident from previous studies. The research also shows that manufacturers view the production of retail brands, and the implication for their own manufacturer brands, as an extremely dynamic process that changes as the structure of the industry changes and as concepts of brand use by retailers evolves. These findings suggest that future research needs to explore the dynamics of the inter-relationships involving both retailer and manufacturer brand production not only at the product level but also in terms of the brand portfolios of manufacturers and retailers.

Most of the previous research into the motives for manufacturers to provide retail brands has been conducted in Europe and North America. This research explores these issues in an East Asian context. That said, the South Korean retail and supply market structures may illustrate a specific feature within East Asia, in that national brand leaders have actively pursued a strategy of providing retailer brands for retailers, even within their key product categories. This feature should be borne in mind before generalizing these findings to other Asian countries.

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