

HOW CAN PRIVATE LABEL BRAND INVESTMENT AFFECT CONSUMERS?

THE CASE STUDY OF LEROY MERLIN

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PRIVATE LABEL BRAND INVESTMENT
THE CASE OF LEROY MERLIN

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“The price of success is hard work, dedication to the job at hand, and the determination that whether we win or lose, we have applied the best of ourselves to the task at hand” – Vince Lombardi

“A dream doesn’t become reality through magic; it takes sweat, determination and hard work” – Colin Powell

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ABSTRACT

Over the last decades, Private Label Brands (PLBs) have recorded a significant growth and have started to be considered National Brands' (NBs) direct competitors. Regarding this, this case study aims to investigate the PLBs proliferation and demonstrate their importance in the marketplace.

Moreover, it also explores the PLBs advantages for both retailers and consumers, as well as their limitations.

Furthermore, this case study investigates the factors that can affect the consumer purchase decision when considering PLB products, such as: price consciousness, quality consciousness and value for money. Besides that, it also studies the consumer perception towards PLBs focusing on the commodity-based product categories, income level and repeatedly purchases.

Regarding this, the income level has an inverse relation with the willingness to purchase PLB products. On contrary, the purchase repetition and the commodity-based product categories purchase have a direct relation with the willingness to purchase PLB products.

Relating these themes with the Home Construction and Renovation market, it is studied the Leroy Merlin PLBs investment in different store departments. In fact, it is possible to turn the PLBs limitation of not being present in luxury markets into an opportunity due the lack of well-reputed brands in this specific market and to the PLBs advantages, such as the easiness of return and the extended warranty period.

Keywords: Retail, Private Label Brands, Brand Management, Consumer Behaviour

JEL Classification System: M310 – Marketing

L68 – Appliances; Furniture; Other Consumer Durables

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RESUMO

Durante as últimas décadas, as Marcas de Distribuidor registaram um significativo crescimento e começaram a ser consideradas um concorrente das Marcas de Produtores. Considerando isto, este estudo tem como objetivo investigar a proliferação das Marcas de Distribuidor e demonstrar a sua importância no mercado.

Para além disso, pretende explorar não só as vantagens das Marcas de Distribuidor para o retalhista e consumidor, mas também as suas limitações.

Não obstante, este estudo investiga os fatores que afetam a decisão de compra do consumidor quando este considera adquirir produtos, cuja marca, é uma Marca de Distribuidor, tais como: sensibilidade ao preço; à qualidade; e a relação qualidade-preço. Estuda ainda a perceção do consumidor face às Marcas de Consumidor, dando ênfase aos produtos cuja categoria são comodidades, ao nível salarial e à repetição da compra.

Desta maneira, o nível salarial varia inversamente com a vontade de comprar produtos de Marca de Distribuidor. Contrariamente, a compra de comodidades e a repetição da compra variam de forma direta com essa mesma vontade.

Relacionando estes temas com o mercado da Construção e Renovação do Habitat, é estudado o investimento da Leroy Merlin nas Marcas de Distribuidor para os diferentes departamentos das suas lojas. De facto, é possível transformar a limitação da Marca de Distribuidor não estar presente em segmentos de mercado de luxo numa oportunidade. Tal, deve-se à existência de poucas marcas reconhecidas neste mercado e às vantagens das Marcas de Distribuidor, entre as quais: a facilidade de devolução; e o elevado período de garantia.

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2.THE CASE STUDY

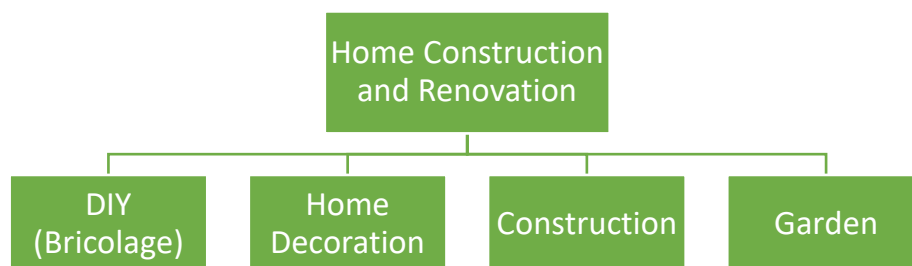
In 2018, Leroy Merlin Portugal had a significant growth in its sales. The company is the market leader in Portugal and belongs to a business group which is number three in the world. Thus, the company has made a substantial investment in its PLBs to guarantee the customers' satisfaction and a margin of growth for 2019.

As such, the Leroy Merlin Brand Manager has a great challenge ahead of him: in which departments should the investments be made in, and how to reach new market segments with Leroy Merlin PLBs, maintaining the best value for money for its customers. In this case study, it is possible to find some data and perceptions from the previous years. The students will be asked to play the role of a Brand Manager to face this challenge and contribute so that the company can continue to have a positive impact on its consumers.

2.1. MARKET

Leroy Merlin operates in the Home Construction and Renovation market and is part of the French group ADEO, which belong to the Moulliez family. This market is divided into four distinct segments: DIY (Bricolage); Home Decoration; Construction and Garden.

FIGURE 1 – HOME CONSTRUCTION AND RENOVATION MARKET

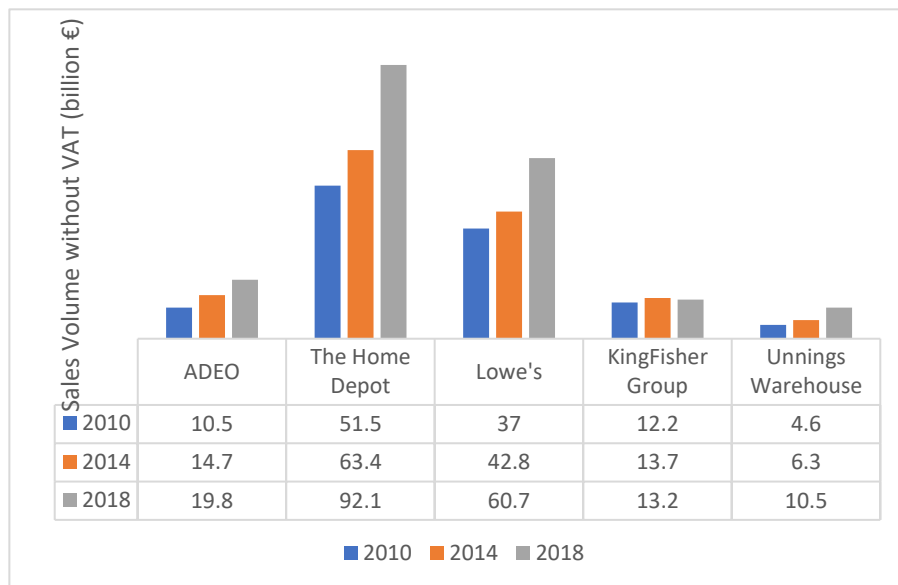


Source: Leroy Merlin Portugal (2019)

Take into consideration an internal analysis done by the company to present to its workers when sharing its profits in 4th April (2019): The ADEO Group is the market sector leader in Portugal and in Europe and the third, when considering a worldwide context as it is possible to analyse in the following graphic. (Graphic 1).

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GRAPHIC 1 - ADEO GROUP WORLDWIDE SALES VOLUME ANALYSIS



Source: Leroy Merlin Portugal (2019)

Both Portuguese and global Home Construction and Renovation market value have been increasing in the last years and there are several contributing factors to this observed market growth. The first factor is that DIY retail stores are, nowadays, more present in the media, using TV commercials, TV shows sponsorship, web sites and social media to increase their brand awareness. This has resulted in an increase in e-commerce and visits to physical stores. Another cause is the increasing trend of the Home Renovation products customization, which was important to accompany the greater requirement on the part of the customers. Finally, the investment of the Home Construction and Renovation market retailers in private label is another important cause for the DIY market growth, and the one that it will be deeply studied in this paper, since it allows retailers to increase their margins and offering cheaper products to their customers with a high value for money ratio.

According to Duarte and Loureiro (2017), based on a Nielsen's report on The State of Private Label Around the World (2014), the Portuguese market is not an exception to this international trend. In point of fact, according to the same study, Portugal ranks the 5th highest PLB share in Europe, with the PLB products accounting for 33% of the total expenditure in retailing companies.

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Considering the use of technology in the Home Construction and Renovation market, it is not advanced as other as other areas of retail. In fact, the market is taking several steps in the online selling. However, the market is mostly associated with the stock availability and there is a long path to cross when it comes to investing in technology to support the sales team and inspiring customers' in online channels and inside the retailers' stores, such as: virtual reality; augmented reality; robotics, blogs, vlogs and social network.

Taking the environmental factors in consideration, the retailers that are present in the market announce their concern with the sustainability and with the environment. Nevertheless, a great percentage of the commercialized product that are sold in this market are extracted directly from nature or have associated chemical components, the transport of the products is significantly pollutant and its packaging is based on the usage of card and plastics.

Considering the working conditions, the market follows the line of what is the retail. There is a lot of pression on sales and customer satisfaction and, therefore, the stores have extended opening hours seven days a week. Regarding this, the sales team have rotating schedules and rotating days off, which negatively affect their happiness, productivity and influences the high job-rotation.

2.1.1 MARKET PLAYERS

The Home Construction and Renovation market has a high degree of competitiveness and, besides Leroy Merlin, there are other important players in the market, which compel Leroy Merlin to reinvent itself every day to continue to be the top player in the Portuguese and European markets and one of the most representative ones worldwide.

Considering the global Home Construction and Renovation market, the main Leroy Merlin direct competitors are: **Brico Dépôt** – a French company, which is owned by Kingfisher group; **Brico Marché** – a French DIY company, owned by the Les Mosquetieurs group, which works in France, Portugal and Poland; **The Home Depot** – an American company, leader in the US DIY market; **Lowe's Home Improvement** – also an American company, the second biggest player in the US DIY market; **BAUHAUS** - a Swiss company that has around 250 stores in Europe; and **HORNBAACH** – a German company also owned by Kingfisher group, which has a sustainable market share in Northern and Eastern European countries.

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Nevertheless, since the market and other quantitative analysis presented in this case study have on their basis the Portuguese market, it is important to scrutinize the market players that are present in the Home Construction and Renovation Portuguese market.

AKI

AKI was the first Home Renovation and Do It Yourself (DIY) retail company entering the Portuguese market, in 1989. Recognized in the market by its proximity with the customer and with the product values, the brand slogan is “AKI, é fácil fazer” (Here, it is easy to do), inviting the potential customers to enter the DIY world, demystifying the perception of difficulty of the DIY products and projects.

As of 2002, this company belongs to ADEO Group, the same group that owns Leroy Merlin. If from that time it was already difficult to consider AKI as a Leroy Merlin competitor, it becomes impossible to do it from 2019 since Leroy Merlin Portugal and AKI Portugal are passing by a merger process, in which Leroy Merlin brand will prevail over AKI. Due to this strategy, Leroy Merlin Portugal manages to cover a larger market area and share, complicating the entrance of emerging companies in the market.

Brico Dépôt

As it was previously mentioned, Brico Dépôt is a French company, owned by Kingfisher Group. Despite the group is present in 10 countries with 1100 stores and having €10.3 billion in sales before taxes in 2018, it only has three Brico Dépôt stores in Portugal. The company stores operate in a low cost and self-service format, guarantying stock availability and low prices. This French company can be considered the Leroy Merlin main competitor in Portugal because the stores blueprint of the two retailers are very similar. Besides that, the two retailers are divided into practically the same departments.

Nonetheless, Brico Dépôt stores added project consultants to their offer after Leroy Merlin did that to continue its establishment in the Portuguese market. However, in the end of 2018, the Brico Dépôt Iberia CEO publicly said that the company will leave the Portuguese market because of its toughness, availing forces to make investments in other markets where the company is market leader.

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Brico Marché

Brico Marché was the first insignia created by the French group *Les Mosqueteirs*. Brico Marché stores operate under the franchising business method, i.e., each store has an independent entrepreneur on its administration, who has autonomy in the store management. At this moment, there are 38 stores in Portugal, which are organized in 5 different areas: DIY, Construction Material, House Furniture, Garden and Pet Shop.

The Brico Marché motto is offering low prices and quality throughout the year. The company has considerable notoriety in the Portuguese DIY market due to its workers' professionalism and sales customization, offering to the customers customized cut-outs, free budgets development, home delivery, after-sale service and financing solutions.

MaxMat

The company is present in the Portuguese DIY market since 1994 and it is owned by the group that owns the biggest food retailer in Portugal (Sonae) and by a Dutch entrepreneur. The two shareholders divide their capital in equal shares (50%). Maxmat counts with 31 stores in Portugal and with a range of 15.000 products. Considered a Hard-Discount company, its philosophy and slogan (Low Prices' Professionals) are based on the low prices offer. Present in the Home Construction and Renovation market in the following segments: DIY (*Bricolage*); Construction Material; Bathrooms; and Garden. The company was pioneer in the Portuguese market, with regards to investment in PLBs. Moreover, it is the company in the Portuguese market that invests more in publicity and advertising, especially in TV and radio ads.

2.2. LEROY MERLIN

2.2.1. COMPANY OVERVIEW

According to the company's strategical vision (2018), Leroy Merlin is a Do It Yourself (DIY), Construction Material, Home Decoration and Garden company, which has a significant market share across the world. The company is going through a phase of significant growth, being present in 13 different countries in Europe, Africa and South America and Asia. According to the company's official data, despite the great results, the exchange rate of the Brazilian and Russian currencies is affecting the company's results. (Table 1 and 2),

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TABLE 1 – CURRENCY CONVERTOR BRL - EUR 24/04/2019

Brazil – BRL	EUR
R\$ 1	€ 0,23

Source: Banco de Portugal (2019)

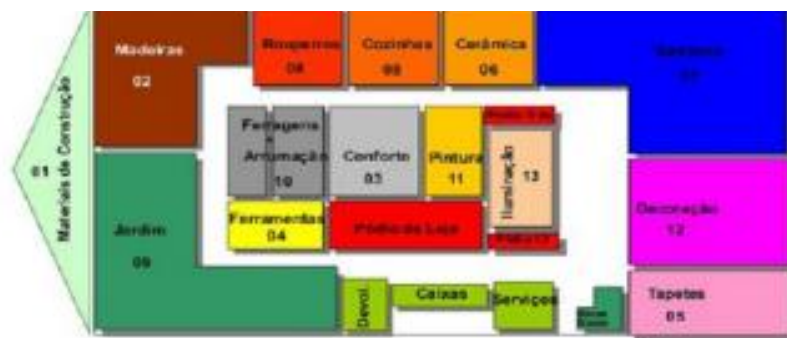
TABLE 2 – CURRENCY CONVERTOR RUB – EURO 24/04/2019

Russia – RUB	EUR
Pyb 1	0,01

Source: Banco de Portugal (2019)

Taking into consideration Leroy Merlin’s official records (2019), the company started its commercial activity in Portugal in 2001 and, nowadays, has 18 stores in the country. Those stores range from medium to large in size, and their area varies between 4.000 and 7.000 square meters, organized into four main departments: DIY, decoration, construction; and garden.

FIGURE 2 – BLUEPRINT OF A TYPICAL LEROY MERLIN PORTUGAL STORE



Source: Leroy Merlin Portugal (2019)

2.2.2 HISTORY

Even though Leroy Merlin has become one of Europe’s top Home Construction and Renovation retailers, the Leroy family’s commercial activity started at the end of the XIX century (1890). At that time, Mrs Leroy used to sell groceries door-to-door in Pas de Calais, a region of France. Her son, Adolphe, took over his mother’s business, which remained prosperous until WWI. However, with the end of the war, the village where Leroy’s family had

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the business was destroyed and their business had been ruined. Therefore, the family moved to Noeux les Mines, and Adolphe Leroy started a new business, which was based on the commercialization of army surplus items left behind by the U.S. Army. At that time, Adolphe Leroy and his namesake son were successful in their new business. Thus, in 1921, they opened their first store, called *Au Stock Americain*, providing a very special service for that time: free delivery.

Two years later, Adolphe Leroy, the son, married Rose Merlin, whose family was also in the retail business. Therefore, the couple decided to build up their new business and one year later (1924), they began selling a variety of products, such as: construction materials; building fixtures and fittings; and furniture. The new business was a success and one reason for that was cutting the middlemen, i.e., the company (still named *Au Stock Americain*) began purchasing the sold items directly from producers. The company discovered a new area of business: selling prefabricated structures and became known for its range of low-priced, prefabricated chalets, garages, and banquet halls.

During World War II, the company had to invest once again in the surplus market. However, with the end of the war (1950) and with the need to reconstruct the European continent, including France, the company also added the construction of complete houses to its operations. Two years later, the company had already opened two new stores in France and changed its name to Leroy Merlin, S.A.

In 1966, Leroy Merlin, S.A. had the idea of a self-service store, the first one in France. The new format was a success and a starting point to the DIY (*Bricolage*) movement in France. The company started to add a wide variety of items to its shelves, reaching the number of 45.000 items, in the early 80s. At that time, other players such as Castorama and other hypermarket chains started entering the market and began to add their own DIY retail concepts. To overcome competition, the company made an agreement with a grocery group, called GRO, to combine forces and head off competition in their markets.

Later, in 1979, a fifty percent stake of the company was sold to Auchan group, led by Mulliez family, specialist in mass marketing. Two years later, Auchan gained full control of the company and under the new management, Leroy Merlin was, once again, focused on the DIY market, abandoning its production of prefabricated chalets and structures. The business growth

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was, in part, due to the departments where the investment was higher: furniture; kitchen; and decoration.

From that time, the company started its expansion, internationalization and acquisition period, becoming, in a first phase, a recognized brand in Europe and, in a second phase, a worldwide flag in the DIY retail market segment. Thus, in 1989, Leroy Merlin became an international name when it opened its first store, in Leganés, Madrid, Spain. Seven years later, it was time to continue the internationalization process, adding Poland and Italy to the company's international territory. In 1998, Leroy Merlin opened its first store out of the European continent, in São Paulo, Brazil. Portugal, Greece, Ukraine, Cyprus and Romania were the following countries where the Mulliez family established their brand Leroy Merlin, in 2003, 2004, 2010 and 2011, respectively. More recently, Leroy Merlin has opened its first stores in Russia, China and South Africa in 2014, 2017 and 2018, respectively.

In terms of the company's expansion, it is important to highlight the acquisitions done by the company: In 1994, Leroy Merlin acquired the Belgium DIY retailer, Bricoman. Three years after, the company had reached a joint venture with Rinascente to acquire 30 Bricocenter stores, in Italy. Finally, in 2002, Leroy Merlin had acquired Obi and Aki stores in France, Spain and Portugal. Equally as important, was the creation of the ADEO Group, a group inside the Mulliez family that brought Leroy Merlin and seven other DIY and home décor banners together.

2.2.3 LEROY MERLIN PORTUGAL

In Portugal, from 2018, a merger process has been occurring between Leroy Merlin and Aki stores, in which all Aki stores will undergo a process of rebranding, which should be renamed Leroy Merlin and have an offer similar to the Leroy Merlin one, always respecting their different dimensions. Summing up, instead of having Leroy Merlin and Aki stores, the Portuguese market will have big, medium and small sized Leroy Merlin stores.

In Portugal, Leroy Merlin has 18 stores, more than 110.000 items and it is also present in the online market. The Portuguese market is relevant for the company, since the Portuguese stores of Alfragide and Sintra are the first and second stores, respectively, with the highest sales volume in the Iberian Peninsula.

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The company values, in Portugal, are: Trust, Commitment, Simplicity, Proximity, Transparency and Honesty. The company is also very concerned about its sustainable development, investing in training its workers and encouraging a spirit of volunteering spirit.

Leroy Merlin Portugal Offer

Considering the Leroy Merlin product offer portfolio (2019), the company has a range of 100.000 products, divided by four market segments: DIY (*Bricolage*); Construction Material; Home Decoration; and Garden. Each product is represented by different brands (including the private label) with different prices, quality and value for money. This division is normally done by quartiles, in which: the first quart includes the product of the cheapest brand in the market; the second quart includes the same product but from the brand which has the highest value for money ratio; the third quart includes the same product but from a semi-professional range; and the fourth quart includes the same product but from a professional range.

Likewise, Leroy Merlin has, nowadays, an omnichannel strategy. This means that a customer can use online, offline or a mix of both ways to purchase. It means that the customer can purchase a product on the company website and receive it at home; can check the product characteristics and availability online, purchase it and use the drive-in to collect it; can check its characteristics and availability online and go to the physical store to purchase it; or can simply enter in a physical store, ask the employee the product's characteristics and purchase it.

Moreover, the company had to amplify its offer in order to fulfil all the customers' needs and to reach what is considered a complete sale. Thus, Leroy Merlin Portugal offers a wide variety of services, such as: delivery solutions – delivery at home; trucks renting; and roof rack renting; click and drive solution – the customer uses the company's omnichannel way of purchasing, by purchase the product online and pick it up in the store car parking within two hours; installation solutions – budgeting for the purchased products installation; in-store services – custom-made curtains, custom-made shutters, custom-made frames, custom cut wood, colour tuning, construction waste collection, tools renting and equipment programming and configuration; equipment maintenance; and energetic certification service for equipment. However, the services offered by the company are provided by external partners, over which the company has no control or responsibility.

Besides that, Leroy Merlin Portugal also gives its consumers the opportunity to have a customer card and financing options. Regarding the customer card, the company makes a distinction

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between its two types of customers and so, offers two different types of cards: the normal customer card (Cartão da Casa) and the professional customer card (Cartão da Casa Profissional). The first one gives the customer the opportunity to earn €5 off for every €250 spent in a Leroy Merlin Portugal store, 10% discount on every project pack purchase, two years warranty for all products and the invitation to participate in various workshops given inside Leroy Merlin stores. The professional card gives the customer the opportunity to have all the benefits that a normal customer card gives, however, the professional customer earns discount vouchers every quarter. The vouchers have the value of 3% of the previous quarter value purchases if those purchases are greater than €1.000, 5% if a greater than €5.000, or 10% if greater than €20.000. (Figure 3 and 4).

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FIGURE 3- LEROY MERLIN SERVICES OFFER



Source: Leroy Merlin Portugal (2019)

FIGURE 4 – LEROY MERLIN CUSTOMER CARDS



Source: Leroy Merlin Portugal (2019)

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2.2.4 LEROY MERLIN PRIVATE LABEL

For Leroy Merlin Portugal, the private label investment is one of the strategical objectives defined in the company's vision for 2027 and when considering the company's scope, it is in the product pillar. Considering the Leroy Merlin strategical view, a private label product is exclusive, has characteristics defined by the company and the best value for money. Moreover, there are three main reasons for Leroy Merlin to invest in the private label: increasing the company's rentability due to cost reduction in terms of marketing and advertisement; to transmit the company's credibility to its products; and to have products with specific characteristics that totally fulfil both the customers and the salesmen needs.

TABLE 3 – LEROY MERLIN SALES AND LEROY MERLIN PRIVATE LABEL SALES IN PORTUGAL

	2016	2017	2018
Leroy Merlin sales in Portugal	€ 369.002.474	€ 423.965.959	€ 500.003.203
Leroy Merlin PLB sales in Portugal	22,4%	25%	27,8%
Leroy Merlin PLB sales in Portugal (%)	€ 82.656.554	€ 105.991.490	€ 139.000.890

Source: Leroy Merlin Portugal (2019)

As can be seen from the above table analysis, despite the decreasing progression, Leroy Merlin sales have been increasing, recording a maximum value in 2018 of €500.003.203,00. Moreover, the part of those sales relating with the Leroy Merlin PLBs sales has followed the sales growth. In this case, the highest numbers were recorded in 2018, in which Leroy Merlin private labels sales were € 139.000.890, representing 27,8% of that year sales.

According to a Leroy Merlin internal training for employees (2018), it is possible to identify three main parts that are positively impacted by the private label investment: customers, stores and suppliers. In fact, the PLBs products are produced taking into consideration the customers' needs, thus, they can easily have their needs fulfilled. Moreover, customers know they can count with the private label to facilitate their search for the products with the best value for money. Leroy Merlin PLB products normally belong to the second or third quart, and their

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after-sale service is easier for private label products. With this investment, Leroy Merlin stores can increase their rentability due to cost reduction in marketing and discounts, as well as the elimination of the middlemen margin. Besides, they can easily adapt their offer to the market by having more differentiated products. Furthermore, the stores can be more independent from the monopolistic suppliers. The suppliers may also take advantages from the Leroy Merlin investment in PLBs because they can increase their sales volume and consolidation by establishing a partnership with the number one Home Improvement company in Europe.

However, according to Leroy Merlin official data, the majority of the PLB products are traded internationally, and the products just arrive to the Portuguese warehouses and stores after passing through the French and Spanish logistics and distribution centres, which normally has a significant negative impact on the product's availability and delivery time.

A Wide Variety of Private Labels Brands

Contrary to what happens in other retailers, Leroy Merlin does not have one single PLB. Instead, according to the company's official brand portfolio (2019), Leroy Merlin has created 15 different PLBs and each one is present in a strategical segment and has its own values.

- Inspire
 - **Strategical Segment(s):** Home Furniture and Decoration
 - **Values:** Aesthetics, Customization and Emotionally
- Lexman
 - **Strategical Segment(s):** Electricity and Illumination
 - **Values:** Safety, Durability and Faithfully
- Luxens
 - **Strategical Segment(s):** Painting
 - **Values:** Durability, Easy Installation and Aesthetics
- Spaceo
 - **Strategical Segment(s):** Home Organization
 - **Values:** Faithfully, Aesthetics, Easy Installation and Spacious
- Sensea
 - **Strategical Segment(s):** Bathrooms
 - **Values:** Functionality, Innovative, Aesthetics and Durability

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- Sterwins
 - **Strategical Segment(s):** Motorized Garden
 - **Values:** Efficiency and Quality
- Standers
 - **Strategical Segment(s):** Fixing, Fastening and Security
 - **Values:** Efficiency, Availability, Faithfully and Convenience
- Naterial
 - **Strategical Segment(s):** Barbecues, Pools, Outdoor Organization, Outdoor Floor
 - **Values:** Customization, Ease of Use, Durability and Ease of Installation
- Artens
 - **Strategical Segment(s):** Pavement, Coating, Outdoor and Indoor Doors, Windows and Stairs
 - **Values:** Durability, Customization, Efficiency, Aesthetics and Ease of Installation
- Axton
 - **Strategical Segment(s):** Wood Treatment, Glues, Stickers, Pool Treatment, Cement, Cement, Construction Material and Roofs
 - **Values:** Ease of Installation and Durability
- Delinia
 - **Strategical Segment(s):** Kitchen Furniture, Kitchen Accessories and Kitchen Taps
 - **Values:** Aesthetics, Faithfully and Friendly
- Dexter
 - **Strategical Segment(s):** Electric and non-electric Tools, Tool Cases, Accessories and Specialized Tools
 - **Values:** Ease of Installation, Efficiency, Quality and Power
- Equation
 - **Strategical Segment(s):** Heating, Water Treatment, Air Treatment and Plumbing
 - **Values:** Value for Money, Durability and Well-being

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- Evology
 - **Strategical Segment(s):** Home Automation, Smart Doorbells, Alarms and Antennas
 - **Values:** Ease of Installation, Security and Innovation
- Geolia
 - **Strategical Segment(s):** Phytosanitary products, Seeds, Grass, Fertilizers, Irrigation and Garden Tools
 - **Values:** Ease of Installation, Nature and Efficiency

Private Label Brands Development Strategies

According to an internal training for employees (2018), the strategies for any Leroy Merlin PLB are defined and thought about for five years. However, the development of those strategies starts to be defined two years before, in an international brand synergy. To complement the work developed in those synergies, there are also personal and on-line meetings every three months.

Moreover, there are three different types of processes when developing the creation strategies for PLBs and their products: selection – Leroy Merlin negotiates with a particular supplier and brands its products as Leroy Merlin PLB; development – Leroy Merlin develops a completely new product and brands it; and co-development – Leroy Merlin adds an extra characteristic to an existent product and brands it.

Nonetheless, during the PLBs creation process, and still according to the internal training for employees (2018), it is crucial to pay attention to the following aspects: market analysis – important in defining the right brand positioning, considering the value for money factor; technical characteristics – important to consider all the consumers' needs; packaging – important to designing a packaging adapted to the sales and to the product's logistic circuit; merchandising – important to guarantee a sustainable product placement in the stores; team training – important in providing the sales team with all the product information; stock availability – important to ensure the adjusted supply by the suppliers; quality control – important to guarantee the product quality in all the phases of its life cycle.

Private Label Measures and Objectives

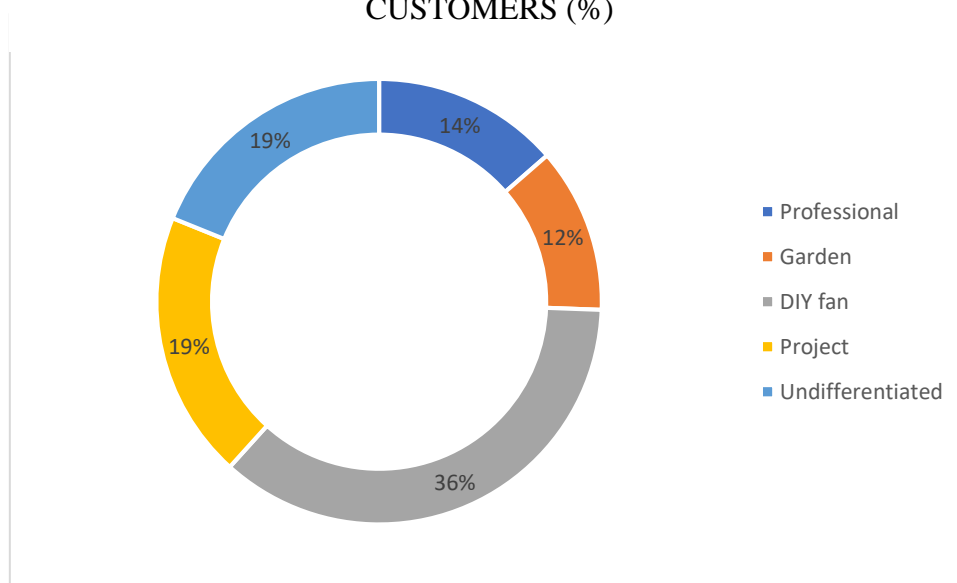
Still, according to the internal training for employees (2018), the measure used by Leroy Merlin to ensure the implementation of the PLBs and the evaluation of its performance is the internal market share, i.e., the percentage of PLB products in the total of the products carried out by the company. In 2018, the company designed one vision for the next years, where a PLB objective for 2021 was established: By that year, Leroy Merlin Portugal has the objective of counting with 34.4% and a minimum of 9.400 private label products in its offer.

2.2.5. LEROY MERLIN CUSTOMERS

According to the Leroy Merlin strategy and its way of working, it is possible to state that there are different types of Leroy Merlin customers.

Firstly, taking in consideration an external study made for the consultant group Deloitte (2018): it is possible to define five different types of customers: Professional Customers, DIY Fans, Project Customers, Garden Customers and Undifferentiated Customers. The study was done taking into consideration a sample of 6.801 customers. Besides the information provided on the following graphic, the study concluded that 14% of the Project Customers are millennials, 12% of the Professional Customers are millennials, 50% of the Project Customers have between 35 and 55 years old and 36% of the Project Customers have more than 55 years old.

GRAPHIC 2 – DIFFERENT TYPES OF LEROY MERLIN CUSTOMERS (%)



Source: Leroy Merlin Portugal (2019)

Customers Profiles - *Personas*

According to the study previously mentioned, Leroy Merlin decided to deeply study its customers and still according to the previous study, it is possible to define four different customers' profiles (personas):

- Maria Lourenço
 - 37 years old, Product Manager in a Multinational company. Lives alone in Lisbon, Portugal but has had a boyfriend for five years.
 - Digital native because of her professional life. Uses social media to discover new brands. Reads reviews and makes online researches before purchase or visit a new store
 - “I love decorations and I like to keep abreast of the new trends. I don't have much time to visit stores, so, after dinner, I like to visit my favourite stores' web sites. I have had this kitchen for some time now and need some changes and improvements. I have searched online a lot to make sure I make the right decision.”
- Elisabete Rocha
 - 64 years old, Pre-Retired.
 - Married for 40 years and lives alone with her husband for six months in Sintra, Portugal.
 - Only uses her cell phone to call her children and grandchildren. Never uses the laptop, except for work. Loves to spend time with her family in parks when she free time to spare.
 - “Now that my children do not live with us anymore, we have to start thinking about our safety and comfort for the next years. Our children advised us to replace the bathtub for a shower base.”
- André and Sílvia
 - 28 and 29 years old, Pilot and Flight Attendant.
 - Have dated for five years but two months ago they decided to buy their first house near Lisbon, Portugal.
 - As digital natives, they are always connected. They always read reviews and do their online research before travelling, going to a store or dining at a

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restaurant. In their free time, they like to play tennis and make plans with their friends.

- “We will marry in three months and finally we found our dream home near Lisbon. We already have an idea of how we want the house to stay, but we are still looking for inspiration to remodel our house.”
- João Ricardo
 - 49 years old, Small Construction Company Owner.
 - Loves to establish contact and maintain a positive relationship with his customers.
 - Uses his smartphone for work, mainly to establish contact with his customers. Does not spend much time online, except at home to talk to his old friends. Goes many times a day to construction stores to collect the materials for his construction works.
 - “Since I work in this area, I am the first to wake up at home and manage to go to the construction stores as soon as possible, before starting my workday. It happens many times throughout the day, to have to go back to the stores to collect more materials needed for the work I am working on.”

2.3 CASE STUDY QUESTIONS

Part A – Situation Analysis

A1 – Develop a complete Situation Analysis for Leroy Merlin Portugal focusing on the: company’s internal perspective; competition; customers; and behavioural trends.

A2 – Based on the case study insights, develop a SWOT Analysis for Leroy Merlin Portugal.

A3 – Considering the case study data, elaborate a Portfolio Analysis (BCG Matrix) for the ADEO Group and state the characteristics of the classification obtained.

Note: To answer this question, it should be used the hypothetical values for the total market:

2014 Sales Volume without VAT: €160 billion

2018 Sales Volume without VAT: €220 billion

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Part B – Solution Plan

SenSea is the Leroy Merlin Private Label for the bathroom department. Nowadays, Sensea has 4 product ranges – Essential, Easy, Remix and Neo - which vary qualitatively and in terms of price. As it was previously explained, the product range in Leroy Merlin is divided in quartiles. Nereo range is directed to the first quartile; Easy is for the end of the first quart and the beginning of the second; Remix is directed for the second quart; and Neo for the third (with higher quality). Thus, in this part of the case study, the student is asked to play the role of SenSea Brand Manager, who has the mission of creating a new brand range for SenSea, directed to the fourth quart. It means that this new brand must be directed to the luxury market segment and shall be distinguished from the other SenSea ranges due to its qualitative higher quality characteristics.

B1 – Considering the previous information regarding the new brand range and the market segment quartiles, which segmentation criteria do you think are crucial in developing a target for the fourth quart? Explain the market segmentation criteria importance and justify the chosen criteria.

B2 – Based on the criteria previously defined, define the target for the market segment in cause and a person who represents it.

B3 - Develop the Brand Positioning Strategy for the new SenSea's product range in which the following elements should be included: Brand Name; Positioning Strategy; Brand Values; Competitive Advantages; Brand Mantra; Positioning Triangle; and Perceptual Map (quality and price should be the axis; Banho10 is the less expensive brand in the market and the one with less quality products; Banhoazis is the most expensive and the one with higher quality in the market).

3. PEDAGOGICAL NOTE

3.1. TARGET OF THE CASE

This case study is planned to consider two possible target audiences:

- From an academic perspective, it is envisioned for Master's professors and students enrolled in Marketing or Marketing Management courses, more specifically, when studying Branding and Retail Marketing.
- From a professional perspective, it might be used for Managers, which functions are related to the Product and Brand to better understand the PLB impact on their business' growth.

3.2. PEDAGOGICAL OBJECTIVES

The primary goal of this case study is to understand how a DIY, Decoration, Construction and Garden company, such as Leroy Merlin can boost its sales, increase its margin and profits and guarantee the customers' satisfaction investing on PLBs. Considering this, the case study has the following pedagogical objectives:

- Understand the marketing and branding concepts used in the case-study;
- Understand the specific market characteristics;
- Deeply study the market and company under analysis;
- Recognize the importance that PLBs have in the retailing companies;
- Study the impact that PLBs may have on the company in study and on its customers;
- Understand the use of strategic analytical tools to entirely develop the internal and external analysis;
- Develop the students' critical sense and problem-solving ability;
- Stimulate the proximity between the theoretical learnings and reality, by solving a case-study with real data and insights.

4. LITERATURE REVIEW

4.1. BRANDING AND BRAND CONCEPTS

In order to get a complete sense to what the branding concept is, it is important to establish the difference between brand and branding concepts. It is also crucial to note that both concepts are related and implicit to one another. While a brand is “*a name, terms, design, symbol, or any other feature that identifies one seller’s good or service as distinct from those of other sellers*” (American Marketing Association, 2017)^a, branding is “*endowing products and services with the power of a brand*” (Kotler & Keller, 2016). Thus, it is understandable that the second concept is based on the first one. In fact, the basis of the branding concept is building and creating a brand in consumers’ minds using the image of one specific company, its products or services. It can also be considered a strategy put into practice by companies to facilitate the recognition of their products or services by the consumers and to take an advantage over the competitors’ products or services.

Some authors and marketers consider the brand concept definition given by the American Marketing Association (A.M.A.) as reductive. Therefore, those authors tried to complement the American Marketing Association’s definition with several other concepts, such as brand elements, brand awareness and brand equity. Hence, the brand concept definition given by the A.M.A. can be distinguished from the definition given by other researchers, authors and marketers, which include the mentioned concepts related to intangible components and consumers’ value perceptions. (Keller, 2003 in Vieira, F. & Loureiro, S., 2014).

To conclude, the brand is a product or a service in which its dimensions differ, in some way, from other products or services created to satisfy the same consumers’ needs. Thus, the differences can be related to the brand performance or with what the brand represents in emotional or symbolical terms. (Kotler & Keller, 2016).

4.2. BRAND EQUITY

Brand equity concept started to be discussed and considered a crucial element for companies only from the 20th century, more precisely, from the ’80s. Defining brand equity was difficult

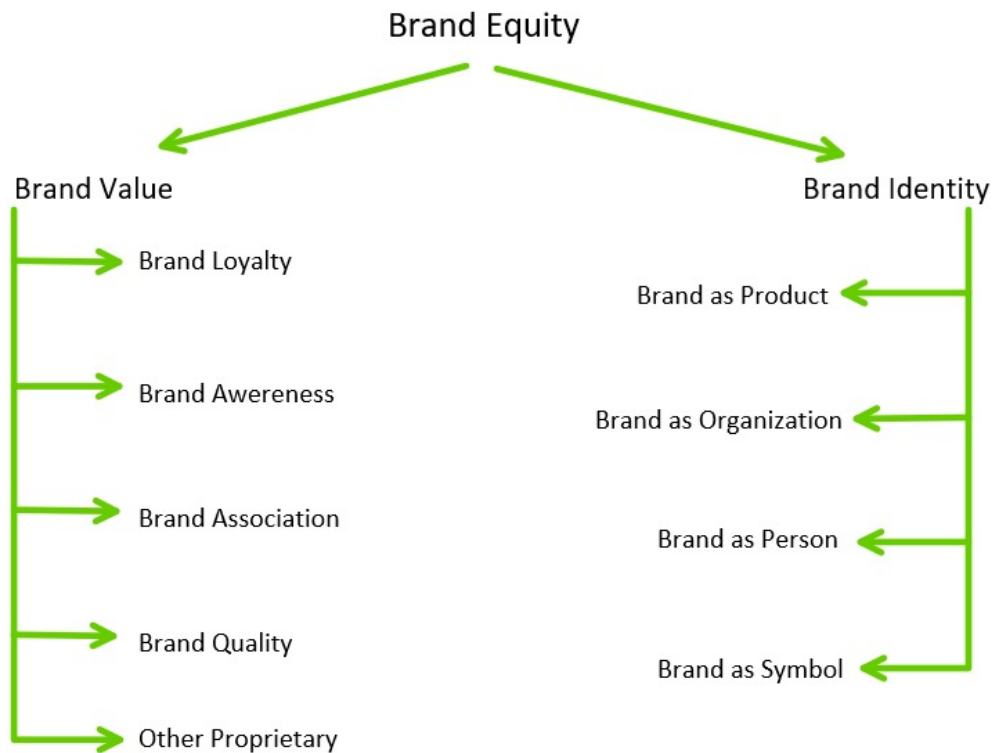
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for the researchers, from a theoretical point of view. However, the majority of researcher's state that the concept must be defined exclusively in terms of marketing effects, which are directly related to the brand. In fact, David Aaker (1991), one of the first researchers in this field of study suggests that brand equity is defined as the set of assets and liabilities linked to one brand, its name and symbol, which can add or deduct value to the products or services that are offered by one company to its consumers (Vieira, F. & Loureiro, S., 2014).

Furthermore, the assets and liabilities in which the brand is based vary within the context and they can be grouped in five different categories: brand loyalty – the extent to which people are loyal to a brand; brand awareness – the extent to which a brand is known among the public; perceived quality – the extent to which a brand is considered to provide good quality products; brand associations – the associations triggered by a brand; and other proprietary – assets like patents and intellectual property rights, relations whit trade partners. (Aaker, 1991). These categories represent the five components of brand value in the brand equity model developed by Professor David Aaker. It is also important to distinguish brand value from brand equity. Brand value is the financial worth of a brand, i.e., the value of how much someone purchasing the brand would pay. The developed brand equity model includes also what the author considers to be the four elements of brand identity: brand as product- product scope, attributes, quality or value of the product; brand as organization – organizational attributes and local workings versus global activities; brand as person – brand personality and consumer-brand relationships; brand as symbol– audio and visual imagery , metaphorical symbols and brand heritage (Aaker, 1991).

The referred brand equity model states the brand equity as a multidimensional concept and, based on this model, a definition for brand power was purposed by another author. Thus, *“because brand equity is the value that consumers associate with a brand, in reality, the power of the brand lies in what customers have learned, felt, heard, and responded to regarding the brand over time”* (Keller, 2013 in Girard *et al.*, 2017). Considering the Leroy Merlin private label investment, it was decided to develop the brand awareness concept due to its impact on the purchasing process in this first phase of research. In a future phase, the other dimensions will also be studied. Moreover, it was decided to study the brand elements because Leroy Merlin has different private labels for different store departments and each one has distinguished elements, which relate them with their sectors.

FIGURE 5 – BRAND EQUITY MODEL



Source: Adapted from Aaker (1991)

4.3. BRAND POSITIONING

Positioning can be defined as the “the act of designing an organisation offering and image to occupy a distinctive place in the target market’s mind” (Kotler, P., 2000 in Wang, H., 2015). Relating this concept with the brand concept that was previously defined, it is clear to understand that brand positioning is *“the act of designing a brand’s offering and image to occupy a distinctive place in the target market’s mind”* (Wang, H., 2015). In this sense, Keller, K. (1999), states that the concept of brand positioning consists of creating a space in the mind of the existing and potential customers, so they can think the brand in the “right way”. The author also refers the positioning of a brand in the market requires an analysis of the market

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and the market players to create the desired image for the brand. With that image, the company is maximizing the brand's success.

Still considering the previous research, it is crucial to consider the concept of brand association in the brand positioning process. This concept conveys the brand positioning and can be defined by the author as the “*consumer-derived associations that reflect the brand positioning*” (Keller, K., 1999).

4.3.1. BRAND MANTRA

With the purpose of guaranteeing that all the stakeholders understand what the brand is and what it represents, brand mantra is, according to Keller, K. (1999), short phrases that capture the essence of the brand. Moreover, the author states that brand mantras are important for several reasons, such as: reinforce impressions of the brand in the consumers' minds; the knowledge about that the brand may change when the stakeholders encounter the brand in any way, shape or form; provides memorable considerations that should be kept in the consumers' mind; and has an impact on the recruitment policies and on the ethic of its workers.

4.4. PRIVATE LABEL CONCEPT

As it was previously mentioned, according to the American Marketing Association (2017)^b, a private label is “*a brand that is owned by the product's reseller rather than by its manufacturer.*” Moreover, private label brands, known as “store brands”, “retailer brands”, “own brands”, “own labels”, and “generics”, can be defined as “*products produced by one manufacturer and sold under the name of a different company*” (Dimitrieska, Koneska, Kozareva & Tiofilovksa, 2017). Likewise, a private label product may be manufactured by a third-party manufacturer and sold under a retailer's brand name and may also have other designations, such as retailer brands, own labels, or generics (De Wulf *et al.*, 2005 in Dimitrieska, Koneska, Kozareva & Tiofilovksa, 2017). In the past, private labels have been merchandised based on price. However, more recently, some retailers have been emphasizing quality over price and this trend has been increasing over the years (Stephen, 1993). From the moment, retailers started to emphasize quality in their private labels, national brand manufacturers started looking at private labels as if they were another national brand, i.e., a direct competitor.

4.5. PRIVATE LABEL BRAND EQUITY

Considering the private label growth, this concept has become important in terms of research and a number of studies have addressed some issues related to the topic, such as buying proneness between private label and manufacturer / national brands; differences between these two types of brands; factors that might influence the consumer attitude towards private labels; and the relationship between private label and store loyalty.

However, there is a shortage of studies that directly study the private label brand equity (Girard *et al.*, 2017). To complement the studies by Richardson, Jain and Dick (1996), in which the authors presented the framework of factors that might influence store brand proneness and the study by Jara and Cliquet (2012), in which the authors developed and tested a retail brand equity model for retail establishment brands, Girard *et al.* (2017) decided to develop a conceptual framework for private label brand equity. This framework has the brand equity model previously presented in Figure 1 on its basis, which was developed by Aaker (1991), it conceptualizes private label brand equity as multiple constructs and measured with eight brand equity dimensions. In addition to the four dimensions presented in Figure 1 (brand awareness, perceived quality, brand associations, and brand loyalty), the four other dimensions included are: perceived value, perceived risk, private label brand loyalty, and private label brand equity (Girard *et al.*, 2017).

By taking these dimensions into consideration, it is possible to understand that awareness has a positive influence on perceived quality, which will lead to a perception of low risk and good value for price, thus having a positive impact on private label brand equity. Moreover, it is also understandable that awareness will have a positive influence on brand associations, which in turn, will have a positive impact on brand loyalty and private label brand loyalty. Consequently, these two dimensions will positively affect private label brand equity. Finally, it is also possible to understand that: perceived risk mediates the relationship between perceived quality and perceived value; perceived value mediates the relationship between perceived quality and private label brand loyalty; and private label brand loyalty mediates the relationship between perceived value and brand loyalty (Girard *et al.*, 2017).

4.6. THE PROLIFERATION OF PRIVATE LABEL BRANDS (PLBs)

“Private label brands (PLBs) have become a challenge for manufacturer brands, as evidenced by PLBs’ impressive growth over the past decade.” (Cuneo, Milberg, Benavente & Palacios-Fenech, 2015). Still according to the authors, the PLBs are present in more than 90% of consumers packaged goods categories.

There are different reasons for the significant investment made by retailers in private label, whether they economical or strategical. Those reasons are a motivation factor for retailers due to the superior benefits that they bring (Altinta, Hakan, Kilic, Senol & Feride Bahar Isin, 2010). Considering this, research has indicated that the retailers are more willing to develop PLBs when the market conditions are set to maximize profits and when is crucial to obtain a differentiation from their competitors (Corstjens & Lal, 2000 *in* Cuneo, *et al.*, 2015). However, to obtain economic benefits, such as: higher margins; create higher prices differentials; and offer consumers better prices, it has been important for retailers to build market power through volume and exploiting economies of scale and scope (Ailawadi & Harlam, 2004 *in* Cuneo, *et al.*, 2015). Nevertheless, other causes for the PLBs proliferation were studied, such as: the need to create low cost products and services; the need of creating loyal customers; the continuous change of shopping habits of consumers; and fulfilling the unsatisfied needs of consumers. (Blazeska, 2013 *in* Dimitrieska *et al.*, 2017).

Taking the PLBs proliferation in consideration, studies state that the PLBs market share growth is directly related to four factors: retail concentration rates; country’s trade; country’s logistic structure; and the presence of global retailers in the market (Cuneo *et al.*, 2015). Thus, according to the same authors, the retail concentration rates positively affects the PLB share due to a major power of retailers in the marketplace and to a higher negotiation power. The country’s trade modernity and the country’s logistic structure development have a direct relation with the PLB share. On one hand, the more highly developed a country’s modern trade, the higher its PLB share. On the other hand, the more highly developed a country’s logistic structure, the higher its PLB share. Moreover, the presence of global retailers in the country affects positively the PLB share.

Several studies state that the PLB growth is significant in the last decades. Thus, considering the research made by Duarte and Loureiro (2017), based on a Nielsen’s report on The State of Private Label Around the World (2014), private label registers higher level of development in

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Europe. In fact, the European Western markets, are the ones with the more significant PLB development, with private label products accounting for 1/3 of the consumer-packaged goods.

As it was previously mentioned, at first, the proliferation of PLB had on its basis the economical and strategical benefits that PLB represented for the retailers and for the customers. In fact, those benefits were related to a lower selling price. However, in the last decade, the PLB have improved the quality of their products, ceasing to be considered lower quality products (Dimitrieska *et al.*, 2017). Thus, with the significant investment that has been made in quality and value of PLB products, they are compared with National Brands (NB) and considered to be above of them in some product categories (Apelbaum *et al.*, 2003; Gomez-Arias & Baello Acebon, 2008 *in* Dimitrieska *et al.*, 2017).

Last, in the last years, due to the opening of more stores and to a wide variety of products, the competition between PLB and NB ceased to be only for the lower price, but also for the quality of the products. The retailers also realize that exist a direct relation between the quality of their PLB and the positioning of their store (Chernatony & McDonald, 2003 *in* Vieira, D. & Loureiro, S., 2014).

4.7. PRIVATE LABEL BRANDS (PLBs) vs NATIONAL BRANDS (NBs)

Considering the brand concepts and the private label brand definitions that were previously state, it is possible to understand that the main difference between them is that NBs are owned and produced by a company and sold by different retailers, while PLBs are owned and sold by one specific retailer. Thus, it can also be state that private label is “*a brand or label name attached to or used in the marketing of a product other than by the product manufacturers; usually by a retailer*” (Hasan & Nika, 2014).

However, the difference between PLBs and NBs are not only related to the definition and to the company which owns the product. In fact, from a marketing mix point of view, the main differences are not related with the price, placement and promotion variables and not to the product one. (Duarte, V. & Loureiro, S., 2017). Considering the first variable – price, the PLB products are cheaper than the NB products and have more significant margins (Chen, Narasimhan, & Dhar, 2010), except when the NB products are on sale or when the retailer wants to position its PLB above the market’s first price. In respect of placement, the PLBs distribution channel is more restricted since they are produced by a factory, owned by a retailer

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and sold just by the retailer who owns the brand. By contrast, NBs are produced and owned by one company and can be sold in different retailers' stores. Taking promotion into account, NBs register a superior advertising care in national level than PLBs (Duarte, V. & Loureiro, S., 2017).

Positioning a PLB accordingly to the NBs present in the market segment may be crucial for its success. Consequently, it is important to take two different types of product differentiation when deciding to put a PLB in the market: quality differentiation – based on the notion that the characteristic on which differentiation occurs is valuable the highest as possible for consumers; and feature differentiation – is related to the degree to which products have different forms, sizes or packaging (Choi & Coughlan, 2008). Still considering the study developed by the author for the case of two NBs competing with one NB, when national brands are expressively differentiated just in the feature dimension, the PLB has the opportunity to choose a feature position equivalent to one of the national brands, i.e., a PLB with a high quality degree might be positioned closer to the stronger NB, while a PLB with a low quality degree might be positioned alongside with the weaker NB. However, when the two NBs are not differentiated in the feature dimension, the PLB can just maximize the feature differentiation from NBs.

4.7.1. PRIVATE LABEL BRANDS (PLBs) ADVANTAGES

Considering the PLBs proliferation, NBs face serious challenges to recover their market shares and to be the consumers' preference and top-of-mind brands. These challenges can be explained by the fact that the quality gap between PLBs and NBs is constantly decreasing due to the retailers' effort to improve their PLBs products quality (Apelbaum, Gerstner & Naik, 2003 *in* Calvo-Porrall & Lévy-Mangin, 2017). The PLBs products perceived quality has increased because the consumers are more willing to try these brands and can also contribute to the challenges that NBs have to overcome (Spratt & Shimp, 2004 *in* Duarte, V. & Loureiro, S., 2017).

PLBs represent significative benefits and advantages for both retailers and customers. Considering the retailers position, the advantages can be summed up as: lower costs; higher profit margins; higher chain profitability; increased differentiation; product turnover; control over shelf space; control over production; control over pricing; adaptability; generating store loyalty; and control over branding (Ashley, 1998; Bonfrer & Chintagunta, 2004, Ailawadi *et al.*, 2008 *in* Dimitrieska *et al.*, 2017). The retailers may have a higher control over production,

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a more effective control over the shelf space and an increased product differentiation because they have a high bargaining power over the manufacturers, and they follow the retailers' requirements related to all the product characteristics. The lower costs, higher profit margins, higher chain profitability and control over pricing are strictly related to the economies of scale guaranteed by the retailers due to the fact that they buy in large quantities (they can get discounts and, consequently, have the opportunity to practice lower prices). Finally, the retailers can easily generate store loyalty, product turnover and can better adapt to new market trends since they are very close to the customers' requirements and have a great influence on suppliers (Duarte, V. & Loureiro, S., 2017).

Considering the retailers position, the advantages of private brands for consumers are not only related to lower prices and to a variety of alternatives (Dimitrieska *et al.*, 2017), but also improved accessibility, higher value for money ratio and easiness of return. Even for supplier, PLBs may have a positive impact if the increase in quantities sold outweighs the reduction in the selling price.

Nevertheless, the PLBs success level is related with the product category. Considering a worldwide perspective, PLBs share and sales are usually more significative in commodity-driven, high purchase categories, such as: paper products, milk, bread and eggs (Duarte, V. & Loureiro, S., 2017). However, considering the retailers' investment that was previously mentioned, PLBs products' range is extended in almost every product category, such as: personal care; beverage; cosmetics; household cleaners; condiments; salads; dairy items; frozen food; and home construction and decoration (Dimitrieska *et al.*, 2017). Despite of that, and still according to the authors, "*PLBs penetrate in those product categories where retailers have power and strength to offer better products than the NBs in the market*". The retailers' strength can also be related to the number of suppliers in the market. Thus, it can be state that it becomes easier for PLBs to create products in the categories which have more suppliers in the market and which products are more commodity driven.

4.7.2. PRIVATE LABEL BRANDS (PLBs) LIMITATIONS

Regardless of the proliferation of PLBs, the growth market shares and the significant investment done by retailers, NBs still dominate the luxury market – with very high quality, prestigious, rare and specific products (Dimitrieska, 2017). To better understand the luxury market, it is important to distinguish two consumer choices behavior: functional value – the

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perceived utility of a good in functionality terms, when compared to its alternatives; and emotional value – the perceived utility of a good when compared to its alternatives in terms of the capacity to stimulate feeling and emotions (Ribeiro, C. & Lage, M., 2017). The emotional value is strictly related with the existence of NBs that are recognized and differentiated, having a symbolism towards the market and its consumers. Moreover, the luxury NBs are present in niche markets where retailers cannot spend their resources to put there their PLBs. Considering the functional value, there are also specific markets there are innovation-driven, where the level of investment cannot be followed by PLBs or where the retailers are not specialist. However, in specific markets, due to the existence of few alternatives or to the low quality of the alternatives, there are suppliers which have invested to put their PLBs in the high-quality segments.

Besides the luxury market, there are other markets and market segments in which the PLBs cannot compete with NBs. According to Duarte, V. and Loureiro, S., 2017, there are four reasons why is so difficult to PLBs to enter in these markets: the rate of innovation; the product differentiation degree; the marketing investment; and the purchase frequency.

Considering the first factor, market innovation is defined as *“the emergence and institutionalization of resource linkages that improve resource density and, hence, value creation in a market”* (Storbacka, K., 2019). According to that, it is possible to understand that the markets with a high rate of innovation are marked by a great investment to launch of new products very often. Normally, the PLBs are present in different markets and they cannot follow the investment of NBs which are specialist in just one market or market segment (Duarte, V. & Loureiro, S., 2017). Technology and skin care may be the examples of this type of markets, with a high degree of innovation.

The second factor is related to real and perceived value concepts that were previously defined. There are nine indicators of product differentiation: form; features; quality of performance; compliance; durability; reliability; repairability; style; and design (Kotler, P., 2003 in Rachmat, R., Hurriyati, R., & Sultan, M., 2019). According to that, there are NBs considering luxury brands, i.e., with an extremely high level of perceived value and NBs that are specialist in specific markets and invest to have wide strategies of product development to serve the different customer needs (Duarte, V. & Loureiro, S., 2017). Once again, PLBs, normally, do not have capacity to follow the degree of investment to have a wide range of products for the

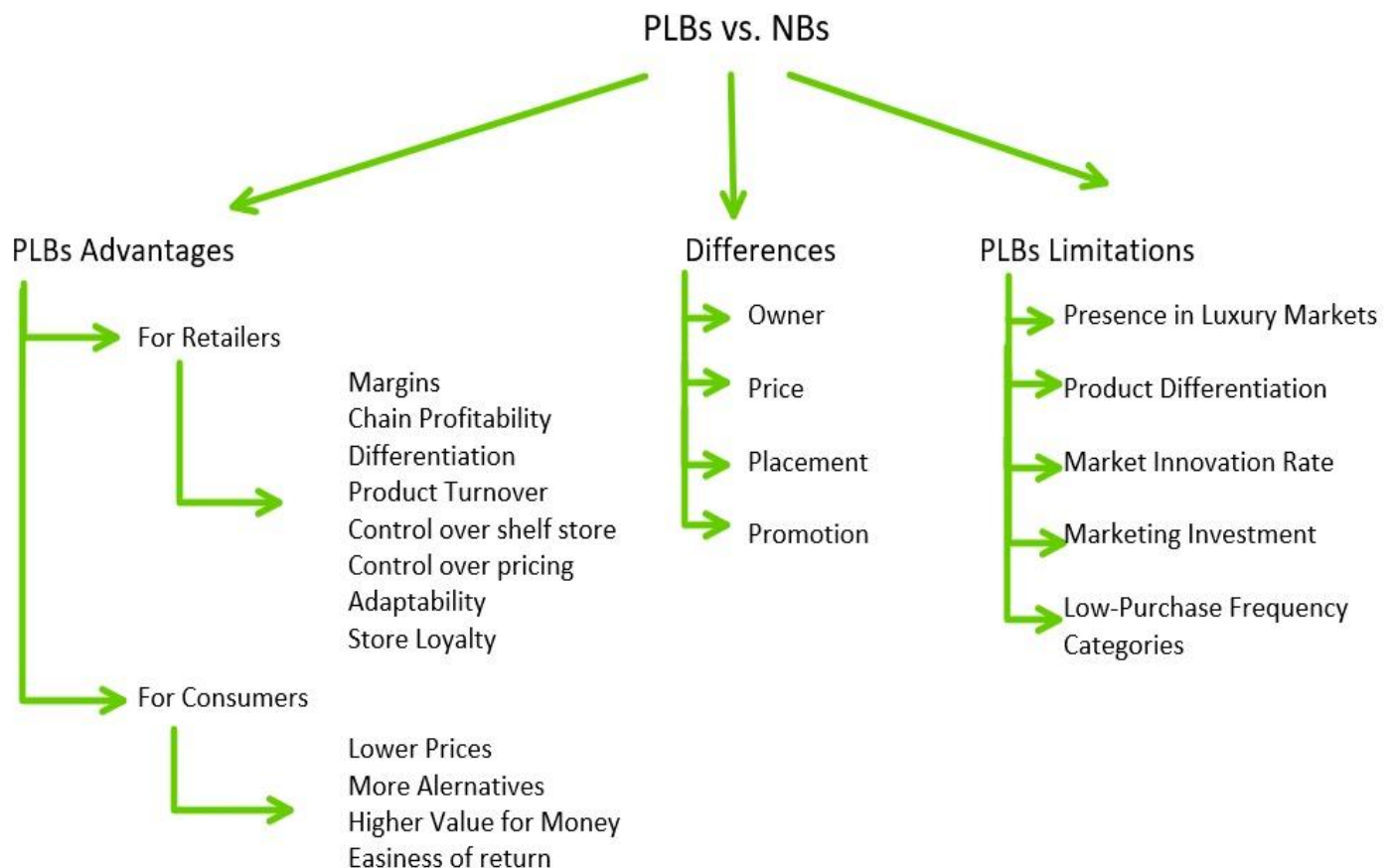
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same category. Hair-care market can be considered one of these markets with a lot of product differentiation (colour protection, anti-dandruff, dry hair shampoo, etc.).

Taking the third fact into account, and according to Duarte, V. and Loureiro, S. (2017), NBs have higher marketing budgets, which has an effective impact on brand awareness, brand loyalty rates and brand awareness.

At last, and considering the high frequency purchases, they create less product interest and lower willingness to pay than low-frequency purchases because consumers associate low-frequency purchases with low-frequency usage (Hamilton, R., Ratner, R. & Thompson, D., 2011). Thus, PLBs have a limitation in the markets or market segments where the purchase frequency is high. For example, in house heating or water heating market segments.

FIGURE 6 – PRIVATE LABEL BRANDS VS. NATIONAL BRANDS



Source: Adapted from Choi & Coughlan (2008); Hamilton, R., Ratner, R. & Thompson, D. (2011); Hasan & Nika (2014); Duarte, V. & Loureiro, S. (2017); Calvo-Porrall & Lévy-Mangin (2017); Dimitrieska et al. (2017); Ribeiro, C. & Lage, M. (2017); Storbacka, K. (2019); & Rachmat, R., Hurriyati, R., & Sultan, M. (2019)

4.8. CONSUMERS' BEHAVIOUR TOWARDS PRIVATE LABEL BRANDS (PLBs)

Consumer behavior can be defined as *“the study of individuals, groups or organizations and the processes they use to select, secure, use and dispose of products, services, experiences or ideas to satisfy needs and the impacts that these processes have on the consumers and society”* (Hawkins, D., Best, R., & Coney, K., 2011). According to Batra, S and Kazmi, H., 2004, it can also be defined as *“the mental and emotional processes and the observable behaviour of consumers during searching purchasing and post consumption of a product and service”*.

Customers are repetitively confronted with the need of making decisions about which product or service they want to consume. In fact, there are five different stages in a decision-making process: problem recognition; information search; evaluation of alternatives; product choice; and outcomes (Solomon, 1999 *in* Mendes, P. & Oliveira-Brochado, A., 2013).

In the first stage, the consumer notes a difference between the current state and the ideal state (Mendes, P. & Oliveira-Brochado, A., 2013), i.e., the consumers recognize a problem or a need. The second stage is the information search and it is the process by which consumers examine the environment in order to make a rational decision. Customers can get information from different sources, such as: personal, public or experiential. Though, customers value personal sources than commercial ones. (Panwar, D., Anand, S., Ali, F., & Singal, K., 2019). In the third stage, the consumers consider and evaluate all the alternatives able to satisfy their need. In the fourth alternative and after evaluating all the alternatives, the consumers choose the alternative that best suits their need. The social and physical environment may affect their choice, as well as the time and prior experiences. At last, the fifth stage is characterized by the consumers' post-purchase behaviour, which is extremely influenced by their satisfaction level. This satisfaction level is also directly related with the probability of repeating the purchase. Considering this, the choice of buying a PLB and not a NB can occur in the first three stages. However, the two last stages are also important since they can influence future decision-making processes (Mendes, P. & Oliveira-Brochado, A., 2013).

FIGURE 7 – DECISION MAKING PROCESS



Source: Adapted from: Mendes, P. & Oliveira-Brochado, A. (2013)

4.9. FACTORS THAT AFFECT THE PLB CHOICE

4.9.1. PRICE CONSCIOUSNESS

Price consciousness can be defined as “*the degree to which consumer focus exclusively on paying a low price*” (Lichstein *et. al*, 1993 in Mendes, P. & Brochado, A., 2013). It can also be defined as “*a consumer’s reluctance to pay for the distinguishing feature of a product if the price difference for these features is too large*” (Sinha, I. & Batra, R., 1999).

Research suggests that price sensitivity level has an inverse relation to the income level, i.e., the lower the income, the higher the price sensitiveness (Gabor & Granger, 1979; Lumpkin *et. al*, 1986 in Mendes, P. & Brochado, A., 2013). Considering this, it can also be state that “the more customers’ are sensitive to price, the higher will be their proneness to buy private labels (Brochado, A., Marques, S.H., & Mendes, P., 2015).

However, several research state that price consciousness varies not only from consumer to consumer, but also across products and situation for the same individual (Lichstein *et al.*, 1988 in Sinha, I. & Batra, R., 1999). Furthermore, other studies suggest that consumers may be more or less price consciousness depending on the product category due to the differences in the

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perceived riskiness of purchasing decisions in different categories, among other reasons (Sinha, I. & Batra, R., 1999). Thus, some studies state that PLBs can easily succeed in product categories where the consumers are more sensitive to price (Raju *et. al*, 1995 in Mendes, P. & Brochado, A., 2013).

Taking the PLBs and the price variable in consideration, it is also important to state that PLB products price perception is, normally, marked lower than NB products due to their intrinsic lower cost characteristics. Thus, this idea leads to the fact that consumers are willing to pay less for PLBs rather than NBs (Miranda & Josh, 2003; Scott Morton & Zettelmeyer, 2004 in Mendes, P. & Brochado, A., 2013).

4.9.2. QUALITY CONSCIOUSNESS

Considering the thoughts of the early philosophers, the term “quality” was used to refer to an explicit feature of an object. More recent studies have separated quality into three constructs: quality based on the product; quality based on the consumer; and quality based on the customer-service. (Zeithaml, 1988; Holbrook & Corfman, 1985 in Omarji, P & Rita, P., & Marques, J., 2017).

Quality can also be divided into two different domains: objective quality; and perceived quality. The first domain is related to the product/service superiority in terms of technical characteristics – this quality domain is also measurable and verifiable (Omarji, P & Rita, P., & Marques, J., 2017). The second domain can be defined as “*the customer’s perception of the overall quality or superiority of a product or service with respect to its intended purpose, relative to alternatives*” (Aaker, 1991 in Ophuis, P. & Trijp, H., 1995). Considering the theme in question, it is more important to deepen study the perceived quality since is the domain which influences more the PLB purchase intention (Richardson, P. S., Dick, A. S., Jain, A. K., 1994 in Omarji, P & Rita, P., & Marques, J., 2017).

Moreover, to study the perceived quality concept and how it can influence the PLB purchase, it is crucial to understand the two different product attributes: extrinsic; and intrinsic. On one hand, the first ones refer to the objective nature of the product – price, brand elements, advertising, packaging, etc. On the other hand, the second ones are related to the product usage – efficiency, durability, taste, aroma, among others. Though, considering the different product attribute types, some authors state that despite the extrinsic attributes have an impact on the

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consumer purchase decision, the intrinsic attributes are more significant. To justify this thought, Field, J. R., Bergiel, B. K., Giesen, J. M., Fields, C. L. (2009) made an experiment in which they put the PLB products inside the NB packaging and vice versa (Omarji, P & Rita, P., & Marques, J., 2017). This thought can be reinforced by different authors, since De Wulf *et al.* (2005) find that when blind tests are performed, private label brand products are often rated higher than national brand products in terms of quality (Boyle & Lathrop, 2013).

Thus, taking also the proliferation of PLB into account, it can be state that perceived quality is extremely important in the moment when the consumer chooses to buy a PLB or a NB product since in the last years the perceived quality difference between these two types of brands has decreased (López-Menchero, T. B. & de Miguel, J. D., 2015).

4.9.3. VALUE FOR MONEY

Value for Money is a utility derived from every purchase. According to the Business Dictionary (2019), it can *“be based not only on the minimum purchase price, but also on the maximum efficiency and effectiveness of the purchase”*. This concept is related to the value consciousness – *“a concern for paying low prices subject to some quality some quality constraints”* (Lichtenstein, D., Ridgway, N. & Richard G., 1993 *in* Brochado, A., Marques, S.H., & Mendes, P., 2015). According to some authors, the less expensive PLB prices can be seen as a motivation to attract consumers who are value consciousness to the retailers’ stores (Ailawadi, Nelsin & Gedenk, 2001; Garreston, Fischer & Burton, 2002 *in* Brochado, A., Marques, S.H., & Mendes, P., 2015).

Furthermore, the value for money concept is also related to the price-quality association. The price-quality ratio *“provides a trade-off where customers “pay for what they get” and “get what they pay for””* (Pauwels, K., & D’Aveni, 2016). In this sense, consumers use a comparative process to evaluate the products, in which a difference in price causes a perception of difference in quality (Chen, J., Sousa, C.M.P, & H. Shinming, 2019). An appropriate combination between the quality and price variables represents’ the PLB or NB positioning, which delivers to the customer the perceived value of the product in the purchase moment. Considering this, on one hand, a price increasement can generate more revenues but negatively affect the customers’ willingness to pay. On the other hand, a quality increasement generates more production costs but positively affects the customers’ willingness to pay (Chang & Wildt, 1994 *in* Chen, J., Sousa, C.M.P, & H. Shinming, 2019).

4.10. PLB CONSUMER PERCEPTION

Three factors that may affect the PLB option during a decision-making process were studied: price consciousness; quality consciousness; and value for money.

Regarding the first factor, some authors consider that consumers use the price variable as a quality indicator, associating high prices to high quality (Mendes, P. & Brochado, A., 2013). However, consumers who are predisposed to buy PLB products do not believe in that association and they are willing to pay less when purchasing PLB products.

Considering the quality consciousness, customers use intrinsic and extrinsic factors to evaluate the PLB products quality, as it was previously mentioned. Moreover, it can be stated that perceived quality is extremely important in the moment when the consumer chooses to buy a PLB or a NB product, since in the last years the perceived quality difference between these two types of brands has decreased (López-Menchero, T. B. & de Miguel, J. D., 2015).

In the third factor, despite of the price-quality perception has decreased in the last years, it continues to exist, and it may vary accordingly to the product category in cause (Volckner & Hoffman, 2007; Peterson & Wilson, 1985 *in* Brochado, A., Marques, S.H., & Mendes, P., 2015). Thus, it must be considered when deciding the PLB positioning strategy in the market.

Hence, the product category in which PLB is present has a huge impact on consumer decision making and in the positioning strategy to adopt by the retailers for their PLBs. As it was previously referred, in a product category where the practiced prices are high and where the perceived value is notorious; in product categories characterized by risky products; and in product categories with a reduced level of purchase repetition, the customer is less willing to choose a PLB over a NB. On the contrary, the customer willingness to opt for PLB is higher when he purchases commodity-based products.

5. METHODOLOGY

The case study development was based on the following steps:

- A rigorous and extensive Secondary Research concerning the market, the competition, the brand, and its offer and private label strategy;
- A Literature Review concerning the principal topics of the case (Branding and Brand Concepts; Brand Equity; Brand Elements; Brand Awareness; Private Label Concept; Private Label Brand Equity; Private Label Brands – Consumer Perception of Quality, Price and Value for Money);
- A set of questions regarding an external analysis of the company present in the case study and its resolution proposal;
- A set of questions concerning plans of actions to develop a new product range for one private label, by using the case study themes and its resolutions proposal.

5.1. CASE STUDY ANIMATION PLAN

TABLE 4 – ANIMATION PLAN

Session	Objectives	Action Plan	Time spent
1 st Session	Get the students to know the company and the market in which it operates; Ensure the student's interest in the case study thematic.	Distribution of the case study; Briefly explain the case study content; Introducing Leroy Merlin to the class (as support, brand institutional videos, news, advertising	1h

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		<p>campaigns and animation questions can be used);</p> <p>Presenting general topics concerning the DIY and Home Renovation market and promote an initial discussion regarding the case study thematic (Private Label, Quality vs Price, Value for Money Perception of a Private Label);</p> <p>Create work groups of 4.</p>	
Out of Session	<p>Case Study Analysis</p> <p>Research on the main topics of discussion</p>	<p>Individual case study reading and comprehension;</p> <p>Additional research by the work groups (scientific articles, journals, books and internet) regarding the political, economic, social, technological, legal and human</p>	1h30min

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		characteristics of retail in Portugal and, more specifically, of the Home Construction and Renovation market.	
2 nd Session	<p>Ensure students' understanding of the case</p> <p>Introduction of the Case Study</p> <p>Questions</p>	<p>Clarification of the students' doubts;</p> <p>Promote a discussion regarding the DIY and Home Renovation market, its players and main challenges;</p> <p>Promote a discussion about Leroy Merlin, its position in the Market, its Points of Parity/Difference and its Strengths, Weaknesses, Opportunities and Threats.</p>	1h30min
Out of Session	Research on the main topics of discussion	Additional research by the work groups (scientific articles, journals, books and internet) on the	1h

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		<p>topics discussed in the class</p> <p>Deep case study analysis and group discussion;</p>	
3 rd Session	<p>Case Study Resolution Development;</p> <p>Ensure the students' understanding of customers perceptions about Private Labels.</p>	<p>Resolution of the first three questions (Part A);</p> <p>Promote a discussion concerning the benefits and disadvantages for Leroy Merlin by investing on Private Label;</p>	1h30min
Out of Session	Initial Preparation of the Presentation	Prepare the presentation of the first three questions (Part A) for the Final Session	1h
4 th Session	Address the academic topics necessary for the Case Study Part B resolution;	Present and Explain the students the Segmentation-Targeting-Positioning analysis, focusing on the segmentation criteria, Brand Values and Brand Mantra;	1h30min

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	Case Study Resolution Development;	Resolution of the remaining questions (Part B);	
Out of Session	Conclusion of the Final Presentation	Prepare the presentation of the remaining questions (Part B) for the Final Session	1h30min
Final Session	Case Study Resolution Presentation and Discussion	15 min presentation for each group in PowerPoint or other presentation format; 5 min questions and discussion of the resolution presented by each group; Final considerations by the professor regarding the case study and the presentations.	1h30min
Out of Session	Score the workgroups	In class working (10%) + Case Study Resolution (50%) + Presentation (30%) + Discussion (10%)	

Source: Self-Elaboration (2019)

5.2. ANIMATION QUESTIONS

When introducing the case study in the class, some questions may be asked to the students for them to be more involved, focused and interested in the theme:

- Has anyone ever shopped anything at a DIY and Home Renovation store?
- Are there any DIY fans in the room?
- When you think about the DIY and Home Renovation market, which brands come to your mind?
- How many of you consider buying Private Label products when you are shopping?
- Do you think Private Label products are less qualitative than national brands?
- Is it a good strategy a DIY and Home Renovation brand investing on private label?

6. CASE STUDY RESOLUTION PROPOSAL

A1 – Develop a complete Situation Analysis for Leroy Merlin Portugal focusing on the: company’s internal perspective; competition; customers; and behavioural trends.

Firstly, considering the Leroy Merlin’s **internal perspective** when developing a Situation Analysis, it is important to refer that the company is a retailer which operates in the home improvement market. Considering its past, the company origin is the 19th century, in 1890, which gives its customers an **idea of stability**, growth and a **positive reputation**. The growth is notorious since Leroy Merlin belongs to a business Group – **Group ADEO** -, **which is the third most relevant player operating in this market and the group with the highest market share in Europe**. Despite Leroy Merlin originating in France, it is now a multinational company, present in 3 continents. Taking in consideration the Portuguese market, Leroy Merlin is the main player with **continuous growth until 2018**. In that year, the sales number was **€500 003 203**. In terms of business strategy, Leroy Merlin Portugal is passing through a **fusion process with AKI** (another retailer which belongs to ADEO group), contributing to a **higher market coverage and to a relation of proximity with its customers**. The Leroy Merlin **private label strategy is not having just one private label, but 15** different private labels, depending on the department and on the usage. The company’s growth and rentability, in part,

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due to the private label investment, which represented, in 2018, €139 000 890 in Portugal – **27.8% of the Leroy Merlin Portugal sales.**

In terms of competition, considering a worldwide context, the ADEO Group – Leroy Merlin's owner – is the third most relevant player with a sales volume of 19.8 billion € in 2018, only surpassed by the two American home improvement retailers: Lowe's and The Home Depot, which have a sales volume of 60.7 billion € and 92.1 billion €, respectively. Thus, the identified direct competitors are: The Brico Depot, which belongs to the Kingfisher's Group; Brico Marché, which belongs to the Les Mousquetaires retail group; The Home Depot; Lowe's Home Improvement; Bahauss; and Hernbach. However, not all these players are present in the Portuguese market. In Portugal, the main Leroy Merlin competitors are: The Brico Depot – similar blueprints and business strategy; Brico Marché – which operates under a franchising strategy; Maxmat, which belongs to one of the biggest food retailers in Portugal – Sonae.

Taking Leroy Merlin's customers in consideration, it is possible to distinguish five different types of customers: Professional Customers, which represent 14% of the Leroy Merlin customers; Garden Customers, which represent 12% of the Leroy Merlin customers; DIY fans, which represent 36% of the Leroy Merlin customers, Project Customers, which represent 19% of the Leroy Merlin customers; and Undifferentiated Customers, which represent 19% of the Leroy Merlin customers. Besides that, considering the Professional Customers, 12% of them are millennials and considering the Project Customers, 14% of them are millennials, 55% of them have between 35 and 55 years old and 36% of them have more than 55 years old. These numbers and the identified personas demonstrate that new generation is having a significant impact on the company's business growth.

Finally, the Behavioural Trends are, somehow, related to customers. Thus, it is possible to state that the millennial customers start to have a great weight in company's sales. This type of customers seeks for complete projects, cheaper solutions and services, such as delivery and installation. Moreover, by considering the identified personas, it is possible to say that they are digital natives. Due to that, they use online platforms to purchase or, at least, as an aim in the purchasing process. Thus, the company has followed them by investing on omnichannel strategies. It is also possible to understand that, nowadays, people valorise more the proximity and customization and Leroy Merlin is filling that need with the fusion process with AKI.

A2 – Based on the case study insights, develop a SWOT Analysis for Leroy Merlin Portugal.

TABLE 5 – LEROY MERLIN SWOT ANALYSIS

Strengths	Opportunities
<p>S1: Brand Heritage</p> <p>S2: ADEO European Leadership</p> <p>S3: Wide Offer</p> <p>S4: Different Customer Types</p>	<p>O1: Market Coverage – New Areas and Customers</p> <p>O2: Price-Making Position in the Home Construction Market Segment</p> <p>O3: Attracting and Retaining Millennial Customers</p> <p>O4: Use of Cutting-edge Technology</p>
Weaknesses	Threats
<p>W1: Dependence of External Partners to Execute the Offered Services</p> <p>W2: Difficulty in the Private Label arriving in Portugal</p> <p>W3: Currency in Brazil and Russia</p> <p>W4: Lost of Suppliers' Expertise</p>	<p>T1: Entrance of relevant players in the European / Portuguese market</p> <p>T2: Deterioration of working conditions in the Portuguese retail sector</p> <p>T3: Changing Laws</p>

Source: Self-Elaboration (2019)

S1: Brand Heritage: Taking into consideration Leroy Merlin's history, the company has its origin in the 19th century (1890) and its current name has remained unaltered for 62 years. Moreover, the company is also a pioneer in the Home Improvement market in Europe and a gateway to the DIY movement in Europe. Taking these facts into account and considering the consolidation and internationalization processes by which the company has passed in the last decades, Leroy Merlin's brand image remains strong, successful and reliable in its customers' eyes.

S2: ADEO European Leadership: As it is possible to understand in the case study, ADEO Group had a sales volume of 19,8 billion € without VAT in 2018 (Graphic 1). It is also possible to understand that it is only surpassed by the two American giants (The Home Depot and Lowe's) and since two companies just operate in the US market, ADEO is the leader in Europe. Thus, the fact Leroy Merlin is well established in the European market allows the company to:

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use logistic channels all over the continent; difficult the entrance of new competitors in the market; seize the investment opportunities (marketing, shopping and customers satisfaction) and the growth opportunities (mergers, acquisitions and vertical/horizontal integrations).

S3: Wide Offer: Taking the case study into consideration, Leroy Merlin has a wide variety of products (around 100.000), divided by departments and quartiles. Those products fill the company's offer in the four segments in which it operates: DIY, Home Decoration, Construction and Garden. Having this quantity of products available and covering all these segments is important to acquire and retain customers. Besides that, to completely fulfil the customers' needs and increase both their satisfaction and brand reputation, the company also offers a variety of services (Image 1): Delivery; Click and Drive; Installation; Financing; In store Services; Project Advisor; Guarantee; Equipment Maintenance; and Energetic Certification.

S4: Different Customer Types: Leroy Merlin has 5 different types of customers (**Graphic 2**): DIY fans; Project Customers; Garden Customers; Undifferentiated Customers; and Professional Customers. Thus, the company's offer covers different customers with different needs, which means that Leroy Merlin does not depend on just one market segment, which is strictly related with the reduced customers bargaining power.

W1: Dependence of External Partners to Execute the Offered Services: Besides the products' offer, Leroy Merlin has a variety of services to fulfil the customers' needs (**Image 1**). However, these services are not executed by a Leroy Merlin team. The company has partnerships with different service providers, in its majority, local installers. Considering this, the company has no control or responsibility over these partners, but a failure in an installation (which is very common) is considered, by customers, as Leroy Merlin's problem (the customers cannot distinguish the responsibilities allocation), which affects the brand love, commitment and trust.

W2: Difficulty in the Private Label arriving in Portugal: All the Private Label products are traded internationally and only arrive to Portugal after passing through the French and Spanish warehouses and logistics centres. This has a negative impact on the product's availability and leads to a loss of customers and to increasing customer acquisition and retention.

W3: Currency in Brazil and Russia: Leroy Merlin has had a huge growth in the Brazilian and Russian markets in terms of sales volume. However, the exchange rates of those two countries are lower than one, when compared to the euro. This means that R\$1 corresponds to €0,23

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(**Table 2**) and that **Pyb1** corresponds to **€0,01**. Hence, the low exchange rates are affecting the group results and preventing other investments.

W4: Lost of Suppliers' Expertise: The Private Label Investment has brought a lot of benefits to Leroy Merlin. However, despite the product strategy, the supplier may not accept producing private labels or may stop selling products in which it is an expert due to the fact that Leroy Merlin had started to manufacture other Private Label products which this supplier also produced.

O1: New market areas and customers: Considering the Portuguese geographical territory, the eastern part of the country is not so developed as the western. Thus, there are districts, in which do not exist a retailer in the Home Construction and Renovation market, being the offer based on small stores and constructors. Thus, there is a space in the Portuguese market to reach new market areas and increase the number of customers.

O2: Price-Making Position in the Home Construction Market Segment: The Home Construction Market segment in Portugal is underdeveloped, which means that the consumer choice varies between the retailers that are present in the market segment and the local specialists' companies. Moreover, this market segment is very segmented in terms of market share, competitive and price sensitive, which makes players react to each other's prices. Thus, with an investment on this segment, there is an opportunity for the retailers take advantage of economies of scale and being the price-maker in the market segment.

O3: Attracting and Retaining Millennial Customers: Project Customers represent 19% of Leroy Merlin Portugal customers (**Graphic 2**), of which 14% are millennials and that Professional Customers represent 14% of Leroy Merlin Portugal customers (**Graphic 2**), of which 12% are millennials. Regarding this, it is possible to understand that millennials start to have significant importance for the Home Construction and Renovation market. Thus, there is an opportunity for the market players to develop omnichannel distribution strategies and communication strategies to attract and retain millennials and even turn them into brand ambassadors.

O4: Use of Cutting-edge Technology: The Home Construction and Renovation market is mostly associated with the stock availability and obsolete in the use of technology as sales support. In his sense, there is an opportunity for the players in the market to invest on cutting-edge technology, such as: virtual reality; augmented reality; and robotics to support the sales team and inspiring the customers.

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T1: Entrance of relevant players in the European market: Although the ADEO Group is the leader in the European market with € 19,8 billion sales without VAT in 2018 (**Graphic 1**), it is possible to understand that the difference for the two American giants is significant. Thus, it is possible that one of these two giants (The Home Depot and Lowe's) may enter the European market in the future. Having a direct competitor with such large sales volume must be considered a serious threat.

T2: Deterioration of Working Conditions in the Portuguese retail sector: Although Leroy Merlin is a company concerned with the development and training of its workers, the retail sector in Portugal has a high turnover due to its specific working conditions: shift work; night work; working on weekends and holidays; and low salaries. Regarding this, the worker's turnover is considered a threat because of its negative impact on the working environment, workers training, quality of the sales and, consequently, on the company's results.

T3: Changing Laws: A large part of the Home Construction and Decoration products are extracted directly from nature or have associated chemical components. Regarding this, a change in environmental laws may have a negative impact in the market offer and on the prices.

A3 – Considering the case study data, elaborate a Portfolio Analysis (BCG Matrix) for the ADEO Group and state the characteristics of the classification obtained.

Note: To answer this question, it should be used the hypothetical values for the total market:

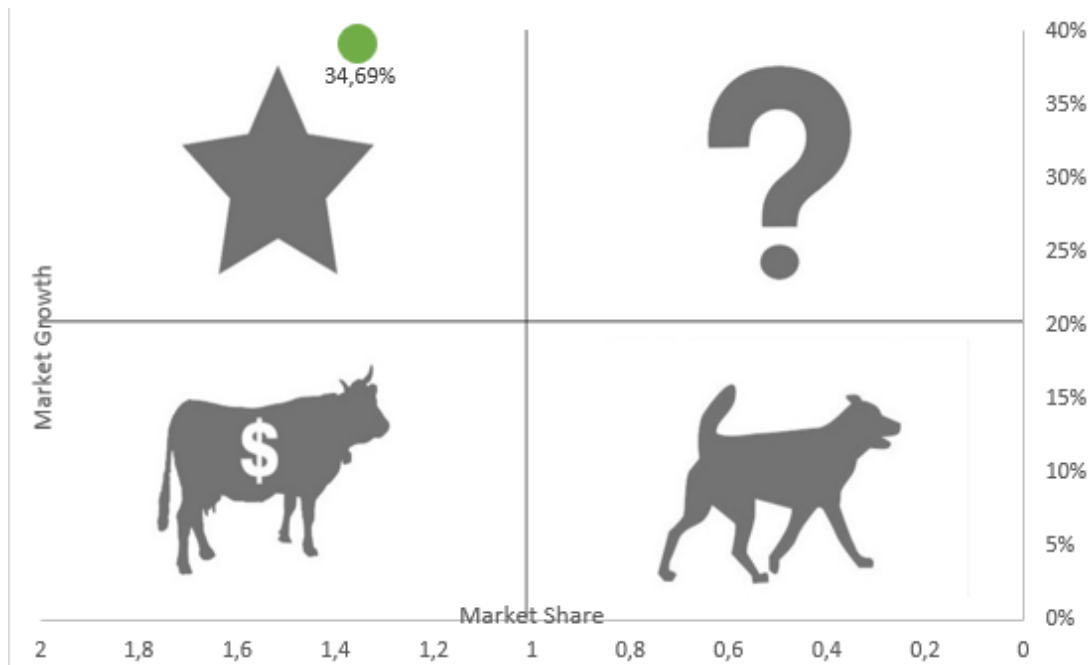
2014 Sales Volume without VAT: €187.5 billion

2018 Sales Volume without VAT: €225 billion

- Total Market Growth = $(\text{Total 2018 Sales Volume without VAT} / \text{Total 2014 Sales Volume without VAT}) - 1 = (225 / 187.5) - 1 = 0.2 = 20\%$
- ADEO Group Growth = $(\text{ADEO Group 2018 Sales Volume without VAT} / \text{ADEO Group 2014 Sales Volume without VAT}) - 1 = (19.8 / 14.7) - 1 = 0.3469 = 34.69\%$
- ADEO Group Market Share = $(\text{ADEO Group 2018 Sales Volume without VAT} / \text{KingFisher's Group 2018 Sales Volume without VAT}) - 1 = (19.8 / 13.2) - 1 = 1.5$

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GRAPHIC 3 - ADEO GROUP BCG MATRIX



Source: Self-Elaboration (2019)

- Classification: Star
- Characteristics:
 - ADEO Group is the market leader (in Europe);
 - ADEO Group is present in a fast-growing market (DIY, Home Decoration, Construction and Garden);
 - Generates a large amount of income due to its significant market share and to the market growth.
- Possible Actions:
 - Continue to make significant investments on the group labels;
 - Be aware of the market changes and consumer behavior to avoid the possibility of turning into a dog instead of a cash cow;
 - Invest in backward and forward vertical integration to maximize the profits;
 - Invest in horizontal integration to increase market coverage and to make it difficult to competitors to enter in the market;

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- Develop new market concepts and invest in new products to differentiate itself from the competitors.

Part B – Solution Plan

SenSea is the Leroy Merlin Private Label for the bathroom department. Nowadays, SenSea has 4 product ranges – Essential, Easy, Remix and Neo -, which vary qualitatively and in terms of price. As it was previous explained, the product range in Leroy Merlin is divided in quartiles. Nereo range is directed to the first quartile; Easy is for the end of the first quart and the beginning of the second; Remix is directed for the second quart; and Neo for the third (with higher quality). Thus, in this part of the case study, the student is asked to play the role of SenSea Brand Manager, who has the mission of creating a new brand range for SenSea, directed to the fourth quart. It means that this new brand must be directed to the luxury market segment and shall be distinguished from the other SenSea ranges due to its qualitative higher quality characteristics.

B1 – Considering the previous information regarding the new brand range and the market segment quartiles, which segmentation criteria do you think are crucial in developing a target for the fourth quart? Explain the market segmentation criteria importance and justify the chosen criteria.

There are several reasons to segment the market: to meet the customers' needs in a more effective way; to increase the profits more easily; to increase the probability of retaining customers; to better target the communications for a specific segment; and to focus on strategical action plans for a specific segment.

Taking the previous information into account, the segmentation criteria used for the new brand which is directed to the fourth quartile (luxury market) are:

- ❖ **Demographic:** Age, Family Life Cycle; Income - customers' needs and wants are strongly related to this segmentation criteria and it is also important for defining a customer type.
- ❖ **Psychographic:** Lifestyle; Social Class – attitudes, lifestyle and social groups weigh heavily on the consumers' decision to buy or not to buy a product. Even more when considering a luxury purchase.

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- ❖ Behavioural: Purchase Occasion – customers may have the possibility to purchase a luxury product. However, they will only do that when considering the purchase occasion, i.e., a customer who has a high income and who belong to a high social class, might not purchase a luxury product for his/her bathroom if the house he/she is constructing/renovating is for renting.

B2 – Based on the criteria previously defined, define the target for the market segment in cause and a *persona* who represents it.

- ❖ Target: People aged 40 years or more, who are turning into empty-nesters due to the financial independence of their kids, with an above-average income, who like more higher quality products, belong to a high social class and who are building or renovating their houses.
- ❖ Persona: José de Almeida Santos
 - 57 years old and married for 32 years
 - Chief Financial Officer at a Telecommunications company with an income of €6000 per month
 - Two children: Leonor (30 years old, married, one child and Product Manager at a Retailing Company) and Francisco (23 years old, graduated and Analyst Trainee at a Consulting Company).
 - Hobbies: Spending time with his grandson; Travelling with his wife; Playing Padel with his friends.
 - “I decided to take advantage of the fact that my second son is very close to his financial independence to buy a villa in Sesimbra, 30 minutes from Lisbon. I want this house to be the house of my wife’s dream and I am looking for the best furniture and accessories.”

B3 – Develop the Brand Positioning Strategy for the new SenSea’s product range in which the following elements should be included: Brand Name; Positioning Strategy; Brand Values; Competitive Advantages; Brand Mantra; Positioning Triangle; and Perceptual Map (quality and price should be the axis; Banho10 is the less expensive brand in the market and the one with less quality products; Banhoazis is the most expansive and the one with higher quality in the market).

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Brand Name: SenSea Lux

Positioning Strategy: A brand's positioning strategy represents the place the brand and its products occupy in consumers' minds relatively to competing brands. To be placed in the consumers' minds in the most effective way, it is crucial to choose the correct strategy. The strategies can be conceived and developed in a variety of ways and each one represents a different way to connect the brand and its products with the consumers.

In this case and considering the bathroom luxury quartile, the strategy used should be derived from the **Product's Characteristics**. It means that the positioning strategy should be based on the unique characteristics of the brand's products.

Brand Values: High Quality; Innovative; Aesthetics; Durability; Faithfully.

Competitive Advantages: Considering the chosen positioning strategy, which is based on the product features and characteristics, the new brand's products attributes must represent competitive advantages. In this case, there are two Competitive Advantages: Product Differentiation; and Services Differentiation. Moreover, the SenSea brand is very well accepted in the Portuguese market.

The first one is based on the SenSea Lux products features, such as: the **high quality** of the products' materials in terms of durability and resistance; the **beauty** of the products' materials and its ornamentation; and the possibility to offer the consumer high value products with a **reduced price when compared with the main market reference**. The second one is based on the services adjacent to the products, such as: the **easiness** in terms of **return services** and **installation** services for being private label products; and the **extended warranty period** for being private label products.

Brand Mantra: The Brand Mantra should be clear, simple and easy to remember. It also should include the brand function; a descriptive modifier; and an emotional modifier. In the case of SenSea Lux, the Brand Mantra can be: "Your luxury bath time".

Positioning Triangle:

- Consumers' Expectation:
 - High-quality Product
 - Acceptable value for money ratio
- Competitors' Positioning:

PRIVATE LABEL BRAND INVESTMENT THE CASE OF LEROY MERLIN

- High quality product (Banhoazis)
- Cheapest Prices (Banho10)
- High Value for Money (SenSea Nereo, Remix and Neo)
- Brand Strengths
 - High-quality Products
 - Extended warranty period, easiness to return and fast assistance
 - New segment for a well-reputed brand in the Portuguese market

Perceptual Map:

- Evaluation Criteria considering a scale from 1 to 5:

Banho10 is the less expensive and qualitative brand in the market. Thus, the evaluation for this brand is 1 in terms of quality and price.

SenSea (Nereo) is Leroy Merlin's Private Label segment that is positioned right after Banho 10 both in terms of quality and price. Considering this, its evaluation is 2 for both criteria.

SenSea (Remix) is the Leroy Merlin Private Label segment which represent the medium-quality products which also have a medium-price. However, due to its high value for money level, the quality criteria value (3) is higher than the price criteria value (2,5).

SenSea (Neo) is the Leroy Merlin Private Label segment directed to the products with a quality higher than the average, maintaining the high value for money ratio. Thus, the quality criteria value (4) is also higher than the price criteria value (3).

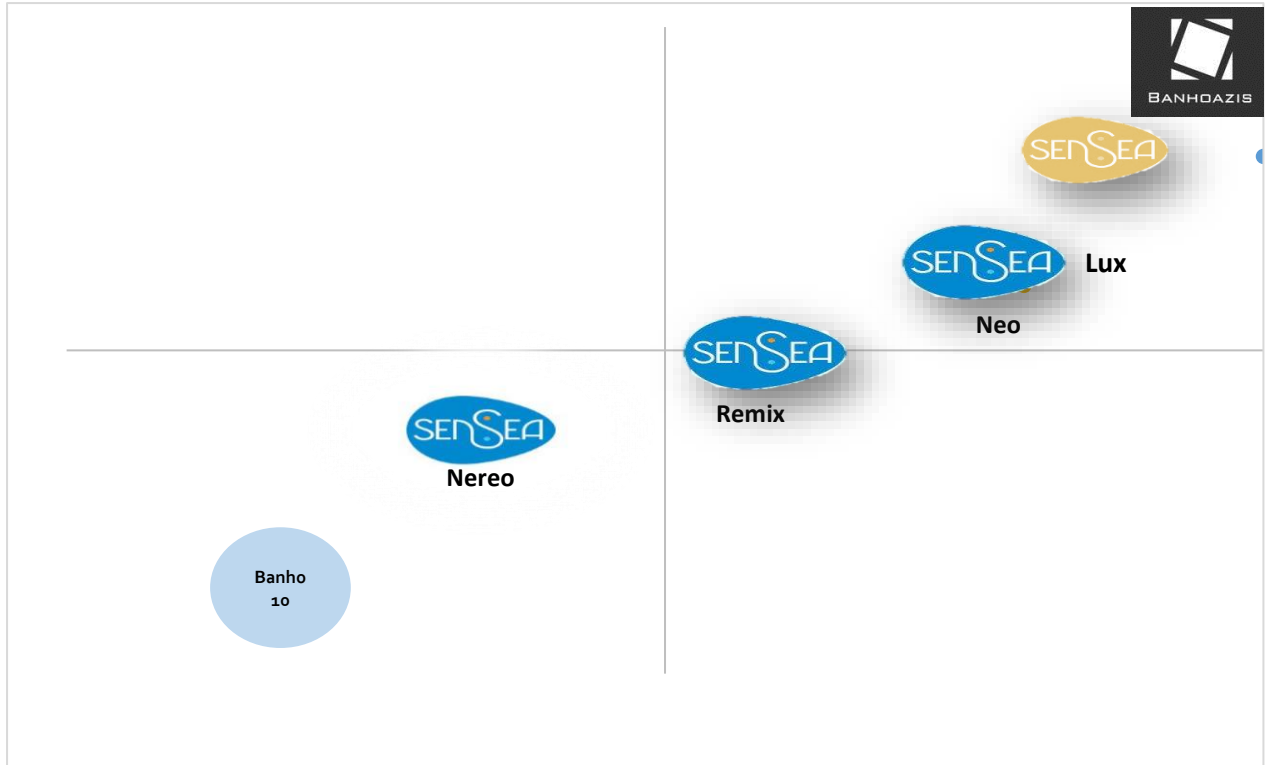
Banhoazis is the reference in the market in terms of quality and the most expensive brand. Hence, the evaluation for this brand is 5 in both criteria.

SenSea Lux is directed to the luxury segment to compete with Banhoazis in terms of quality. However, it is still a private label and one of its competitive advantages is the reduced price when compared with the main market references. For these reasons, the quality criteria value (5) is higher than the price criteria value (4).

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- Map

GRAPHIC 4 – PERCEPTUAL MAP



Source: Self-Elaboration (2019)

7. CASE STUDY RESOLUTION PRESENTATION



How can Private Label Brand Investment Affect Consumers? The Case Study of Leroy Merlin

CASE STUDY RESOLUTION PRESENTATION

ISCTE Business School
INSTITUTO UNIVERSITÁRIO DE LISBOA

LEROY MERLIN PRIVATE LABEL INVESTMENT



A1 – Develop a complete Situation Analysis for Leroy Merlin Portugal focusing on the: company's internal perspective; competition; customers; and behavioral trends.



Company's Internal Perspective

- Positive Brand Reputation due to its history
- Group ADEO – the 3rd most important player in the Home Improvement Market worldwide and the most importante in Europe
- Continuous growth until 2018 in Portugal (€500 003 203 in sales)
- Fusion process with AKI Portugal: + market coverage and + proximity with customers
- Leroy Merlin Private Label Strategy
 - 15 diferente Private Labels instead of 1 named Leroy Merlin
 - €139 000 890 sales in Portugal in 2018 (27,8% of the total sales)

LEROY MERLIN PRIVATE LABEL INVESTMENT



A1 – Develop a complete Situation Analysis for Leroy Merlin Portugal focusing on the: company's internal perspective; competition; customers; and behavioral trends.



Competition

- Worldwide Context
 - The Home Depot | 92.1 billion € sales
 - Lowe's | 60.7 billion € sales
 - ADEO | 19.8 billion € sales
- International Direct Competitors
 - The Home Depot | Lowe's Home Improvement | Brico Depot (KingFisher's Group) | Bricomarché (Les Mosquiteurs Group) | Bahauss | HERNBACH
- Competitors in the Portuguese Market
 - Brico Depot | Brico Marché | Maxmat (Sonae Group)



LEROY MERLIN PRIVATE LABEL INVESTMENT



A1 – Develop a complete Situation Analysis for Leroy Merlin Portugal focusing on the: company's internal perspective; competition; customers; and behavioral trends.



Customers

- Professional Customers
 - 14% of the total Leroy Merlin Portugal customers
 - 12% of them are millennials
- Garden Customers
 - 12% of the total Leroy Merlin Portugal customers
- DIY Fans
 - 36% of the total Leroy Merlin Portugal customers
- Project Customers
 - 19% of the total Leroy Merlin Portugal customers
 - 14% of them are millennials
 - 55% have between 35 and 55 years old
 - 36% have more than 55 years old
- Undifferentiated Customers
 - 19% of the total Leroy Merlin Portugal customers



PRIVATE LABEL BRAND INVESTMENT
THE CASE OF LEROY MERLIN

LEROY MERLIN PRIVATE LABEL INVESTMENT




A1 – Develop a complete Situation Analysis for Leroy Merlin Portugal focusing on the: company’s internal perspective; competition; customers; and behavioral trends.

Behavioral Trends

- Millennial customers have a huge weight in the total Leroy Merlin Portugal customers. They seek for:
 - Complete Projects
 - Cheaper Solutions
 - Services, such as Delivery and Installation
- Digital Natives use online platforms to purchase or, at least, as an aim in the purchasing process
 - Leroy Merlin has followed this trend by investing in the omnichannel strategy



LEROY MERLIN PRIVATE LABEL INVESTMENT



A2 - Based on the case study insights, develop a SWOT Analysis for Leroy Merlin Portugal.

<h3>Strengths</h3> <ul style="list-style-type: none"> • S1: Brand Heritage • S2: ADEO European Leadership • S3: Wide Offer • S4: Different Customer Types 	<h3>Opportunities</h3> <ul style="list-style-type: none"> • O1: Market Coverage – New Areas and Customers • O2: Price - Making Position in the Home Construction Market Segment • O3: Attracting and Retaining Millennial Customers • O4: Millennials and mid-class opportunities
<h3>Weaknesses</h3> <ul style="list-style-type: none"> • W1: Dependence of External Partners to Execute the Offered Services • W2: Difficulty in the Private Label arriving in Portugal • W3: Currency in Brazil and Russia • W4: Lost of suppliers expertise 	<h3>Threats</h3> <ul style="list-style-type: none"> • T1: Entrance of relevant players in the European / Portuguese market • T2: Deterioration of working conditions in the Portuguese retail sector • T3: Changing Laws

PRIVATE LABEL BRAND INVESTMENT
THE CASE OF LEROY MERLIN

LEROY MERLIN PRIVATE LABEL INVESTMENT



A3 – Considering the case study data, elaborate a Portfolio Analysis (BCG Matrix) for ADEO Group and state the characteristics of the classification obtained.



Total Market Growth = (Total 2018 Sales Volume without VAT / Total 2014 Sales Volume without VAT) - 1 = (225 / 187.5) - 1 = 0.2 = 20%



ADEO Group Growth = (ADEO Group 2018 Sales Volume without VAT / ADEO Group 2014 Sales Volume without VAT) - 1 = (19.8 / 14.7) - 1 = 0.3469 = 34.69%



ADEO Group Market Share = (ADEO Group 2018 Sales Volume without VAT / KingFisher's Group 2018 Sales Volume without VAT) - 1 = (19.8 / 13.2) - 1 = 1.5

LEROY MERLIN PRIVATE LABEL INVESTMENT



A3 – Considering the case study data, elaborate a Portfolio Analysis (BCG Matrix) for ADEO Group and state the characteristics of the classification obtained.



LEROY MERLIN PRIVATE LABEL INVESTMENT

A3 – Considering the case study data, elaborate a Portfolio Analysis (BCG Matrix) for ADEO Group and state the characteristics of the classification obtained.



Classification:

- Star



Characteristics:

- ADEO Group is the market leader (in Europe);
- ADEO Group is present in a fast-growing market (DIY, Home Decoration, Construction and Garden);
- Generates a large amount of cash due to its significant market share and to the market growth.

LEROY MERLIN PRIVATE LABEL INVESTMENT

A3 – Considering the case study data, elaborate a Portfolio Analysis (BCG Matrix) for ADEO Group and state the characteristics of the classification obtained.



Possible Actions

- Continue to make significant investments on the group labels;
- Be aware of the market changes and consumer behavior to avoid the possibility to turn into a dog instead of a cash cow;
- Invest in backward and forward vertical integration to maximize the profits;
- Invest in horizontal integration to increase market coverage and to make it difficult to competitors to enter in the market;
- Develop new market concepts and invest in new products to differentiate itself from the competitors.

LEROY MERLIN PRIVATE LABEL INVESTMENT

B1 – Considering the previous information regarding the new product range and the market segment quarters, which segmentation criteria do you think are crucial to develop a target for this market segment and explain the market segmentation importance.



Reasons to segment the market:

- Meet the customers' needs in a more effective way;
- Increase the probability of retain the customers;
- Better target the communications for a specific segment;
- Focus on strategic action plans for a specific segment.



Segmentation Criteria:

- **Demographic:** Age, Family Life Cycle; Income
- **Psychographic:** Lifestyle; Social Class
- **Behavioral:** Purchase Occasion

LEROY MERLIN PRIVATE LABEL INVESTMENT

B2 – Based on the criteria previously defined, define the target for the market segment in cause and a *persona* who represents it.



Target:

People, with 40 years or more, who are turning into empty-nesters due to the financial independence of their kids, with an above average income, who like more qualitative products, belong to a high social class and who are building or renovating their houses.



Persona:

- José de Almeida Santos
- 57 years old and married for 32 years
- Chief Financial Officer at a Telecommunications company with an income of €6000 per month
- Two children: Leonor (30 years old, married, one children and Product Manager at a Retailing Company) and Francisco (23 years old, graduated and Analyst Trainee at a Consulting Company).
- Hobbies: Spending time with his grandson; Travelling with his wife; Playing Padel with his friends.
- "I decided to take the advantage of the fact that my second son is very close to his financial independence to buy a villa in Sesimbra, 30 minutes from Lisbon. I wat this house to be the house of my wife's dream and I am looking for the best furniture and accessories."

LEROY MERLIN PRIVATE LABEL INVESTMENT



B3 -- Develop the Brand Positioning Strategy for the new SenSea's product range in which the following elements should be included: Brand Name; Positioning Strategy; Brand Values; Competitive Advantages; Brand Mantra; Positioning Triangle; and Perceptual Map (quality and price should be the axis; Banho10 is the less expensive brand in the market and the one with less quality products; Banhoazis is the most expensive and the one with higher quality in the market).



Brand Name
SenSea Lux



Positioning Strategy
Product Characteristics – based on the unique characteristics of the brand's products



Brand Values
High Quality
Innovative
Aesthetics
Durability
Faithfully



LEROY MERLIN PRIVATE LABEL INVESTMENT



B3 - Develop the Brand Positioning Strategy for the new SenSea's product range in which the following elements should be included: Brand Name; Positioning Strategy; Brand Values; Competitive Advantages; Brand Mantra; Positioning Triangle; and Perceptual Map (quality and price should be the axis; Banho10 is the less expensive brand in the market and the one with less quality products; Banhoazis is the most expensive and the one with higher quality in the market).



Competitive Advantages



Product Differentiation:
High Quality
Beauty
Reduced Price comparatively with the market reference



Services Differentiation:
Easiness in terms of devolution and installation services
Extended warranty period



LEROY MERLIN PRIVATE LABEL INVESTMENT

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Brand Mantra

"Your luxury bath time"



Positioning Triangle

- Consumers' Expectation:
 - High-quality product
 - Acceptable value for money ratio
- Competitors' Positioning:
 - High-quality products (Banhoazis)
 - Cheapest prices (Banho 10)
 - High Value for Money (SenSea Nereo, Remix and Neo)

LEROY MERLIN PRIVATE LABEL INVESTMENT

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Positioning Triangle

- Brand Strengths:
 - High-quality products
 - Extended warranty period, easiness to return and fast assistance
 - New segment for a well-reputed brand in the Portuguese market

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LERROY MERLIN PRIVATE LABEL INVESTMENT

B3 - Develop the Brand Positioning Strategy for the new SenSea's product range in which the following elements should be included: Brand Name; Positioning Strategy; Brand Values; Competitive Advantages; Brand Mantra; Positioning Triangle; and Perceptual Map (quality and price should be the axis; Banho10 is the less expensive brand in the market and the one with less quality products; Banhoazis is the most expensive and the one with higher quality in the market).



Perceptual Map - Criteria

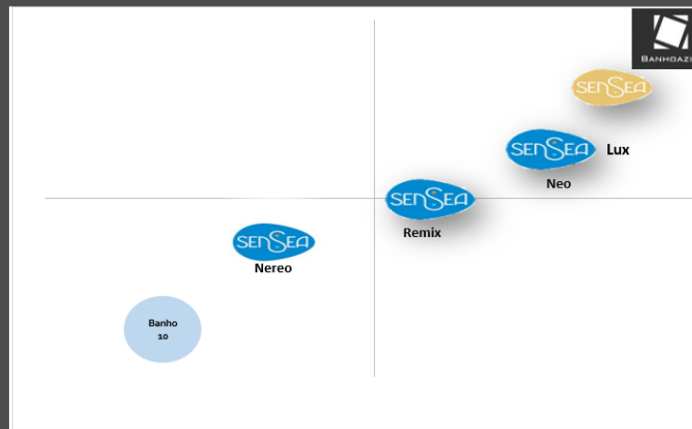
	Quality	Price
Banho10	1	1
SenSea (Nereo)	2	2
SenSea (Remix)	3	2,5
SenSea (Neo)	4	3
LuxBath	5	4
Banhoazis	5	5

LERROY MERLIN PRIVATE LABEL INVESTMENT

B3 - Develop the Brand Positioning Strategy for the new SenSea's product range in which the following elements should be included: Brand Name; Positioning Strategy; Brand Values; Competitive Advantages; Brand Mantra; Positioning Triangle; and Perceptual Map (quality and price should be the axis; Banho10 is the less expensive brand in the market and the one with less quality products; Banhoazis is the most expensive and the one with higher quality in the market).



Perceptual Map



8. CONCLUSIONS

8.1. MAIN FINDINGS

Taking in consideration the PLB investment by retailers and, in this case, by Leroy Merlin, PLBs have recorded a significant growth. From this case study, it can be concluded that the PLBs proliferation can derive from distinct factors, such as: the profits maximization; the differentiation from competitors; the need of obtaining higher margins, higher price differentials and exploiting economies of scale and scope; the strategy of offering the consumer better prices and of creating loyal customers; the continuous change of shopping habits of consumers; and the attempt to fulfilling the unsatisfied customers' needs. Furthermore, the economic crisis has played a relevant role in this proliferation since the retailers need to create low cost products to their customers.

8.2. MANAGEMENT CONCLUSIONS

Regarding management conclusions, it can be concluded that retailers should take the PLBs Advantages and Limitations in consideration when considering an investment on PLBs. PLBs bring several advantages for retailers, such as: higher margins, profitability and control over price and stocks; adaptability to the customer and product differentiation. The PLBs bring also advantages for consumers, such as: lower prices, more alternatives, easiness of return and higher value for money offers. In terms of limitations, it is important to highlight: the non-presence in the luxury market; the difficult of go along with the market innovation rate; the NBs product differentiation in terms of quality; and the reduced marketing investment on PLBs.

Moreover, this case study states that there are two main factors that can affect the PLB choice: price consciousness; and quality consciousness. Considering the first factor, the consumers are more price sensitive when the income level is lower and when they are buying commodity-based products. Considering the second factor, perceived quality has an impact in the consumers' purchase decision, since that intrinsic product characteristics related to the product usage significantly affect the consumer decision over PLB products.

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Thus, considering the Home Construction and Renovation market and, more specifically, Leroy Merlin, it can be concluded that there are some market segments and departments in which consumers are more willing to choose PLB products than others.

One example of this conclusion is the Screws and the Bathroom Department. The first department sells commodity-based such as screws, nuts and washers, which are less expensive, have a reduced added value and that customers repeatedly buy. The second one sells complete bathroom projects and bathroom ware products, which have a high added value and that consumers buy few times in their life.

Despite that, due to the boom in the home renovation market segment in Portugal, which is related to the tourism accommodation and to the lack of well-reputed brands in the market, there are space in the market to invest on PLBs in the specific market segments, such as the kitchen, bathroom and garden departments. In fact, there is the opportunity to position PLBs close to the luxury brands in these specific segments since the offer is reduced and the PLB guarantees the customer easiness of return and an extended warranty period.

Thus, taking this example of presence in luxury market segments into account, it can be concluded that, in the Home Construction and Renovation market is possible to transform PLBs limitations into PLBs opportunities.

8.3. ACADEMIC LESSONS

Considering the academic area and the research, this case study is important because it addresses the investment on PLBs, which is a trend in today's retail strategy. In that sense, it studies what is a PLB, its proliferation, its differences with NBs, advantages and limitations. Moreover, the case study relates this retail trend with academic research on brand value, awareness, association and quality and how retailers can manage these parameters in order to guarantee their PLB equity. Finally, it takes in consideration the consumer behaviour, studying how PLBs affect the consumer and the factors that influence them, such as: price consciousness; quality consciousness; and value-for-money perception.

8.4. LIMITATIONS AND IMPLICATIONS FOR FUTURE RESEARCH

There is one limitation to this case study that must be considered: the absence of a primary research, based on an in-store survey. This survey should be used to understand the Leroy

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Merlin customers' perception about the quality, price and value for money of the different Leroy Merlin PLBs. This survey may also study the aided and unaided Leroy Merlin PLBs awareness. Regarding this, this in-store survey should be included on future research to better understand how real customers feel towards PLBs.

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