The battle of the brands : the formulation and explorative empirical testing of a typology of strategic reactions of leading national brands against private labels

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The formulation and explorative empirical testing of a typology of strategic reactions of leading national brands against private labels[1]

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abstract

In recent years, the quality of private label products and their market shares has grown to such an extent that few consumer goods manufacturers, brand leaders included, can afford to ignore them. Private labels are, however, not just another generic competitor. The retailer that sells them is also the national brand's customer, and the issue includes the question: to produce private label or not? Several authors have recently suggested a number of effective strategies for leading national brand manufacturers against private labels. We lay out an integrated new typology and critique. The qualitative and quantitative studies were performed in the Netherlands, where many private labels are found in the market place. The results validate the new typology.

1. Introduction

Sales of Private label or store brand have significantly grown over the last decade both in the US and Europe. In the US they currently account for some 15 percent of total dollar sales (Quelch and Harding, 1996). In several European countries store brands have even more prominent market shares, e.g., 18-23 percent in France, The Netherlands and Belgium, and even 34 percent in the UK (Gira report, 1995) and further increase is expected in the near future.

The expansion of private label appears to be driven by factors like increased retailer concentration, retailers' aim for higher profits, and the fact that retailers are becoming more proficient at managing store brands as part of their retail format (Messinger and Narasimhan, 1995).

Historically, private labels offered the consumer an inferior-quality alternative at a value price. This perception of private labels was reasonably accurate until the mid-1970's. However, by that time, the manufacturing technology of private label suppliers had increased significantly. The result is that private label quality has gradually approached parity, especially in categories characterized by little product innovation.

In addition, many retailers have deliberately moved upscale and sometimes have introduced private label-brands at the premium level. Although most consumers still favor the comfort, security, and value of national brands over a private label, in the US national brands' percentage is down from 75 percent in the 1970's to 60 percent in 1994 (DDB Needham survey; see Quelch and Harding, 1996:102). Losses have been most severe among runner-up brands and unbranded products (Messinger and Narasimhan, 1995:201; Glémet and Mira, 1993a). This forced many excellent manufacturers outside the ranks of the first-tier branders to defect to the role of producing private label. Indeed, due to private label's surge and upward positioning, some leading national manufacturers also began accepting offers to produce private labels.

Others are looking for the right counter-strategy. But, as private label is not just another competitor, the outlines of appropriate response remain to be defined. As an intial step, we set out in this research to identify those strategies currently in use by leading food manufacturers to defend against private labels. As a defensive strategy only becomes important when a new brand is positioned close to the existing brand (Kotler, 1991; Hauser and Shogun, 1983), we focused on national manufacturers' reactions to value and premium private labels.

In this context we defined strategy as a major course of action or game plan, to achieve long run objectives (Kotler, 1997). The objective was to develop a typology of viable strategies. To do this we first formulated several strategic types based on an overview of the literature, and case studies of leading brand manufacturers based on in-depth interviews with marketing managers. Second, we validated our typology through quantitative research. The empirical research, including an initial test of strategy effectiveness, was performed in the Netherlands where most private labels have a value-positioning (Gira report, 1995).

The structure of this report on our work is as follows. Section two provides an overview of previous research. A typology of competitive strategies for leading brand manufacturers is developed. In section three case study results, i.e., the results of the qualitative interviews, to evaluate the initial framework of strategic types are discussed. Some modifications to the strategic types are made, resulting in the actual typology. In section four the methodology of the quantitative research is presented. Section five contains the results of the empirical, quantitative test of the typology. A discussion, conclusions, suggestions for further research, as well as managerial implications conclude the article.

2. Previous findings and the initial framework

Leading national brands have followed a differentiation strategy, whereas private labels have aimed to deliver -value-for-money or employed a straight low price strategy. They, thus, belong to different strategic groups (Porter, 1976). However, because the original quality gap has narrowed, the distance between both groups is now significantly diminished. A new strategic reality has emerged, and new strategic reactions of leading manufacturers are called for (Morris and Nightingale, 1980). But these strategic decisions are far from simple. Private label is owned and sold by the same retailer that also carries the manufacturer's leading brand. The manufacturers of leading national brands now face several important dilemmas (Glémet and Mira, 1993a; Miller, 1995). Should they fight private label and risk a deterioration of their relationship with the retailer? And, if they do so, are they not missing out on an important market trend and opportunity to improve their positions? Should they team up with large retailers and produce private labels? But, what will be the effect of private label's increased level of quality on leading brands' sales, and what is the risk of letting the retailer gain insight into the company's cost structure and having a larger part of the company's sales volume with a single retailer? Recently, several articles have addressed the issue of the strategies that brand leaders can use to deal with private labels. However, they have only been validated using examples, anecdotes and limited tests.

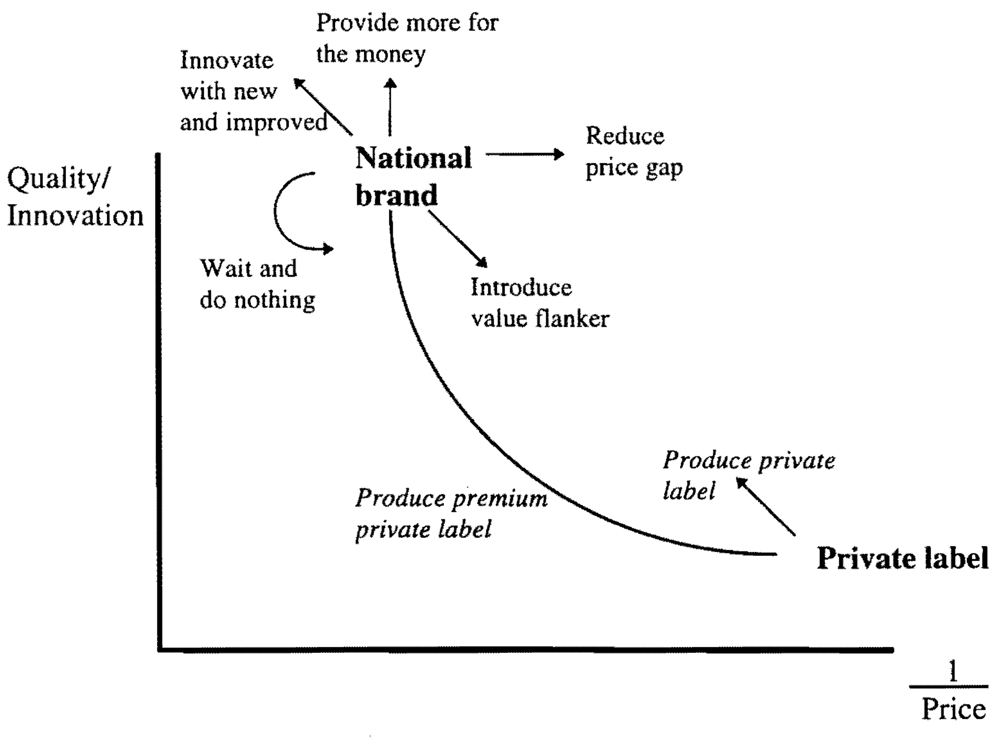
Glémet and Mira (1993b, 1993a) and Quelch and Harding (1996) have focused on the issue whether leading manufacturers should or should not produce private labels. Both point to the dangers associated with taking up private label production. In general the conclusion is that manufacturers should not decide to produce private labels too quickly. The advantages are generally overemphasized. Often the relative contribution of private label goods has been overestimated and the cost of cannibalization understated. Also the efficiencies of selling private label contracts have been exaggerated. Whenever a private label contract comes up for renewal, there is bound to be a long and arduous negotiation between the manufacturer and the retailer, and competitors will try to break in. Furthermore, the production of private label involves several risks. The most important ones are: a loss of power, corporate schizophrenia, the danger of early "commoditization" of a category, and private-label production becoming a narcotic. Therefore, Quelch and Harding (1996) recommend manufacturers who do not yet produce private label, not to start.

The advice for manufacturers of strong national brands not to give in to private labels and private label production can be considered to be in line with warfare-theory (Kotler, 1991). Two major principles of war are of particular importance for the strategic reactions of leading brand manufacturers to private label. The first principle is a superior defense position. A well established defense position (c. high ground) is easy to defend and thus hard to overcome by the attacker, i.e. private label. Ries and Trout (1986) studied the leadership of 25 companies over a 60 year period and found that only 5 had lost their leadership positions. The second principle is the principle of force. The company with the larger force or size stands the best chance to win. Force refers both to quantity and quality of means and skills. Hoch and Banerji (1993) and Sethuraman (1992) showed that in more concentrated industries, and industries with higher advertising expenditures, private label penetration is lower, while Glémet and Mira (1993a) provided evidence for a negative relationship between manufacturers' level of product innovation and private label's market share.

While considering its strategic reaction to competition, a company should, however, not only focus on its own position and potential risk. Private label penetration has also been found to depend on the retailer: retailer attitude, its scale of operations and skills, and/or access to production capacity. Therefore, Glémet and Mira (1993b) suggest an extensive evaluation of the situation. Private labels have especially emerged in markets characterized by large retailer concentration, like the UK, Switzerland, and the Netherlands (Glémet and Mira, 1993a). Large retailers are often more proficiently operated and have more power over suppliers. Their attitude toward suppliers may be of a confrontational or collaborative nature. In those markets where the confrontational attitude dominates the danger of price competition is high and price deterioration may occur. Under these circumstances leading manufacturers should be careful and not get involved in producing private labels. However, if retailer-behavior fits the collaboration model, private label production may be an option. A number of leading manufacturers have in fact used private label production effectively as a temporary strategy (Quelch and Harding, 1996:105).

Apart from these general directives for getting involved in private label production or not, other strategies for leading brands may be considered. In a recent article Hoch (1996) provided an overview of the strategic options open to a national brand manufacturer to defend its leading brand. His strategies are shown in Figure 1. Although Hoch mentions that these strategies are neither mutually exclusive nor exhaustive, they represent the most common strategic options open for use.

Figure 1: Strategic options for national brands (Hoch, 1996)



Next to the options of taking up private label production or not, Hoch distinguishes five strategic options for a leading brand based on two dimensions, i.e. quality/innovation[3] and price. Their viability depends on the degree of difference between the national brand and the private labels in its category. We discuss these strategies briefly:

- *Wait and do nothing.* Reactions to private label require large, long-term commitment and investments that can not easily be reversed. As long as private label's development in the brand's category is still uncertain and the market is characterized by high volatility or cyclicality a manufacturer may, therefore, want to wait with its reaction. Furthermore, although we talk about private label as a single brand, in fact has many faces and involves many different, often local/regional competitors. The issue is to think (inter)nationally but act locally. If, however, the brand's position is not affected too much, staying with the brand's general strategy may be the best thing to do.
- *Increase distance from private labels through offering "more for the money".* In this strategy the manufacturer maintains prices while giving the consumer additional value. Quelch and Harding (1996) call this the "invest in brand equity"-approach. It can be accomplished by simple improvements like improved package design or stressing brand image. As advertising is the primary source of product differentiation for convenience goods (Gira report, 1995:21; Porter, 1976) and leading brands are found to profit more from quality improvements than price cuts (Hoch, 1996) this is a viable strategy.
- *Increase distance from private labels through offering "new and improved".* This option is concerned with beating the competition through innovation. Kotler (1991) calls this the mobile defense. Especially when product life cycles are relatively short, innovation will help dampen private label market share. Retailers will have a hard time keeping up. Glémet and Mira (1993) provided evidence for the negative relationship between manufacturers' level of innovation and private label penetration. Also the literature on accelerating new product development proves that faster levels of innovation are positively linked to new product and company success (Nijssen et al, 1995).
- *Reducing the price gap*: is another way to improve the quality/price balance. During the early 1990s manufacturers had increased their prices so much that the price gap with private labels exceeded many shopper's tolerance. However, reducing price gaps may

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[3] Hoch (1996) talks about quality, but this dimension appears to include innovation too. We therefore labeled it as quality/ innovation.

prove counter productive, especially for leading national brands. Generally their market share-gains are limited and sharp decreases in profits may occur, while also hurting the retailer much. For secondary national brands, however, price may be the only way to compete against private label and the leading national brand.

- *Formulate a me-too strategy by introducing a value-flanker.* This strategy intents to offer a lower-priced, possibly lower quality item to crowd out the private label or preemptively limit the private label's possibility to move up-scale. Furthermore, the extra variety acts as a barrier to entry, simply because market share is carved up into smaller pieces (Hoch and Banerji, 1993). In general, private labels are targeted at the largest segment and in most cases their product lines are particularly short (Stockman, 1992). When segments are too small retailers are not able to profitably serve these markets. Therefore, especially new introductions that help to segment the market will be a useful defense.

3. The qualitative phase

To check the viability and use of Hoch's (1996) strategies 21 Dutch national manufacturers of leading brands were contacted. They were randomly selected and varied in product category, size and strategic orientation. Of the 21 manufacturers 10 agreed to cooperate (response rate 48%). The main reasons for not cooperating with the research were: (1) confidentiality of the company's strategy against private label; and (2) the fact that private labels were of no major concern in the brand's product category resulting in no strategy having been developed. In-depth interviews with the companies' marketing managers were conducted. Each interview lasted 2 hours or more. To guide the interview a semi-structured questionnaire was used. It focused on four topics, i.e. market conditions, firm characteristics, strategy type, and strategy content. Each interview was recorded and analyzed afterwards. Together with additional data from desk research for each company/brand, a case history was developed allowing for a more careful comparison between the different companies' approaches toward private labels.

The results showed that national manufactures of leading brands did not really think that they competed *against* private labels. They compared their own brands to other leading national brands rather than to private labels. They still considered private label a separate category, i.e. strategic group. Although many leading manufacturers did not develop explicit (e.g. written statements) strategies with regard to private label competition, they did take private label developments into account while formulating their overall marketing strategy for their national brands. First, they watched the price gap between their leading brands and private label. If this gap gets too large manufacturers tend to react by adding product value rather than reducing price. Second, manufacturers paid special attention to their brands' premium propositions. The major issue was to "keep doing a better job" and "keep moving". Innovation and new marketing/sales programs play a key role.

The respondents reported that aggressive competitive moves against private labels would harm their relationship with the retailer. Therefore, the competition with private labels was less direct, less aggressive, and more subtle. Two additional factors were mentioned. First, consumer involvement in the product category was said to be important. Consumer involvement determines the opportunity to exploit the emotional or functional positioning of a brand. In categories with high involvement less pressure is available from private labels. Second, retailers are conscious of the fact that they needed at least one strong national brand to keep the category alive and generate traffic. Retailers benefit from in-store promotions (c. Quelch and Harding, 1996) and category-growth through innovation by national brand manufacturers.

From our case studies five strategic types emerged, each with a distinct strategic and organizational profile (Miles and Snow, 1978) as far as their attitude and reaction toward private labels was concerned. The strategies identified could be classified along two dimensions: the level of product differentiation incorporated in the national manufacturer's brand and the manufacturer's level of cooperation with the trade, i.e. producing private labels or not. Price appeared not to be an important and separate dimension as all companies watched the price gap. On the cooperative side we identified *"the active and the passive cooperator"*. In the camp of non-cooperators we found *"the shadower", "the technology defender" and "the image defender"*. We will now describe the different strategic types:

- *Active cooperators:* (n=1) This type of manufacturer is actively cooperating with retailers to produce their private labels next to its own leading brand. Category management is employed to optimize category returns (including private labels), and full service is provided, including special private label-R&D projects and market research. The private label operations are managed separately from the manufacturers own brands. The active cooperator does not consider private label a competitor, although competition does exist. Private label is more seen as a second market opportunity. They operate in product categories with severe competition among the leading national brands, low consumer involvement and substantial private label-market share. Rather than being a dominant market leader the active cooperator has an average or secondary national brand position.

- *Passive cooperators:* (n=2) The passive cooperator actively produces private labels and competes with other manufacturers for contracts. As opposed to active cooperators this type does not supply additional services to retailers. Private label production is generally separated from the manufacturing of the company's leading brand. Passive cooperators focus on their leading brand and they do not manage private label in their category management system. They are dominant market leaders that do consider private label as a second market opportunity. Their markets are generally characterized by limited levels of competition between the brand manufacturers, relatively low consumer involvement, and a substantial market share for private labels.
- *Shadowers:* (n=1) Shadowers do not really seem to defend themselves against private labels. They do not consider them a serious threat. They do, however, monitor the movements of private labels carefully, including the price gap. Shadowers are dominant market leaders that operate in categories with high levels of competition. Consumers are involved with the shadower's product category and in this product category there still is a fair possibility to differentiate ones products through technological product differentiation.
- *Image defender:* (n=3) Image defenders focus on defending their position by stressing their premium positioning. They do so by emphasizing brand image, introducing new variety and innovating packaging material. However, not unique technology but rather superior market knowledge is the true source of competitive advantage. The small improvements help their premium positioning. Although not in favor of private label production, image defenders may on occasion use private label contracts to fill excess capacity. They do, however, perceive private labels mainly to be a threat.
- *Technology defender:* (n=3) Technology defenders use their unique and extensive product and processing technology to maintain and improve the premium positioning of their brands. Their focus is on superior product quality and market expansion (including through segmentation). They have major R&D programs but also try to build on their marketing knowledge. Technology defenders generally are market leaders with substantial, dominant market shares. Their markets are characterized by low to moderate

competition and moderate consumer involvement. The opportunities for technical differentiation are clearly present.

We can now compare the strategic types found to Hoch's strategies (see Appendix 1). First, we found that the dimension of "to produce or not to produce" was a key factor in the response to private labels. In fact, it seems a more prominent decision than Hoch seems to recognize. Further, the decisions is not always black or white (Glémet and Mira, 1993a). Limited commitment to private label production does occur and is often mixed with other reactions. Second, quality/innovation is also a key dimension. The technology defender clearly uses Hoch's "new and improved" approach, and the image defender is committed to the "more for the money" strategy. Third, also evidence for the existence of Hoch's "wait and do nothing" strategy is available. The shadower-type clearly uses this approach. Fourth, just like with regard to lowering the price, no support is found for the introduction of a flanker brand as a separate generic strategy. Although that manufacturers will carefully watch the price gap, lowering the price is a tactic rather than a strategic move, which is likely to deteriorate product category profitability in general. Further, the introduction of a flanker brand can be considered part of a variety/segmentation-approach, which in itself may again be part of an innovation-strategy or an image-defense strategy. The latter will be the companies generic strategies against private label.

4. Methodology of the quantitative study

To validate our new typology of active cooperators, passive cooperators, image defenders, technology defenders and shadowers, a sample of 158 managers was taken from the Food Profile List of Dutch grocery products manufacturers. Only national brand manufacturers were included. The nature of the sample and the method of data collection are discussed in more detail below.

Sample

Of the 158 managers contacted 100 cooperated (convenience sample), making a response rate of 63 percent. Because we assumed national brand manufacturers to have different private label strategies per product category, manufacturers could appear more than once (to a maximum of three times) in the sample. Respondents were mainly product and marketing managers. They answered the questions either by telephone or fax (if the manager was willing to cooperate but was not able to answer the questions right away). Finally 18 respondents filled in the questionnaire sent by fax whereas 82 were interviewed by phone. Some sample characteristics are reported in Table 1.

Table 1: Some sample characteristics

Product category	**%**	**Company Size**	**%**
Food	69	0-50 employees	17
Non-Food	31	50 - 100	12
Respondent's position	**%**	100 -150	4
Product manager	35	150 - 250	11
Account manager	13	250 - 500	26
Marketing Manager	18	500 - 1000	13
Commercial Director	6	> 1000	17
other	28		

Measurement

The strategic types were operationalized in an inductive way (c. Robinson and Pearce, 1987; Dess and Davis, 1984). To operationalize the underlying dimensions of the typology (see Table 1) a list of strategic items was developed based on an overview of the literature. The items referred to the company's and brand's relative market position, its brand image, its level of technical differentiation, its level of segmentation/introduction of new varieties, and its attitude towards cooperating with retailers and producing private labels (see Table 3). Also the company's reaction to other manufacturer's private label production-behavior was recorded (because some types perceive private label as a threat). Price strategy was not emphasized as it did not stand out as an important and separate dimension in the qualitative research, and consumer involvement was not included as it concerns a market characteristic rather than an instrument at the discretion of the manufacturer's marketing management. All variables were measured on seven points Likert scales. However, the question with regard to production of a private label was a binary variable (yes/no) and the level of cooperation with the trade was operationalized as the sum of the score of cooperation with the trade on four seven point scaled items referring to cooperation in the area of category management, marketing research, product development, and tailor made promotions.

In addition to these measures two performance measures were included: the perceived effectiveness of the company's strategy for its leading brand's position (4 items, Cronbach α=

0.80) and the private label share in the brand's category (average 1994 and 1995). The first was measured on a 7 points scale (1=not very effective; 7=very effective). The second concerned the objective private label share (percentage of sales) in the brand's category for 1994 and 1995 (Nielsen data). Both variables were included to obtain some initial insight into the viability of the strategic types.

Analysis

To analyze the results, and detect the strategic types, a two step approach was used. First the variables were factor analyzed (principal components, varimax rotated) to detect the underlying strategic factors. Based on eigenvalue >1 and the scree-plot the four factor solution was identified as the most optimal. Second, hierarchical cluster analysis (method Ward) was performed on these underlying factors, to identify the strategic groups. Discriminant analyses validated the five cluster solution showing 92 percent of all cases to be correctly classified. Next, analysis of variance was used to evaluate the groups based on their average factor scores.

5. Results

Appendix 2 reports the outcomes of the factor analysis. Four factors underlying the strategic reactions of manufacturers with regard to private labels were identified. They explained about 65 percent of the variation in the original set of variables. The four factors can be labeled as: (1) relative brand strength, image and product variety, (2) negative attitude toward private label production, (3) reaction to competitors' attitude toward private label, and (4) ability to create technological product differentiation, respectively.

Appendix 3 reports the results of the hierarchical cluster analysis based on the previously identified factors. Five clusters were extracted. The results of the analysis of variance (F-values and paired comparisons, method Duncan) showed adequate differences between the different clusters, providing further evidence for the clusters' internal validity. The outcomes can be used to facilitate the interpretation of the clusters.

The five clusters seem to closely match the previously identified strategic types (i.e. after the qualitative phase). For the interpretation of the clusters we looked at high and low cluster-scores on the factors. First we labeled the clusters that had a negative attitude toward producing private label (i.e. a positive score for factor #2 in Appendix 4). Next, we labeled the more cooperative types.

Cluster #5 had the highest score on "negative attitude toward producing private label". This cluster also loaded heavily on technological differentiation. It thus concerned a type that closely matched the characteristics of the "technology defender", especially as also a high score on brand strength was present. Cluster #3 also had a negative attitude toward private label production, but it had a middle-of-the road score on most other factors. It thus appeared to concern the "shadower"-type. However, the very negative score on brand strength did not fit the picture, unless it had been triggered by a lack of variation and segmentation. Cluster #2 had a negative attitude toward producing private labels too. This cluster's profile was complemented by a low score on technological differentiation and a very high score on brand strength/image. Cluster #2 thus seemed to match the "image defender". The manufacturers of cluster #1 and #4 clearly had more favorable attitudes toward the production of private labels. Especially, the companies of cluster #4 had an extremely positive attitude toward the retailer. They seemed to produce private label in order to compensate for weak brand strength and to exploit their own technology base. Cluster #4, therefore, seemed to contain active cooperators. Cluster #1 was driven to private label-production by its competition, as its brands had moderate strength and a fair technological stance. The companies that belonged to this cluster best match the profile of the "passive cooperators" identified earlier.

Appendix 4 reports the performance of the different clusters, i.e. strategic types based on the two simple performance measures described earlier. It was found that the technology defenders did an excellent job defending their leading brand. They out-performed the shadowers and the image defenders on perceived effectiveness of their reaction-pattern toward private label as a defense for their brand's position. Further, they managed to keep private label share low in their categories. The latter was also true for image defenders and shadowers. Active and passive cooperators also performed well. They out-performed the shadowers on perceived effectiveness (although ns) and experienced high private label shares in their categories. Assuming a positive relationship between these cooperators' private label production and the private label share in their categories their strategies should be considered to pay off. The shadower-strategy seemed the least viable of the five strategic types.

6. Discussion, conclusions, and implications

Discussion

As Hoch (1996) argues private labels are not just another general competitor. The retailer that owns and sells the private label is also the leading brand manufacturer's customer. Our empirical results support that manufacturers of national brands handle the subject with care. Although that they generally that think private labels belong to a different strategic group, they watch the price gap between their brands and private labels carefully. Their attitude toward "whether to produce private label of not" seems to depend both on their corporate strategy and opportunities in their product category to differentiate their own products. The potential to differentiate production is also considered.

Our research shows that most of the strategies that Hoch (1996) suggested, and which included cooperators, exist. Two cooperative types and three defender types were identified, i.e. on one hand the active and passive cooperators (produce (premium) private label) and on the other hand the technology defender (provide new and improved), the image defender (provide more for the money), and the shadower (wait and do nothing). However, no separate strategies based on price moves and the introduction of a flanker brand could be found, nor in our qualitative, nor in our inductive quantitative study. They seem to involve tactic and very specific defensive reactions, respectively. The argument may, however, also be that Dutch manufacturers are unwilling to engage in price-competition with retailers. The dominance of value private labels within the private label segment on the Dutch market, makes image and innovation defense much more effective than price reduction. Further the introduction of a flanker brand may be difficult as shelf space is becoming more scarce. Adapting the current brand it may again be more easy to upgrade than introduce a cheap version of the brand's own product. The latter would imply that the brand (and company) is looking for competition and confrontation.

As our results with regard to the cooperation between manufacturers and the trade suggest, the answer to the issue of the production of private label goes beyond a simple yes or no. Like Glémet and Mira (1993a) argue the matter is, complex, may demand diplomacy, and may evolve overtime. To many companies the issue really seems to represent a dilemma. A remarkable difference was found between the attitudes of active and passive cooperators. Active cooperators seem to be first-to-market private label producers. Their active supply of R&D programs and additional marketing support to the retailer allow for a further up-grading of the private labels they currently produce, if desired by the retailer. Passive cooperators seem to consider private label more as an additional, secondary market opportunity. Producing private label may, however, be their only chance for growth in their highly competitive markets.

Also the companies that we identify as non-cooperators do not seem to fully reject private label production. Their clusters' scores on the private label market share 1994/95 support this. However, the profile-analysis did also confirm their somewhat more reluctant attitude toward private label production. For the technology defenders and the image defenders the results of the profile analysis closely matched the description of the strategic types based on our qualitative results. The shadowers did not match their original description very well. Our shadowers did have a reactive stance toward private labels but their technological competence seemed lower than might be expected based on our own case studies and Hoch's description of the "wait and do nothing" strategy.

Looking at performance technology defense seems the most successful defense strategy. It has the most favorable score with regard to management's perception of the strategies effectiveness to its leading brand's position. This is also pretty much in line with Agres and Dubitsky's (1996:27) view *"...that delivering differentiating benefits is a more viable and potentially more successful strategy for building brands than enhancing product quality"*. However, the effectiveness of the technology defense-strategy will to some extend depend on the type of product category. There should be enough potential for technological improvement. Image defenders have a somewhat poorer performance. Despite the suggestion in the Gira report (1995) in favor of defense through advertising and Porter's (1976) remark that advertising is *the* way of differentiation for convenience goods, the high image building efforts and the possible lack of real differentiation within their categories seem to dampen the perceived performance of the image defender and make them more prone to competitive action. Still, looking at the over all performance-results (including private label share in the brand's category) also the image-defense strategy appears viable. Shadowers have a poor performance. Their reactive attitude seems to represent more a lack of strategy than a sound reaction to private labels. The companies in the shadower-cluster, like Miles and Snow's reactor-type, seem to miss out on important trends and are apparently not capable of responding in a consistent way. The shadowers' profile also seems to fit Porter's idea of "stuck in the middle". Shadowers have a very "middle of the road"-score on most aspects concerning private label. Still, at the same time we should note that our shadowers do not match the original description of this strategic type very well. They have a much lower score on for instance technological strength.

Finally, both cooperative strategies seem rather successful. They perform well with regard to private label market share (assuming a positive relationship between company private label production and category share), but also have decent performance levels as far as the perceived effectiveness of their reaction-strategy for their own leading brand is concerned. So, cooperating with retailers by producing private label may prove attractive. These favorable results with regard to the active cooperator match those of Kalwani and Narayandas (1996) who show that long-term manufacturer-supplier relationships --which active cooperators are bound to have-- do pay off for the supplier firm. They write: "*...the interesting finding is that supplier firms in long-term relationships with select customers are able to retain or even improve that profitability levels more than firms that employ a transactional approach to servicing customers. This means that supplier firms are able to achieve cost reductions in their selling, general, and administrative expenses that could be due to such factors as lower turnover, higher customer satisfaction that leads to lower service costs, and higher effectiveness of selling expenditures.*" (Kalwani and Narayandas, 1995:14). The active cooperators seem able to create and maintain a win-win situation in which their long-term relationship with the retailer also seems to benefit their national brand.

Managerial implications

The issue of how to deal with or counter private labels is a delicate matter. Like with regular strategic issues the main thing seems to be to make a choice and stick to it (Porter, 1980). The choice should be "to produce or not produce" and to differentiate ones own leading brand either based on image or technical superiority. It seems that the more room for differentiation the less need there is to take up private label-production. The leading brand has the high ground and as long as its company can invest in image building/advertising and innovation it will be rather easy to defend its position. Especially innovation is an important and sound defense mechanism.

If the company takes up private label production it can best do this from a strong position. Successful active cooperators have taken up production not so much because of competitive pressure but to exploit their technological and marketing skills. Due to the nature of their product category (limited consumer involvement and opportunity for technical differentiation) or due to a very dominant leading national brand they were apparently not able to catch up or grow unless using this "second market opportunity". Due to their strong competencies and relative sound position they seem to have prevented themselves from being prone to strong retailers. Even their own leading national brand seems to have profited form the cooperation. Thus, "joint venturing" with retailers on private label production can be a very viable strategy.

Even if a company does not produce private label it should, however, manage its relationship with the retailers well. Reactions should not be too direct and subtle. They should not jeopardize the relationship or the information flow from the retailer to the manufacturer.

Further research

This research has clearly some limitations. First, our number of case studies was small, and we focused on Dutch national brand manufacturers in the food industry. As "industrial recipes" may exist such an approach may not show the full range of counter-strategies available, although a wide range of alternatives was uncovered and initially validated. Second, in our quantitative research we focused on a number of dimensions underlying the strategic types. Some dimensions were measured with only a single variable. The four underlying factors found may be an artifact of the limited number of variables included in the second phase of the study. Third, in this second phase we used the key informant approach and relied on simple perceptual performance measures.

More objective data should be considered, and the impact of the reaction-strategy on performance should be measured more carefully. Probably the success of the strategy is better measured by the degree of cross-price elasticity between the manufacturer's brand and the private label, or its ability to hold profitable market share in the face of private label encroachment. Further, additional control variables like the company's business strategy and the level of (horizontal) competition should be included. Finally, the inductive approach of generating strategic clusters is open for criticism.

More research is clearly needed. Brand management is an important issue as is inter-firm cooperation. Brands are one of the most important assets of a company. Therefore, they should be managed with great care. And, although till now private labels have been considered to belong to a different strategic group premium private label like President's Choice, are bound to have a larger impact that the regular private labels that have been around for years.

How competitive reactions of national manufacturers differ for such premium brand from value added brands is an interesting topic. The introduction of a premium private label is a direct attack on the position of leading national brands (Kotler, 1991).

A second area is the circumstances under which the different strategic types perform best. Although some authors have identified strategic types that tend to perform well under all circumstances (e.g. Porter, 1980; Miles and Snow, 1978) others have argued that strategies are always more optimal depending on the conditions in the firm's environment (contingency approach). Future research can try to establish when certain types are more likely to emerge and also when they will be financially more successful.

The last area of research we like to identify is that of the retailer-manufacturer relationship. A better understanding of the levels and areas of interaction, and their impact on company success, are needed. Recent research has found that more formalized structures are better for simple line extensions and product improvements (Olson, Walker and Ruekert, 1995). Given the me-too nature of many private label products and the limited need for inter-functional communication, this type of coordination may be optimal. In addition the research may try and find out how the actual compensatory mechanism works, i.e. where active coope-rators really earn their money (additional profits and/or lower costs). Also the issue of how the relationship between a retailer and its manufacturers evolves over time can be studied.

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Appendix 1: Overview of the strategic typology

Company/brand characteristics	**Active cooperators**	**Passive cooperators**	**Shadowers**	**Image defenders**	**Technology defenders**
perception of private label	opportunity	opportunity	no competitor	competitor	competitor
attitude toward private label in general	cooperative	cooperative	neutral/defensive	defensive	defensive
attitude toward private label production	producing private labels, including provision of full service	producing private labels, no additional services provided	no private label production	no private label production, sometimes fill capacity	no private label production
basis of competitive advantage own brand	market	market	market and technology, monitor the price gap	market, brand image, variation/segmentation (incl. niche products)	technology and market, i.e. innovate to outperform, sometimes increase segmentation
own brand strategy	premium proposition	premium proposition	premium proposition	premium proposition	premium proposition
firm position	secondary national brand	market leader	market leader	dominant market leader	dominant market leader
Market characteristics					
level of brand competition in market	high	low	high	low	low/moderate
potential for technological differentiation	moderate	moderate	high	low	high
consumer involvement	low	low	high	moderate	moderate
Link with Hoch's typology					
original strategy-label	produce (premium) Private label	produce Private label	wait and do nothing	increase distance through offering "more for the money" (incl. introduce flanker brand)	increase distance through offering "new and improved" (incl. introduce flanker brand)

Appendix 2: Results of the factor analyses on the determinants/characteristics of the typology

Variables:	***Factor1*** **Brand strength, image, and product variety**	***Factor 2*** **Negative attitude toward PL-production**	***Factor 3*** **Reaction to competitor's behavior toward PL**	***Factor 4*** **Ability to create techn. Product differentiation**
Large brand market share compared to national competitors	0.86			
Governing a relatively large part of the market with our national brands in this product category	0.85			
Strong brand image differentiating the products of our national brand from competitive offerings	0.77			
High national awareness of our national brand compared to competitors' national brands	0.73			
High consumer preference for our national brand compared to competors' national brands	0.60			
Often first to market introducing new product varieties	0.58			
No production of produce private label, even not when the most important account asks for it		0.80		
Producing private label does not fit our company policy		0.83		
Production of private label (yes/no)		-0.89		
Low level of cooperation with the trade		0.86		
If a competitor starts producing private labels it a good motivation also to start			0.77	
The attitude of competitors toward private labels influences our strategic behavior			0.81	
Unique production technology allows us to make differentiated products				0.82
Much knowledge to constantly innovate our brands products				0.63
Technology is very key factor in our national brand's strategy				0.59
Eigenvalue	3.7	3.0	1.6	1.4
% of variance	24.7	19.9	10.7	9.4

Appendix 3: Average factor scores of the strategic clusters identified

factors:	(1) Passive cooperators	(2) Image defenders	(3) Shadowers	(4) Active cooperators	(5) Technology defenders	F (p)	paired comparison (Duncan)	
(n)	(29)	(24)	(19)	(15)	(13)		*)	**)
Brand strength, image, and product variety	0.15	0.54	-1.29	-0.02	0.57	18.5 (0.00)	5,2,1,4 > 3 2>4	5>4 2>1
Negative attitude toward PL-production	-0.45	0.23	0.55	-1.22	1.19	28.3 (0.00)	5,3,2,1 > 4 5,3,2 >1 5 > 2,3	
Reaction to competitor's behavior toward PL	1.14	-0.40	-0.36	-0.74	-0.44	30 (0.00)	1 > 3,2,5,4	
Ability to create techn. Product differentiation	0.08	-1.08	0.11	0.80	0.74	19.8 (0.00)	4 ,5,3,1 >2 4,5 >1,3	

*) p<0.05; **) p<0.1

Appendix 4: Brand performance of the strategic clusters identified

variables:	**(1) Passive cooperators**	**(2) Image defenders**	**(3) Shadowers**	**(4) Active cooperators**	**(5) Technology defenders**	**F (p)**	**paired comparison (Duncan)**	
(n)	(29)	(24)	(19)	(15)	(13)		*)	**)
Perceived effectiveness of brand strategy for manufacturer's leading brand	5.2	5.4	4.7	5.0	6.0	2.73 (0.03)	5>2,3	5>4
PL-market share in the brand's category (1994/95)	19.9%	13.8%	15.6%	26.8%	9.4%	3.36 (0.01)	4>5,3,2 1>5	

*) p<0.05; **) p<0.1